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Bloomberg Businessweek

A violent crime happens here every day

p40

SAMSUNG

See inside from anywhere.

The new Family Hub™ refrigerator
It has built-in cameras that take a photo every time the doors close, so you always know what you have and what you're missing.

Bloomberg Businessweek
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"I'VE GOT ALL MY BAD

GUYS IN ONE PLACE"

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"There's a reason you see people in yoga pants all over New York City—not because they're working out"

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"The idea of working next to some tech guy doesn't do anything for me"

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"You have to do lots of unnatural things to make sure transactions take place on the platform. You have to juice it"

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PHOTOGRAPH BY JOHNATHON KELSO FOR BLOOMBERG BUSINESSWEEK

Bloomberg Businessweek

August 22 — August 28, 2016

Cover Trail

How the cover gets made

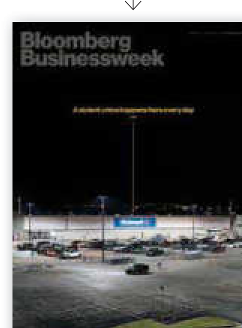
1

"The cover story is on Walmart. It's seen crime spike since it cut back on store employees, and the responsibility for security has been transferred to local police."

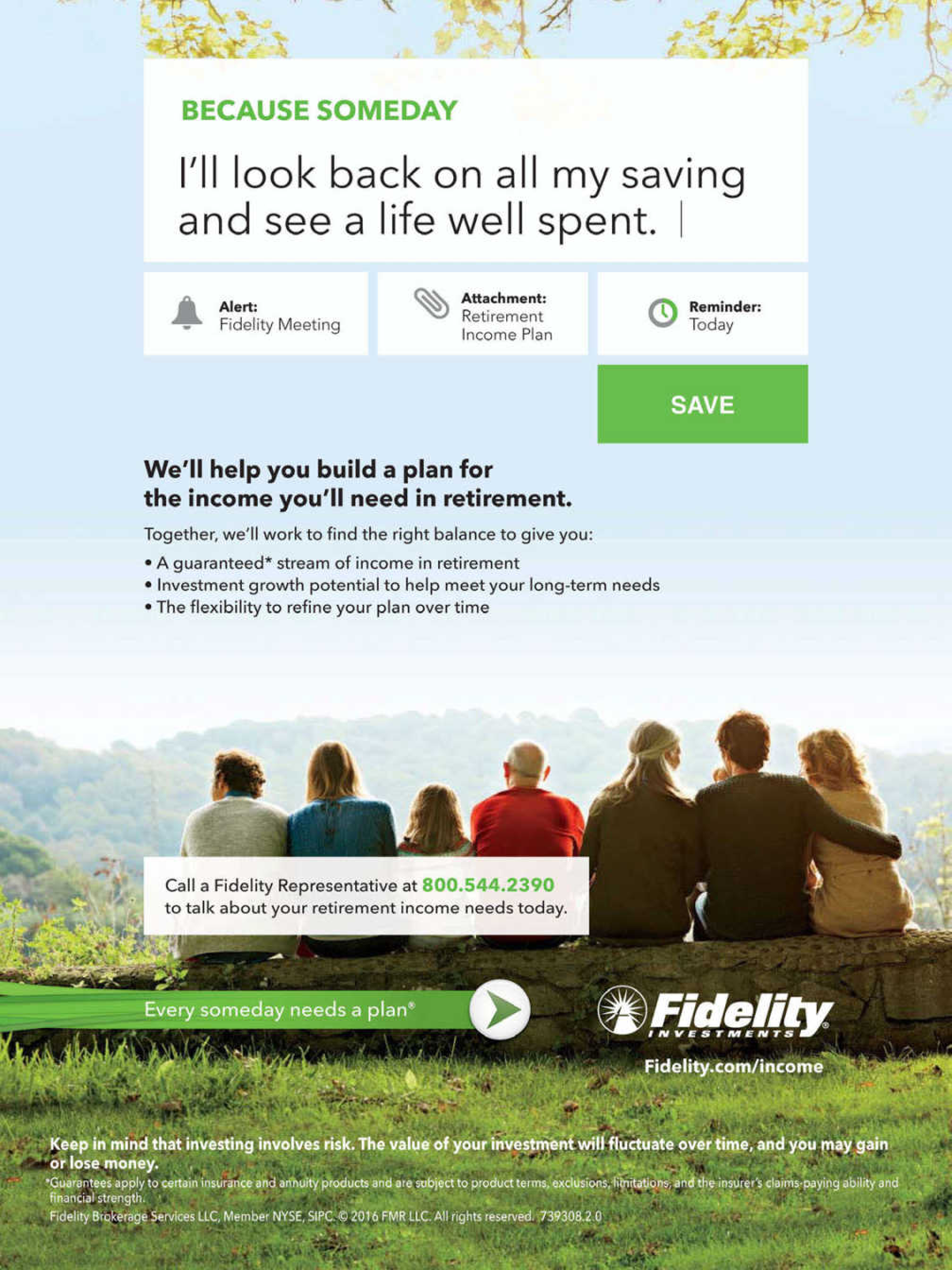
"So taxpayers are basically paying for safety at Walmart? But people are still getting hurt, because no one is trying to prevent crimes from happening in the first place?"

"That's one way of looking at it."

"This will make me think twice before going to buy my next 50-pack of toilet paper."



COVER AND COVER TRAIL: PHOTOGRAPH BY JOHNATHON KELSO FOR BLOOMBERG BUSINESSWEEK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I'll look back on all my saving and see a life well spent.
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Attachment: Retirement Income Plan
Reminder: Today
SAVE
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Fleet's Data-Driven Future

Onboard telematics and information sharing will transform the global supply chain

NAFA Fleet Management Association

Point A to Point B. Not so long ago, many companies viewed their fleet operations simply as the boring-if-necessary movement of freight and equipment that needed to be crossed off the list so that the real profits could be made. But thanks to technologies like vehicle telematics—utilizing onboard sensors that monitor and transmit everything from a truck's location and speed to its idling time and engine condition—those days are gone.

Today, a transport industry that was once considered innovation-averse has evolved into one that is data-driven and open to collaboration, in order to drive unproductive costs out of the supply chain. For that reason, all eyes are now on how fleets can be powered by this data revolution to implement new efficiencies.

Within larger companies—and even midsize firms—managers from across the enterprise have begun to help advise and support the fleet operation. Elevating fleet to a higher strategic role is appropriate in part because the gap between the most efficient and least efficient performers is widening rapidly. Companies now recognize that their fleet activity can strongly impact profitability, risk, market share, long-term planning and reputation.

Lease is more?

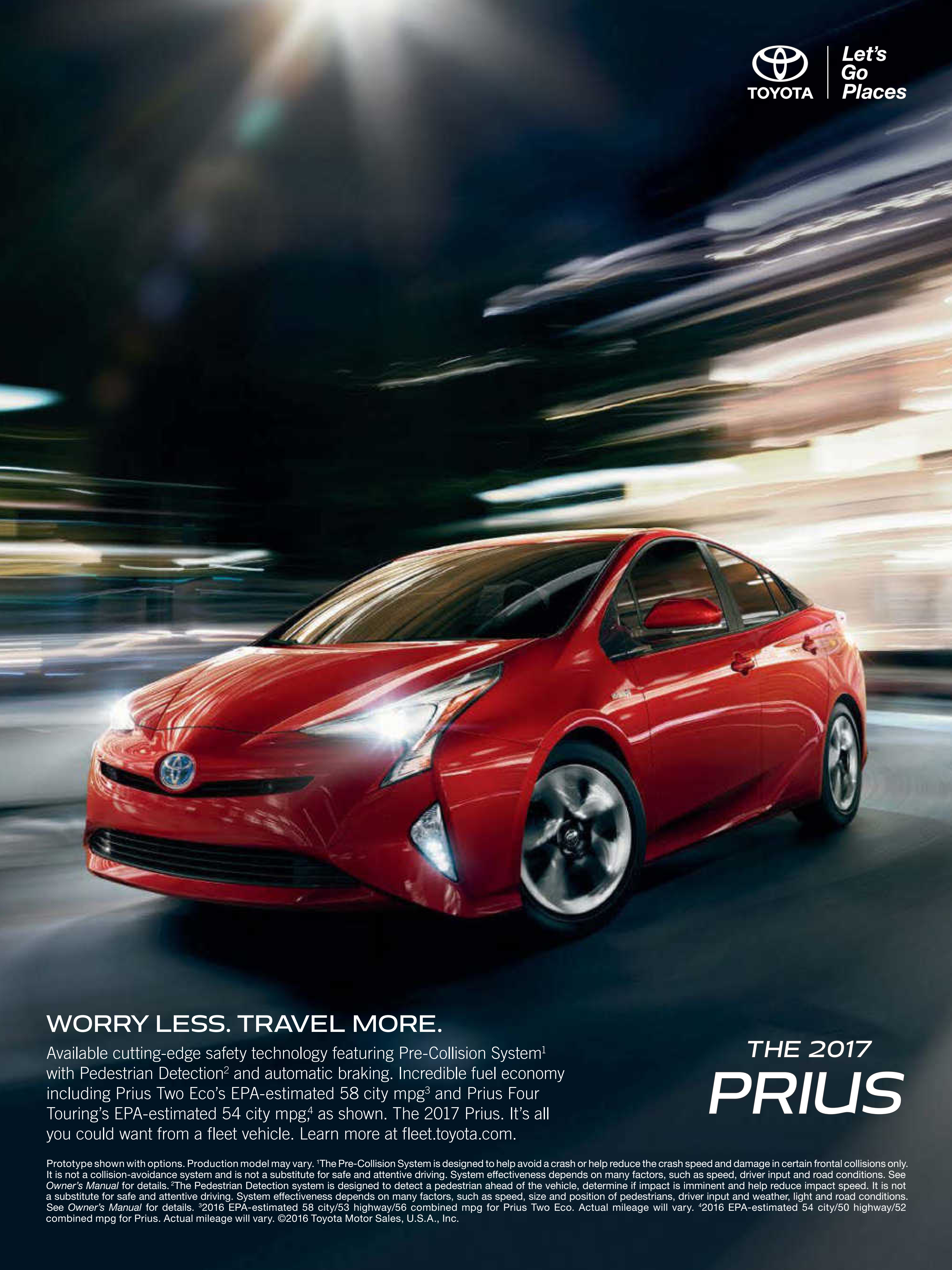
Even as new fleet management challenges and obstacles arise, certain key questions persist. These include the basic dilemma—addressed by algorithms as well as common-sense analysis—of leasing a fleet versus owning. If ownership is chosen, there is still the question of outsourcing fleet maintenance or handling it in-house. Meanwhile, managers are studying ways in which digitally connected vehicles can create a smart supply chain, end to end. But for many, it all begins with that own-versus-lease decision.

"There has been considerably more interest in leasing vehicles over the last 10 years, and that shows no sign of abating in the near future," says Jim Lager, Senior Vice President of Sales at Penske Truck Leasing.

Complexity, and the ripple effects it produces, is the overriding driver, in Lager's view. "There are few areas in fleet management that have not been strongly affected by new technology, additional federal and state regulations, maintenance changes, fleet obsolescence and residual risk," he explains.

Competitive factors, compliance requirements and considerations such as driver satisfaction all favor replacement or upgrade of fleet vehicles at regular intervals that generally track standard lease terms. If trucks and transport aren't your core business, there's much to be gained by letting someone else acquire, maintain and resell your fleet vehicles.

Rapidly advancing truck technology and ever-changing expectations around fuel economy and emissions, according to


TOYOTA
Let's Go Places
WORRY LESS. TRAVEL MORE.
Available cutting-edge safety technology featuring Pre-Collision System[1] with Pedestrian Detection[2] and automatic braking. Incredible fuel economy including Prius Two Eco's EPA-estimated 58 city mpg[3] and Prius Four Touring's EPA-estimated 54 city mpg,[4] as shown. The 2017 Prius. It's all you could want from a fleet vehicle. Learn more at fleet.toyota.com.
THE 2017
PRIUS
Prototype shown with options. Production model may vary. [1]The Pre-Collision System is designed to help avoid a crash or help reduce the crash speed and damage in certain frontal collisions only. It is not a collision-avoidance system and is not a substitute for safe and attentive driving. System effectiveness depends on many factors, such as speed, driver input and road conditions. See *Owner's Manual* for details. [2]The Pedestrian Detection system is designed to detect a pedestrian ahead of the vehicle, determine if impact is imminent and help reduce impact speed. It is not a substitute for safe and attentive driving. System effectiveness depends on many factors, such as speed, size and position of pedestrians, driver input and weather, light and road conditions. See *Owner's Manual* for details. [3]2016 EPA-estimated 58 city/53 highway/56 combined mpg for Prius Two Eco. Actual mileage will vary. [4]2016 EPA-estimated 54 city/50 highway/52 combined mpg for Prius. Actual mileage will vary. ©2016 Toyota Motor Sales, U.S.A., Inc.

$79.33 HOURLY COST OF FLEET DOWNTIME, PER VEHICLE

Lager, govern decision-making in this arena. His customers find value in their partnerships with Penske because, among other reasons, it provides them with a regular replacement schedule and the flexibility to upgrade fleets as needs change. "The majority of our customers are opting for new vehicles at lease term," says Lager. "This lets them take advantage of the latest aerodynamic, technological and driver-comfort enhancements."

Training the next fleet managers

When large corporations ponder the major variables in their fleet operations, economies of scale become immense. For that reason, brainpower from multiple departments is called upon. NAFA, the nonprofit fleet management association serving fleet operations in the U.S., has taken note of cross-enterprise involvement in fleet strategy, and has designed an education program to accommodate this trend.

By subdividing the traditional training of Certified Automotive Fleet Managers (CAFMs) into units that can be studied separately, NAFA has opened the door for professionals in other specialties to enhance their value to their companies and upgrade their career profiles. The Certified Automotive Fleet Specialist (CAFS®) program lets candidates select four of the eight disciplines covered by the CAFM® certificate—from professional development to vehicle fuel management—based on their education or employment needs.

The CAFS® program is open to anyone with at least one year's experience in any fleet-related position. Those who successfully complete four disciplines are eligible to continue their studies in the remaining subject areas to earn their CAFM® designation.

"There are tens of thousands of corporate staffers who are one or two steps removed from the fleet operation," says Phillip Russo, CEO of NAFA. "Every function—risk management to procurement, human resources, finance and accounting, data analysis—they all have a touch point with fleet."

The basis of all these touch points tends to be data. In the dawning age of fleet telematics, decision-making becomes much more granular because movement of goods, supplies, service personnel and passengers can be "seen" in real-time detail via sensors, software and wireless communications.

"Onboard telematics and the increasing use of data by commercial fleets can help with preventive maintenance, repair notifications, roadside assistance and other aspects of fleet operations," says Lager. "It's also the new key to improving and documenting safe driving, and reducing your carbon footprint by closely tracking and monitoring the driver's MPG performance."

At least one of the better-known package delivery companies is working on algorithms that would reduce the number of left-hand turns that its drivers encounter on their routes. That's because the data reveals how many more accidents occur on cross-traffic turning, and how much more fuel is consumed by the wait time a left-hand turn requires.

All of this transparency concerning vehicle safety and fuel efficiency doesn't even address efficiencies involving payload. In fact, as Penske has been emphasizing to its customers, controls on the movement of finished or raw goods are open to upgrade with this technology.

"What telematics brings to inventory management is greater timeliness and more accurate information regarding what inventory is where in the supply chain," Lager explains. "It is most powerful when the flow of information from the onboard telematics system is integrated into the logistics information system of record."

> **"There's a dramatic shortage of repair technicians currently, and as we project forward. Repairs are increasingly backlogged, because there are fewer techs to do the work."**
>
> *– Phillip Russo, NAFA*

This could be an order management system, a warehouse management system or some other logistics platform. "Advanced connectivity," adds Lager, "ensures that your system has the most timely and accurate updates possible on orders and inventory."

The data now available to fleet logistics arrives in the form of endless snapshots—real-time fixes on where, when, how fast, in what condition, and so forth. All these bits then generate trend projections that consider all contributing factors to final outcomes. These include the human element, which lately has become particularly challenging; the shortage of long-haul drivers has been widely noted, but finding qualified people to maintain fleet vehicles is becoming equally problematic.

"There's a dramatic shortage of repair technicians currently, and as we project forward," says Russo. "Repairs are increasingly backlogged, because there are fewer techs to do the work." Downtime in fleet operations can easily translate to up to a $760 loss of daily revenue per vehicle, according to industry consensus.

In that light, outsourcing a fleet operation has the benefit of offloading a human resources problem, which remains a vital strategic consideration. It's similar with regulatory compliance: Outsource the fleet, and be done with it.

"Our customers rely on us to help guide them through a maze of current and emerging regulations on things like fuel tax reporting, federal and state emissions requirements and safety and environmental compliance," says Lager. "We assist with being safety-compliant within the standards of the federal government's Compliance, Safety and Accountability program. We also archive their fleet maintenance records and assist with all aspects of DOT compliance and auditing."

With fleet operations and logistics becoming not just a specialty, but one composed of multiple subspecialties, a completely in-house approach to the fleet question doesn't fit nearly as many businesses as it once did. — *David Gould*

Opening Remarks

CHINA'S HONG KONG DILEMMA

By Clay Chandler

Beijing faces an unexpected challenge in the city: An independence movement

On the sweltering night of Aug. 5, thousands of residents gathered near Hong Kong's main government complex for an event billed as the city's first pro-independence rally. Chan Ho-tin, a 25-year-old founder of the newly formed Hong Kong National Party and organizer of the event, spoke of a "quiet revolution" with independence supporters "infiltrating" government and the ranks of the police force. Edward Leung of the Hong Kong Indigenous Party drew cheers with a fiery declaration that "Hong Kong's sovereignty doesn't belong to Xi Jinping, the Communist Party, the Chinese, or local governments.... Sovereignty always belongs to the people."

Only a few years ago, suggesting Hong Kong might secede from China would get you dismissed as a crackpot. More than 90 percent of this city's 7 million residents are ethnic Chinese, and millions are either the children or grandchildren of mainland immigrants—if not mainland-born themselves. Hong Kong relies on China for 70 percent of its water, most of its food, and about half of its trade. The city's finance, shipping, property, retail, and tourism sectors depend heavily on the mainland. And then there are those

6,000 People's Liberation Army troops garrisoned throughout the city.

And yet, improbably, the notion that Hong Kong might someday break away from the rest of China and seek to establish itself as a separate sovereign entity has become a topic of serious discussion here. The prospect is remote. But that residents of this city, who already enjoy far more civil liberties than compatriots on the mainland, would even contemplate it is anathema to Hong Kong's Communist Party overlords—and bedeviling their efforts to govern.

Hong Kong's Basic Law, drafted by British and Chinese officials ahead of this city's reversion to Chinese rule two decades ago, enshrines the rights of free speech, assembly, and demonstration. But as Hong Kong prepares for legislative elections in September, Chan, Leung, and other "localists," as they're called, are testing the limits of those freedoms.

To the city's mainland rulers, calls for independence are tantamount to treason—a point they've made abundantly plain to Hong Kong's government. In July, days after Beijing's top liaison officer in Hong Kong declared keeping pro-independence activists out of the legislature to be a matter of principle, Hong Kong's Electoral Affairs Commission announced new rules for registration and used them to disqualify Chan, Leung, and four other localist candidates from running. But that heavy-handed response served only to galvanize public support for other pro-independence candidates.

Two years ago, the central government's refusal to allow Hong Kong citizens to vote directly for their city's highest post, chief executive, unless they agreed to choose from a list of candidates preselected by Beijing, triggered the protests that became known as the Umbrella Revolution. Police used pepper spray on demonstrators, who used umbrellas as shields. The clash brought tens of thousands of Hong Kong residents to the streets and provoked a standoff that paralyzed major thoroughfares for 80 days. In the aftermath of that confrontation, Hong Kongers' misgivings about their civil liberties under Beijing's rule have festered and spread.

The Basic Law promises Hong Kong a "high degree of autonomy" until 2047, the 50th anniversary of its return to Chinese sovereignty, under a framework known as One Country, Two Systems. There had been some hope that the mainland might even come to resemble Hong Kong by then. But confidence in Beijing's willingness to honor that framework reached a low late last year, following the disappearance of five Hong Kong booksellers whose companies specialized in books critical of the Communist Party. One of the sellers, who said he was allowed to return to Hong Kong to bring back a hard drive containing names of mainland book buyers, insists the five were seized to prevent the distribution of books that might embarrass China's leaders.

A May visit to Hong Kong by Zhang Dejiang, chairman of China's legislature, the National People's Congress, and No. 3 in the Communist Party hierarchy, was meant to demonstrate Beijing's support for the city. In many ways, however, it highlighted how far removed China's senior leaders are from the lives of ordinary Hong Kong people. The visit was Zhang's first to Hong Kong in 12 years and the first by a senior Chinese leader to the city in four years. His main purpose was to deliver a keynote speech at a conference to promote Xi's One Belt, One Road initiative to revive the trade routes of Eurasia. He stressed that he came to listen as well as speak, and to that end, his itinerary included visits to a home for the elderly and a new public housing project.

But because Zhang had presided over the August 2014 decision to restrict candidates for the chief executive post, security officials worried he might be a target for protesters. To assure his safety, they locked down several blocks around his hotel and deployed almost 8,000 police officers. Wherever he traveled, streets were sealed off and traffic brought to a halt. Divers swept Victoria Harbour in search of explosives. City employees glued sidewalk bricks so protesters wouldn't be able to rip them up and throw them at police. Zhang concluded his stay with a condemnation of the localists: "Any advocacy for self-determination, Hong Kong independence, and the like will not succeed," he said.

In July, Supreme Court Justice Barnabas Fung Wah announced that new candidates for the legislature would be required to sign a form affirming their support for the Basic Law and loyalty to Hong Kong. The form singled out several clauses in the Basic Law specifying Chinese sovereignty. It was the first time the Electoral Affairs Commission had required candidates for the legislature to explicitly pledge that Hong Kong is an "inalienable" part of China. Many localist candidates were disqualified because they refused to sign the form. Leung signed it without hesitation, but

Is China wavering in its One Country, Two Systems promise to Hong Kong?

an election officer invalidated his nomination anyway, declaring she didn't believe he'd genuinely changed his position on independence.

The weakness of Hong Kong's economy, arguably in its worst state in 20 years, only adds to locals' frustrations with Beijing. Hong Kong's gross domestic product expanded 1.7 percent in the three months to June, slightly better than expected. But retail sales plunged 10.5 percent in the first half of the year, the sharpest decline in 17 years. Financial services, shipping, property, and tourism have all taken a beating. The city's container port, which was the world's busiest in the 2000s, has fallen to fifth place, overtaken in China by Shanghai, Shenzhen, and Ningbo. Billionaire Li Ka-shing, Hong Kong's richest man, has said the economic outlook for Hong Kong is worse than it was during the SARS epidemic in 2003.

For now, Hong Kong's strained relationship with Beijing has done little to undermine its appeal as a global business hub. But that, too, could change. Mercer, a consulting firm, recently named Hong Kong the world's most expensive city for expatriates. Many companies are abandoning lavish benefit packages for expat employees. Jones Lang LaSalle says only 7 percent of its expatriate clients are getting monthly housing allowances of more than HK$100,000 ($12,895), down from 31 percent in 2012.

For Hong Kong, the risk is that the status quo will be disrupted by a combination of a fear of Beijing and a strong electoral showing by localists, which would prompt an exodus of the city's professional middle class. Almost 19,000 Hong Kong residents opted to leave the city this year. That's a far cry from the hundreds of thousands who emigrated to the U.K., Canada, Australia, and the U.S. in the early 1990s before the handover. But an exodus could ramp up quickly. Many Hong Kong residents have hedged their bets by salting away money and property overseas and obtaining second passports. The city claims more than 300,000 citizens of Canada alone. B

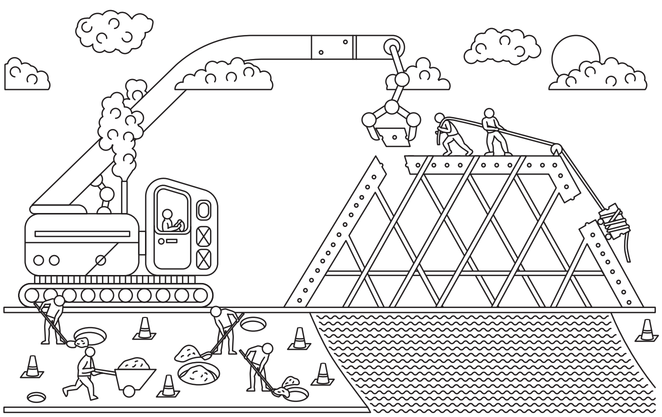
Chandler covered Asia for the Washington Post *and* Fortune *magazine. He's now managing director of the Barrenrock Group, a Hong Kong consulting firm.*

KIN CHEUNG/AP PHOTO

To read Justin Fox on manipulating economic statistics and Noah Smith on investing in infrastructure, go to
Bloombergview.com

A Cautious Return to Fiscal Stimulus

Governments around the world have to boost spending—and debt—to spur growth



Budget deficits may be coming out of retirement. With economies all over the world growing too slowly and little scope left for new monetary stimulus, governments are turning their attention back to fiscal policy.

This shift in thinking is overdue. In many countries, though not all, fiscal expansion is not only possible but also necessary. A resumption of budget activism won't be riskless, so caution will be needed. A stubborn commitment to fiscal austerity, however, would be riskier still.

The immediate response to the 2008 crash included fiscal easing–sometimes deliberate and sometimes the automatic consequence (higher public spending, lower tax revenue) of slumping activity. In most cases, expansionary budgets lessened the impact of collapsing demand, but they also pushed up public debt. Before long, governments started tightening their budgets to get debt under control.

With demand still lacking, the hope was that monetary expansion would be enough to support recovery. It wasn't. Governments have found that monetary policy is losing its potency. Interest rates are close to zero in many countries and even negative in some. Huge bond-buying programs–so-called quantitative easing–have delivered an additional monetary punch, but again with diminishing effect and with a growing risk of financial instability as well.

So fiscal policy, despite the recent growth of public debt, is back on the agenda. Central banks have been leading the call. In June, Federal Reserve Chair Janet Yellen told the U.S. Senate Banking Committee that U.S. fiscal policy had "not played a supportive role." In July the European Central Bank's chief economist, Peter Praet, said, "Monetary policy cannot be the only remedy to our current economic challenges."

In the U.S., both presidential candidates are calling for a big focus on infrastructure. Nobody who's used the country's roads or airports needs much convincing. Judicious fiscal expansion would take the pressure off monetary policy, allowing central banks to stabilize their balance sheets and normalize interest rates faster than they otherwise could.

There's no need to build bridges to nowhere or hire armies of unemployed youth to dig and refill holes in the ground. Where opportunities for productive public investment don't present themselves, governments can cut taxes instead–especially for the low-paid, who'll be more apt to spend the windfall and thereby increase aggregate demand. Extra public spending also needs to go hand in hand with heightened oversight to ensure that the resources don't leak away as waste or graft. And governments do need to keep an eye on long-term fiscal sustainability, which means avoiding open-ended commitments that will permanently increase public spending.

Making the Push for Immigration Reform

The system is broken, and it's costing the U.S. economy hundreds of billions of dollars

A Donald Trump victory in November would presumably scuttle hope of soon fixing America's broken immigration system. But Hillary Clinton has vowed to push for comprehensive reform in the first 100 days of her administration, should she prevail. It's not too early to start planning.

Senator Charles Schumer of New York, who's likely to be the next Democratic leader in the Senate, has predicted that immigration reform will pass in 2017. Senator Lindsey Graham of South Carolina, a Republican, has promised to revive the comprehensive reform bill that passed the Senate in 2013. It stood to increase gross domestic product by 3.3 percent after 10 years, or about $700 billion, the Congressional Budget Office shows. With GOP leaders once again eager to put the issue behind them, could Congress finally break the logjam next year?

This, of course, is the same logic that predicted comprehensive reform would follow in the wake of Mitt Romney's 2012 defeat. Immigration restrictionists in the House turned that upside down. The only legislation to make it out of the House in 2013 made a mockery of reform, explicitly rejecting the bipartisan measures that the Senate had passed.

The U.S. cannot afford to miss its next opportunity. America's unrepaired immigration system entails high costs not only for families caught in the stalled gears but also for myriad businesses and the economy as a whole. Technology companies, in particular, are on a crusade to increase the number of H-1B visas for highly skilled workers and to create a special visa for entrepreneurs. The agriculture industry may be in an even tighter bind. In 2010, the year Arizona adopted its landmark law cracking down on immigrants, labor shortages cost American farms $300 million, according to the American Farm Bureau Federation.

With each day of political stasis, the costs to the American economy rise.

ILLUSTRATION BY SIMON ABRANOWICZ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Influential
Summit
2016
September 28
NYC
Unrivaled insight.
Global impact.
Speakers include:
Mark Fields
President and CEO
Ford Motor Company
Tony Ressler
Chairman, Co-founder and CEO
Ares Management
Ken Moelis
Founder, Chairman and CEO
Moelis & Co.
On September 28, financial heavyweights and power players come together in New York, London, and Hong Kong to analyze and forecast the future of the global markets.
What's next in emerging markets? How will the US election and Brexit impact the global economy? Will the liquidity crisis continue?
Spanning three time zones, the Bloomberg Markets Most Influential Summits convene top financial newsmakers for a full day of unparalleled conversation and smart insights you need to know.
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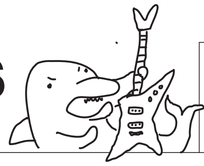
By Kyle Stock



▲ **Hard Rock Cafe International won naming rights** to the stadium where the Miami Dolphins and University of Miami football teams play. The bid came after a $500 million renovation.

▲ Treasury bond prices on Aug. 17 rose fractionally after the Federal Reserve released the minutes of its July policy meeting. They showed **officials were split on hiking interest rates.**

▲ U.S. regulators cleared Indonesian airlines to fly U.S. routes, **upgrading the country's air safety ratings**. Indonesian carriers are some of the world's fastest growing, but they haven't flown directly to the U.S. in two decades.

▲ Ford says it will launch **a fully autonomous car for ride-hailing services by 2021**. It's doubled the size of its Silicon Valley office to 260 people. *More* ▷ *p22*

Ups

$135m

▲ **Univision bought Gawker Media** in a bankruptcy auction. The publisher had filed for protection after it was hit with a $140 million judgment in a lawsuit over its publication of portions of a Hulk Hogan sex tape.

▲ Urban Outfitters shares rose 16 percent on a **strong quarterly report**.

While apparel brands struggle, the company has boosted returns by selling vinyl records and home goods.

Private equity firm TPG buys cable companies RCN and Grande Communications

$2.3b

Uniform supplier Cintas acquires competitor G&K Services

$2.2b

Water tech company Xylem nabs meter maker Sensus

$1.7b

Price a neighbor paid for the Playboy Mansion

$100m

Price of mattress company Casper's first dog bed

$125

Downs

▼ Pennsylvania Attorney General Kathleen Kane resigned after being convicted on nine counts of perjury and obstruction of justice. **Kane had leaked information to reporters** to embarrass a rival prosecutor.

▼ Three French **towns banned the burkini**, a full-body swimsuit worn by some Muslim women, saying the garment is an affront to the country's secular culture.

▼ Health insurer **Aetna will withdraw from Affordable Care Act** exchanges in

11

of the 15 states where it participates. The company had warned it would do so if it faced regulatory challenges to its merger with Humana. The U.S. Department of Justice sued to stop the deal on July 21. *More* ▷ *p27*

Reported layoffs planned at Cisco

5,500

Median budget overrun at Olympic Games

90%

Additional stores that Staples plans to close

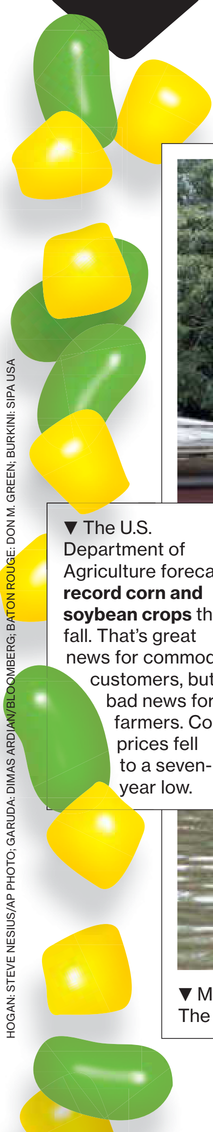
50

Target shares swooned after the retailer cut its annual forecast

–7%

Top Deutsche Bank executives who'll likely get a bonus this year

0



▼ The U.S. Department of Agriculture forecasts **record corn and soybean crops** this fall. That's great news for commodity customers, but bad news for farmers. Corn prices fell to a seven-year low.

▼ More than 11,000 Louisiana residents fled to shelters as the state struggled with massive flooding. The National Oceanic and Atmospheric Administration classified it as **"a 500-year event."**

▼ **Barnes & Noble ousted CEO Ronald Boire** after less than a year, saying in a statement that he wasn't "a good fit." Chairman Leonard Riggio will act as CEO while the company searches for Boire's replacement.

▼ The Paramount Pictures remake of ***Ben-Hur* is slouching into theaters** on Aug. 19 under a cloud of bad reviews. The epic saga garnered an approval rating of just 33 percent on Fandango's Rotten Tomatoes, which aggregates reviews. *More* ▷ *p68*

HOGAN: STEVE NESIUS/AP PHOTO; GARUDA: DIMAS ARDIAN/BLOOMBERG; BATON ROUGE: DON M. GREEN; BURKINI: SIPA USA

August 22 — August 28, 2016

Erdogan's Anti-Coup Formula

▶ **The Turkish leader honed his mix of religion and pothole politics in Istanbul**

▶ **"At least they're delivering the economic goods"**

The garbage dump in the heart of Istanbul was an eyesore—and then a killer. In 1993 an explosion caused by a buildup of methane gas left dozens dead in the Umraniye district. A year later, voters elected Recep Tayyip Erdogan mayor, handing control of the city to an Islamist politician for the first time. A sports complex now stands on the site of the former dump. The skyline is dotted with towers bearing the logos of Sony, Total, Al Baraka Banking Group—symbols of the wave of global capital that's transformed the city, and much of the country, since Erdogan's Justice and Development Party, or AKP, gained national power in 2002. "We could smell the stench at home," recalls Muharrem Balik, manager of the sports complex, who grew up in the area. "I wish I were a kid now to play here."

Ulku Dereyurt, a 35-year-old housewife shopping at an Umraniye department store, says she used to feel nervous about wearing the head-to-toe black robe some Muslim women favor. "People weren't kind," she says. "Every time I entered a shop I was ignored. Now, uncovered women serving in the shops can smile at covered ones."

It's all happened on Erdogan's watch, and it helps explain why—almost alone in the Middle East—he's been able to lead an Islamic-rooted government to power via the ballot box and keep it there. Many others have fallen by the wayside: Egypt's Muslim Brotherhood was toppled by the army, Islamists in Tunisia and Libya were edged out, and Morocco's Islamist governing party has remained subservient to the king.

When a faction of the military attempted a coup last month, Turks took to the streets in Istanbul and cities across the country to defend Erdogan's government. Almost 300 people died, but the military insurrection was put down. Umraniye's mayor, Hasan Can, subsequently announced the district's main square would be renamed 15 July Martyrs Square. A goat was sacrificed there in honor of the resistance.

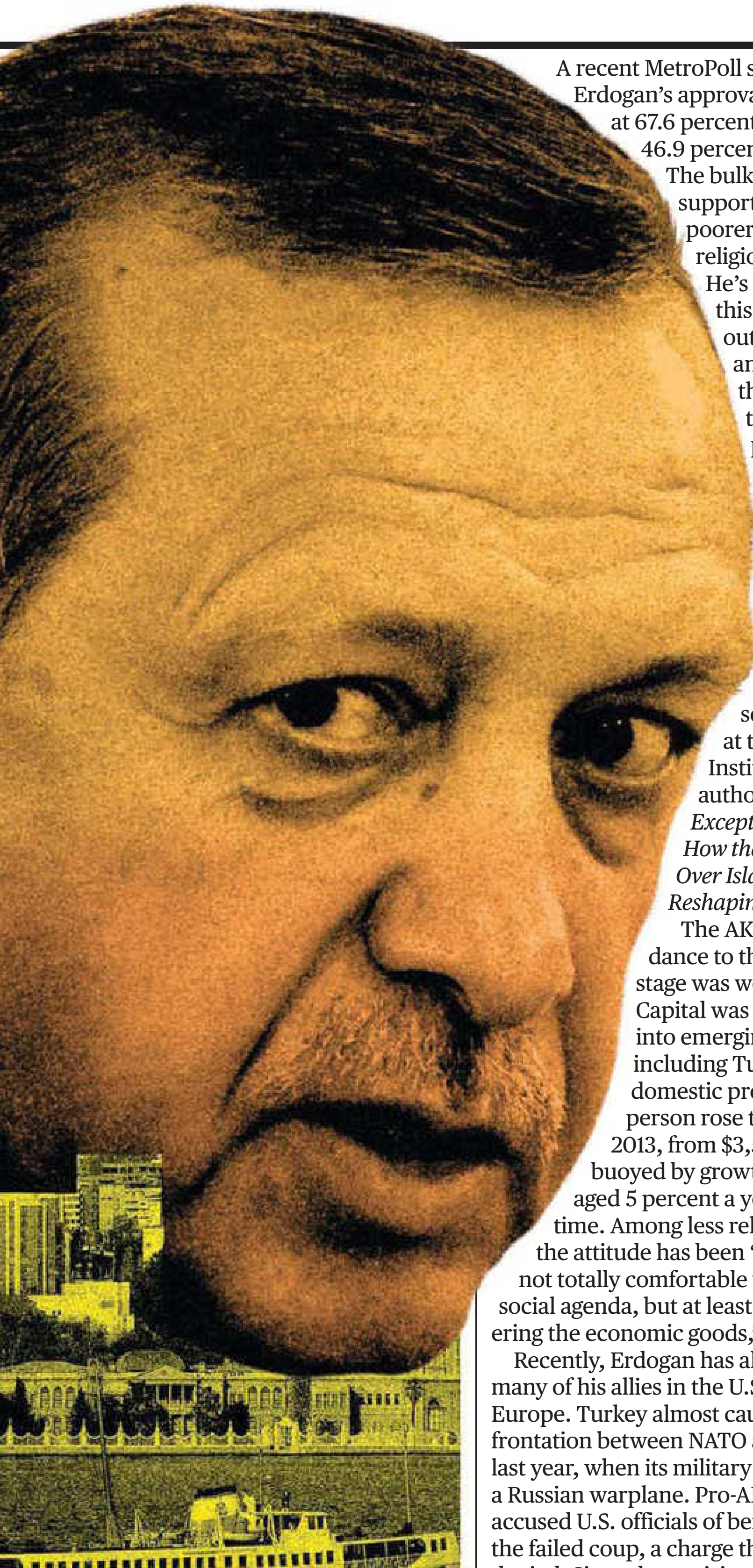
The religious gesture in a spruced-up inner-city setting says a lot about Erdogan and the party he founded. Almost a decade before they came to power nationally, Turkey's Islamists were running the country's two biggest cities, Istanbul and Ankara. Winning local elections gave them "the opportunity to prove themselves, to work on city administration," says Ghanem Nuseibeh, founder of Cornerstone Global Associates, a London-based consulting firm, making the AKP unique among the region's mainly Sunni Islamist groups.

Before, the real power lay with the generals, guardians of the secular system installed by Mustafa Kemal Ataturk, the republic's founder. Erdogan has chipped away at that legacy. He's lifted restrictions on Islamic headscarves and pumped religion into schools. TV stations have been fined for immorality. Still, visitors from elsewhere in the Muslim world find a society more liberal than their own. Men can have only one wife, rather than the four permitted by Islam; Shariah law is not enshrined in the constitution; women are more visible in the workplace.

PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (1); REDUX (1); REUTERS (1); THE IMAGE WORKS (1)

Bleak times for foreign workers in Saudi Arabia 18

Why Brexit will be a messy divorce 20



A recent MetroPoll survey put Erdogan's approval rating at 67.6 percent, up from 46.9 percent in June. The bulk of his support comes from poorer and more religious Turks. He's "empowered this previously outsider group and brought them into the political process, and also brought them into business, and empowered them economically," says Shadi Hamid, a senior fellow at the Brookings Institution and author of *Islamic Exceptionalism: How the Struggle Over Islam Is Reshaping the World*.

The AKP's ascendance to the national stage was well-timed. Capital was pouring into emerging markets, including Turkey. Gross domestic product per person rose to $10,800 in 2013, from $3,571 in 2002, buoyed by growth that averaged 5 percent a year over that time. Among less religious Turks, the attitude has been "Maybe we're not totally comfortable with their social agenda, but at least they're delivering the economic goods," says Hamid.

Recently, Erdogan has alienated many of his allies in the U.S. and Europe. Turkey almost caused a confrontation between NATO and Russia last year, when its military shot down a Russian warplane. Pro-AKP media accused U.S. officials of being behind the failed coup, a charge the U.S. has denied. Since the uprising, purges have ripped through the judiciary and schools, as well as the army and police, which many see as evidence the nation is headed deeper into one-man rule.

The economic miracle looks frayed, too: Growth slowed to 4 percent in 2015, and forecasters expect it to dip to 3.5 percent this year. Turkey can be an inspiration for other Muslim countries only if it's democratic and prosperous, says Ozgur Unluhisarcikli, who heads the Ankara office of the German Marshall Fund of the United States, a public-policy think tank. "Who would be inspired by a failing society?"

But from the vantage point of Umraniye, Erdogan still looks like a success. Balik, the sports center manager, talks about a transformation that goes beyond the aesthetics of green soccer pitches replacing mounds of trash and rubble. "It's changed the lives of children here, their psychology," he says. "They were playing in a garbage dump before." —*Donna Abu-Nasr, with Onur Ant and Ercan Ersoy*

The bottom line Turkish President Erdogan is maintaining his popular support, despite unleashing a wave of post-coup repression.

Geopolitics

Singapore and The New Silk Road

▶ **The city-state is a key gateway to Southeast Asia for China**

▶ **The Chinese "have learned that they need a local broker"**

Like many Singaporeans, Teo Siong Seng traces his roots to China. His grandfather journeyed from Fujian province half a century ago and settled in this corner of Southeast Asia, where he built a shipping business. Now, Teo is building new ties to China. His company, **Pacific International Lines**, is setting up a joint venture with shipping giant **Cosco** to help it expand into Southeast Asia and beyond. "Chinese companies alone may not have enough experience to carry out ▶

◀ their investments in other countries," says Teo, who's also chairman of the Singapore Business Federation. "They have to learn the way we deal with local people and the way we do business."

Singapore is a natural partner for China, which seeks to rejuvenate its Silk Road routes to the Middle East and Europe. Almost 75 percent of Singapore's population is ethnic Chinese, and more than 20 percent of the nation's gross domestic product is linked to China, according to the French bank Natixis.

Under a plan dubbed One Belt, One Road, China is footing the bill for new ports, railways, roads, and other infrastructure across Asia and beyond. It's part of President Xi Jinping's push to make China a regional power and challenge decades of U.S. dominance in the region. Beijing's calculus is that greater trade and investment will help defuse a potential backlash over the country's military expansion and territorial ambitions. The revamped Silk Road should also provide an outlet for the huge overcapacity in some Chinese industries, including steel and high-speed rail equipment.

By teaming up with Singaporeans, Chinese investors hope to avoid pitfalls they encountered in Africa and Latin America. They've been criticized for using Chinese labor and materials on projects, limiting their contribution to local economies. "Chinese have learned that they need a local broker," says Gao Zhikai, a former vice president of Chinese oil giant CNOOC. "Chinese companies believe Singapore companies are easier to deal with, and they know how to deal with different markets."

Trade with Singapore in 2015

❶ China	$68b
❷ Malaysia	$54b
❸ U.S.	$52b
❹ Hong Kong	$34b
❺ Indonesia	$32b
❻ Japan	$26b
❼ South Korea	$26b

The number of Chinese companies registered in Singapore has almost doubled in the past five years, to more than 7,500. **Fosun International**, a Shanghai-based conglomerate whose holdings include Club Med and Cirque du Soleil, established its Southeast Asian headquarters there last year. "Chinese companies have to pick the right platform and springboard before making an international move, and Singapore is a very good choice," says Chief Executive Officer Liang Xinjun. The influx of Chinese businesses could help Singapore's economy, which is suffering from a slowdown in trade, weak commodity prices, and job cuts in banking.

China has looked to Singapore before. Many Chinese officials tread a path there each year to study its political model. The city-state in late 2015 hosted the first summit between Taiwan and China in seven decades. Beijing may need to enlist Singapore to help smooth tensions stoked by China's territorial claims in the South China Sea, which an international arbitration court in The Hague recently rejected.

While Southeast Asian nations are hungry for infrastructure funds to meet the demands of growing populations, China shouldn't expect an unconditional open door. "Many countries in Southeast Asia are becoming more cautious when dealing with Chinese companies, which have a relatively bad track record in implementing deals over the past decade," says Gao, the onetime CNOOC executive who's now director of the China National Association of International Studies. "Given the growing tensions over the South China Sea, Chinese firms have to be even more careful in putting the deals in practice," he says. "Even a small mistake could cause a major negative reaction." —*Bloomberg News*

The bottom line China is strengthening ties with Singapore in a bid to counter decades of U.S. dominance in Southeast Asia.

Labor

Stranded by Saudi Austerity

▶ **Thousands of laid-off foreign workers haven't been paid**

▶ **"After they pay me my salary and benefits, I will go"**

As Saudi authorities slash spending and delay payments to contractors to cope with the plunge in oil prices, the austerity is exacerbating the woes of private businesses that, for decades, have relied on government spending

A Saudi Oger camp outside Riyadh: Eight men to a room and intermittent air conditioning

for growth. Casualties include many foreigners who helped meet the voracious demand for low-paid workers in construction.

Owed weeks of back pay from construction companies squeezed by the kingdom's economic slowdown, thousands of foreign workers from South Asia don't know how long their plight will last. "They don't give us any answers about our salaries," says Mohammed Salahaldeen, a duct fabricator from Bangladesh, as he stands in a labor camp in Riyadh set up by construction company **Saudi Oger** in better days. "After they pay me my salary and benefits, I will go."

Abandoned laborers for a number of companies, including almost 16,000 from India and Pakistan alone, according to their governments, haven't seen a paycheck in about eight months. Under a system of sponsorship known as *kafala* that leaves many workers at their employers' mercy, they're also not being given the exit visas they need to leave. Saudi employers have to arrange such visas, but before doing so, they're legally obliged to pay back wages and end-of-service benefits.

Construction companies "can't get additional financing from the banking

DATA: INTERNATIONAL MONETARY FUND

system because they are close to their limits," says John Sfakianakis, director for economic research at the Gulf Research Center, so they don't have the money to meet their commitment to employees. Construction contracts with the government shrank about 65 percent in the second quarter from the same period a year earlier, according to data published by Jeddah-based National Commercial Bank.

Calls made to Saudi Oger and **Saudi Binladin Group**, another large construction company, weren't returned. At the order of King Salman, the reigning monarch, stranded workers will be given food and medical services and can receive exit visas directly from the state. The Ministry of Labor pledged in a statement in early August to safeguard workers' rights. Legal representation will be furnished pro bono. The workers say they won't leave without their money.

The conditions in which the workers from Bangladesh, India, Sri Lanka, Pakistan, and the Philippines wait are fetid and cramped. They sleep eight to a tiny concrete room and share dirty toilets with feral cats that sneak into the bathrooms to escape the searing heat. Temperatures hit 50C (122F), and the electricity powering air conditioners often goes off. Some destitute laborers say they own only one set of clothes.

Mohammed Khan, an Indian nurse from Mumbai at the Saudi Oger camp, has to treat patients' diabetes, hypertension, and high cholesterol without medication. "They can't go to a hospital because they no longer have insurance," he says. "They have no money." Workers said Saudi Oger stopped paying their medical insurance policies.

For decades, the kingdom has provided millions of foreign laborers with jobs that allowed them to improve the lives of families back in their homelands. In 2014 it ranked second behind the U.S. as the biggest source of overseas workers' remittances, according to World Bank data. Yet as oil prices plummeted, government efforts to repair public finances hammered a construction industry already struggling from a slowdown.

In March, Deputy Crown Prince Mohammed bin Salman told Bloomberg that Oger's problems were unrelated to the economy. Last year the government had temporarily barred Binladin Group from taking on new contracts after a company-operated crane collapsed in Mecca, killing more than 100 people.

India's Ministry of External Affairs says more than 4,050 Indian workers are stranded without pay at Saudi Oger camps. For three days, at a camp near Diriyah, the original home of the royal family, the company abruptly stopped providing free food at the canteen, say workers.

Nasser Abdul Manaf says he has been forced to take his children in Hyderabad, India, out of school because he can no longer afford their education. He is six months late on the rent for his family's $90-a-month apartment and says the building owner wants to kick them out: "They will have to move onto the streets."

Prince Mohammed, the king's closest son, said in March that the government had started paying companies for work done. People briefed on the plans said authorities were considering IOU notes to pay outstanding bills to conserve cash.

Outside Riyadh, at a camp for Saudi Binladin Group workers, some employees say they haven't been paid in 10 months, including Egyptian and Saudi security guards still working at the front gate. The company said in May that it has fully compensated dismissed workers after local media reported it had fired thousands without paying back wages.

The shop in the camp throws the workers a lifeline by providing goods on credit, which the employees are expected to pay back when they receive their salaries, says Carlos Nagac, a 38-year-old painter for Binladin. "All I want is to get my benefits and to go home," he says, fretting about his four children ▶

GLEN CAREY/BLOOMBERG (2)

◀ back in Cebu, Philippines.

With no income, some of the workers have turned to relatives or friends for loans. Shahid Iqbal, who's worked at Saudi Oger for almost half of his 39 years, had to borrow 3,000 riyals ($800) to pay for childbirth costs for his wife in Pakistan. He borrowed an additional 15,000 riyals to make it through the eight months he hasn't been paid. "I am only waiting for my benefits," he says with tears in his eyes. "My end-of-service benefit is 45,000 riyals. If I don't take that back to Pakistan, I will have nothing." *—Glen Carey, with Deema Almashabi*

The bottom line The Saudi construction industry has been so battered it has laid off thousands of foreign workers and hasn't paid back wages.

Brexit

261 Words to End A 43-Year Marriage

▶ **Drafters of the European Union's exit clause skimped on details**

▶ **"Nobody ever imagined it would actually be used"**

The U.K.'s departure from the European Union may become the most tortured divorce proceeding in history. Although prime ministers from Margaret Thatcher on won opt-outs from the euro and the passport-free Schengen Area, about half of all British legislation with a significant economic impact—from trade rules to product regulations—derives from the EU, according to a study by the House of Commons Library. British politicians, lawyers, and bureaucrats will have little guidance for their vast task: Article 50 of the Treaty of Lisbon, the rule book for the modern EU, spells out the exit parameters in just 261 words. "It's very, very complex, because we have everything entangled after 43 years of British membership," says Jean-Claude Piris, the EU Council's chief lawyer when the clause was drafted early this century. A formal exit process hadn't existed before, and EU countries "wanted to prove that the EU wasn't a jail—that you could get out; at that time, nobody ever imagined it would actually be used," he says.

Talks on Britain's departure can start as soon as U.K. Prime Minister Theresa May triggers Article 50. Once British and European political leaders set down the red lines for negotiations, officials will have to thrash out the details.

Legally, there must be two sets of negotiations. First, the U.K. must extricate itself from its current arrangements, including its contributions to the EU budget, employment terms for EU staff, and the status of EU agencies. "There will be disputes, because there are so many ongoing contracts and procedures," Piris says. "If someone is under an arrest warrant procedure, if there's an ongoing procurement procedure, an ongoing procedure on competition, state aid, and so on, you have to solve as many questions as possible in the withdrawal treaty." The withdrawal agreement has to be completed within two years, unless all EU countries agree to an extension.

The other set of negotiations deals with the two sides' future relationship. Among the issues at stake are London's prospects as a financial center and the ability of EU citizens to live and work in the U.K. The process could drag on for several years if the EU insists this set of talks can't start until the withdrawal treaty is concluded. "The Brexit negotiations will take much longer and be far more complicated than many British politicians realize," Charles Grant, director of the Centre for European Reform, said in a research report.

In fact, Grant said, there may need to be at least six sets of agreements: an EU withdrawal treaty, a new U.K.-EU trade regime, an interim EU accord to cover the period between them, paperwork granting the U.K. its own membership in the World Trade Organization, new trade deals with other countries, and new foreign policy and defense arrangements.

EU President Donald Tusk and the European Commission have said that the withdrawal agreement needs to be completed before talks on a new U.K.-EU trade pact can begin. The expectation is that, as with any trade deal negotiated by the EU, this one will probably require unanimous agreement by all 27 members, plus ratification in national and regional parliaments across the bloc. How long all this will take is an open question, but consider that the EU's free-trade agreement with Canada took seven years to negotiate—and it's still not ratified.

Late-night make-or-break summits of the sort seen at the height of the Greek debt crisis are unlikely but can't be ruled out, says Kenneth Armstrong, a professor of law at the University of Cambridge. "If it goes well, it would be better orchestrated; clear rounds, clear chapters and signing at the end—11th-hour negotiations would be a very poor way of doing it," he says. But "even an orderly chapter-by-chapter de-accession might go down to the wire."

Piris, for one, is in no hurry to close a chapter in British history that started in 1973. "I am very, very sad," says the legal consultant. "It's a catastrophe for the U.K. and very, very bad—even catastrophic, politically—for the EU itself." *—Ian Wishart and Matthew Campbell*

Brexit Fallout

United Kingdom Prime Minister Theresa May will face a daunting array of demands from European nations when the time comes to negotiate Britain's future relationship with the bloc. A sample:

The bottom line Negotiations to extricate the U.K. from the European Union may require at least six sets of agreements.

Edited by Christopher Power and Cristina Lindblad
Bloomberg.com

NEIL HALL/WPA POOL/GETTY IMAGES

Your Driverless Uber Is Here

▶ **The service is putting robotic cars on the road before summer's end**

▶ **Developing an autonomous car "is basically existential for us"**

Near the end of 2014, **Uber** co-founder and Chief Executive Officer Travis Kalanick flew to Pittsburgh on a mission: to hire dozens of the world's experts in autonomous vehicles. The city is home to Carnegie Mellon University's robotics department, which has produced many of the biggest names in the newly hot field. Sebastian Thrun, the creator of **Google**'s self-driving car project, spent seven years researching autonomous robots at CMU, and the project's former director, Chris Urmson, was a CMU grad student.

"Travis had an idea that he wanted to do self-driving," says John Bares, who had run CMU's National Robotics Engineering Center for 13 years before founding **Carnegie Robotics**, a Pittsburgh-based company that makes components for self-driving industrial robots used in mining, farming, and the military. "I turned him down three times. But the case was pretty compelling." Bares joined Uber in January 2015 and by early 2016 had recruited hundreds of engineers, robotics experts, and even a few car mechanics to join the venture. The goal: to replace Uber's more than 1 million human drivers with robot drivers—as quickly as possible.

The plan seemed audacious, even reckless. And according to most analysts, true self-driving cars are years or decades away. Kalanick begs to differ.

"We are going commercial," he says. "This can't just be about science." Starting in late August, Uber will allow customers in downtown Pittsburgh to summon self-driving cars from their phones, crossing an important milestone that no automotive or technology company has yet achieved. Google, widely regarded as the leader in the field, has been testing its fleet for several years, and **Tesla Motors** offers Autopilot, essentially a souped-up cruise control that drives the car on the highway. **Ford** on Aug. 16 announced plans for an autonomous ridesharing service. But none of these companies has yet brought a self-driving car-sharing service to market.

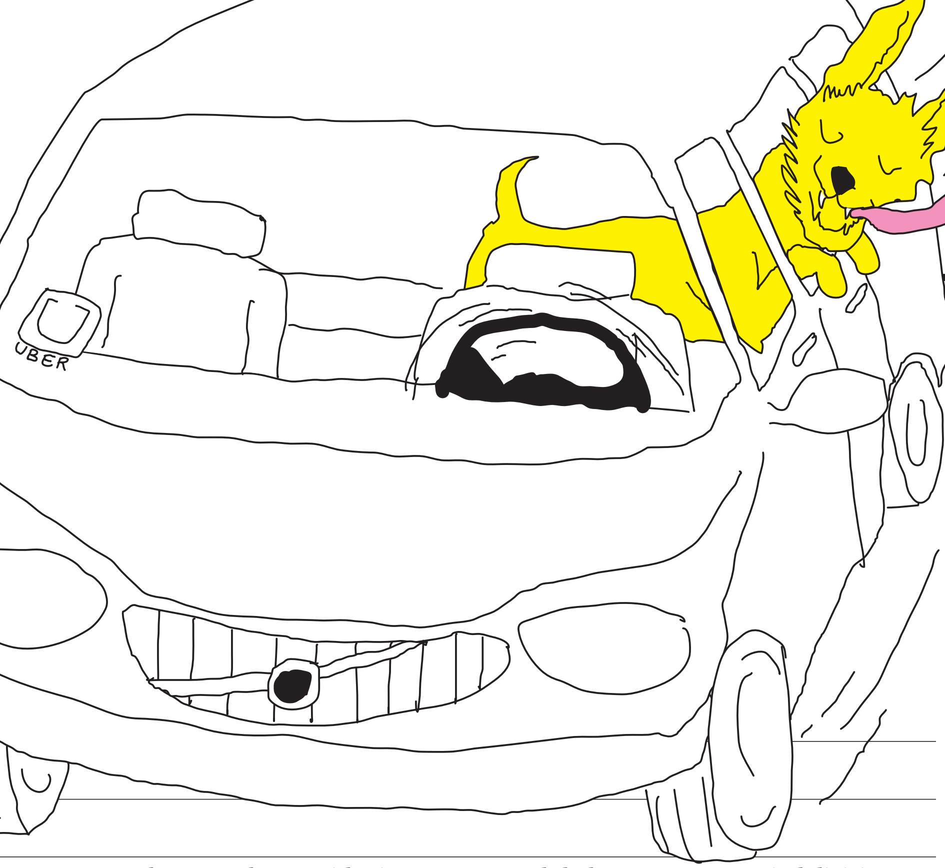
"Nobody has set up software that can reliably drive a car safely without a human. We are focusing on that."
—Travis Kalanick, Uber

Uber's Pittsburgh fleet, which will be supervised by humans in the driver's seat for the time being, consists of specially modified Volvo XC90 sport-utility vehicles outfitted with dozens of sensors that use cameras, lasers, radar, and GPS receivers. **Volvo Cars** has so far delivered a handful of vehicles out of a total of 100 due by the end of the year. The two companies signed a pact earlier this year to spend $300 million to develop a fully autonomous car that will be ready for the road by 2021.

The Volvo deal isn't exclusive; Uber plans to partner with other automakers as it races to recruit more engineers. In July the company reached an agreement to buy **Otto**, a 91-employee driverless truck startup that was founded in early 2016. Uber declined to disclose the terms of the arrangement, but a person familiar with the deal says that if targets are met, it would be worth 1 percent of Uber's most recent valuation. That would imply a price of about $680 million. Otto's current employees will also collectively receive 20 percent of any profits Uber earns from building an autonomous trucking business.

Otto has developed a kit that allows big-rig trucks to steer themselves on highways, in theory freeing up the driver to nap in the back of the cabin. The system is being tested on highways around San Francisco. Aspects of the technology will be incorporated into Uber's robot livery cabs and will be used to start an Uber-like service for long-haul trucking in the U.S., in addition to the intracity delivery services Uber already offers.

The Otto deal is a coup for Uber in its simmering battle with Google, which has been plotting its own ridesharing service using self-driving cars. Otto's founders include other key members of Google's operation who decamped in January, because, according to Otto co-founder Anthony Levandowski, "We were really excited about building something that could be launched early." Levandowski, one of the original engineers on the self-driving team



at Google, started Otto with Lior Ron, who served as the head of product for Google Maps for five years; Claire Delaunay, a Google robotics lead; and Don Burnette, another veteran Google engineer. Google suffered another departure in early August when Urmson announced that he, too, was leaving.

"The minute it was clear to us that our friends in Mountain View were going to be getting in the ridesharing space, we needed to make sure there is an alternative [self-driving car]," says Kalanick. "Because if there is not, we're not going to have any business." Developing an autonomous vehicle, he adds, "is basically existential for us." (Google also invests in Uber through Alphabet's venture capital division, GV.)

Unlike Google and Tesla, Uber has no intention of mass-producing its own cars, Kalanick says. Instead, the company will strike deals with auto manufacturers, starting with Volvo Cars, and will develop kits for other models. The Otto deal will help; the company makes its own laser detection, or lidar, system, used in many self-driving cars. "Nobody has set up software that can reliably drive a car safely without a human," Kalanick says. "We are focusing on that."

In Pittsburgh, customers will request cars the normal way, via Uber's app, and will be paired with a driverless car at random. Trips will be free for the time being, rather than the standard local rate of $1.30 per mile. In the long run, Kalanick says, prices will fall so low that the per-mile cost of travel, even for long trips in rural areas, will be cheaper in a driverless Uber than in a private car. "That could be seen as a threat," says Volvo Cars CEO Hakan Samuelsson. "We see it as an opportunity."

Although Kalanick and other self-driving car advocates say the vehicles will ultimately save lives, they face harsh scrutiny for now. In July a driver using Tesla's Autopilot service died after colliding with a tractor trailer, apparently because both the car's computers and the driver didn't see it. Google has seen a handful of accidents, but they've been less severe, in part because it limits its cars to 25 miles per hour. Uber's cars haven't had any fender benders since they began road-testing in Pittsburgh in May, but at some point something will go wrong, says Raffi Krikorian, the company's engineering director. "We're interacting with reality every day," he says. "It's coming."

For now, Uber's test cars travel with safety drivers, as common sense and the law dictate. These professionally trained engineers sit with their fingertips on the wheel, ready to take control if the car encounters an unexpected obstacle. A co-pilot, in the front passenger seat, takes notes on a laptop. Each car is also equipped with a tablet computer in the back seat, ▶

Honk If You Love Robots

The National Highway Traffic Safety Administration has defined five levels of autonomy based on how many car functions are computer-controlled

	Level 0	Level 1	Level 2	Level 3	Level 4
	1972 Chevrolet Vega	1998 Mercedes S500	2016 Tesla Model S	Uber, Google	JohnnyCab from *Total Recall*
Driver	Life is a highway—the driver is in complete control of the car at all times	Driver can regain control or stop the car more quickly than when driving without the automated function or functions	Driver shares control as an intermittent operator; you'll want to take your hands off the wheel, but you shouldn't	Professionally trained operator for ride-hailing service cedes full control during certain conditions	Driver selects destination, doesn't control car functions
Vehicle	Automatic transmission optional	Automation of one or more specific control functions, such as assisted braking	Partial automation of at least two primary control functions working together (e.g., adaptive cruise control with lane centering) to relieve driver of the tasks	Steering, throttle, braking, and other critical functions are automated; the car can monitor changes in road conditions (e.g., construction) that might require the human to retake control	Fully automated; designed to perform all safety-critical functions and monitor road conditions for an entire trip; responsibility for safe operation rests solely with the vehicle

A 2084 robot taxi, first unveiled in 1990

FROM LEFT: ILLUSTRATION BY 731; RONALD GRANT ARCHIVE/ALAMY

◀ designed to tell riders that they're in an autonomous car and to explain what's happening. "The goal is to wean us off of having drivers in the car, so we don't want the public talking to our safety drivers," Krikorian says.

On a recent weekday test drive, the safety drivers were still an essential part of the experience, as Uber's autonomous car briefly turned un-autonomous, while crossing the Allegheny River. A chime sounded, a signal to the driver to take the wheel. A second ding a few seconds later indicated that the car was back under computer control. "Bridges are really hard," Krikorian says. "And there are like 500 bridges in Pittsburgh."
—*Max Chafkin, with Eric Newcomer*

The bottom line Uber is accelerating its plan to replace its 1 million human drivers with robots as quickly as possible.

Retail

A Spending Spat in An Empire of Austerity

▶ **A feud at Germany's Aldi threatens to slow change**

▶ **"The parsimony was so extreme, it was unsustainable"**

The German supermarket chain **Aldi** revels in austerity, with stores reminiscent of fluorescent-lit bunkers, shelves packed with €1 cans of sliced pork and 39-euro-cent River cola, and cashiers who only started taking credit cards last summer. That hasn't stopped a widening scandal about, of all things, extravagant spending.

The heirs to the fortune of co-founder Theo Albrecht—worth $15 billion, according to the Bloomberg Billionaires Index—are battling for control of **Aldi Nord**, which owns the chain in nine European countries. Theo's elder son, Theo Jr., has publicly attacked his widowed sister-in-law, Babette Albrecht, for her purchases of art and vintage cars and withdrawals from one of the company's controlling trusts. He's using the dispute to try to reduce the influence of Babette and her five children, a move she's fighting in court. The company is a rich prize: Last year, Aldi Nord had €12.3 billion ($13.9 billion) of net revenue in Germany alone.

The battle has been lapped up by a German public that's long had a love-hate relationship with the chain. For a postwar generation whose culinary compass was oriented toward vast quantities of cheap food rather than dining as a refined indulgence, Aldi was the obvious destination for staples such as sugar and flour. Ultralow prices, combined with a resistance to anything resembling an uplifting consumer experience, have given the supermarket a quasi-masochistic cult following.


Albrecht

While Aldi Nord is adapting to a crowded market, it must keep going upscale, says Boris Planer, chief economist at consulting firm Planet Retail. "Consumers today expect more," he says. In 2012, Aldi Nord began buffing up stores and offering big brands such as Coca-Cola in addition to household products, boosting revenue an average of 19 percent in renovated shops over three years. Long-stemmed roses, Champagne, and giant prawns—at bottom-feeder prices—have joined the mix.

The family feud could slow those initiatives. Babette's camp is pushing Aldi Nord, which also runs the U.S. chain **Trader Joe's**, to more quickly spruce up stores, according to a person with knowledge of the matter. Trusts representing the heirs must sign off on major investment plans, and Theo Jr. and his mother aren't on speaking terms with Babette's side of the family, according to the person. "If I were Theo Jr.'s adviser, I would tell him to relax a bit, especially since he himself defied the family's vow of silence," says Martin Kuhna, author of *Die Albrechts*, a 2015 book about the chain. The company declined to comment or to make Theo Jr. available; Babette's team also declined to comment.

The spat has upended decades of obsessive discretion at Aldi, whose owners are so secretive that the only widely published photo of Theo Jr. is a grainy, decades-old paparazzi snap. The given names and ages of Babette's children—quadruplets who are about 26 and a sister who's about 24—are so closely guarded that they weren't revealed until last year, and the family won an injunction against a magazine that published them. "It's totally natural that the younger generation would react against the excessive thriftiness," says Eberhard Fedtke, a former Aldi Nord manager and author of a 2011 company history called *Aldi Geschichten* (*Aldi Stories*). "The parsimony was so extreme, it was unsustainable."

At its core, the dispute concerns trusts set up by Theo Sr. to ensure long-term control of Aldi Nord. The two sides each are beneficiaries of trusts with 19.5 percent stakes, and they share a third with 61 percent. The spat centers on control of Babette's trust and the larger one—and ultimately control of Aldi Nord. The conflict heated up after Babette's husband, Berthold, died of cancer in 2012. Some of his heirs contended that one trust had been revamped to reduce their influence, a decision they said was made by Theo Jr. in 2010 when Berthold was too ill to make a competent judgment.

In January, Babette and her children won a court ruling striking down the 2010 changes, a decision that is under appeal. In response, Theo Jr., a man who'd spent decades avoiding the press, did the unthinkable: He went public. He told the newspaper *Handelsblatt* that Babette's spending, as well as a widely publicized case in which an art dealer who sold works to her and Berthold was jailed for fraud, had tarnished the company's image. "The Albrecht name requires a modest lifestyle," he said in *Stern* magazine.

While Babette's lifestyle isn't particularly lavish by billionaire standards—her home is a modest, two-story stucco—it stands out when compared with Aldi's penny-pinching. German media say that in the final years of Berthold's life the couple spent more than €100 million on art and a dozen or so classic cars, including a 1939 Mercedes roadster. Last year, Babette was photographed in the front row of a Düsseldorf fashion show wearing a black pencil skirt and adorned with pearls and a jewel-encrusted watch. In a 2014 letter to Babette, Theo Jr. wrote that she'd become "a burden on our company" by refusing to "subordinate your private lifestyle to the interest of our group."

"It's grotesque that Theo Albrecht is attacking his sister-in-law invoking the company's reputation," says Stephan Holzinger, a Munich litigation adviser who isn't involved in the dispute. "Aldi's reputation has been more damaged by the mudslinging." *—Matthew Campbell, Karin Matussek, and Nicholas Brautlecht*

The bottom line A family fight at discount grocer Aldi threatens modernization efforts needed to remain competitive in a changing retail landscape.

Drinks

Beverage Makers Go After the Athleisure Set

▶ **Companies embrace millennials' health-obsessed lifestyles**

▶ **What people ingest "is more prominent in consumers' minds"**

Every week, after a grueling hourlong CrossFit session, Casey O'Neill and some of her workout friends typically gather for post-exercise drinks at her Boston apartment. Until last summer, she often wasn't sure what to serve—wine was too alcoholic, cocktails too caloric, beer too bloating.

Then she came up with another option: seltzer with a kick. O'Neill makes her living concocting drinks for **Boston Beer**, maker of Samuel Adams, and the fizzy libation she developed has inspired the craft beer company to branch out into the new category of healthy-sounding hard drinks. Truly Spiked & Sparkling, made from fermented cane sugar with natural flavors, made its debut in May and packs just 100 calories per serving, half the intake of a standard gin and tonic. "People are concerned about gluten, they're concerned about sugar," says O'Neill.

Alcoholic beverage companies have steered clear of the health-and-fitness trend that's overtaken virtually every consumer category from food to clothing. Now that's changing as millennials, especially women, obsess over everything they ingest. Big alcohol players, including **Diageo** and **MillerCoors**, are trying to cater to the so-called athleisure-wearing customer. Their challenge: to give fitness-chic status to a product more associated with binge drinking and addiction. "There's a reason you see people in yoga pants all over New York City—not because they're working out," says Valerie Toothman, vice president for marketing innovation at **Anheuser-Busch InBev**. "It's this idea that a kind of health and well-being is the new premium."

47%

Americans of legal drinking age who say there aren't enough low-calorie alcoholic beverage options

MillerCoors is releasing two alcoholic drinks with healthy-sounding names. Easy Tea is a drink that the company recently described as a "refined, brisk and less sweet iced tea." It began selling the brew on Aug. 8 in liquor and convenience stores around the Northeast and Midwest. Zumbida Mango, the first of several fruit-flavored fermented drinks, will be introduced on Sept. 1 in several Western states.

Diageo, the world's largest distiller, said on Aug. 5 that it will soon sell a Smirnoff Spiked Sparkling Seltzer line, in addition to a new hard soda brand, to join a suite of products catering to consumers looking for seemingly healthier drinks. The 90-calorie seltzer will have nutrition labels on its packaging pitching its natural flavor and the absence of added sugar, artificial sweeteners, and preservatives, says Diageo spokeswoman Kristen Crofoot. The product is also gluten-free.

"The idea of what [people] are putting into their bodies is more prominent in consumers' minds today," says James Thompson, Diageo North America's chief marketing and innovation officer. "It's natural that spirits will follow."

Forty-seven percent of Americans who are of legal drinking age say there are too few low-calorie alcoholic beverage options, according to a Harris Poll commissioned by Boston Beer.

Startups are going after the market, too. Nick Shields, co-founder of **Boathouse Beverage**, hit on the idea of a healthier option when he noticed seltzer waters replacing carbonated soft drinks in his family's refrigerator. He started brewing small batches of an alcoholic seltzer in his garage, and the business grew from there. SpikedSeltzer, with 6 percent alcohol, is now sold in Whole Foods, Trader Joe's, some Targets, and regional groceries in 13 states. Shields says he expects to sell more than 40,000 barrels this year.

The Beer Institute, a trade group whose members include MillerCoors and AB InBev, announced in July that its companies will start listing nutritional information, including calories, carbohydrates, and protein, on their labels.

"Alcohol isn't good for you unless it's in moderation," says Dave Holmes, who co-founded Boathouse with Shields. "The desire is to have something that's both transparent and healthier." *—Jennifer Kaplan*

The bottom line Diageo, Boston Beer, and MillerCoors are among the companies marketing so-called healthy alcoholic drinks.

FROM LEFT: MATHIS WIENAND/GETTY IMAGES; PHOTO ILLUSTRATION BY 731; WOMAN: GETTY IMAGES

Edited by Dimitra Kessenides
Bloomberg.com

Free Donald Trump!

▶ Steve Bannon thinks he can save the craziest campaign ever by unshackling the candidate

▶ "It's very simple. This is a change election. He needs to position himself as anti-establishment"

"I am who I am," Donald Trump declared, shortly after the *New York Times* ran a story depicting chaos in his presidential campaign. "I don't want to change." He wasn't lying. The next day, on Aug. 17, Trump shoved aside his campaign chairman, Paul Manafort, and installed Steve Bannon—ex-Naval officer, ex-Goldman Sachs banker, ex-Sarah Palin filmmaker. Until Trump called, he was executive chairman of *Breitbart News*, the avatar of the so-called alt-right: the nationalist, racially paranoid splinter group of anti-establishment conservatives who have rallied to Trump's banner.

Since June, Manafort has tried fruitlessly to mold Trump into someone palatable to establishment Republicans and the swing voters he'll need to win over if he's to have any chance of beating Hillary Clinton. Bannon, who becomes chief executive of the Trump campaign, represents a sharp turn in the opposite direction—a fireball hurtling toward the 2016 presidential election. (In announcing the hiring, the Trump campaign quoted *Bloomberg Businessweek*'s description of Bannon from a profile last fall as "The Most Dangerous Political Operative in America.") Along with campaign manager Kellyanne Conway, Bannon will encourage Trump to cast aside political niceties and aggressively go with his gut. "I've known Steve for a long time—he is an extraordinary guy, an extraordinary talent, and he, like me, truly loves our country," Trump said in a statement to *Businessweek*.

Trump's own diagnosis of his campaign's shortcomings led to this unusual prescription—which is the diametric opposite of what most Republicans have been counseling for their embattled nominee. "The campaign has been too lethargic, too reactive," says a senior Trump official. "They wanted to bring in someone who understood new media, understood digital. It's not going to be a traditional campaign." Trump was frustrated by Manafort's efforts to contain him and angry about his plummeting

PHOTOGRAPH BY JEREMY LIEBMAN FOR BLOOMBERG BUSINESSWEEK

No nukes: How utilities are charging for plants not getting built 29

> **"I'm not paying you 350 grand to associate *Breitbart News* with a failed brand like the RNC."**
> **—*Steve Bannon***

poll numbers. With Bannon in the fold, the source adds, Trump will feel free to unleash his inner Trump: "It's very simple. This is a change election. He needs to position himself as anti-establishment, the candidate of change, and the candidate who's anti-Washington."

The shake-up is an ominous development for Republican elected officials alarmed at Trump's collapse and the effect he could have on down-ballot races across the country. In recent years, *Breitbart News* has bedeviled Republican leaders, helping to drive out former House Speaker John Boehner and, more recently, making life difficult for his successor, Paul Ryan. Last fall, at Bannon's insistence, *Breitbart* reporters visited Ryan's Wisconsin home (which is surrounded by a wall) and published a story shaming him for not endorsing Trump's proposal to erect a wall along the Mexico border.

Bannon, who's as eager to attack Republicans as Democrats, is unlikely to worry much about the plight of mainstream GOP incumbents. At a New Year's party at his Capitol Hill home last year, Bannon gave guests silver flasks stamped with his personal motto: "Honey badger don't give a shit."

Bannon's position as CEO of Team Trump could further strain relations between the campaign and the Republican National Committee, which is shouldering the bulk of the ground game. Trump, who suggested during the primaries that the RNC was working against him, later reconciled with RNC Chairman Reince Priebus, whom he dubbed "Mr. Switzerland" for his efforts to bring the GOP establishment behind Trump once he'd secured enough delegates to cinch the nomination.

But dozens of Republicans, including former RNC officials, have since publicly turned against their nominee, urging Priebus and RNC chief strategist Sean Spicer to cut off Trump's funding and redirect the party's money to endangered House and Senate candidates. Bannon himself has a particularly low regard for the RNC's capabilities. "Sean wanted us to partner up on one of the [Republican] primary debates for $350,000," he told me last fall, shaking his head. "I said, 'Sean, I'm not paying you 350 grand to associate *Breitbart News* with a failed brand like the RNC.'"

"We gauged the interest of a lot of conservative outlets to see if they'd be interested in the process," says Spicer, who insists he didn't offer Bannon a price. In a brief interview, Bannon said he and Spicer, both ex-Naval officers, would work well together. He declined to address criticism of his appointment.

Bannon has also clashed with another senior conservative figure recently brought into the Trump fold: former Fox News Chairman Roger Ailes. Last fall, after Trump attacked Fox News host Megyn Kelly, Bannon and *Breitbart News* took Trump's side in the bitter divide between what Bannon calls the "establishment Republicans" at Fox News and the populists who have flocked to Trump and *Breitbart*. According to someone who spoke to Ailes at the time, the anger directed at Fox grew so intense that Ailes asked Bannon to tone down *Breitbart*'s criticism of the right-leaning network. While Trump and Kelly later reconciled, Bannon still nurses a grudge against the Fox host whom he's accused of "treachery" and criticized in a July 29 *Breitbart* essay for posing in "a risqué nightgown and sexy poses" for *GQ* magazine.

Trump, however, plainly isn't bothered by Bannon's swashbuckling attacks on fellow conservatives. Given Trump's fixation with the media coverage of his campaign and his Manichean view of the journalists who cover him—you're either on Team Trump or you're not, with Trump always and forever keeping score—it makes an odd sort of sense that Trump would install an outrageous, right-wing media firebrand atop his unorthodox campaign.

Given the steep odds Trump faces in November, speculation has been growing in Washington that maybe what Trump is really up to is trying to lay the groundwork for a future political-media empire—a notion that gained momentum after Ailes, deposed at Fox News in the wake of widespread sexual harassment allegations, was discovered to be advising him. Having Bannon in the tent, who already runs the most influential right-wing alternative to Fox News, would only make such a project easier to pull off.

In the meantime, Bannon, a campaign novice, has a presidential campaign to run. It's a job that will surely be complicated by Manafort remaining with the campaign and continuing to advise Trump. "This is the bunker scene in *Downfall*, only the Trump crowd won't tell Hitler the truth. It's utter madness," says Stuart Stevens, who ran Mitt Romney's 2012 presidential campaign. "Trump is a nut, and he likes to surround himself with nuts. It's a disaster for the Republican Party." —*Joshua Green*

The bottom line Donald Trump has put a right-wing media firebrand in charge of his campaign to resuscitate his presidential hopes.

Health Care

Obamacare Is Losing The Biggest Insurers

- **With almost $2 billion in losses, big insurers are pulling out**
- **The exchanges are "losing a lot of money for a lot of people"**

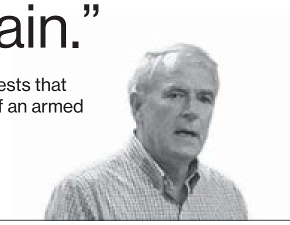
Last fall, when **UnitedHealth Group** said it expected to post big losses on its Obamacare policies in 2016, rivals such as **Anthem** and **Aetna** signaled their Affordable Care Act businesses were doing fine. The Obama administration used that as evidence to refute claims that systemic problems were brewing in its landmark insurance program.

Now, there's no denying it. The four biggest U.S. health insurers say they're each losing hundreds of millions of dollars on their Obamacare plans. Rather than expand coverage, many are pulling out of the exchanges that were set up by the ACA so people can shop for insurance plans, often with the help of government subsidies.

UnitedHealth expects to lose $850 million on Obamacare in ▶

Quoted

"Last night was unlike anything I've seen. I hope I never see it again."



Milwaukee Mayor **Tom Barrett** on the violent protests that erupted on Aug. 13 following the shooting death of an armed black man by a Milwaukee police officer

◀ 2016, while Aetna, Anthem, and **Humana** are all on track to lose at least $300 million each on their ACA plans this year, according to company reports and estimates from Bloomberg Intelligence. UnitedHealth says it's quitting 31 of the 34 states where it sells ACA policies. Humana is exiting 8 of 19 states and reducing its presence to just 156 counties, from 1,351 a year ago. Anthem hasn't announced plans to change its participation in the program.

On Aug. 15, Aetna said it will stop selling Obamacare plans in 11 of the 15 states where it had participated in the program, reversing its plan to expand into five new state exchanges in 2017. "The exchanges are a mess as they exist today," says Aetna Chief Executive Officer Mark Bertolini. "They're losing a lot of money for a lot of people."

Since its passage in 2010, Obamacare has brought insurance to some 20 million people who previously lacked it, pushing the uninsured rate in the U.S. to a record low. Yet as the law approaches its fourth full year of providing coverage, it's beginning to show its limitations, particularly when it comes to fostering competition and lowering prices.

When the exchanges open for business on Nov. 1, many consumers will face fewer options and higher prices. On average, insurers are looking to raise premiums by about 24 percent in 2017, estimates Charles Gaba of ACASignups.net, a website that tracks the health-care law. As many as a quarter of all U.S. counties, mainly in rural areas, are at risk of having just a single insurer for next year, according to Cynthia Cox, who tracks the markets for the Kaiser Family Foundation. With Aetna's exit, one county in Arizona currently has no insurer offering coverage through the ACA for next year.

After surviving numerous legal challenges and attacks by Republicans in Congress, plus a botched rollout in 2013, Obamacare now faces what is perhaps its most serious threat: The program is a clear money loser for the nation's biggest insurance companies. While Obamacare can compel individuals to buy insurance—a mandate upheld by the U.S. Supreme Court in 2012—the law has no authority to force insurance companies to offer plans through its exchanges.

Obamacare advocates had hoped that big government subsidies to consumers would persuade healthy people to sign up for the ACA plans. But the policies have largely been taken out by older, less healthy people who are more expensive to insure. "What we are left with…is a highly subsidized program for relatively low-income people," says Dan Mendelson, the CEO of consulting firm Avalere Health. "We're not getting to the broader vision of a robust private market structure that enables a broad swath of Americans to purchase their insurance."

President Obama recently revived the idea of introducing a public plan to compete with private insurers, something that was debated and ultimately left out of the law. He's also said increased government subsidies could draw more people into the ACA's markets. Another option is to simply give insurance companies more government money, but that would require action from a Republican Congress that would rather repeal Obamacare than fix it. "There's going to be absolutely zero interest among Republicans in bailing out Obamacare by giving it more money," says Avik Roy, a health-care expert who's advised Republican presidential candidates Mitt Romney, Rick Perry, and Marco Rubio.

Insurance companies were hoping that a wave of mergers would help them cope with ACA-related red ink. In July 2015, Aetna struck a deal to buy Humana and Anthem agreed to buy **Cigna**. But the U.S. Department of Justice sued to block both transactions, saying they'd harm competition. Aetna's pullback appears to stem in part from the DOJ lawsuits, filed in late July. The insurer told the department earlier that month that a move to block its merger would weaken it financially, forcing it to retreat from the money-losing exchanges. The big insurance companies are still poised to reap fat profits this year. Analysts estimate that Aetna is on pace to make $2.5 billion in 2016 and UnitedHealth will earn some $7 billion.

There are lots of ways to make the ACA's individual market work better for more insurers. The tough part is figuring out which could surmount political hurdles. Kevin Counihan, who oversees the health insurance markets for the federal government, has raised the idea of creating a special fund to help insurers cover particularly costly patients, perhaps ones who rack up more than $2 million in medical bills in a year.

Some insurers want to widen the gap between what they charge their oldest and youngest customers. Under the ACA, premiums for the oldest are typically limited to three times those for the youngest. Widening that ratio could help draw in more young, healthy people by lowering their premiums, but it would also raise costs for older people. Regulators are also working to improve a program known as risk adjustment, which is supposed to transfer funds from insurers with healthier customers to those with sick ones.

The fate of the exchanges rides, in part, on the November election. While Donald Trump has said he'll repeal Obamacare, he hasn't said exactly what would replace it. Hillary Clinton has backed the creation of a public insurance plan, as well as offering people 55 and older the option of buying Medicare coverage.

Joel Ario, a managing director at

THIS PAGE: (BARRETT) JON D. RIEMANN; OPPOSITE PAGE: (TURKEY POINT) COURTESY FLORIDA POWER & LIGHT COMPANY

Manatt Health who worked on the exchanges at the U.S. Department of Health & Human Services, says enrollment is probably high enough to prevent a failure. Still, he says, more can be done. “I think you will see corrective action taken, assuming a Clinton administration,” he says. “We need to do some regulatory tweaking here, maybe more than tweaking.” —*Zachary Tracer*

The bottom line Obamacare has no authority to force insurance companies to offer plans; faced with mounting losses, they're pulling out.

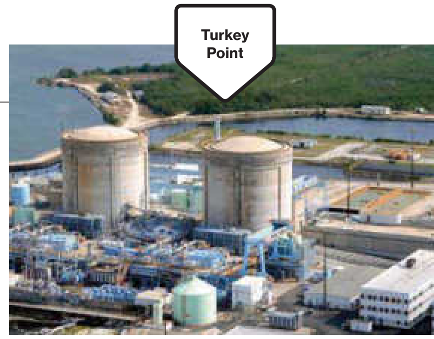
Nuclear Energy

Phantom Nukes That Charge Real Money

▶ **Customers could pay $2.5 billion for reactors that never get built**

▶ **“Anything that hasn't gotten off the ground yet isn't getting built”**

A decade ago, the U.S. nuclear power industry was on the cusp of what it thought was a golden age. Thanks to billions of dollars in federal loan guarantees, enshrined in the Energy Policy Act of 2005, the industry started making plans to build new reactors. Only 2 of the 18 plants are under construction, but that hasn't kept utilities from collecting $1.7 billion in rate increases from consumers to pay for plants that exist



only on paper and may never get built. Power suppliers **Duke Energy** and **Dominion Resources** are considering whether to seek approval to bill ratepayers an additional $839 million for nonexistent nuclear reactors, according to company disclosures.

As power plant operators turn to cheap natural gas and carbon-free renewables to make electricity, consumers and environmentalists are challenging the nuclear industry's assertion that the U.S. needs new reactors. One objective is to strip utilities of their ability to collect nuclear licensing and planning costs from customers before construction begins. “Anything that hasn't gotten off the ground yet isn't getting built,” says Greg Gordon, a utility analyst at Evercore ISI, a New York-based investment advisory firm. “There is no economic rationale for it.”

Utilities say they want to preserve the option to build if market or regulatory conditions change. Nuclear power offers around-the-clock, carbon-free electricity that could become more valuable if federal rules limiting greenhouse gases take hold, they say. “One way to mitigate these risks is to spend money now, so that you have a license to build a nuclear plant if and when you need to,” says Richard Myers, vice president of the Nuclear Energy Institute, an industry trade group.

Virginia's attorney general has raised concerns about the rising expense of Dominion's proposed reactor at its North Anna facility, estimating the total cost at $19 billion. If Dominion proceeds with the project, “it will extract $6 billion to $12 billion in needlessly higher energy bills,” says Irene Leech, president of the Virginia Citizens Consumer Council. Dominion defends its spending for a reactor, which it argues offers an option for a carbon-free baseload source of power.

In Florida, multiple efforts in the state legislature to repeal a law that allows advanced collection of nuclear costs have failed. In February, a federal lawsuit was filed on behalf of consumers that seeks to overturn the statute and recover fees charged by Duke and **NextEra Energy** for nuclear reactors that may not be completed. The suit alleges the companies overcharged customers for projects including Duke's proposal for two reactors in Levy County on the Gulf Coast and NextEra's plan for two units at Turkey Point south of Miami. Duke and NextEra have asked a judge to dismiss the suit. Four other lawsuits have been rejected.

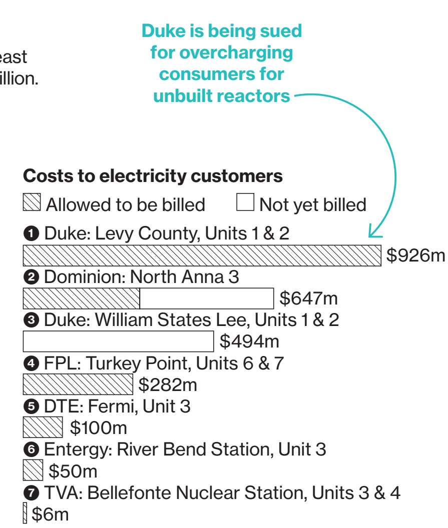
Duke has been allowed by regulators to collect approximately $900 million from customers to cover expenses for its unbuilt Levy facility, including land and equipment purchases. In 2013 the company canceled its engineering, procurement, and construction contract for the project. Regulators have let NextEra bill customers to recoup $282 million of federal licensing costs for the two units at its Turkey Point facility, where construction isn't likely to begin until at least 2020.

“Customers can get stuck with the bill long before a single kilowatt of power is produced and may never recoup anything if the nuclear project is later abandoned,” says Jeremiah Lambert, an energy attorney and author of *The Power Brokers*, a history of the electric power industry. —*Mark Chediak*

The bottom line Utilities have collected billions in advance on phantom nuclear plants, but regulators and lawsuits are trying to curb the practice.

Where Power Bills Go Radioactive

The majority of the phantom projects are in the Southeast and have already cost ratepayers at six utilities $1.67 billion.



DATA: COMPANY FILINGS AND DISCLOSURES

Edited by Matthew Philips
Bloomberg.com

August 22 — August 28, 2016

Buy Low, Sell High-Tops

▶ StockX's online database makes sneaker prices as transparent as equities'

▶ "There's more upside, and there's also a built-in consumer base"

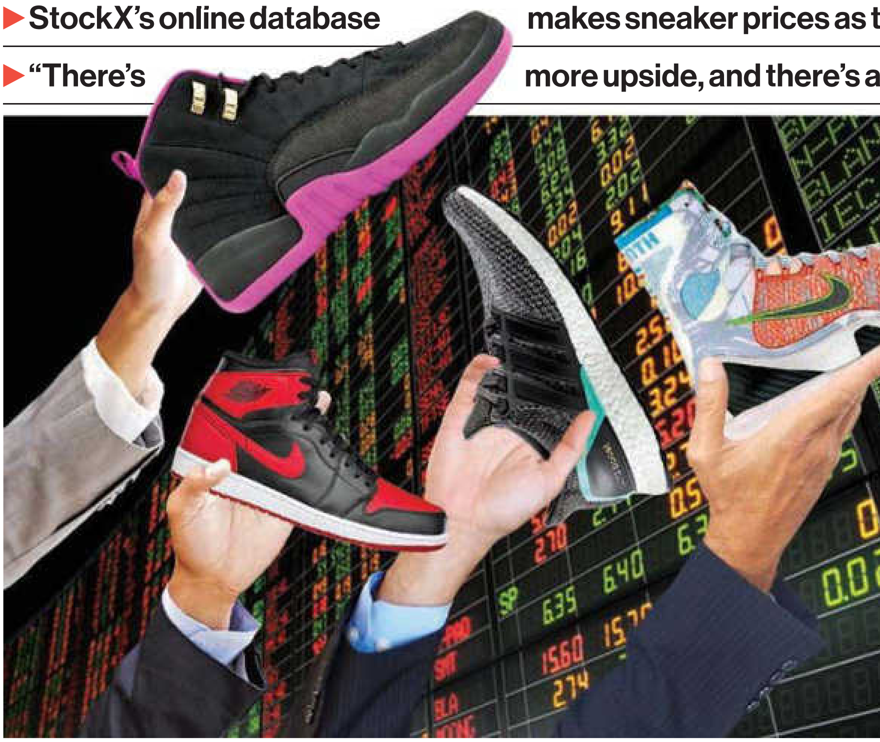


PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (5); COURTESY STOCKX (4)

Josh Luber has two great loves: data transparency and sneakers. Four years ago, Luber was a consultant for IBM who spent his spare time bidding for rare shoes on EBay and griping that there wasn't a good way to know how much each pair should cost. So he collected EBay's pricing data and built the kind of guide for sneakers that Kelley Blue Book compiles for automobiles. It became the backbone of his data blog Campless.

Luber's timing was good. Thanks to sales conducted via Instagram and other social media services, the annual market for sneaker reselling has grown to somewhere between $200 million and $500 million, estimates Matt Powell, an analyst for researcher NPD. Campless got backing from billionaire mortgage lender Dan Gilbert and was transformed into **StockX**, an online marketplace that aims to make the prices of rare shoes as transparent as equities on a stock exchange. On other sites, Luber says, listings are just listings: "You don't know what people are actually paying for those shoes."

The StockX website features a searchable database of about 5,000 kinds of sneakers, each tagged with a photo that rotates 360 degrees and pricing graphics and data from the shoe's release onward, including recent purchase prices on the site and elsewhere, 52-week highs and lows, and whether certain sizes cost more. The exchange lets buyers and sellers transact anonymously: When a sneakerhead clicks "buy," the seller sends the shoes to StockX's Detroit headquarters; in-house experts verify they're genuine and unused; and StockX delivers them, charging the seller 10 percent on the transaction. Sellers just post their price—no profile bios, no photos.

"That's the revolutionary part," says Luber. "That doesn't exist in any form of commerce except the actual stock market."

People are free to show off if they want. Actor Mark Wahlberg invited StockX over to catalog his collection, joining the list of users who post public inventories of their sneakers and let the service rank the value of those portfolios. (Wahlberg's is worth about $100,000.) That's one of many ways Luber and his 21 employees are trying to scour new data on the sneaker resale market, which they also use when they consult for hedge funds and banks looking to invest in shoe companies.

Luber says that after the shoe industry took notice of Campless in 2014, he began meeting with potential investors about turning it into a marketplace. Gilbert, the founder and chairman of Quicken Loans and owner of the Cleveland Cavaliers, was the first to pitch him a more ambitious idea—an exchange that can also resell clothes, watches, wine, and classic cars. "Dan wants to be in every vertical, in every country, overnight," Luber says. "We're trying to manage the best way that's logical to get there." Gilbert didn't respond to requests for comment.

The two men agreed the sneaker boom made that market a good test case, says Luber. StockX began processing transactions on its exchange in February; Luber declined to disclose revenue or investment capital.

Before StockX starts dealing in

Data on each model include recent sales, a price index, and sales averages over the previous year

Ferraris, it'll have to prove that consumers will really make purchasing decisions with all the data it's hawking. Chen Grazutis, an analyst for Bloomberg Intelligence, says the parties most interested in Luber's holistic pricing profiles may well be manufacturers looking to test the popularity of new models in the rabid reseller market.

On Aug. 16, StockX took its first step beyond shoes with what it's calling an initial public offering—a first run of limited-edition T-shirts and posters that Roc-A-Fella Records is selling to commemorate the 20th anniversary of Jay Z's debut studio album, *Reasonable Doubt*. After a 48-hour pre-bidding period, buyers were able to resell the items immediately.

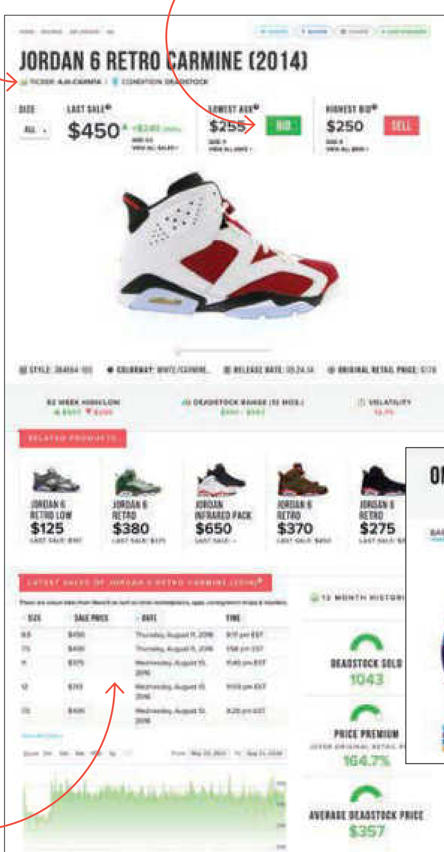
"It's definitely a better business model than going to the stores, right?" says Roc-A-Fella co-founder Kareem "Biggs" Burke. "There's more upside, and there's also a built-in consumer base." People used to buy sneakers to match their streetwear, adds Burke, but these days the shoes come first. —*Polina Noskova*

The bottom line For 10 percent of sales made through its platform, StockX offers a largely anonymous, data-heavy exchange for rare shoes.

Fancy Footwork

Each sneaker has a ticker

Before shipping to buyers, StockX collects and verifies sellers' merchandise



Anonymous profiles let users show off the size and value of their collections

Hardware

A Watchful Lock Aimed at the Masses

▶ **Latch is pitching its digital codes to landlords**

▶ **"It's a simple product, because it's replacing a simple product"**

It's Aug. 10, and Luke Schoenfelder and Thomas Meyerhoffer are in a three-unit apartment building on Manhattan's East 33rd Street awaiting a flood of deliveries. First an order from UberRUSH comes in, then one from Amazon Prime Now. Someone suggests calling out for wings. No one worries about retrieving the packages from the lobby: The point is to make sure all the delivery guys can operate the front door's digital lock.

This is the first public demonstration by **Latch**, the smart-lock company the men started three years ago. Before they place each order, they use the Latch app to generate a seven-digit code granting temporary access to the front door. They paste the codes into the delivery instructions. When the deliverymen show up, a touchscreen on the lock grants them access for 10 seconds while an embedded camera takes their photos. (Software also logs the visit for building owners.) In the end, all the deliverymen figure it out with ease.

Many people have operated some kind of electronic lock in a hotel room or college dorm, and a handful of startups pitch individual homeowners on locks that can be opened with codes or phones. Latch, whose hardware can open a door with a numeric code, a phone's Bluetooth connection, or a traditional metal key, is targeting city landlords whose concerns about building access are more complex than they used to be. The company's pitch is based on a couple of Silicon Valley's favorite things: design and data.

The design falls to Meyerhoffer, a star at **Apple** in the 1990s who went on to make experimental surfboards and commemorative glasses for Coca-Cola. He tapped into Apple's minimalist aesthetic for the lock's design. The plain zinc surface sports a circular black plastic touchscreen across the top—designed to resemble an "unblinking eye," according to Meyerhoffer. The word "Latch" appears in small, capital letters just above the keyhole. "It's a simple product, because it's replacing a simple product," he says.

Latch executives aren't under the illusion landlords will want the locks because they're pretty. "Working with this industry, it hasn't typically been a super-early technology adopter," says Schoenfelder. So the sales pitch emphasizes big buildings' traffic problems. Along with the growing raft of delivery services that apartment dwellers now rely on, guests, dog walkers, nannies, maids, and others need varying levels of access. Latch promises to help landlords simplify those issues and monitor the facilities. Among Schoenfelder's examples: "Do people use the gym? Do people use study rooms? What does the package room look like?"

Of course, where a landlord sees a neat opportunity for data collection, ▶


Latch

◀ a resident might see a threat of constant surveillance. Not everyone wants to live in a Panopticon. Schoenfelder says residents have some control—they can have building management turn off the camera in the Latch lock on their units—but using the cameras and codes to enforce building rules, such as limits on guests or bans on Airbnb rentals, is a selling point. "Being able to monitor and manage all the guests that are at a building, we think, could potentially give landlords and regulators a lot more comfort," he says, before acknowledging the minefield he's stepping into: "It's something we tread lightly on."

Schoenfelder, another Apple veteran, began work on Latch after closing his last startup, which produced tech for South American utility companies. While he wouldn't disclose pricing, he says the hardware costs less than a high-end mechanical lock, and the company charges a monthly per-unit subscription fee. Schoenfelder says about 20 other buildings in the New York area are using Latch's locks, although those installations aren't necessarily building-wide. Many of the test beds are owned by private investors in the company.

One landlord that opted not to use Latch is **AvalonBay Communities**, which operates luxury rental buildings in America's most expensive markets. "I think it's beautiful technology. I love the innovation," says Karen Hollinger, AvalonBay's vice president for corporate initiatives. But when the company began installing smart locks in about two dozen new developments, it opted for a product built jointly by **Schlage**, a major lock company, and **CBORD**, which makes keyless systems for college campuses. "Security is serious business. There's not a lot of room for piloting that kind of stuff," Hollinger says.

At a cybersecurity conference this month, researchers studied 16 smart locks that use Bluetooth and were able to hack into 12 with relatively inexpensive techniques. Latch wasn't one of the products in the study, and Schoenfelder says it uses encrypted signals that would have prevented such vulnerabilities. Still, real estate companies are wary of unproven startups peddling technology they may not quite understand.

AvalonBay is using data gleaned from its smart locks in various ways. Hollinger says the company doesn't actively monitor who's in a building, but after thefts, it taps into records about who's entered which areas. When developing properties, AvalonBay has also begun to look at data in similar buildings to see, for instance, how many people are using such new amenities as pet-grooming stations.

Latch's building on 33rd Street is too small to test this kind of use. But the company is learning a lot about the comings and goings of New York's on-demand couriers. Toward the end of the co-founders' Aug. 10 delivery binge, Steve Blumling, a courier for Amazon Prime Now, rides up on his bike and keys in a code. He's inside the building a few seconds later, rearranging previous deliveries to make room for his. "People don't like it when you leave their stuff on the ground," he says.


Meyerhoffer
Schoenfelder

Blumling says he's already started to see a range of newfangled lock systems in apartment buildings around town. Whatever the lock looks like, though, he usually doesn't have to wait long before someone coming in or out will hold the door open for him—a security problem that eludes technological solutions. "That's what scares people," he says. "Your neighbors will let anyone in." —*Joshua Brustein*

The bottom line Latch's apartment-focused digital locks are designed to simplify building access—and enhance landlords' surveillance abilities.

Intellectual Property

When a Tech Patent Is Neither

▶ **A Supreme Court decision slashes business-method filings**

▶ **"Now we have this gigantic weapon in our arsenal"**

Two years ago, when the U.S. Supreme Court invalidated **Alice Corp.**'s handful of patents on the concept of an electronic escrow arrangement, it ruled that taking abstract ideas—apparently including established methods of doing business like escrow—and implementing them on a computer doesn't meet the standard of intellectual property. In its unanimous decision, written by Justice Clarence Thomas, the high court refused to precisely define what makes something an "abstract idea." "We tread carefully," Thomas wrote of the new standard for patents. Since then, however, lower courts, and the U.S. Patent and Trademark Office, have been using some pretty heavy boots.

Courts have invalidated more than 370 software patents under the new standard, according to data compiled by law firm Fenwick & West. District and appellate courts have thrown out two of three patents brought before them since *Alice Corp. v. CLS Bank*.

In a typical case last fall, a federal district court in San Francisco invalidated two patents for methods of processing and storing data, which Judge Ronald Whyte described as something that's "practiced by every local barista or bartender who remembers

PHOTOGRAPHS BY TIM SCHUTSKY FOR BLOOMBERG BUSINESSWEEK a particular customer's favorite drink." That one ruling wiped out nine lawsuits that the patent holder—**Evolutionary Intelligence**—was pursuing against a host of companies, including **Apple**, **Facebook**, **Groupon**, **Twitter**, and **Sprint**. "Now we have this gigantic weapon in our arsenal," says attorney Tom Duston of Marshall Gerstein & Borun, which represented Groupon.

It's not just the courts. Fewer than 5 percent of applications for business-method patents are getting approved by the patent office, according to data from law firm Kilpatrick Townsend & Stockton and LexisNexis PatentAdvisor. (A typical approval rate is 25 percent to 45 percent.) When asked how many business-method patents they've approved in the past year or two, patent examiners often say "the answer is zero," according to Kate Gaudry, a Kilpatrick Townsend patent lawyer. "Some of them are saying, 'My hands are tied.' " The number of business-method patent applications has fallen in half since 2014, as patent owners seek different classifications or give up altogether.

David Kappos, a former director of the patent office, says the government agency and the courts should focus more on whether a particular idea is innovative than whether a type of innovation should be patentable. He says the invalidation of patents is "out of control" and has "definitely gone too far," citing a case awaiting an appellate ruling in which a patent has been invalidated for software enabling video game developers to more easily manipulate the movements of characters' mouths to match dialogue. "Important software innovations that are highly technical are being deemed unpatentable," Kappos says. "You can get software patents allowed in both China and Europe that aren't allowable in the U.S. anymore."

These cases, and the patents susceptible to challenges under the *Alice* ruling, represent only a fraction of the thousands of active U.S. patent suits, says John Amster, chief executive officer of RPX, an advisory firm that helps tech companies lower their risk of patent suits. Still, he says, the ruling has forced litigious patent holders to take settlement offers more seriously. In cases where *Alice* arguments were raised, defendants had a 76 percent success rate when they filed motions to dismiss at the earliest stages of the suit and a 66 percent success rate when further along, RPX data show.

The new standard extends beyond companies traditionally associated with software. **Monsanto** General Counsel David Snively says the farming conglomerate intends to keep its new weather-mapping software as a trade secret, protecting it through confidentiality agreements, rather than file for a patent. Hans Sauer, deputy general counsel for the Biotechnology Industry Organization, a lobbying group, says it's become harder to get patent protection for everything from medical diagnostic techniques to laundry detergent enzymes developed from fungi. The knock-on effects from *Alice*, Sauer says, "are reaching out to patents that no one thought would be vulnerable two years ago." —*Susan Decker*

The bottom line A 2014 Supreme Court ruling has led courts to toss hundreds of software patents and has halved applications for one type of patent.

Mobile

Want a $50 Phone? Watch These Ads

▶ **Subsidized by Amazon, the good-enough Blu is selling big**

▶ **"It's the last American handset manufacturer, besides Apple"**

The smartphone ranked No. 1 on **Amazon.com**'s list of top sellers isn't an iPhone or a Galaxy. Its latest version won't get a big coming-out party. It's the **Blu Products** R1 HD, and starting at $100—with Amazon's subsidies, $50—it's, uh, good enough.

40
million

Number of phones Blu has sold since 2009

While America's wireless carriers are phasing out subsidies for high-end phones, Amazon is tacking the other way. Starting last month, the retailer began offering Prime subscribers the Blu for $50 if buyers are willing to put up with ads on their lock screens. (It's also selling a similar Motorola phone from **Lenovo** for $200, or $150 with ads.) Samuel Ohev-Zion, Blu's chief executive officer, isn't coy about who his audience is. "They're not able to afford an iPhone," he says.

The Blu R1 HD, which began shipping last month, has a just-OK battery and cameras and speakers that aren't exactly cutting-edge. The 1 gigabyte of RAM and 8GB of storage space on the cheapest version of the R1 HD is a little anemic, but both can be doubled for an extra $10, putting them in line with the cheapest ($649) iPhone 6S. For $100 or less, it's a better deal than most prepaid smartphones.

"Any Prime member looking for a smartphone with great specs at an incredible price will be interested in this offer," says Laura Orvidas, Amazon's vice president for consumer electronics. Amazon declined to provide sales figures, and Blu says it can't disclose R1 sales because of a confidentiality agreement with Amazon.

Blu has sold more than 40 million of some 200 models since its 2009 founding, mostly in Latin America. But the rollback of carrier subsidies in the U.S. has made the Miami company's home market much more receptive, says Ohev-Zion. "It helped a lot when the carriers started promoting 'bring ▶

Stacking Up

With Amazon offers and ads on the lock screen

Blu R1 HD	Motorola Moto G4	Apple iPhone 6S
$50	$150	$649
Android 6 Marshmallow	Android 6 Marshmallow	iOS 9
1.3GHz quad-core MediaTek 6735 processor	1.5GHz octa-core Qualcomm Snapdragon 617 processor	1.85GHz dual-core Apple A9 processor
1GB of RAM	2GB of RAM	2GB of RAM
8GB internal storage	16GB internal storage	16GB internal storage
8MP main camera, 5MP selfie camera	13MP main camera, 5MP selfie camera	12MP main camera, 5MP selfie camera
5-inch HD display	5.5-inch HD display	4.7-inch HD display

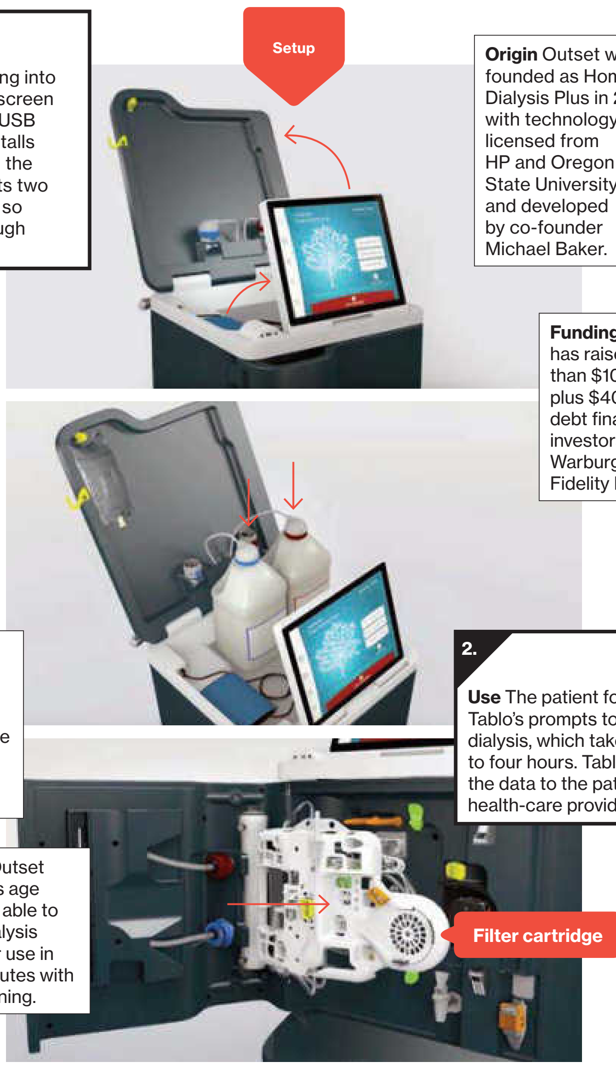
DATA: AMAZON, GSMARENA

Innovation

Self-Serve Dialysis

Form and function
Tablo is a 150-pound, 3-foot-tall, largely automated dialysis machine designed for patients to use by themselves, with a simple step-by-step procedure that makes it easier to operate than existing home machines.

Innovator Leslie Trigg
Age 45
Chief executive officer of Outset Medical, an 85-employee company in San Jose



1.
Connect After logging into Tablo's tablet touchscreen using an encrypted USB stick, the patient installs a disposable filter in the machine, then inserts two needles into an arm so blood can flow through the machine.

Origin Outset was founded as Home Dialysis Plus in 2003 with technology licensed from HP and Oregon State University and developed by co-founder Michael Baker.

Funding Outset has raised more than \$100 million, plus \$40 million in debt financing, from investors including Warburg Pincus and Fidelity Investments.

Market About 460,000 U.S. patients have end-stage kidney diseases that require help from dialysis clinicians, typically three times a week.

2.
Use The patient follows Tablo's prompts to begin dialysis, which takes three to four hours. Tablo streams the data to the patient's health-care providers.

Early use Outset says testers age 29-79 were able to prep the dialysis machine for use in 10 to 12 minutes with minimal training.

Next Steps

The Food and Drug Administration has approved Tablo for use in clinics and hospitals, and the company began selling the devices earlier this month; Trigg wouldn't disclose a price. Eventually the plan is to put them in homes. "Tablo redirects workflow away from what is, today, thousands of human steps per treatment," says nephrologist Melvin Seek in Ocala, Fla. —*Michael Belfiore*

◀ your own device,'" he says.

Twenty years ago, the Brazilian-born Blu CEO dropped out of high school to sling VCRs and hair dryers at his dad's electronics shop in downtown Miami. When the business failed in 1998, much of the remaining money—\$150,000—went to the younger Ohev-Zion to help start Telecel Latin America, a distributor selling name-brand phones throughout the Americas. He created the Blu ("Bold Like Us") brand in 2009, after Telecel merged with another phone wholesaler. "Every time I got a new model from **Samsung** or Motorola, I was always critiquing," he says. "I always thought I could do a better job than the manufacturer."

Whoops. Half of Blu's first 300,000 phones, with the logo slapped on premade hardware from China, quickly had cracked screens, and many couldn't hold a charge. Spun off as its own company in 2011, Blu hired its own designers and, under Ohev-Zion's direction, fought with manufacturing facilities to improve the phones' quality, hiring independent inspectors to check each order before shipping. In 2015 the company sold more than 10 million phones, and it has expanded to 200 employees in the U.S. and China.

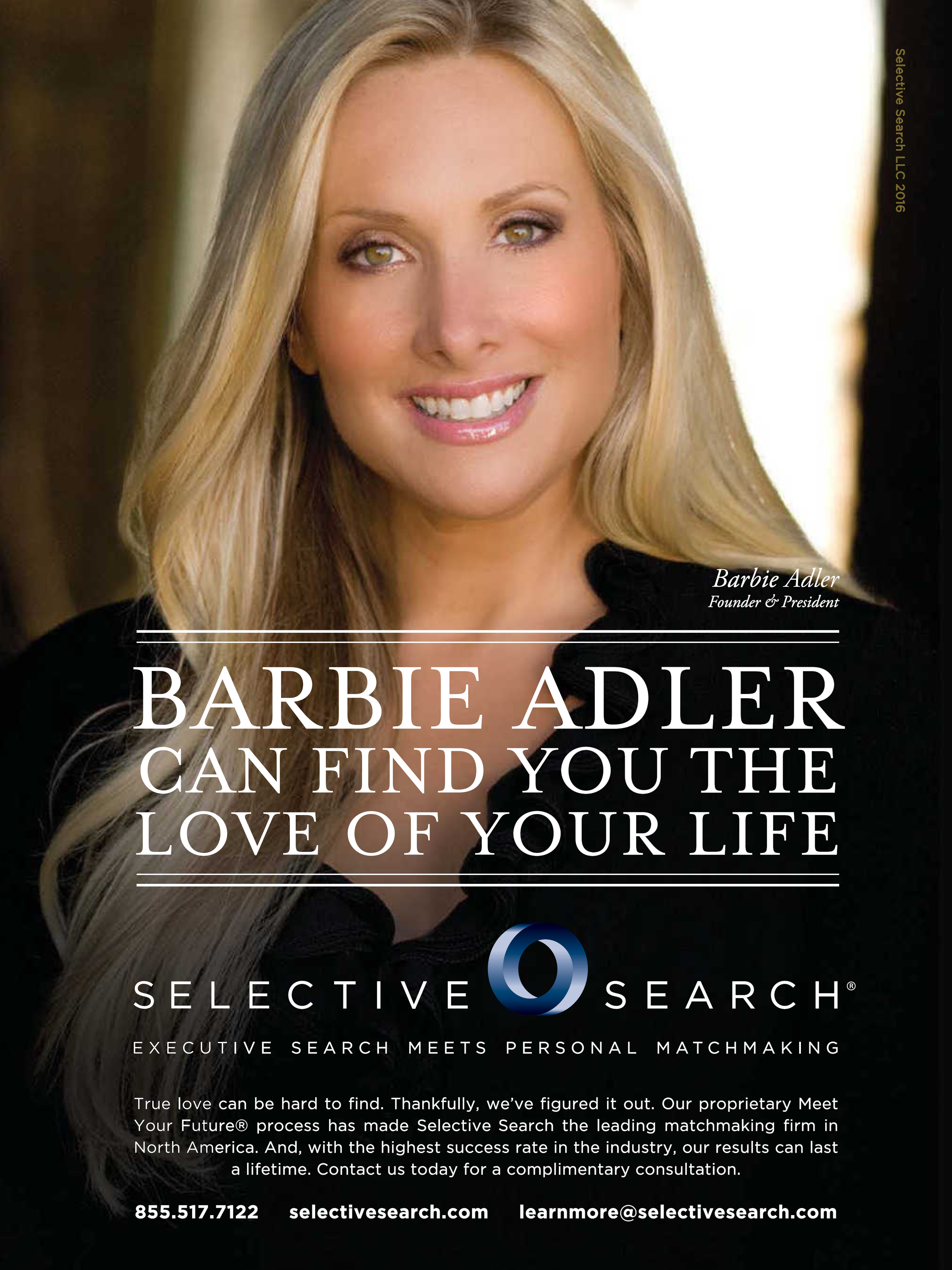
"It's the last American handset manufacturer, besides **Apple**," says Roger Entner, an analyst at Recon Analytics. "It's Apple and Blu." James Barnes, who lives in Phoenix, bought a Blu Studio 6.0 LTE for his teenage son last year and says the phone's quality was almost as impressive as its price.

Ohev-Zion says Blu is on track to take in \$600 million to \$700 million in revenue this year and is sold at **Walmart Stores** and **Best Buy** as well as on Amazon. The phones are a particular hit in Cuba, where Blu is one of the most recognized brands, says Marguerite Fitzgerald, a partner at the Boston Consulting Group. The next priority is the Middle East, says Ohev-Zion, who adds that he's not forgetting the basics of his pitch. "Our focus has always been to create the best product at the best price," he says. "That's all we worry about." —*Olga Kharif*

The bottom line With Amazon's help, Blu's cheap smartphones have become a hit in the U.S. as well as the developing world.

Edited by Jeff Muskus
Bloomberg.com

COURTESY TABLO (4)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Silicon Valley's Favorite Bullies

▶ Qatalyst is out to win big M&A deals, not to make friends

▶ "The playbook is, we don't have a playbook"

George Boutros has heard the stories—the ones rivals tell about how he's cajoled, bullied, and dissembled his way to the top of the cutthroat business of technology mergers and acquisitions. Boutros doesn't care. "It's sour grapes," he says.

In Silicon Valley dealmaking, few have been as successful—and controversial—as Boutros and his longtime comrade, Frank Quattrone. Over the past eight years, the duo's boutique advisory firm, **Qatalyst Partners**, has had the sharpest elbows in the Valley. Its specialty: pushing up prices for companies looking to be sold.

Competitors keep trying to pick apart the firm and discern its methods. Would-be acquirers want to know how to outsmart it. One major Wall Street bank has gone as far as to disseminate a 10-page presentation laying out its ability to counteract Qatalyst, people with knowledge of the matter say. Others have urged corporate buyers to shun the company altogether, those people say. Meg Whitman, chief executive officer of **Hewlett Packard Enterprise**, caused a stir in 2015 by refusing to negotiate with Quattrone and Boutros on a deal for **Aruba Networks**. In an e-mail later made public, an executive working on the deal said Whitman called Boutros "evil."

A recent decline in acquisition premiums—the value of a deal above the stock market price—suggests the firm may be losing some of its edge. Still, Qatalyst, along with **Allen & Co.**, landed the industry's biggest deal so far this year, advising **LinkedIn** on its $26.2 billion sale to **Microsoft** in June. Boutros scoffs at the notion that anyone is going to anticipate his moves. "The playbook is, we don't have a playbook," he says. "We have to understand what it is that motivates an acquirer to want an asset. Where is your leverage as a seller?"

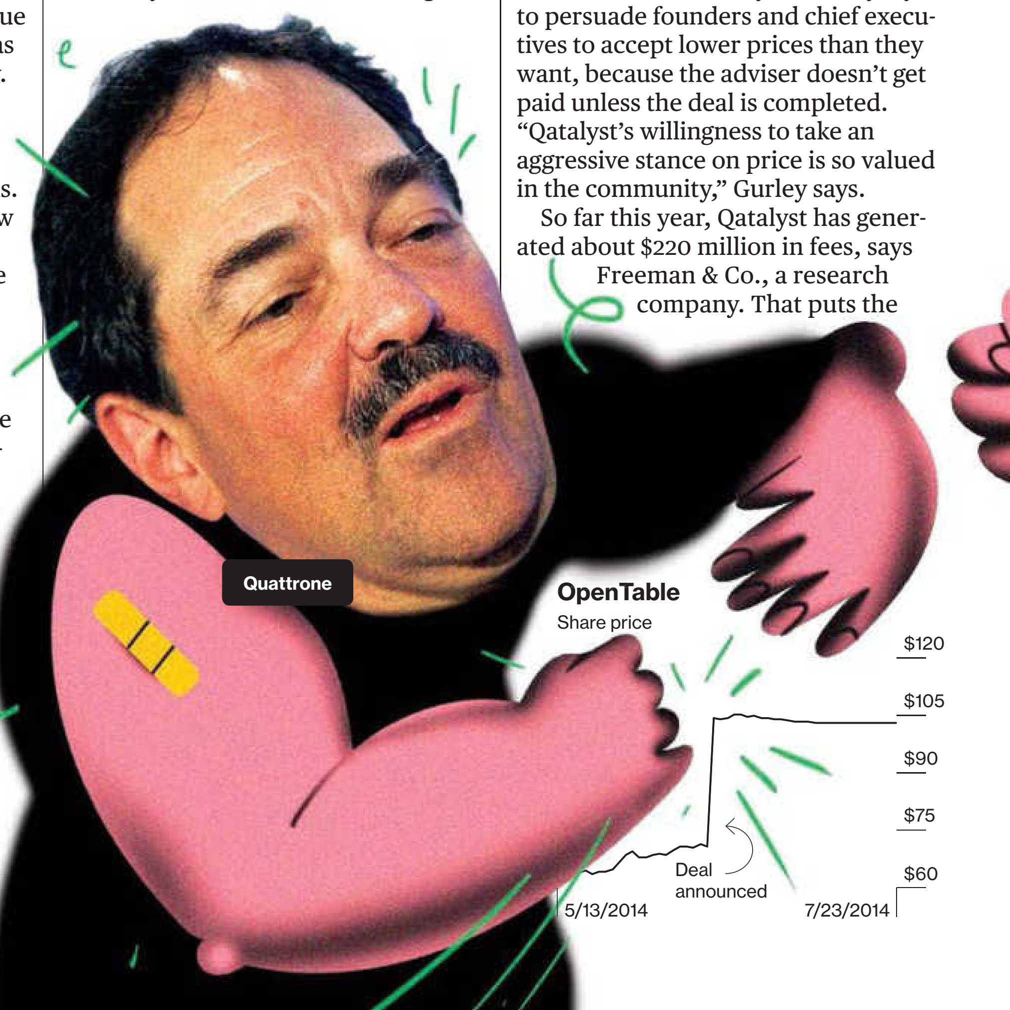
Rivals complain Qatalyst (pronounced "catalyst") bluffs about other buyers' interest and forces tight deadlines to make it harder for acquirers to do their homework about a company. One Qatalyst tactic is telling potential buyers they must offer minimum prices or be eliminated in lightning-round auctions, people familiar with the firm say.

Feints and threats go with the territory in M&A. It's just that few rivals seem as adept as Qatalyst. "There are certain advantages to being mysterious and having that reputation," says venture capitalist Bill Gurley, who worked with Qatalyst as an **OpenTable** board member on its $2.6 billion sale to **Priceline Group** in 2014. "Qatalyst's reputation almost works as a self-fulfilling prophecy."

Its tactics aren't all bluster. When OpenTable sold to Priceline, Gurley says he found out from a representative of the second-place bidder that it thought Boutros was bluffing. He wasn't, Gurley says.

Most bankers, he says, actually try to persuade founders and chief executives to accept lower prices than they want, because the adviser doesn't get paid unless the deal is completed. "Qatalyst's willingness to take an aggressive stance on price is so valued in the community," Gurley says.

So far this year, Qatalyst has generated about $220 million in fees, says Freeman & Co., a research company. That puts the



San Francisco advisory, which has about 60 employees, right behind **Goldman Sachs** and **Morgan Stanley** in tech M&A advisory fees.

Boutros and Quattrone have worked together at a succession of companies for three decades. Quattrone was a star banker of the 1990s dot-com era, helping to bring **Cisco Systems** and **Amazon.com** public. In the early 2000s he battled obstruction of justice charges stemming from a probe into how banks doled out access to shares in initial public offerings. Quattrone was exonerated on appeal. In 2008 he opened Qatalyst, and Boutros joined two years later. Quattrone referred requests for comment to Boutros, the company's CEO and primary dealmaker.

From early on, Qatalyst won high premium prices for clients. In 2009 and 2010, it scored an average premium of 80 percent on deals of more than $500 million, according to data compiled by Bloomberg. The average for U.S. tech deals then was 37 percent. "Qatalyst's performance in technology is ahead of what any other boutique has been able to achieve in any other sector," says Jeffrey Nassof, vice president for Freeman & Co. In the past four years, however, Qatalyst premiums have hovered near 35 percent, compared with an industry average of about 29 percent.

The bump above the current share price isn't the only measure of success, Boutros says. It may be hard to capture a big premium when a company's price is already high on the stock market, but it still makes sense for the client to lock in an historically lofty valuation. "We're in the business of maximizing price," Boutros says.

Maximizing prices for sellers rarely endears a banker to buyers or to buyers' advisers. Qatalyst, for example, advised the software company **Autonomy** on its $10 billion sale to what was then Hewlett-Packard Co. That deal, engineered by then-chief of HP Léo Apotheker, turned into a nightmare. HP later took an $8.8 billion writedown and accused Autonomy of misreporting hundreds of millions of dollars in revenue before the purchase. The blowup was one reason Whitman refused to negotiate with Qatalyst on Aruba, according to e-mails unsealed in a lawsuit, to which Qatalyst wasn't a party, following a request from the *Wall Street Journal*. A spokesman for Qatalyst says the company has represented clients across the table from HP in the past and expects to do so in the future.

For now, at least, Qatalyst remains the boutique to beat. Although people who know Boutros say he's mellowed over the years, he still relishes the game. "The reason I keep doing this after 30 years is, every situation is different," he says. —*Alex Sherman*

The bottom line Qatalyst keeps scoring deals, althought its premiums haven't been as big as they used to be.

Boutros

PHOTO ILLUSTRATION BY 731; PHOTOS: (QUATTRONE) RAMIN TALAIE/BLOOMBERG; (BOUTROS) DREW ALTIZER PHOTOGRAPHY

Hedge Funds

A Big Short Against The 2-and-20 Fee

▶ **Money managers' pricing model is under pressure**

▶ **Investors "aren't going to just pay whatever fees they are charging"**

Steve Eisman made his name and fortune by foreseeing the collapse of subprime mortgage securities. Now he's betting against a different kind of Wall Street money machine. He thinks hedge fund fees are going to tumble.

Eisman works at **Neuberger Berman**, a money management firm he joined after closing his hedge fund two years ago. He invests in classic hedge fund style, buying stocks he expects will rise in price while betting on others to fall. His services for an investment of $1 million cost 1.25 percent of assets per year. That's not exactly cheap–many long-only mutual funds charge far less–but it's a far cry from prices in hedge fund land, where the standard is a 2 percent annual charge plus a performance fee of 20 percent of profit.

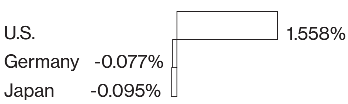
"That's where I think fees will be ▶

Bonds

Less Treasured

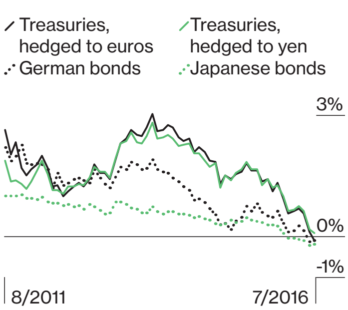
❶ For years, non-U.S. investors and savers have flocked to U.S. Treasuries, whose yields look great compared with negative rates in Japan and some European countries.

Yield on 10-year government bonds



❷ But there's a catch. Overseas investors often buy Treasuries along with a foreign exchange hedge. That way they don't lose some return if the dollar falls against their home currency.

10-year yields at month's end

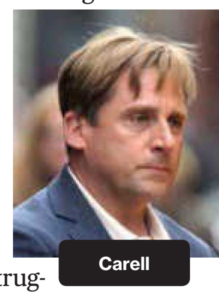


The cost of hedging contracts has risen recently. Including that expense, there's not much extra yield for foreigners buying American bonds.

Takeaway Foreign appetite for Treasuries has helped keep U.S. rates low and bond prices high. But demand may weaken if Treasuries aren't a fix for low yields abroad. —*Brian Chappatta, Andrea Wong, and Shigeki Nozawa*

◀ in 10 years," says Eisman of his flat 1.25 percent. "I'm just going directly there now." Eisman, who was profiled in Michael Lewis's book *The Big Short* and played by Steve Carell in fictionalized form in the movie, may be tapping into growing investor dissatisfaction.

For years, pension funds and other institutional investors have grumbled about hedge funds' hefty fees. Even so, they continued to pay, because many managers produced impressive returns. But in the bull market that began in 2009, many funds struggled, often lagging behind other investments—private equity, real estate, stocks, sometimes even bonds. Looking ahead, bond yields, which set a baseline for returns on many kinds of assets, are razor-thin. Facing the likelihood of only modest gains, one easy way for investors to preserve profit is to cut what they pay money managers.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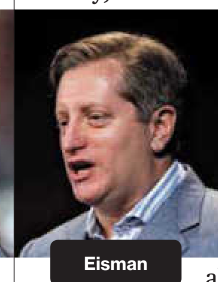

Eisman

Over the past three quarters, investors have withdrawn almost $25 billion from hedge funds globally. Although that's less than 1 percent of the roughly $3 trillion the funds manage, it's the longest stretch of redemptions since the financial crisis. Earlier this month the New Jersey State Investment Council said it was going to cut its $9 billion allocation to hedge funds by 50 percent, one of the biggest such reductions yet by a U.S. retirement plan. For the part that remains, it's targeting firms that will accept half the going rate and won't collect a share of profits if they don't surpass an agreed-upon level.

"It sends a message to the hedge fund community that the world has changed," said Tom Byrne, chairman of the New Jersey council, at the meeting where the cut was approved. "Public funds aren't going to just pay whatever fees they are charging."

Meanwhile, hedge funds are providing new pricing options for some investors. For example, **Caspian Capital** in July started offering discounts on fees for long-term investors based on their tenure. And for investors who commit to locking up their capital, Caspian will also assess its performance over a longer time—in effect letting clients pay less in performance fees if the fund takes a loss near the end of the assessment period.

Eisman and other industry observers say fees won't shrink overnight. Some established traders will continue to command a premium price. In May, well-known manager Paul Tudor Jones told investors he would slice fees on one of his funds, from 2.75 percent of assets and 27 percent of profit to 2.25 percent and 25 percent—still above the typical rate.

Yet the smaller funds will bend to the trend to keep their businesses growing. "As returns have come down, fees have actually gone up per dollar of profit," says Jacob Walthour, chief executive officer of **Blueprint Capital Advisors**. Walthour is trying to raise $1 billion from pension funds and other institutions, with the aim of investing that money with smaller hedge funds at roughly half the usual fee rate.

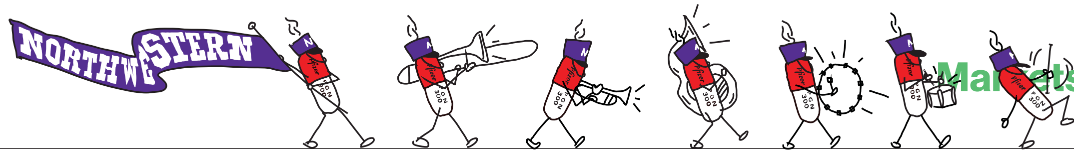
Eisman's new product isn't a hedge fund; it's a separate account service in which clients directly own the investments he picks on their behalf. Eisman lacks some of the flexibility that hedge fund managers say gives them an edge: Investors can pull their money whenever they like—making it harder for him to use illiquid investments—and he won't be using leverage.

"As returns have come down, fees have actually gone up per dollar of profit."
—*Jacob Walthour, Blueprint Capital Advisors*

Eisman isn't the only manager offering hedge fund-like management in a cheaper package, but he's one who came from, and now rejects, the hedge fund model. In 2009 he managed about $2 billion at **FrontPoint Partners**, where he'd successfully bet against subprime. From 2012 to 2014 he ran **Emrys Partners**, which focused exclusively on financial stocks. Even though he made money his first two years, the returns lagged the sector. He shuttered the fund after not being able to attract sufficient assets.

Whether he succeeds this time will depend on whether his stock picks make money. "It's tough now for any funds that hedge,"

THIS PAGE: (CARELL) STEVE SANDS/GETTY IMAGES; (EISMAN) JESSICA RINALDI/REUTERS. DATA COMPILED BY BLOOMBERG; YIELDS AS OF AUG. 15. OPPOSITE PAGE: ILLUSTRATION BY 731. DATA: NORTHWESTERN



says Brad Alford, chief investment officer of Alpha Capital Management and a longtime hedge fund investor. "Performance trumps all, and if funds don't perform, people will leave no matter how low the fees." —*Katherine Burton, Saijel Kishan, and Katia Porzecanski*

The bottom line As big investors take a hard look at fees, hedge fund manager Steve Eisman offers a cheaper way to invest.

Endowments

The Pill That Made Northwestern Rich

▶ **The university put a windfall from Lyrica to work**

▶ **"I'm acutely aware that we're supposed to serve the public good"**

Lyrica, a drug used to treat nerve pain and seizures, has had a unique side effect: It's helped Northwestern University build the eighth-largest college endowment in the U.S.

Initial research for the drug was conducted in a lab on the Evanston, Ill., campus about three decades ago. It eventually became **Pfizer**'s top-selling drug, generating $4.8 billion in revenue in 2015. That kind of blockbuster drug discovery is unusual, even for a major research school. But even more uncommon is what Northwestern's then-president, Henry Bienen, decided to do with the university's share of those sales.

In 2007, Northwestern sold the rights to about half of its Lyrica royalties for $700 million. Typically, schools that cash in big pharmaceutical royalties plow the money into one-time expenses such as new science buildings. Bienen instead invested almost "every penny" in the endowment. Total royalties amounted to about $1.4 billion, including annual payments plus the value of the rights the university sold. With compounded growth over a decade, Lyrica is now responsible for as much as 18 percent of the $10 billion Northwestern endowment.

Bienen feared that spending all the money immediately would leave the school with expensive new projects and faculty it might not be able to afford in later years. "Lyrica gave you a huge shot," says Bienen, who retired as president in 2009. "The idea was that growing the endowment would be good for the long run."

Getting part of the money upfront and investing it allowed Northwestern to diversify away from a single product. The move "took risk away," Bienen says. A competing drug could come along, or something could go wrong—such as unforeseen side effects—in later years.

Investing the Lyrica windfall has generated returns that have been used for financial aid and health insurance for graduate students, funding for unpaid internship programs, and grants for low-income undergrads. Money has also gone to fund research and help retain faculty. "If someone gets an offer from another great school," Northwestern now has a greater ability to bolster retention packages, says Morton Schapiro, who succeeded Bienen as president. "It's special money," he says.

Universities with large endowments have recently come under congressional scrutiny for the tax-exempt status of their funds and how much of that money they spend to alleviate the cost of tuition. Tuition, room and board, and other expenses for a Northwestern undergrad run about $70,000 a year.

"I'm acutely aware that we're supposed to serve the public good," Schapiro says. "When people get on my case, saying, 'You have this big endowment—what are you doing for society?' At the top of my list is Lyrica." The drug, Schapiro says, has allowed some people who suffer seizures to begin driving again. Bienen says his late sister took the drug to lessen pain from breast cancer.

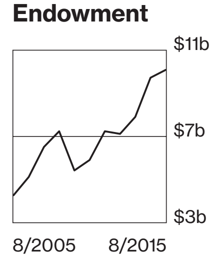
The path to creating Lyrica began in the late 1980s, when chemistry professor Richard Silverman designed the molecule pregabalin and a visiting fellow, Ryszard Andruszkiewicz, synthesized it. Less than a decade earlier, a federal law had enabled universities to keep the proceeds from inventions, many of which arise from government-funded research.

A unit of Warner-Lambert obtained the rights from Northwestern to develop pregabalin. The company was acquired by Pfizer, which won Food and Drug Administration approval in 2004 for the drug, branded Lyrica. The non-opioid drug addresses the kinds of pain that are thought to be particularly resistant to treatment, says Chaim Putterman, chief of rheumatology at Albert Einstein College of Medicine.

Northwestern initially got a royalty of 6 percent of net sales and shared a quarter of that with Silverman and Andruszkiewicz. The school sold its first big chunk of Lyrica royalties in 2007 to **Royalty Pharma** in New York. In a later sale in 2013, it sold an additional portion for $290 million to **HealthCare Royalty Partners** and the Canada Pension Plan. The school kept some non-U.S. royalties. The U.S. patent for the drug expires in 2018.

Royalty Pharma has also purchased royalties from New York University, which got $650 million for the rheumatoid arthritis drug Remicade, and Emory University, which received $525 million for Emtriva, an HIV drug. This March the company made a deal worth $520 million with the University of California at Los Angeles for Xtandi, a prostate cancer treatment.

Northwestern's Endowment



Given the long time lag between a discovery and a marketable product, inventions aren't an easy or sure way for most schools to get rich. Only 15 universities produced about 70 percent of all patent-license royalties for U.S. schools in 2014, says the Association of University Technology Managers. Northwestern ranked first with $361 million.

"There are a lot of duds," says Andrew Lo, a professor of finance at MIT's Sloan School of Management, who wrote a paper about Royalty Pharma's business model and has since become an investor in the company. "A lot of academic research isn't designed to produce blockbuster drugs. You never know when you'll get a home run." —*Janet Lorin*

The bottom line A discovery by a Northwestern professor has generated as much as 18 percent of the university's endowment.

Edited by Pat Regnier
Bloomberg.com

WALMART'S CR

RIME PROBLEM

EVERY DAY A VIOLENT CRIME OCCURS AT A U.S. WALMART. POLICE DEPARTMENTS ARE FED UP

BY SHANNON PETTYPIECE AND DAVID VOREACOS

PHOTOGRAPHS BY JOHNATHON KELSO

Officer Ross: “I’ve got all my bad guys in one place”

Darrell Ross—Officer Walmart to his colleagues in the Tulsa Police Department—operates for up to 10 hours a day out of the security office of a Walmart Supercenter in the city's northeast corner. It's a small, windowless space with six flatscreen monitors mounted on a pale blue cinder-block wall, and on this hot summer day, the room is packed. Four Walmart employees watch the monitors, which toggle among the dozens of cameras covering the store and parking lot, while doing paperwork and snacking on Cheez Whiz and Club Crackers. In a corner of the room, an off-duty sheriff's officer, hired by Walmart, makes small talk with the employees.

As soon as Ross walks in the door, around 2 p.m., he's presented with an 18-year-old who tried to leave the store with a microwave oven. Ross focuses his gaze and talks in a low voice to the young man, who just graduated from high school and plans to go into the military. He also attempts to calm the boy's mother, who rushed to the store and is worried that her son won't be able to enlist if he gets a criminal record. "You need to start taking responsibility for your actions," Ross tells the teenager. "You're a man now." He tells the mother that because it was the boy's first offense, he won't be arrested—but if he messes up twice more, he'll be charged with a felony. Ross slips a pair of reading glasses out of his bulletproof vest and writes the young man a summons to appear in court.

Before he can finish the paperwork, Walmart security employees catch another shoplifter. They bring in a middle-aged woman with big sunken eyes and pale cheeks, her hair tied in a messy bun. Employees caught her using phony gift cards. She rattles off excuses: The cards were given to her by a friend, she's just gotten out of the hospital, she's dehydrated. At one point she pretends to vomit into a trash can. Picking up the odor of pot, Ross takes a look in her handbag and finds marijuana roaches, along with a small scale and a pill bottle full of baggies. A computer check reveals five outstanding warrants for her arrest.

It's not unusual for the department to send a van to transport all the criminals Ross arrests at this Walmart. The call log on the store stretches 126 pages, documenting more than 5,000 trips over the past five years. Last year police were called to the store and three other Tulsa Walmarts just under 2,000 times. By comparison, they were called to the city's four Target stores about 300 times. Most of the calls to the northeast Supercenter were for shoplifting, but there's no shortage of more serious crimes, including five armed robberies so far this year, a murder suspect who killed himself with a gunshot to the head in the parking lot last year, and, in 2014, a group of men who got into a parking lot shootout that killed one and seriously injured two others.

Police reports from dozens of stores suggest the number of petty crimes committed on Walmart properties nationwide this year will be in the hundreds of thousands. But people dashing out the door with merchandise is the least troubling part of Walmart's crime problem. More than 200 violent crimes, including attempted kidnappings and multiple stabbings, shootings, and murders, have occurred at the nation's 4,500 Walmarts this year, or about one a day, according to an analysis of media reports. Sometimes they're spectacular enough to get national attention. In June, a SWAT team killed a hostage taker at a Walmart in Amarillo, Texas. In July, three Walmart employees in Florida were charged with manslaughter after a shoplifter they chased and pinned down died of asphyxia. Other crimes are just bizarre. On Aug. 8, police discovered a meth lab inside a 6-foot-high drainage pipe under a Walmart parking lot in Amherst, N.Y.

All this is still happening more than a year into a corporate campaign to bring down crime—a campaign Walmart says is succeeding. Chief Executive Officer Doug McMillon, who took charge of the giant retailer in February 2014, has made reducing crime a top priority. The company's new strategy primarily involves shifting employees within stores—moving them from the storeroom and aisles to store exits, where some of them spot-check receipts. It's also stationing people at self-checkout areas, installing eye-level security cameras in high-theft areas (particularly electronics and cosmetics departments), and using data analytics to detect when people try to get credit for things they didn't buy (thieves love to find discarded receipts in the parking lot, then go into the store, gather up items on the list, and "return" them for cash). To cut down on calls to police, Walmart has been rolling out a program where first-time offenders caught stealing merchandise below a certain value can avoid arrest if they agree to go through a theft-prevention program. At some higher-crime stores, the company is also hiring off-duty police and private security officers. According to Walmart Stores executives, it's all starting to work.

Police chiefs and their officers on the ground say that's just not so. Ross likes to joke that the concentration of crime at Walmart makes his job easier. "I've got all my bad guys in one place," he says, flashing a bright smile. His squad's sergeant, Robert Rohloff, a 34-year police veteran who has to worry about staffing, budgets, and patrolling the busiest commercial district in Tulsa, says there's nothing funny about Walmart's impact on public safety. He can't believe, he says, that a multibillion-dollar corporation isn't doing more to stop crime. Instead, he says, it offloads the job to the police at taxpayers' expense. "It's ridiculous—we are talking about the biggest retailer in the world," says Rohloff. "I may have half my squad there for hours."

Walmart knows police departments are frustrated. "We absolutely understand how important this is. It is important for our associates, it is important for our customers and across the communities we serve," says Judith McKenna, Walmart's chief operating officer for the U.S. "We can do better."

"IT'S RIDICULOUS—WE ARE TALKING ABOUT THE BIGGEST RETAILER IN THE WORLD. I MAY HAVE HALF MY SQUAD THERE FOR HOURS"

But when? That's what law enforcement around the country wants to know. "The constant calls from Walmart are just draining," says Bill Ferguson, a police captain in Port Richey, Fla. "They recognize the problem and refuse to do anything about it."

There's nothing inevitable about the level of crime at Walmart. It's the direct, if unintended, result of corporate policy. Beginning as far back as 2000, when former CEO Lee Scott took over, an aggressive cost-cutting crusade led many stores to deteriorate. The famed greeters were removed, taking away a deterrent to theft at the porous entrances and exits. Self-checkout scanners

Outside the Supercenter in Beech Grove, Ind.

replaced many cashiers. Walmart added stores faster than it hired employees. The company has one worker for every 524 square feet of retail space, a 19 percent increase in space per employee from a decade ago.

In terms of profit, all this has worked: Sales per employee in the U.S. have grown 23 percent in the past decade, to $236,804. For criminals, however, the cutbacks were like sending out a message that no one at Walmart cared, no one was watching, and no one was likely to catch you.

Fixing the problem comes down to money. When McMillon became CEO, he established an ambitious program to fix up long-neglected stores, starting with making them cleaner and stocking them better. Then, in early 2015, came a push to crack down on shoplifting. Experts say that should have additional public safety benefits: Less petty crime typically means less violent crime.

Police departments inevitably compare their local Walmarts with Target stores. Target, Walmart's largest competitor, is a different kind of retail business, with mostly smaller stores that tend to be located in somewhat more affluent neighborhoods. But there are other reasons Targets have less crime. Unlike most Walmarts, they're not open 24 hours a day. Nor do they allow people to camp overnight in their parking lots, as Walmarts do. Like Walmart, Target relies heavily on video surveillance, but it employs sophisticated software that can alert the store security office when shoppers spend too much time in front of merchandise or linger for long periods outside after closing time. The biggest difference, police say, is simply that Targets have more staff visible in stores.

"Target doesn't have these problems," says Ferguson. "Part of it may be the lower prices at Walmart or where Walmart is located, but when I walk into Target I see uniformed security or someone walking around up front. You see no one at Walmart. It just seems like an easy target." A Target spokeswoman declined to comment on the two companies' security policies.

A more apt comparison may be shopping centers, which like Walmarts are sprawling and attract thousands of shoppers a day. Unlike Walmart, shopping centers tend to invest heavily in uniformed security patrols and off-duty police. "Shopping centers all have security; they know it's an expense, but one they know pays dividends because people feel safer going to their stores," says J.R. Roberts, an independent consultant and a former director for risk management at Valor Security Services, a provider of security to shopping centers. "It doesn't make any sense why Walmart wouldn't apply this the way every mall does in the U.S."

Walmart developed its current anticrime measures with the help of Read Hayes, director of the Loss Prevention Research Council, a kind of think tank funded by big retailers. Hayes's specialty is the shopping environment, the retail aisles; he's now searching, he says, for the right mix of new electronic surveillance and visual cues to tell would-be thieves they might get caught. "They need to recognize it, believe it, and be threatened by it," he says. "My mantra is: See it, get it, fear it."

Hayes says Walmart is serious about bringing down crime. "They aren't ignoring it," he says. "They are right in the thick of it. But it's a titanic company. It's going to take a while. Go hang out in a Walmart. It's just amazing. Sometimes, what happens in a store like a Walmart can be scary."

No one disputes that. The question is whether Walmart is moving as fast as it can. Its executives "could clean it up in a matter of a year were they to be given the financial support from the board," says Burt Flickinger, managing director of retailing consultant Strategic Resource Group. Eight of the nine nonfamily members of the Walmart board come from academia or nonretail companies, including former PepsiCo CEO Steven Reinemund and Yahoo! CEO Marissa Mayer. Three officers are members of the Walton family, including the chairman of the board, Gregory Penner, a venture capitalist who is the son-in-law of fellow board member Rob Walton, a son of Walmart founder Sam Walton. "The board doesn't want profits to fall," says Flickinger. "They simply lack the retail business background to understand how important security is."

No board member agreed to be interviewed for this story, but the company disputes that it puts profit before people. "Safety and security is a priority of our leadership team," says McKenna. She says the company has the right level of security at its stores and is always evaluating its strategy and staffing.

Flickinger says getting dramatic results wouldn't be complicated. It would just cost a lot. He, like many other Walmart watchers, thinks McMillon is heading in the right direction with the changes he's making, including spending $2.7 billion on higher wages and training to boost morale and attract higher-caliber employees. It just isn't nearly enough, he says. He estimates the number of crimes at Walmart's U.S. stores could be halved with the addition of 250,000 part-time employees on top of the more than 1 million full-time and part-time retail workers the company already has. Even that much new hiring wouldn't get the company to the number of employees per square foot it had in 2006. The cost would be about $3.25 billion a year, or about a quarter of Walmart's profit last year of $14 billion.

Flickinger argues that Walmart can't afford not to invest heavily to expand its workforce if it wants cleaner, more orderly, better-performing, and ultimately safer stores. "It pays for itself," he says. "To get back to that high-performing level of the late 1990s, it's going to take a lot more money." Walmart rejects this view, saying it has all the workers it needs and merely has to better train them and continue redeploying workers according to its plan.

Security experts say there's another way to reduce crime: Hire much more security, including more off-duty, uniformed police. At $35 an hour, a typical rate in many cities, 12 hours of police coverage a day would cost each store about $150,000 a year. Multiply that by the company's 3,500 Supercenters—the largest stores and the sites of most of the serious crime—and it would cost half a billion dollars a year.

"THEY SIMPLY LACK THE RETAIL BUSINESS BACKGROUND TO UNDERSTAND HOW IMPORTANT SECURITY IS"

Walmart decides on the security budget for each store based in part on a database of how much crime happens on its properties. The company doesn't share those figures. It also works with an outside data analysis company, Cap Index, which assigns each store a risk score, based on a determination of the likelihood of different types of crimes occurring there. The index relies on data including neighborhood demographics, local housing values, national and local crime statistics, and internal company records of theft. These scores range from zero to 2,000, with 100 being the average for a given county or state. A score of 1,000, for instance, would mean a crime is 10 times more likely to occur at a particular store than at a statistically typical address in that county or state. Walmart says it performs regular crime audits of its security measures and adjusts spending for each store. It won't reveal the risk score for any individual store.

According to laws in every state in the U.S., Walmart has a duty to protect its customers from violent crime while they're on store property. Under an area of the law known as premise liability, victims and their lawyers have argued in hundreds of lawsuits that Walmart failed to provide enough security. To prevail, plaintiffs must prove that a violent crime was reasonably foreseeable based on a history of violent crimes at a particular Walmart. "They're not easy cases," says Memphis attorney Bruce Kramer, who has sued Walmart multiple times on behalf of clients who were the victims of violent crimes occurring on company property. "Proving what the duty is and the foreseeability issue is always difficult. You have a certain mindset of jurors who say, 'Why are you holding the business responsible for the acts of this criminal?' "

Walmart's lawyers typically argue that the company couldn't have foreseen the crime in question and that it took reasonable steps to keep customers safe. It tries at every opportunity to keep its crime database secret. Even in litigation, when it must produce company records under court seal, its lawyers have wrangled for months or even years to limit access to its records, arguing the information is proprietary. "Nothing compares to the way Walmart litigates cases," says attorney Christopher Marlowe. He fought Walmart for several years over a lawsuit he filed in 2010 on behalf of a woman who was abducted outside a store in DeFuniak Springs, Fla., and repeatedly raped. Marlowe said in a court filing that he

Mayor Buckley of Beech Grove

learned only in 2013 of the database, which documented "precisely the sort of incidents" he sought for more than two years. Walmart's lawyer, he said, "led everyone to believe that crime data retrieval was a great mystery—a query of inconceivable proportions." Walmart denied liability in the case. The company eventually settled for an undisclosed sum.

An employee in the Beech Grove parking lot

Dennis Buckley found a way to get Walmart moving faster on crime: shaming and threats. A blunt former fire chief, Buckley is the mayor of Beech Grove, Ind., an Indianapolis suburb with a population of 14,000. He'd been swamped with complaints from his police chief about the daily calls to Walmart. He demanded action from Walmart's local lawyer, as did the City Council. Nothing happened. Then, in June of last year, Buckley reached his limit. He received news that a local woman had been killed and her grandson seriously injured in a car crash caused by a Walmart shoplifter fleeing police. Later that day, he learned his town had become a laughingstock. A YouTube video of a fight at the Beech Grove Walmart was going viral. It showed two women, one riding a motorized scooter, the other accompanied by a 6-year-old boy, in a furious fistfight that turned into a profane wrestling match in the shampoo aisle. The video also contained glimpses of jeering bystanders recording the action on their phones. By the time Buckley saw the video, it had been viewed millions of times.

Enraged by the circus atmosphere around the video, he denounced Walmart on Facebook and in the local media. "The Beech Grove Walmart is NOT a good corporate partner," he posted. The YouTube video "was embarrassing to the City of Beech Grove and the people who live in our beautiful city. Walmart should be ashamed of itself once again for failing to control the people who enter their store."

Regional Walmart executives asked for a meeting with Buckley and Craig Wiley, the city attorney. "You could tell by their body language that they came to the meeting with a very conciliatory tone, and they were going to get their arms around the problem," Wiley says. Walmart promised to hire security and extend a fence on the rear of its property, which barred an easy exit for shoplifters into a retirement community. It said it would skip calling the cops for first-time offenders shoplifting merchandise valued below $50 if the shoplifter completes the company's theft-prevention program.

Buckley was pleased. But in the weeks following the meeting, Walmart dragged its heels. Buckley went public again, this time appearing on national cable news. "Walmart Beech Grove is draining our police resources," he told Fox Business Network. "It's the string of terrible events that have been occurring down there over the past two months that have led me to instruct our police chief to declare the Walmart a public nuisance."

That meant the threat of a $2,500 fine for every call to the police. Walmart now pays for off-duty police to man the store, and the pressure on the local police has eased. A year later, Buckley is pleased, but it still irks him that he had to go to such measures to get Walmart to act. "Cities really need to put their thumb down and get them to the table," he says. "It's taken a long time, but they can really be good partners if they want to be."

The Tulsa Supercenter hasn't had its happy ending. The store has seen several changes mandated by Walmart headquarters, including more visible security monitors, greeters at the doors, and changes to the self-checkout section, but Officer Ross says it's business as usual. The mentality hasn't changed; criminals still think of this store as theirs. And Ross knows the answers aren't always simple. Three hours into his shift, security employees bring in a young woman who'd been wandering around the store with an older man. They'd spotted her slipping on a pair of $15 gray sneakers, then attempting to leave without paying. The woman, in capri leggings and a hoodie, is brought to Ross. She turns her head and reveals an enormous black eye on the left side of her face. Ross moves toward her, and she instinctively flinches—a telltale sign of domestic abuse, he later says. He tucks his hands inside his bulletproof vest and relaxes his broad shoulders, making himself seem a bit smaller, a bit less intimidating. "Is he the one who did this to you?" he asks, motioning to her eye. She knows who he's talking about. She says yes, and her eyes well with tears.

The dingy office, filled with jokes and light banter seconds before, falls silent. This little corner of the giant store has turned into a counseling center. As mascara and tears streak down her red cheeks, the woman apologizes for stealing. She talks about how she's been an alcoholic for most of her 29 years, how her three kids live with their dad because she knows she can't care for them. She says her current partner beat her two days ago because she took her kids to the pool and had "too much fun." She's going to counseling for her alcoholism. She was planning to go cook dinner for her children at their father's house after she left Walmart.

The woman with the phony gift cards and marijuana quietly tells her that she too was in an abusive relationship. They talk in murmurs. Ross writes the younger woman a summons to appear in court. It's her first offense. She walks out with no shoes, because no one can find the ones she left in the shoe department. That's all right, she says, "I can deal with it." As she leaves, Ross worries her abuser is waiting for her in the parking lot.

Later that day, after the sun has set and the air has cooled, the store grows quiet. In the parking lot, a private security SUV with a flashing yellow light on top sits near the exit. Driving the car is a small, elderly man whose tufts of gray hair are barely visible over the steering wheel. Private security jobs like this tend to go for $10 an hour in Tulsa. The "T" on the Walmart sign has burnt out. Stray cats scrounge around. In the far reaches of the lot, people hunker down in their campers, vans, and U-Hauls for the night. It's nearly midnight in Tulsa, and for a few hours it looks like the local cops may get a break from Walmart. B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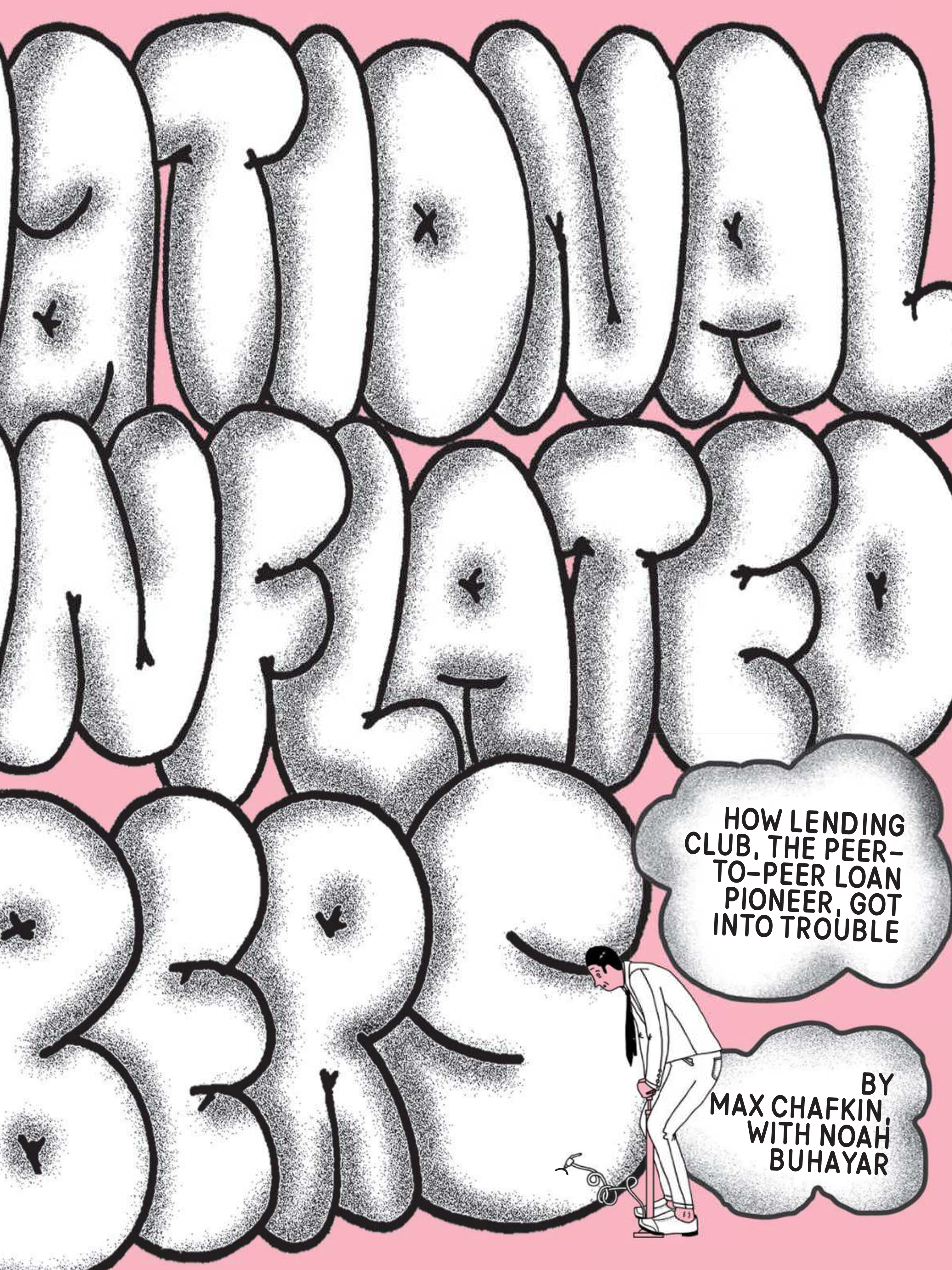
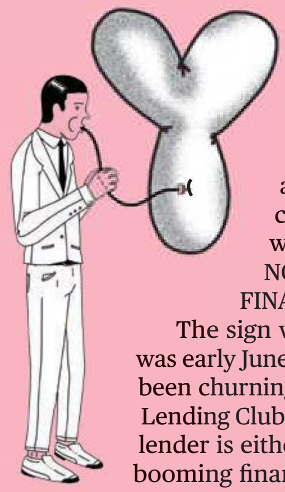

HOW LENDING CLUB, THE PEER-TO-PEER LOAN PIONEER, GOT INTO TROUBLE
BY MAX CHAFKIN, WITH NOAH BUHAYAR



"You ready to see some crazy shit?" Bryan Sims and I were sitting in the dining room of his modest home in Portland, Ore., in front of a laptop and a flatscreen monitor. A bulky home-built computer sat on the floor, with a handwritten warning taped on the side: "DO NOT TURN OFF. POST-APOCALYPTICAL FINANCIAL CRISIS WILL ENSUE."

The sign was a joke, but with a hint of truth. It was early June, and for months, Sims's computer had been churning through a database of loans made by Lending Club. The San Francisco-based marketplace lender is either the most important company in the booming financial technology sector or, if its many critics are to be believed, a Silicon Valley-tinged credit crisis waiting to happen.

Lending Club is a kind of EBay for loans. The company, which has made more than 1.6 million loans to date, worth about $20 billion, matches users who need money with investors willing to lend. The concept relies on both an innovative financial structure and an unprecedented level of transparency. Loans of up to $40,000 at a time are divided into $25 securities that anybody can buy, and Lending Club publishes detailed information about the loans in daily filings with the U.S. Securities and Exchange Commission. It maintains publicly available spreadsheets that have more than 100 fields of information about prospective, though anonymous, borrowers. "Want to slice and dice the data?" the company's website asks. "Help yourself."

It was this information bonanza that first attracted Sims, an entrepreneur who'd previously started a personal finance magazine aimed at young people, which at one point had annual revenue of $3.9 million. In 2013, at age 30, he set out to build a better, more equitable way to assign credit scores to millennials who, in the wake of the recent financial crisis, had never taken out a loan before. All Sims needed to get started was a trove of data from a financial institution.

He started calling banks and credit unions, but none of them would let him anywhere near their data. Over the course of two years, he burned through most of his cash and found himself in a deep depression. "Honestly, it was at the point where routine tasks were hard," he said. One source of solace was the Lending Club website, where he began to dabble as an investor, eventually rolling all the money in his retirement fund into Lending Club loans. In some ways, Lending Club had done what he'd set out to do: It remade personal loans for the post-2008 age. "I was in love," he said. "It seemed like a great model to get people out of debt in an efficient way without the megabanking conglomerates."

When Lending Club went public in late 2014, Sims scraped together about $1,000 to buy stock. "It sounds dumb now," he said, "but it felt like a chance to participate in history." He was so taken by Lending Club that he began listening to the company's earnings calls. "Like a weirdo," he said. It was on one of these calls, in 2015, that he heard Chief Executive Officer Renaud Laplanche say that 14 percent of Lending Club's borrowers, or more than 100,000 people, "returned for a second loan." That struck Sims as curious. He knew that for all the information the company made public about its borrowers—incomes, employment histories, their reasons for borrowing—one thing it didn't list was repeat customers.

Sims decided to take a look at the hundreds of loans he'd invested in, arranging them in a spreadsheet that displayed their amounts, interest rates, and information about borrowers' salaries, employers, locations, incomes, and credit ratings (FICO scores, specifically). Two loans caught his eye. Both had been issued to individuals with the same employer in the same small town. So far, so coincidental. But looking deeper, Sims found that the salaries were nearly identical. Both borrowers had opened their first line of credit in the same month. *This*, Sims realized, *is the same dude*. It wasn't a borrower who'd paid off one loan and happily returned for a second. It was one person with two active loans, and Lending Club was treating them as completely unrelated, charging wildly different interest rates. The borrower was paying about 15 percent interest on one loan of about $15,000; on the other, he was paying 9 percent on twice the principal. That meant the investors who held only the second loan were leaving money on the table. And Lending Club didn't seem to be doing anything to help them.

Sims saw a business opportunity: a research service that would independently rate Lending Club loans the way Morningstar rates mutual funds. Sims asked a data scientist, Allen Grimm, to help design an algorithm to identify loans that seemed to have been taken out by the same person and yet were assigned different rates. They called it the Financial Genome Project.

The algorithm was still mining the Lending Club database when, on May 6, 2016, Laplanche was forced to resign amid alleged ethical breaches on his watch that involved misdated loans and conflicts of interest. Lending Club is facing shareholder lawsuits and investigations by the Department of Justice and the SEC. (The company says it's cooperating with investigators.) Lending Club has lost 80 percent of its market value since its high point, shortly after its initial public offering in late 2014, when it was briefly worth more than $10 billion. Sims invited me to his home not long after Laplanche's ouster to show what the Financial Genome Project had discovered. He wanted me to know that things were worse at Lending Club than anybody realized. You just had to know where to look.

On his laptop, Simms pulled up a spreadsheet showing 32 loans totaling $722,800. The loans ranged from $20,000 to $24,000 and were taken out over the course of eight days in late December 2009. Sims said he believed the loans, ostensibly from 32 different individuals, were taken out by just four borrowers. Each of the four, he said, took out one loan per day, making slight changes to their annual incomes and addresses. One borrower used addresses in Los Gatos, Calif., San Jose, San Francisco, and Atlanta, offering a variety of reasons for the loan requests, including debt consolidation, remodeling, and a wedding. Another, who used addresses in Boston and a nearby suburb, New York, and Denver, claimed the loans would be used for down payments on two houses, a home improvement project, debt restructuring, and the purchase of three vehicles. All but three of the 32 loans had been paid back within 90 days.

Sims looked at me with a raised eyebrow. These four people, it appeared, systematically borrowed almost a million dollars just before the end of the year and had gone to some length to obscure their activity. It was pretty unusual borrowing, to say the least—as if four people each took out eight mortgages of similar amounts over the course of Christmas break. "It's crazy to me that nobody else has come across this," he said.

Sims had two theories why four people would borrow in such a systematic way. The first was identity theft; perhaps a fraudster was testing a scam. The second, which Sims allowed was "kind of a conspiracy theory," was that Lending Club was deliberately inflating its numbers. The company had raised a $24.5 million investment round in April 2010, led by the venture capital firm Foundation Capital. Maybe Laplanche, or people he was close to, had taken out the loans as a way to pump up the performance metrics ahead of the investment.

This may seem unlikely. After all, Lending Club had been known as the best, most reputable company in the industry. Laplanche was a former securities lawyer from a white-shoe firm. His investors included some of the best venture capital firms, and his board of directors included a former CEO of Morgan Stanley. Sims shrugged and said, “It sounds crazy, I know.”

Two and a half weeks later, Lending Club disclosed that in December 2009, Laplanche and three of his family members had taken out 32 loans, totaling $722,800—the same amount Sims had discovered. The goal, the company said, was “to help increase reported platform loan volume for December 2009.” Lending Club said its findings were the result of an exhaustive search that turned up no other inappropriate loans, and noted that the 32 loans generated only $25,000 in revenue. But several former senior executives say the practice of insiders borrowing money was widespread during the company’s early days, and widely known. A 2009 disclosure by Lending Club made reference to loans taken out by Laplanche and the company’s chief operating officer during the company’s “beta period.” In a statement, the company says that although it had a “friends and family program” early on, it banned directors and executives from borrowing in 2008 and expanded the policy to include all employees in 2010. It says executives and board members hadn’t known about employee loans taken out to inflate earnings.

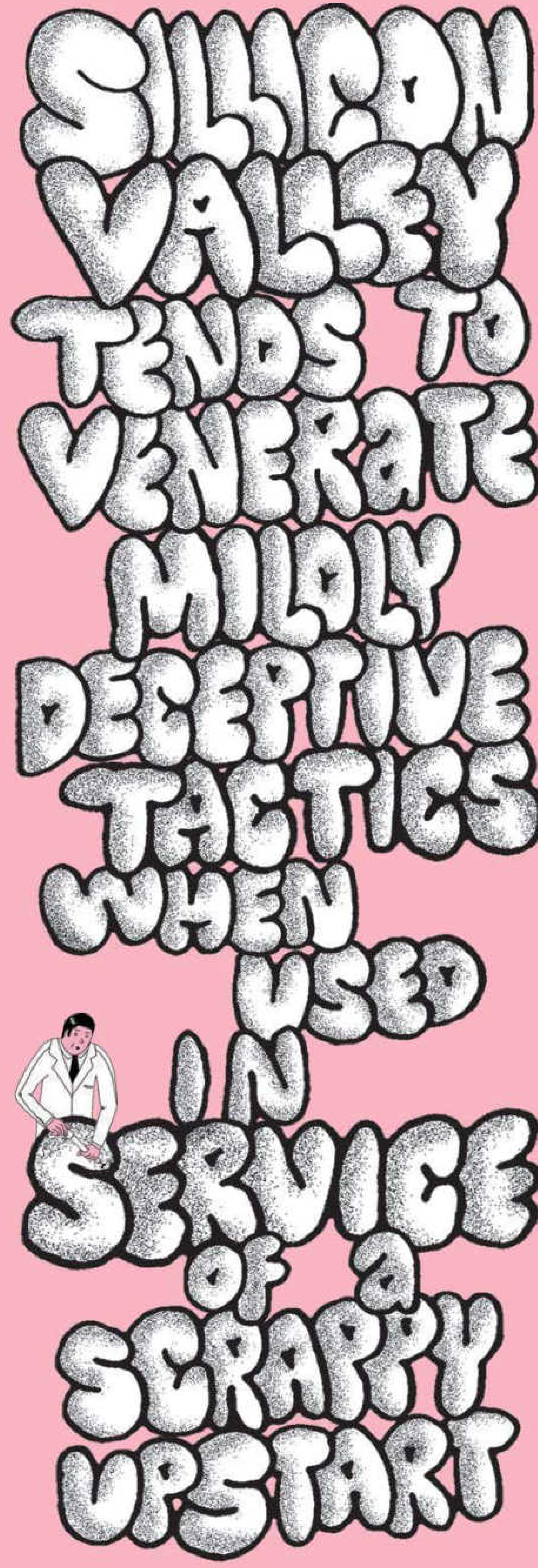
Lending Club and its backers don’t deny the self-dealing but say it’s a nonstory. “Just about every company does [this], when you have 20 employees and no customers,” says Charles Moldow, the Foundation Capital partner who led Lending Club’s series C round. He compared Laplanche’s behavior to inviting friends to a party to impress a VIP. “Not sure I would even care about this,” he says. “I don’t think it was enough volume to have mattered.”

Silicon Valley tends to venerate mildly deceptive tactics when they’re used in service of a scrappy upstart—it’s known as “growth hacking.” To take a recent example, in early August, Hampton Creek, the venture-backed “food tech” company, responded to a Bloomberg report about a secretive program to buy its own eggless mayonnaise by explaining that it had been attempting, in part, to “build momentum.” But Laplanche’s products were more consequential than jars of imitation mayo. They were loans containing seemingly misleading information, tied to SEC-registered securities. Maybe it wasn’t fraud, but it wasn’t exactly transparent.

Lending Club’s new CEO, Scott Sanborn, declined to comment on the 2009 loans, presenting any problems as “isolated,” and emphasized that the company is retraining its employees. Lending Club is “refocusing everybody on doing the right things,” he says.

And yet evidence of lingering issues can be found in Lending Club’s database files, which are still available online. Sims has discovered dozens of other loans he suspects were made to company insiders, as well as lending practices that seem to have been designed to push growth above all else.

Laplanche’s background made him an ideal candidate to shake up the banking industry. A French-born champion sailboat racer who spent five years in his 20s as an associate at the corporate law firm Cleary, Gottlieb, Steen & Hamilton, Laplanche co-founded and sold a software company, TripleHop Technologies, to Oracle in 2005. He started Lending Club, as he’s often said, to overturn the old financial order. “The thought that came to me,” he said at a conference years later, “was that why is it, if I put



my money in a bank, I'm going to earn 1 percent interest, but if I borrow what appears to be the same money, I'm going to pay 18 percent?" The generous spread suggested that the business of making unsecured loans was ripe for disruption.

Laplanche didn't invent the concept of allowing consumers to lend money to one another online—one competitor, Prosper, was founded in 2005—but Lending Club took the concept mainstream by using its own algorithms to set interest rates and winning SEC approval for the practice. Elements of Lending Club's model were adapted by Prosper, Avant, and others, and now there are marketplace lenders that focus on solar panels, commercial real estate, elective medical procedures, and even weddings.

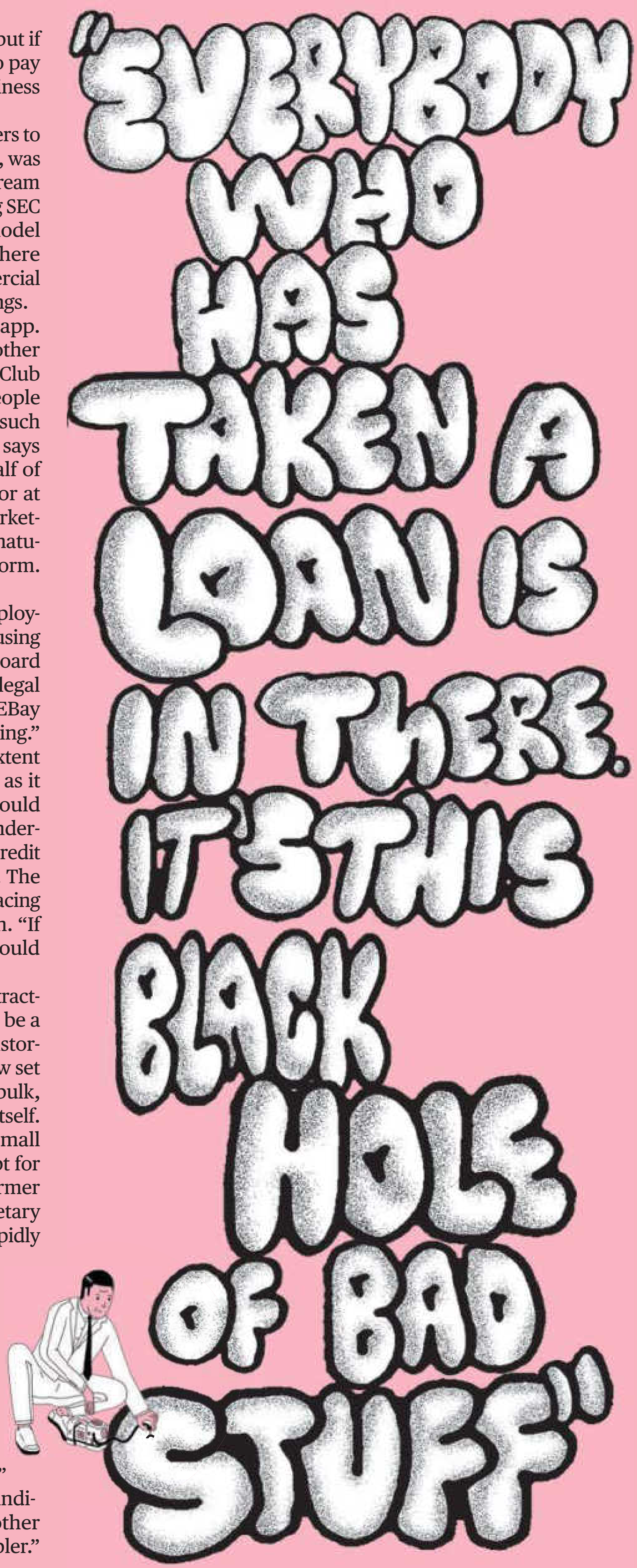
Lending Club made its debut in 2007 as a Facebook app. The idea of using Facebook's social graph for something other than dopey games captivated Silicon Valley, and Lending Club quickly raised a $10 million investment round. But few people on the social network actually wanted to borrow money in such a public way. "We were basically starting from scratch," says Salil Deshpande, who invested in Lending Club on behalf of Bay Partners in 2008 and who's now a managing director at Bain Capital Ventures. One of the axioms of starting a marketplace, Deshpande says, is "that you have to do lots of unnatural things to make sure transactions take place on the platform. You have to juice it."

Among these things, apparently, was encouraging employees and their family members to lend and borrow money using Lending Club. Deshpande, who attended the company's board meetings until 2010, doesn't believe this "juicing" was illegal or unethical; he compares it to efforts by employees of EBay and other Silicon Valley companies to "get the flywheel going."

On the other hand, Lending Club didn't disclose the extent of the business being done with company insiders, even as it touted the performance of those loans as proof that it could survive a recession. "We've built a track record of solid underwriting, good collection practices, of low default in a tough credit market," Laplanche said in a 2010 Fox Business interview. The company boasted about rates of return of 9.8 percent, outpacing Prosper, whose loans had lost money during the recession. "If financial markets were as open as Lending Club, they would reap similar benefits," declared *Wired* magazine.

This narrative was crucial to Lending Club's success in attracting loan buyers. Laplanche had created what appeared to be a safe investment that generated high returns at a time of historically low yields. Bigger investors started to take note. A few set up private investment funds to buy Lending Club loans in bulk, and others bought into loan funds set up by Lending Club itself. Over time, Laplanche also fostered relationships with small and regional banks that were interested in buying the debt for their own balance sheets. In 2012, Laplanche recruited former Morgan Stanley CEO John Mack and former Treasury Secretary Larry Summers to his board of directors. His startup had rapidly become part of the financial establishment.

For many borrowers, especially after the financial crisis, Lending Club has been a godsend. Rates are comparable to those for personal loans offered by banks but the process is as simple as applying for a credit card. Borrowers can log on and have their money within days. In interviews, Laplanche emphasized that his company did not make subprime loans, unlike big mortgage lenders. "We think we can be part of the solution to the credit crisis," he said in the 2010 Fox Business interview, "by allowing individuals to lend and borrow money directly from each other and to make the flow of money a lot shorter and a lot simpler."



Not everyone is eligible to get a loan through Lending Club. Borrowers need a FICO score of 660 or above. The standards were high enough that starting around 2010, demand from investors began to outpace the supply of borrowers. Lending Club spent lavishly on direct mail marketing and began offering "near-prime" loans to certain investors. It also chose not to verify the incomes of most of its borrowers, arguing that unverified loans performed as well as verified ones. The practice is defensible—credit card issuers rarely verify incomes—but banks generally do so for the sort of fixed-rate loans Lending Club offers. In any case, the practice cut against Laplanche's story about his standards being more rigorous than those of conventional banks.

In Portland, over coffee, Sims said he'd found thousands of instances from 2009 through 2011 in which Lending Club seemed to allow borrowers to split their loans in two if their first attempt to get a loan didn't find any takers. For instance, in June 2011, a user from the Phoenix area requested $25,000 for debt consolidation. The user was relatively risky, with a FICO score in the low 700s. Lending Club rated the loan "E2"—one of its riskier categories—offering it at an interest rate of about 18 percent. But investors were skeptical, and only $20,525 worth of the loan's notes were sold. Later that month the same person, according to Sims, borrowed the difference, $4,475, at an interest rate of just 7.5 percent. (Sims guessed that Lending Club's algorithms gave the second loan a higher rating because it was smaller and thus less risky.) To the outside, it looks like one reliable loan and one risky loan; in fact they were both risky. "We evaluate each borrower's creditworthiness based on the most up-to-date data," the company says in a statement. It adds that users can exclude "relisted" loans from their searches.

In all, Sims's model has identified about 30,000 loans that were likely taken out by repeat borrowers—information the company has never disclosed but would be valuable to investors, since it could help show if a borrower is overextended. (Prosper, unlike Lending Club, discloses this information.) Because borrowers could be tapping multiple marketplaces at the same time, such data could show shareholders and regulators if this modern form of marketplace lending is riskier than they think. On the other hand, because Lending Club makes most of its money by charging fees to borrowers and investors and doesn't carry many loans on its balance sheet, it has limited incentive to implement such controls. Sims says, "The biggest question every investor should be asking is, 'Are these platforms actually helping people pay off debt more quickly, or just putting them further in the hole?' " Lending Club argues that any loans a borrower has taken out on the site is built into their credit report and therefore of no special relevance.

That Sims was able to use an algorithm and a home-built computer to pinpoint problematic loans suggests another looming problem for Lending Club: user privacy. The company's website assures borrowers that it "keeps your information confidential and secure to protect your privacy" and that any financial information is "contained anonymously in loan data files." But the data files are so detailed—including job titles, locations, and especially the descriptions that borrowers provide for their loans—that it's often possible, with the right software tools, to make an educated guess about a borrower's identity.

Lending Club's privacy policy warns borrowers that they "should not include [their] name or personally identifiable information." The company says it "has been transparent with borrowers about what information they are asked to provide and what will be disclosed publicly on our site and in securities filings with the SEC." In addition, it says it has taken "numerous steps to strengthen privacy protections and prevent disclosures of personally identifiable information." Even so, in loan applications, borrowers have made reference to bankruptcies, divorces, and medical procedures—information that could be linked to them publicly if someone were determined to do so. "What's scary is that everybody who has taken out a loan is in there," Sims said. "You don't expect that if you apply for a loan, everybody is going to be able to find your income and everything else. It's this black hole of bad stuff."

In April several thousand people packed into a hotel ballroom in downtown San Francisco to hear Laplanche speak at LendIt, the marketplace lending industry's annual conference. He was the star of the show—the keynote speaker for the fourth year in a row. He took the stage, wearing a red vest emblazoned with the Lending Club logo, and proposed that the industry was poised for its next phase of growth, transforming itself, as he put it, "from sapling to ironwood."

In fact, Laplanche would soon be fighting to keep his job. Loan buyers were pulling back, demanding higher interest rates. Defaults were climbing. Lending Club's stock price, which had surged to more than $29 in December 2014 after the IPO, was trading around $8. The following month, Laplanche was forced to resign over a $22 million debt portfolio sold to the investment bank Jefferies containing loans that Lending Club employees had misdated. At the same time, he'd encouraged Lending Club to invest in Cirrix Capital, an outside fund in which he was personally invested.

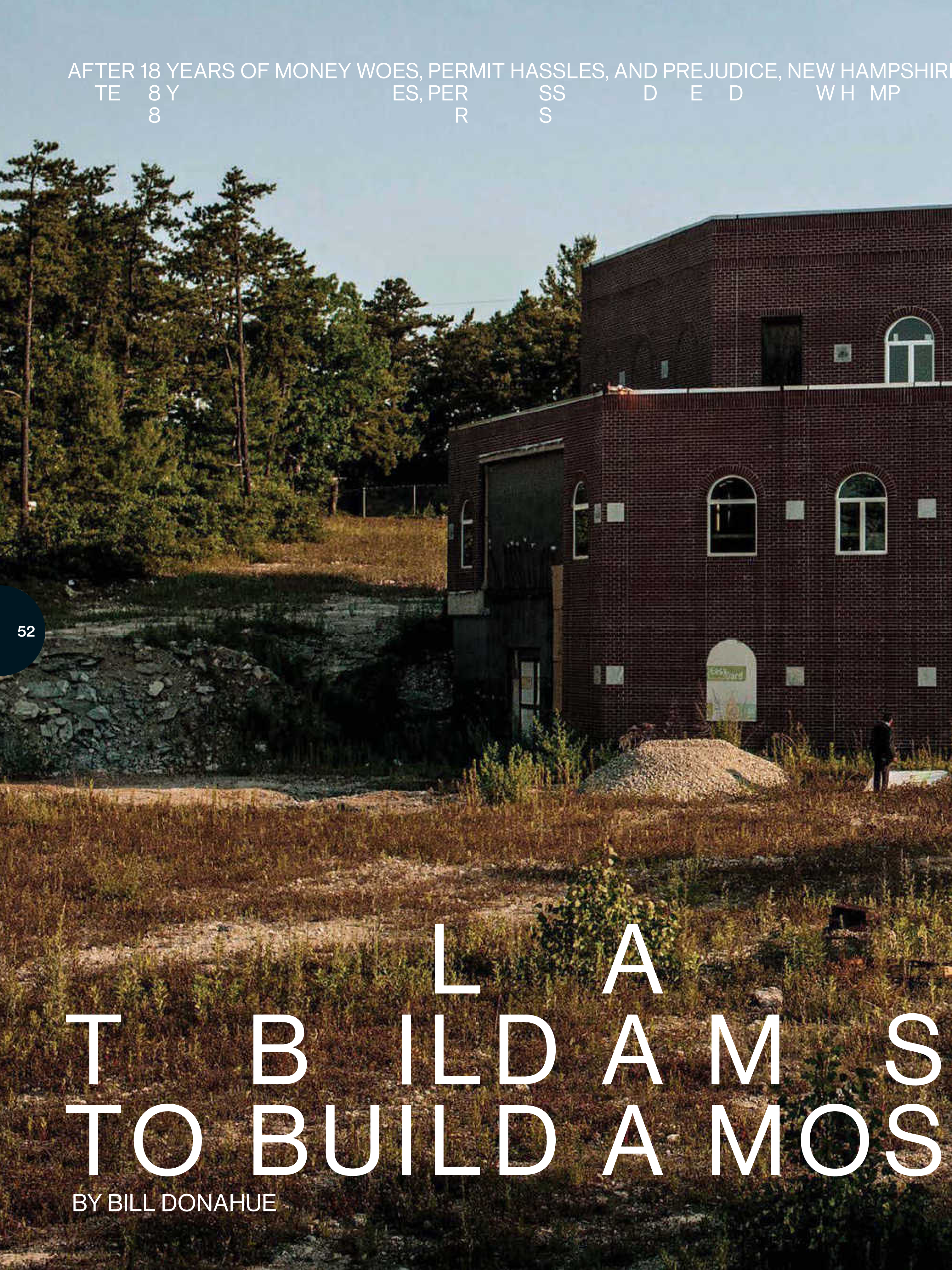
Even those who followed Lending Club closely were floored. Scott Langmack, an early investor, says he awoke to an early-morning text message from an executive at a rival online lender: "Oh, shit. Call me." Peter Renton, co-founder of LendIt, who'd gushed about Laplanche onstage just four weeks earlier, was shocked. "He was the biggest name in the industry," Renton says.

Lending Club's shares fell again, losing half their value by the end of the week. In mid-May, the company said it had received a subpoena from the U.S. Department of Justice and that the SEC was also looking into the company. British asset management firm Baillie Gifford, at one point Lending Club's second-largest shareholder, sold its entire stake. By mid-June, a Lending Club investment fund was forced to limit withdrawals after clients asked to pull out $442 million, or 58 percent of its assets. It announced layoffs of 12 percent of its staff.

Sanborn, Laplanche's replacement and the former chief marketing officer, describes these problems as, essentially, a speed bump and says the company is back on track. Many of Lending Club's investors are still buying loans, albeit in smaller quantities. The company arranged about $2 billion in loans last quarter—and has more than $500 million in cash, according to regulatory filings. "It's been very humbling," Sanborn says. "But I believe we're going to emerge a better company because of it."

Sims is dubious. He's been slowly pulling his money out of Lending Club over the past two months, while halting development of his Lending Club rating service. He feels he created something cool and valuable, but says he believes the company, perhaps even the industry, may be beyond repair. (Sims says he's not shorting Lending Club's stock, nor is he part of the shareholder lawsuits that have been filed against the company.) On Aug. 8, the day Lending Club announced quarterly earnings, his wife, Annie, went into labor. While she napped in the delivery room, Sims tuned in to an earnings call, learning that Lending Club had lost more than $80 million. Its CFO was also resigning.

The baby, a boy, was born that night, and Sims resolved to take a few days off from thinking about marketplace lending. B



AFTER 18 YEARS OF MONEY WOES, PERMIT HASSLES, AND PREJUDICE, NEW HAMPSHIRE

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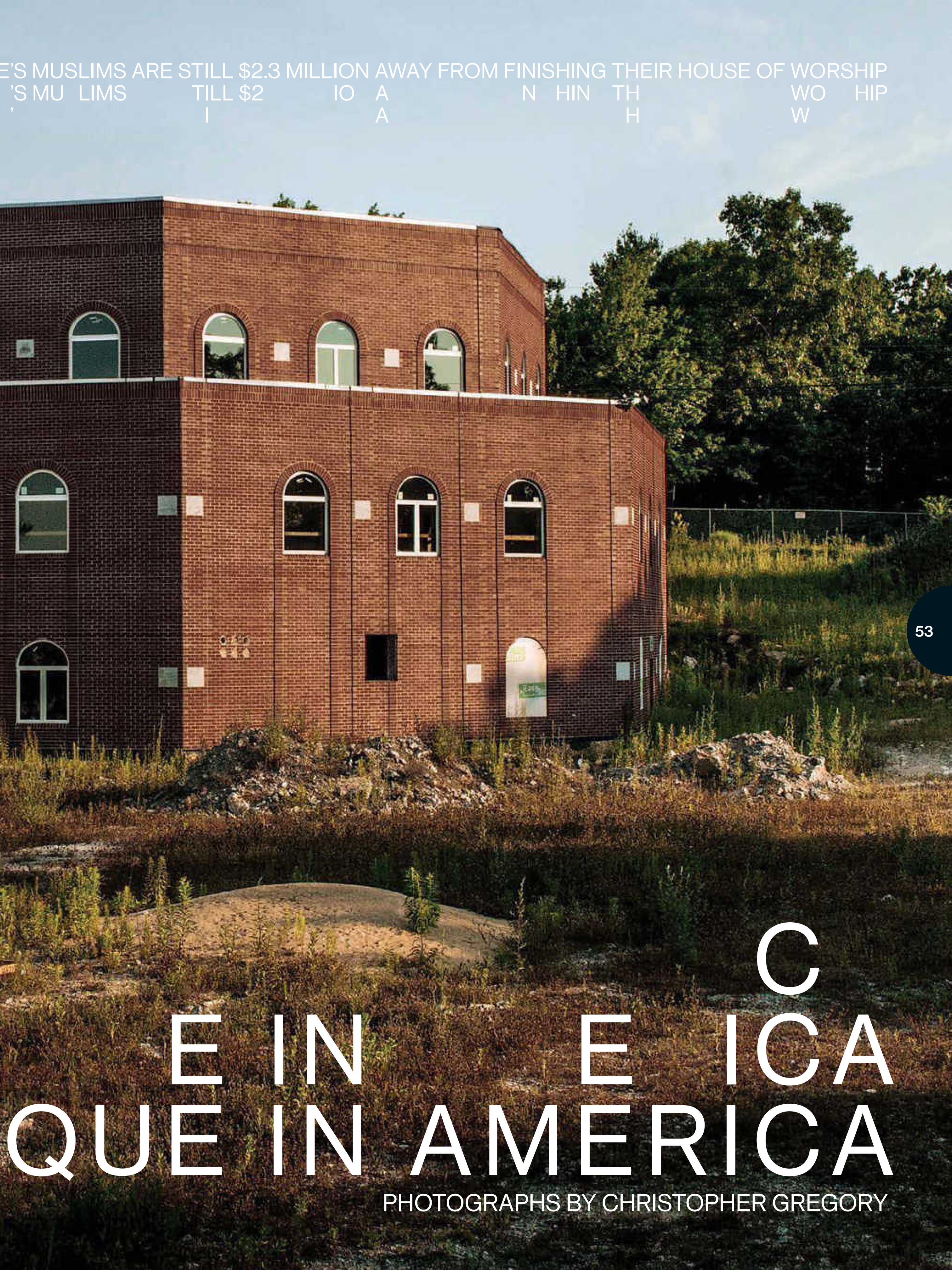


E'S MUSLIMS ARE STILL $2.3 MILLION AWAY FROM FINISHING THEIR HOUSE OF WORSHIP

QUE IN AMERICA

PHOTOGRAPHS BY CHRISTOPHER GREGORY

ON THE DAY AFTER THE MASS SHOOTING IN ORLANDO, Donald Trump took the podium at St. Anselm College in Manchester, N.H. "We are importing radical Islamic terrorism into the West through a failed immigration system. Radical Islam is coming to our shores," he said, before putting his foot down: "The immigration laws of the United States give the president the power to suspend entry into the country of any class of persons."

As he fulminated, Trump was standing less than four miles from New Hampshire's only sizable mosque, which is in a mini-mall above a Fantastic Sams hair salon. Inside, some congregants were busily readying their place of worship for a Ramadan feast featuring samosas, rice, and slices of watermelon. Fluorescent lights flickered on the low ceiling, and ballroom music filtered in from the Royal Palace Dance Studio next door. The Republican presidential nominee's handlers didn't respond to my e-mail inquiries. I don't know if Trump was aware of the distance between his rhetoric and the daily reality of Manchester Muslims.

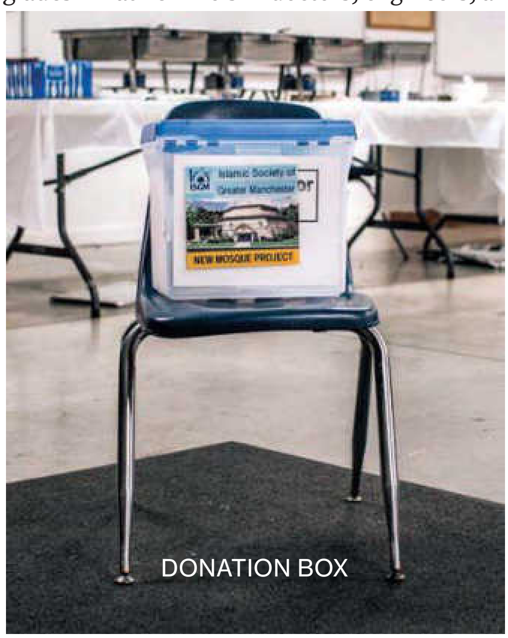
One, Mahboubul Hassan, 66, a Bangladeshi native who's a finance and economics professor at Southern New Hampshire University, has been trying since 1998 to build the state's first purpose-built mosque. New Hampshire's practicing Muslims, numbering about 1,200, are concentrated near Manchester, the state's largest city, with a little more than 110,000 residents. New York and California have about 250 Muslim masjids apiece, but for now the pride of Islamic New Hampshire is an unfinished, 13,000-square-foot octagonal brick structure that sits under construction on a hilly, weed-infested lot. On its facade, an inscription in Arabic reads, "There is no God but Allah."

After working with an architect, the Islamic Society of New Hampshire broke ground on its masjid in 2007; so far it's spent about $1.5 million. The blueprints were for a minimally ornamented two-story building encircled with large radius-top windows. If ever completed, the structure will have a capacious prayer room with a modest three-step wooden *mimbar* (the platform at the end of a staircase from which an imam sermonizes), a tutoring center, a full basement for meetings, a lavish kitchen, and a domed roof. The foundation has been poured, and the walls are up, but there's still about $2.5 million worth of work left to do. The long saga of the mosque's construction is a story of American immigration—a tale of émigrés, the first of them from South Asia, yearning to find a fixed place to pray, then dreaming up an architectural plan far beyond their economic and logistical reach.

The project has mired New Hampshire's Muslims in troubles that are, though on a smaller scale and stage, similar to those that Islamic developer Sharif el-Gamal faced when he tried to build a 15-story Muslim cultural center two blocks from Ground Zero in Manhattan. Onetime U.S. House Speaker Newt Gingrich likened that project to a "Nazi sign" being planted beside the Holocaust Museum in Washington. Forty thousand protesters gathered in the street, many waving American flags. El-Gamal ultimately backpedaled and decided to build a luxury condo tower instead.

The Manchester plan has thrown up its own idiosyncratic challenges. It began hopefully in 1998, when Hassan found a flat, cleared 10-acre residential property just north of the city, listed for $400,000. "An elderly lady owned it," he says. "She was dying of cancer, and she asked me what I was going to do with the land. I didn't say 'mosque,' because she wouldn't have understood. I said, 'a church for the Muslims.'" The woman seemed to find the concept enchanting. "Oh, for you it's $200,000," she told him.

At the time, the Islamic Society was a new group of about 25 people who prayed each Friday in a setting even more makeshift than the current one in the mini-mall: a dance studio at the university. They were a relatively educated bunch—doctors, engineers, and professors—but they weren't wealthy. Two hundred thousand dollars seemed to them like a staggering sum for land. They decided to pass, and Hassan, pained, kept looking. He was middle-aged and already 17 years into his New Hampshire adventure. He was terrified of driving in the snow but had no problem shoveling, even though he lost his left arm as a teen after breaking it in a soccer game, then suffering an infection and, ultimately, gangrene. "I just hold the shovel and kick," he explains. The fall foliage sang to him, especially up north, in the White Mountains. He also developed a ritual of going to Dunkin' Donuts every Friday after prayers. On one visit in 1998 a friend told him, "There's land on top of Bald Hill, and somebody wants to sell it."



DONATION BOX


HASSAN

Hassan drove up there, along a bumpy, cracked stretch of asphalt called Karatzas Avenue, and beheld, sparkling off to the east, the quiet waters of Lake Massabesic. The asking price for the 2.8-acre plot was $37,500; this time the Muslims bought quickly, only to discover that they hadn't exactly scored a bargain.

The property was home to a vacant, dilapidated Greek Orthodox church, built in 1948 by a local shoe factory worker from Greece, Stylianos Karatzas, after whom the street is named. (There are three active Greek Orthodox churches in Manchester now.) Local teenagers called it the Devil's Chapel; they smashed its stonework and spray-painted its walls with pentagrams. Keg parties raged, and prostitutes used the place for assignations. The Islamic

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"I DIDN'T SAY 'MOSQUE,' BECAUSE SHE WO

THE TEMPORARY MOSQUE

Society tore the building down, but in 1999 the city of Manchester insisted, per city regulations, that the society couldn't build on the site until property owners along the street spent $523,650 to repave and upgrade Karatzas Avenue.

EVEN HAD THE CITY GRANTED THEM A PERMIT, THE road construction cost would have been a deal breaker. The group had started out expecting to pay no more than $2 million to build; and that was a stretch–their fundraising scheme was little more than wishful thinking. The Islamic Society was squeezed by a scriptural concern: The Quran has been interpreted as advising against taking interest-bearing loans. Verse 2:275 reads, "Those who devour usury will not stand except as stand one whom the Evil one by his touch Hath driven to madness." The dictate is strictly obeyed in most Islamic communities, particularly among Sunnis.

When Muslims buy houses, they can often work within Shariah, the Islamic religious law, by turning to friendly banks that offer rent-to-own terms. But such terms are rarely available for mosque construction, and most Islamic communities rely instead on local donations and no-interest loans from their wealthiest constituents.

Before a group of Virginia Muslims broke ground on the $4.5 million All Dulles Area Muslim Society mosque in Sterling, a Washington suburb, it spent 10 years pooling funds. That approach is fairly standard, but there are other tacks. The nation's largest mosque complex–the 16-acre, $100 million Diyanet Center of America in Lanham, Md.–opened this spring largely because of massive support from the Turkish government. In Dearborn, Mich., however, the triple-domed, double-minareted Islamic Center of America was financed with seven-figure bank loans. Its congregation, most of whom are Lebanese Shiites, was, it seems, mindful of a caveat. "There is a strain of Islamic scholars who believe paying interest for a mosque is OK," says Miles Davis, a dean at Shenandoah University and an expert on Islamic finance. "It's regarded as a necessity, like eating pork when you're starving."

The Islamic Society of New Hampshire has hosted an annual mosque fundraiser for the past 18 years. Each event has brought in $150,000 or so for construction. Luckily, the Muslims had an ally in Bob Baines, who, while serving as mayor from 2000 to 2006, wrote to his planning board before a May 2003 meeting that "Manchester has always been a city noted for its ability to accommodate a multiplicity of races, ethnicities, and religions." Soon after, the city solicitor notified the board that it "lacked the authority to require the applicant to pay for off-site improvements to Karatzas Avenue under the city's current regulatory scheme." In 2006 new apartment buildings went up along the street, and those developers repaved much of the road anyway. Still, Baines is regarded by many of the mosque's neighbors as a patsy. "He just took political correctness too far," says Milton Argeriou, a retired public-health researcher.

In 2003, Argeriou and his wife, Sally, filed a lawsuit to block the construction of the mosque. The suit alleged that the Islamic Society was poised to trespass on their property. The strip of land in question was Ingraham Avenue, a 40-foot-wide street planned by the city of Manchester but never completed. The "paper street" was provisionally situated on maps to start at Karatzas Avenue between the Argerious' plot and the mosque's. Zoning rules for commercial buildings required that the Islamic Society have 200 feet of frontage along Karatzas Avenue. It had 195.6 feet running up to the edge of the imagined

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street, meaning the Muslims needed an additional 4.4 feet to build legally. But the Islamic Society reckoned it owned half the width, giving it the extra land it needed. The Argerious claimed to own the entire width.

The Argerious had a stake in keeping the land undeveloped. Sally owned a nearby 47-acre Bald Hill tract that has since been transformed into Grandview Estates. The tranquil refuge of 5,000-square-foot homes breezed through the permitting process, never encountering any public protest. It's now billed as "Manchester's premier subdivision." The Argerious lost their suit, however. In 2005 a judge ruled that they owned only half of the un-street. That took care of the Muslims' frontage problem.

Another lawsuit, a dense 22-point complaint filed in 2003 by neighbor Frank Scarito, a financial consultant, alleged that in allowing the mosque construction, Manchester was failing to "protect the public health, safety, and welfare" of its citizens. Scarito's main charge was that the parking lot was too small, and though he dropped his case after six weeks, he hasn't changed his mind. "That lot," he said recently, "will hold 56 cars, and they're saying that the capacity of the mosque is 200 people. But do the math: If every person in there has a 3-by-5 prayer rug, the building could fit in excess of 500 people. Who's going to stand at the door and say, 'You're guest number 201. Sorry, you can't come in'?"

A New Hampshire businessman and blogger, Doug Lambert, was more inflammatory. On his site, granitegrok.com, he asked in 2006, "How many mosques have been used throughout the Moslem world as ammo dumps and hideouts for murderous thugs? Can you imagine the thought of a Hitler Youth summer camp somewhere in Manchester circa 1943-44?" But Lambert's outburst had no legal consequence. Ibrahim Hooper, a spokesman for the Council on American-Islamic Relations (CAIR) in Washington, calls out the insidious nature of the quieter complaints about infrastructure. "It's always about the parking, unless it's about noise or traffic," he says. "Scratch the surface, and there's something else there. There isn't a mosque in America that hasn't faced hurdles."

"THEY WERE JUST KIDS MESSING AROUND. THEY WER

Religious buildings can often be controversial. In Boca Raton, Fla., two activists filed a federal lawsuit in February aimed at halting the construction of a $10 million, 18,000-square-foot synagogue that exceeds city height limits. The suit alleges that city officials facilitated the project through backroom dealings, thereby violating the First Amendment. Still, mosques are the focus of a special, focused contempt.

In 2015, working with researchers at the University of California at Berkeley's Center for Race & Gender, CAIR recorded 78 attacks on U.S. mosques, the highest since it began counting in 2009. Vandals burned crosses on a New York mosque's lawn, covered the door of a Texas mosque in feces, and laid a severed pig's head outside one in Philadelphia. CAIR said about the report: "The 2016 presidential election has mainstreamed Islamophobia."

The most prominent dispute about a mosque in the U.S. is set in Bernards Township, N.J., where the Islamic Society of Basking Ridge sued a local planning board that denied it a building permit, alleging the approval process was a "Kafkaesque" ordeal that involved 39 public hearings over four years. Lawyers in the New Jersey case accused local planners of violating the Religious Land Use and Institutionalized Persons Act, which protects religious speech. Since 2011, CAIR has repeatedly won construction battles by invoking the act.

MANCHESTER'S POLITICAL CLIMATE SHIFTED RIGHTWARD after Baines's tenure. Although the largest concern of the current Republican mayor, Ted Gatsas, is rampant opioid addiction, he's made time to loudly oppose immigration. In 2011 he asked the U.S. Department of State to halt the influx of refugees into the city, which had absorbed more than 2,000 displaced persons. (It didn't work.) More recently, Gatsas, who's been reelected four times and is now running for governor, has fought a federal plan

MOHAMMAD ISLAM, INSIDE THE MANCHESTER MOSQUE UNDER CONSTRUCTION

E JUST BRAINWASHED BY THE MEDIA, PROBABLY, AND WE DIDN'T WANT TO DO ANYTHING TO HARM THEM"
JU A Y M A, R B EDI TT Y GTO A H M"
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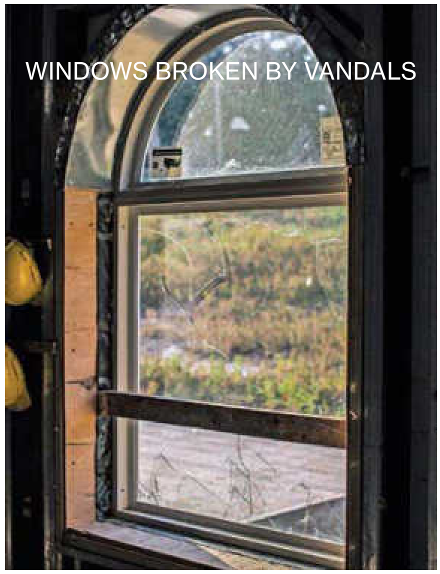
to move 500 Syrians to New Hampshire, citing safety concerns.



WINDOWS BROKEN BY VANDALS

But it would be wrong to blame all the Manchester mosque delays on Islamophobia; the principal challenge has been the site. Bald Hill is riddled with granite ledges requiring extensive—and expensive—blasting. The city sewer line sits beneath Karatzas Avenue. Connecting to it will require digging up the street at a cost of more than a quarter-million dollars. Drainage is tricky: When the snow melted this year, it seeped through the mosque's doors, rusting some studs. Meanwhile, construction, often a charity effort, has been slow, with local Muslim craftsmen erecting the rebar and laying the concrete at steeply discounted rates. Several times the society has had to pay to renew building permits.

Scarito, the financial consultant, says he foresaw all these problems. "Building up here is difficult," he says. "Just to get water, I dug a 900-foot well. This isn't the right site for a car wash or a Stop & Shop, and it isn't the right site for a mosque. And they've tried to do everything on a shoestring. They've run out of money. The building has just sat there for years, with nobody working on it. It's an eyesore."

Davis, the dean at Shenandoah, says he's never heard of a small mosque that's taken so long to build. "I've seen mosques in Morocco take a couple decades, but these are humongous buildings that fit three or four thousand people," he says.

As it's sat vacant, the building has become a target. In 2013 two young vandals, 11 and 13, smashed almost all the windows. The damage cost more than $30,000 to repair, but the Islamic Society chose not to prosecute. "They were just kids messing around," says the group's president, Mohamed Ewiess. "They were brainwashed by the media, probably, and we didn't want to do anything to harm them."

ARE NEW HAMPSHIRE'S MUSLIMS TOO LAID-BACK?

"They need to send out ambassadors to Muslim communities that have money—to Virginia, to L.A. and Texas," Davis says. "I can't believe they'd fail, because Islam gives a special place to people who contribute to building mosques. Every time someone prays in that building, you receive the benefit, even after you've died."

An aggressive nationwide search doesn't seem to be their style. "That's a full-time job," says Mohammad Islam, a Bangladeshi émigré who's the building committee chair and a network and telecommunications engineer. "If you're out there asking somebody for $50,000, you might have to stay for a while. You might have to make repeat visits, and I can't quit my job to do that."

The state's Muslims set up a GoFundMe site two years ago, but so far it's brought in less than $12,000, not even 1 percent of their $2 million goal. The annual fundraiser remains so pivotal that when I asked to go, Islam said no. "With press there, people will be afraid to donate. It's kind of a reverse terrorism thing," he said, meaning that contributors would fear retaliation from anti-Muslim thugs.

In time, he changed his mind. When I reached the mini-mall mosque at dusk, about 200 men were breaking the day's Ramadan fast as women and children gathered behind wooden partitions in the same room. The community has grown in recent years, adding large Bosnian and Iraqi constituencies. The congregation, relaxed and proudly inclusive, now encompasses citizens from 25 countries, including Bahrain, Eritrea, and Sri Lanka, and from "several Shia Muslim families," according to Hassan, who in an e-mail added that he wasn't sure of the exact number and claimed not to recognize the distinction. "I always take a person as Muslim (never as Shia, Sunni, etc.) or Christians (never as Catholics, Protestants, etc.)."

As night fell, a tall, extremely thin youth from London recited scripture in a high, haunting voice. Maseeh Ullah, who's memorized the Quran, had come to New Hampshire for a month to lead Ramadan prayers. I asked him if locals had encouraged him to talk up the mosque when he returned to London. "Oh, no," he said. "Nothing like that."

When I ran into Hassan, he conceded that maybe Manchester's Islamic leaders had been too ambitious, dreaming of a palatial mosque up on Bald Hill. "It's true," he said genially. "We were a little naive."

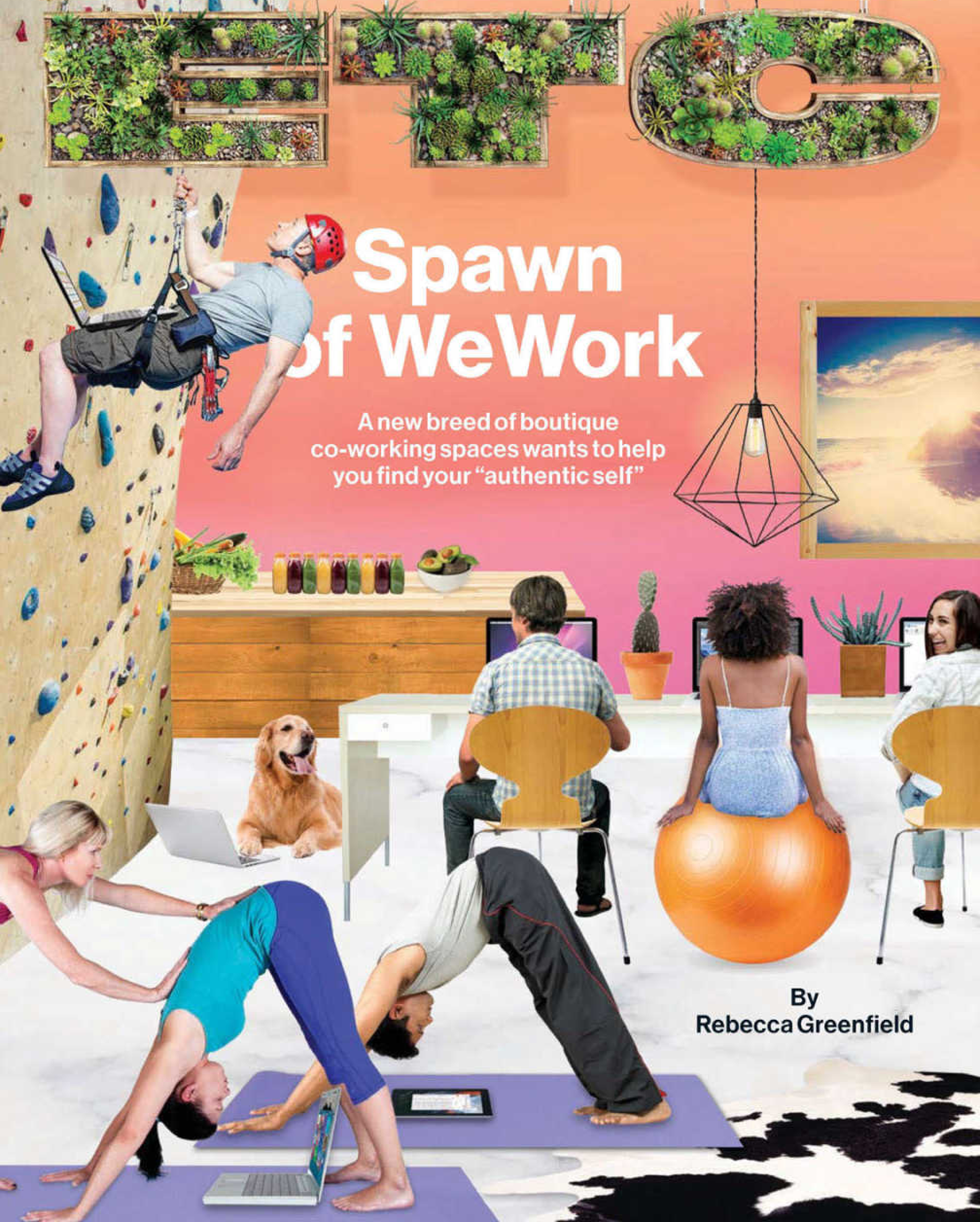
I could see women moving on the other side of the partition, their stocking feet on the rug. Enjoying what organizers insist is an equal right to participate, they watched via a video feed as the keynote speaker took the mic.

Alauddin Alauddin, a life coach and family-services administrator in Columbus, Ohio, travels the country coaxing mosque money out of Muslim audiences by using humor. He's essentially Islam's answer to a Borscht Belt comedian. "How many of you guys here are from Sudan?" he said, warming up the crowd. Later in the evening, he asked each of the men present for $50 for "the protection of your mothers." Moments later he said, "What? You're going to protect your mothers but not your wives?"

Eventually, Alauddin asked, "Who can give $50,000?" He got four men to raise their hands at $25,000, and by the time he worked his way down to $500, it seemed like nothing. Huso Zukic, a 25-year-old Bosnian refugee, said yes, only to be nudged up to $650, never mind that he's a struggling assembly line worker. "This is the first mosque we've built here, and I wanted to be part of it," Zukic told me, flush with excitement. "I wanted to give hope to future generations."

As I moved toward the door, the evening's tally stood at $220,000, a record for the group. Over the tinny sound system, a muezzin was calling the faithful to the evening's last prayer. I lingered for a moment on the porch by the dance studio, looking in through the window as three long rows of men prayed silently, in unison, now bowing their heads, now pressing their brows to the floor as they knelt.

This was still a novel sight in New Hampshire. For all the winters these men had endured, they were still newcomers here. And they were still $2.3 million from finding their way home. B



Spawn of WeWork

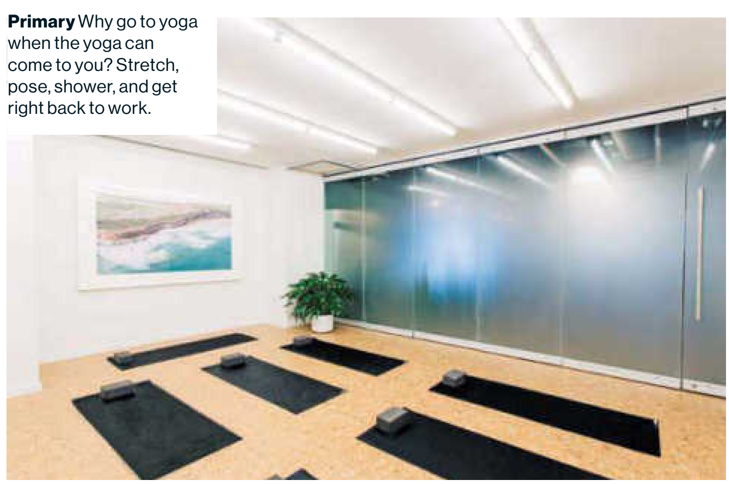
A new breed of boutique co-working spaces wants to help you find your "authentic self"

By Rebecca Greenfield

It's around 1 o'clock on a recent Monday afternoon, and I walk 30 seconds from my desk to a locker room, change into leggings and a sweatproof tank top, grab a yoga mat, and start meditating in a studio with three other women. "Forget about deadlines," the instructor tells us. "Forget about the looming appointments and assignments." I'm trying, but it's hard: My desk is so close, I could hear my phone if it rang. After an hour of stretching, posing, and not forgetting about deadlines, I put my work clothes back on; soon I'm tapping away again at my laptop. It's a normal afternoon at Primary, a new co-working space in downtown Manhattan. For $300 a month, I can grab a $10 green juice after a midday vinyasa flow class just feet from where I manage the flow of my in-box.

This is what co-working looks like in 2016, half a decade after the first shared spaces popped up. WeWork, which popularized the model, opened its first location in SoHo in 2010 to fill commercial buildings in the recession. Now it's worth more than $16 billion (an internal financial review in April slashed 2016 profit and revenue forecasts). *Deskmag*—yes, the industry has its own trade magazine—estimates there will be 10,000 co-working spaces worldwide by yearend: If you live in a second- or third-tier city, and there's no yoga at yours yet, stay tuned. Manhattan alone devotes more than 5 million square feet to the collectives, according to real estate services firm Cushman & Wakefield; and in San Francisco, there's been 300,000 sq. ft. of co-working space leased since mid-2014, reports JLL, another real estate services company. "The industry has gone crazy. Co-working used to be an office phenomenon. Now it's tech shops, makerspaces, bio labs, community kitchens, and car-fixing places," says Steve King of small business consulting firm Emergent Research in Lafayette, Calif. "You can find shared workspaces for almost any kind of work."

And any niche interest. When WeWork was the only player, kegs were enough to get people in the door because, hey, free booze. Today there's much more differentiation. At Primary, the emphasis is on wellness: exercise programs, kombucha and healthy snacks, and succulents and ivies trailing vines across tabletops, because I guess healthy people are into plants. The purported benefit of these quirks? Community! Which is what we seem comfortable substituting for a life outside the workplace. It appears that we're entering the work-life singularity, and we're going to love it one green juice at a time. As James O'Reilly, 33, a founding partner of NeueHouse, a high-end co-working space in Manhattan, says, "People are happiest when their work can live in their lives more comfortably, when it's something they don't have to isolate." To put it another way, co-working spaces have become self-selecting worlds where an entrepreneur can be her "authentic self," says Gretchen Spreitzer, a professor at the University of Michigan's Ross School of Business who studies how organizations help employees thrive.

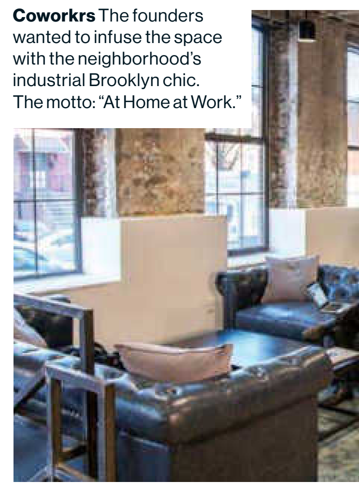


Primary Why go to yoga when the yoga can come to you? Stretch, pose, shower, and get right back to work.

I'm spending a week testing out co-working spaces in New York to try to find my authentic self. Primary, an urban hippie dreamscape, is my first stop. "We are catering our experience to a different demographic than WeWork," says co-founder Lisa Skye Hain, 39, who has the glowing skin and sun-kissed hair found only in vitamin ads. "For me it was about 'How do I make it slightly different?' " The Wi-Fi password at Primary is FEELGREAT.

Coworkrs, my next destination, helps you live your best Brooklyn life. "Our idea is trying to infuse the neighborhood in the space," says co-founder Shlomo Silber, 32. That starts at the front desk, where the Coworkrs motto, "At Home at Work," is hand-painted on a made-to-look-artisanal wooden sign. Elsewhere in the three-story former tile factory in the industrial Gowanus neighborhood are exposed timber beams, distressed cement walls, a staircase made of steel slabs, and art that looks like Banksy snuck in to paint. For a Brooklyn gentrifier like me, it feels like home, or at least like the aspirational home-goods store down the street.

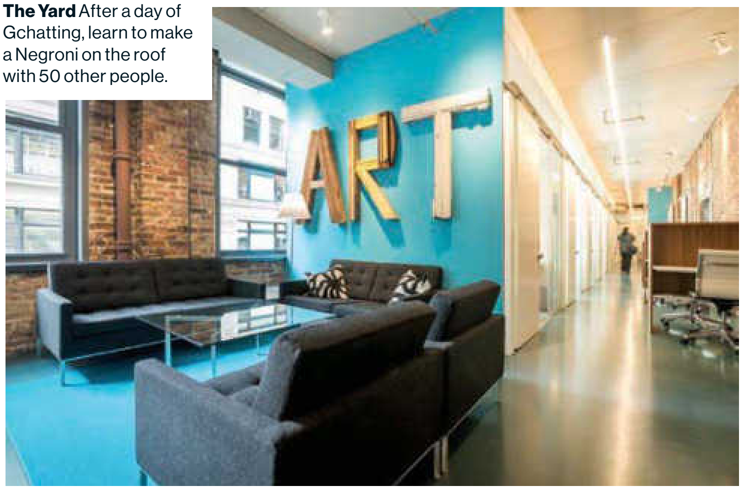
Coworkrs The founders wanted to infuse the space with the neighborhood's industrial Brooklyn chic. The motto: "At Home at Work."



Silber's neighborhood-infusion strategy is smart. People working in these spaces told me they choose one based on proximity to home since commutes are a time suck that cuts mostly into leisure hours. Often their goal is just to get out of the house. Commandeering a table at your local coffee shop used to be the way to do this. It was cheaper. A day pass to Coworkrs costs $40, about the same as 10 cold-brew coffees. But unlike at Starbucks, there are plenty of outlets, privacy, and open seats. Plus, there's yoga on one roof deck and a garden on the other.

Despite potential distractions, most people I met at co-working spaces spend their time doing actual work. That's the case at my next locale, Study Hall, which is aimed at freelance writers. The Gowanus spot is one room with two wooden-slab tables that sit six people each. A couple of desks are shoved against a wall. Extension cords snake along the floor. It's among a handful of single-profession spaces: Rough Draft caters to designers, Rise attracts fintech companies, and the Farm focuses

PREVIOUS PAGE: ETC LOGO BY PETER CROWTHER; PHOTO ILLUSTRATION BY 731; SOURCE: GETTY IMAGES (32)



The Yard After a day of Gchatting, learn to make a Negroni on the roof with 50 other people.

on wellness technology startups. "Not to brag, but we actually provide community," says Peter Moskowitz, 28, who co-founded Study Hall with freelancer Kyle Chayka (who has written for this magazine). It cost about $6,000 to get the location going, Moskowitz says. "The idea of working next to some tech guy doesn't do anything for me. I would have nothing to talk to him about. We want to talk to other journalists."

Working at Study Hall is like hanging out with co-workers at Bloomberg headquarters, which is to say there's real work involved. At the crack of 11 a.m., other writers trickle in, and we talk shop. One reporter gives another a potential lead on a story in Orlando in the wake of the nightclub massacre. "We're all engaged in the same professional stuff. We can help each other," Moskowitz says. Except that most of the time, Study Hallers sit silent, headphones on. Despite all the talk of community, in my week inhabiting co-working spaces, I observed little human interaction. Whenever I point this out, evangelists mention in-house events organized by what are referred to as community managers. Study Hall has Q&As with authors. Primary holds breakfasts with nutritionists. NeueHouse has movie screenings with Meg Ryan.

"We'll do half an hour of climbing, 20 minutes of work. If we have a problem, we take it to the wall. You climb it out, and you come back with a fresh perspective"

At another neighborhood-themed space, the Yard, people drink. One evening I head to a Negroni-making class on the roof of the Lower East Side location, which caters to the party-going types who tend to live in the area. (The Yard has nine spots in New York; a 10th, in Philadelphia, is coming soon.) About 50 people, almost all younger than 35, are there. Channing James, a bartender at restaurateur David Chang's Momofuku Ko, begins with a lesson. "Can anyone tell me what gin is?" he asks. "Alcohol!" respond two women. They grab a Beefeater bottle and pose for an Instagram photo. "Everybody say, 'Alcoholics Anonymous,'" says the man taking the pic. They oblige. "I'm drunk!" one says.

Less than 10 minutes later, having assembled our bright red drinks with orange twists, we mingle. It's as fun as any happy hour with colleagues. The "alcohol!" women make conversation with strangers, but they're community managers—being friendly is the job. Half the people I talk to don't even co-work at the Yard. They're friends of members and came for a drink on a Manhattan rooftop on a hot summer night. Ken Zamkow, the founder of Sports Guru, a video startup, says he looked at 14 spaces before landing here. He lives in the area, but he says another consideration was more important: "Some places don't allow dogs."

The last stop on my tour, the Queens outpost of Brooklyn Boulders, isn't even a proper office. It's a rock-climbing gym with desks. (It also has locations in Chicago, Somerville, Mass., and, uh, Brooklyn.) After members started networking, the founders walled off space for tables, chairs, and a printer. Co-working, like access to the sauna, is an amenity that comes with the $115-per-month climbing fee. On a Friday afternoon, about a half-dozen people in workout clothes type on laptops on a platform overlooking fake boulders. Music blasts. Kids run around. I can't get anything done, but two women who work for *Perfumer & Flavorist* magazine appear to be having more success. When they need a break, they climb.

"We'll do half an hour of climbing, 20 minutes of work," says Paige Crist, 38, who has on yoga pants and a muscle shirt. "If we have a problem, we take it to the wall. You climb it out, and you come back with a fresh perspective." Do their bosses mind that they spend more than half the day not working? "If we weren't exceeding expectations, they'd probably not be cool with it," Crist says, laughing.

It's nice work, if you can get it. I don't climb, but I do yoga, and when I'm talking to Crist, I think back to my midday vinyasa class at Primary. I loved it, even though I spent an extra hour at my desk. And though it didn't necessarily clear my head, it was a welcome break from e-mailing. Many of the people I talk to at Brooklyn Boulders spend way more than nine hours at what is essentially their office. They climb and work and work and climb until midnight. I ask Crist when her workday ends. "It's just when you get to a good stopping point," she says. "I'm usually never done working." B

Chickens and Falcons and Sheep, Oh My!

The sharing economy has made taxi rides and vacations easier. And now that you can rent any number of farm-friendly animals, it can also help you mow the lawn. By Kate Silver

Rocky Mountain Wooly Weeders

Animal: Sheep
Price: From $1 per sheep per day; woolyweeders.com
Location: Sonoma, Calif.

A lot of mowing, pruning, and fertilizing happens in wine country, where the land can be rocky and uneven—perfect terrain for sheep. They trim the grass under and between rows of vines to golf course lengths in 24 to 48 hours, says owner Don Watson. Fred Cline, proprietor of Cline Family Cellars in Sonoma, recently rented about 2,000 sheep for landscaping. In the summer, when grapes are small and too bitter to eat, the animals eat leaves off the vine, allowing more air to reach the fruit and prevent mold. Cline says sheep are much more economical than humans and "don't complain."

Try this one at home!

Rent-a-Chicken

Animal: Chickens
Price: From $300 for two chickens for six months; rent-a-chicken.net
Locations: Traverse City, Mich., with availability in 18 states

Rent-a-Chicken representatives deliver two hens (each of which lays an egg almost every day), a coop, and food in the spring and then retrieve it all in the winter. "We give a tutorial on everything you need to know on how to care for the chickens," says founder Leslie Suitor. For the past three years, Evelyn Elsing has rented chickens at her summer home in Traverse City. The farm-fresh eggs are nice, she says, but what she really likes is that "they sing, and they carry on, and they have their little personalities. It's fun to get to know them."

Falcon Force

Animal: Falcons
Price: From $65 per hour; falconforce.com
Location: Los Angeles

Falcon Force, owned by master falconer Vahe' Alaverdian, supplies farms and orchards with trained falcons—most jobs require four—in harvest season to scare off starlings and other birds that are drawn to ripening fruit. "We're like security guards," says Alaverdian, who owns 39 raptors and works in California, Arizona, Nevada, Oregon, and Washington. (The falcons are supervised and kept at a weight intended to prevent them from eating the pests.) Falcon Force spends about 30 days each spring at Roy Farms in Moxee, Wash. Mark Flamm, the blueberry manager, says, "Let's say we have a $3 million crop. We could easily lose 10 percent. So that's $300,000. Vahe' being here for 30, 35 days is cheap insurance."

Rent-a-Ruminant

Animal: Goats
Price: From $275 for 15 goats; rentaruminant.com
Locations: Seattle; Vancouver Island, B.C.; Dallas

Goats gobble invasive weeds such as poison ivy, poison oak, thistle, and kudzu, preventing new growth and fertilizing the ground as they roam. Herds are useful in hilly yards, hard-to-reach areas, and spaces where machines could cause damage, says Rent-a-Ruminant owner Tammy Dunakin, who adds that franchises are available. Russ Ayers, landscape manager for the Issaquah Highlands Community Association, near Seattle, rents goats from Dunakin for about a month every summer to landscape 20 acres of the wooded community of about 4,000 homes. "If you were to pay humans to do what the goats do for us, you'd pay about four times more per acre," Ayers says.

The Pollination Connection

Animal: Bees
Price: From $175; pollinationconnection.com
Location: Danville, Calif.

Owner Denise Qualls rents bees to almond farmers, delivering and maintaining hives in January and February, when bees pollinate blossoms. Dirk Ulrich, who rents hives for his 100-acre almond farm in Ballico, Calif., among other properties, says about 1.8 million hives are required in the state annually: "You can go up Highway 80 at Donner Pass, and there's bee truck after bee truck after bee truck going by at Christmastime."

ILLUSTRATION BY CARI VANDER YACHT

DOES THIS DRESS MAKE ME LOOK FESTIVE?

No one really knows what to wear when an invitation drops the F-bomb. By Polly Mosendz

Opening the wedding invitation, Olivia Bitetti was struck by an unfamiliar phrase, "Dress Code: Festive." The only direction it provided was to suggest flats and cowboy boots, because the nuptials would be on a farm in Boone, N.C., over Labor Day weekend. What was Bitetti supposed to wear above her ankles? She Googled. She texted friends. She even consulted with one who works in the luxury invite industry. The consensus: "Bright colors, fun prints, flowers," says the 26-year-old copywriter in New York. "I mostly stick with neutrals and classic shapes. But this will be fun for an evening event."

Fun, yes, but fraught. "Festive" attire once referred clearly to dressing for a holiday party. Think sequined gowns or dresses, bows in rich greens, reds, and metallics, the occasional fur. Men wore tuxes. But recently, festive dress has been co-opted by brides and grooms—who all have their own idea of how it's defined, leading guests to Google, text, consult with industry insiders, and say a collective "Huh?" "Some people see 'festive' and they have no idea what that means," says New York wedding planner Leah Weinberg.

It's not just guests who seem confused. There's no agreement, even among the people who help couples have the greatest day of their lives. Weinberg herself says: "I take it as more casual, but still vibrant, bright, colorful, sparkles, sequins. Some 'festive' might mean sparkly cocktail attire, more on the higher end. It really depends. There are a lot of factors—what the venue is, knowing the couple, their personal style." Got that? All clear?

Blame millennials for making this so complicated. *Bride* magazine fashion director Elle Strauss says their love of social media, such as image-sharing site Pinterest, has bolstered the trend. Pinterest provides an outlet for board after board of festive images, even though outfits range from hippie chic to Lilly Pulitzer proper. "They want to get away from normal traditions," says Lakewood, Calif., wedding planner Marni Farmer. She adds: "Weddings are becoming guest-centric, vs. bride-and-groom-centric, which contributes to a festive vibe. They want to incorporate memorable activities and elements that guests will think are cool," like food trucks, selfie stations, s'mores over a fire pit, and décor projects. And guests should look the part.

If there's any agreement, it's that a wedding-goer's guiding aesthetic is "bold." For women, Strauss likes outfits that are "a little more dramatic than what you'd normally wear" and include fur, velvet, even lace. She calls it icing. The color palette extends to bright pink, mustard yellow, and velvety burgundy.

For guys—for once—it's less simple. Peri Edelstein, 36, a consultant in Manhattan, says she's been invited to two weddings this year that called for festive attire. At the first, the women stuck to colorful ensembles—she wore a black, off-the-shoulder peasant dress with pink and red flowers—but since it was less clear what festive means for men, some used it as an excuse to dress down. "It was a mix of jackets and no jackets. I didn't see any colorful or printed suits," Edelstein says.

IF THERE'S ANY AGREEMENT, IT'S THAT YOU WANT TO GO BOLD

Brides and grooms can alleviate confusion. They might offer more clarity on their wedding websites, or spread details by word-of-mouth, relying on groomsmen and bridesmaids to get the message across. But even if couples want everyone to wear flats or cowboy boots, it might not happen. One person's festive is another's fail. Nothing against her hosts' footwear suggestions for Labor Day weekend, but Bitetti plans to attend in a floral dress—and wedges. Ⓑ

ILLUSTRATION BY TARA BOOTH

NAVEL-GAZING

All you need for the perfect summer cocktail is an orange, Campari, and about 10 seconds

By Carey Jones

The No. 1 rule to whipping up a summer cocktail: It's got to be easy. No one wants to get up from the pool and fuss with bitters. This is why God gave us the gin and tonic and opposable thumbs for holding and opening a can of beer. The **Garibaldi** follows this edict, combining just two ingredients, orange juice and Campari. It's a light, sweet-and-bitter pairing that's reasonably common in Italy (where Giuseppe Garibaldi was a founding father) but not in the U.S., though it's "about as refreshing as summer drinking gets," says Naren Young, co-owner and beverage director at Dante restaurant and bar in New York. Young's secret is "fluffy," aka aerated, OJ, which he achieves by juicing a peeled navel orange in a Breville Juice Fountain Elite (brevilleusa.com; $299.99). He pours the frothy juice and a 1.5-ounce jigger's worth of Campari over ice in a highball glass, stirs, and garnishes with an orange slice. Although no one will fault you if you don't have the energy for that last step. Ⓑ

No juicer? No problem. Squeeze a navel orange, strain the seeds, and blend for 10 to 15 seconds. Caution: Don't use store-bought orange juice. Your Garibaldi will be unappealingly thick and cloyingly sweet.

One navel orange will yield about 3 oz. to 5 oz. of juice. Since the amount varies, the color of the finished drink will, too. Another reason it's an ideal summer beverage: **No need for precision.** Add or subtract an ounce of OJ, and it's still a brilliant partner for the Campari (stick to 1.5 oz. regardless of how much juice you get).

PHOTOGRAPH BY LUKE LIBERA MCCORE FOR BLOOMBERG BUSINESSWEEK; STYLIST: PETER B. SAMUELS

THE EDGE OF GLORY

Argentina's success on the field is tempered by realities off it. By Eben Novy-Williams

Soccer's role in politics and nation building has resulted in a bookshelf's worth of highbrow sports literature in recent years, epitomized by *How Soccer Explains the World: An Unlikely Theory of Globalization* (2004), *The Ball Is Round: A Global History of Soccer* (2006), and *Soccernomics* (2014). The amount of ink spilled makes sense: Soccer has about 3.5 billion fans globally, which is a lot of potential book buyers. FIFA, the game's governing body, recognizes more countries than the United Nations. Almost all have a soccer story.

Argentina's narrative is complicated, and Jonathan Wilson mines all of it in *Angels With Dirty Faces: How Argentinian Soccer Defined a Nation and Changed the Game Forever* (Nation Books, $17.99). What sets Wilson's book apart is the depth to which he goes to show how soccer weaves through Argentina's political and economic turmoil. He finds that the country's most celebrated moments and players are never as great as they seem.

For example, after Argentina won its first World Cup on June 25, 1978, President Jorge Videla, whose military regime waged a brutal war against its citizens, smiled as he presented the trophy to the team, giving a thumbs up to the packed stadium in Buenos Aires. Less than a mile away, celebrating prisoners in a makeshift detention center could hear the crowd roar—over the screams of fellow prisoners who were being tortured. Even Diego Maradona, who led his country to a World Cup title in 1986, scored 34 international goals, and might be the best ever to play the game, isn't without his foibles: He once kicked a celebrating opponent unconscious, and his international and club careers ended on failed drug tests.

Angels is filled with these whiplash-inducing depictions and more macroeconomic discussions, too. One of the moments Wilson touches on is the mid-'90s devaluation of the Mexican peso, which thrust much of South America into recession. The gap between haves and have-nots widened, and fan violence became a staple at club matches. In 2014, during Argentina's most recent default, the government was heavily subsidizing the country's soccer league, buying broadcast rights so games could be shown free nationwide. Depending on whom you ask, that was either a misuse of funds or a necessity to keep people happy. It wouldn't be the first time soccer helped do that: When Argentina's unemployment soared after the Great Depression, the sport staved off radicalism and anarchy, Wilson says. "Argentina soccer cannot escape the basic problems of the Argentinian economy," he writes.

SOCCER AND THE ECONOMY, INEXTRICABLY LINKED

If Argentinian soccer doesn't interest you, the book probably shouldn't find its way into your beach bag. *Angels* details every season of play in the domestic league back to 1891. But the 448-page tome is as much about how people turn to soccer when they want to escape daily life as it is about the sport. Self-deception isn't unique to Argentina, but the nation's reality has often been painful—it's a country primed for escapist fantasies and inclined to link its identity to its performance on the pitch. Which makes sense when you have players like Lionel Messi, whose talents bring the expectation of another World Cup. So far, he's 0-3. Ⓑ

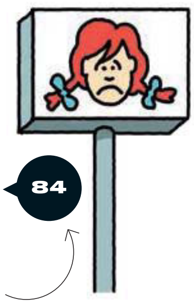
ILLUSTRATIONS BY TIM LAHAN

Critical Mass

Special All-Edible Edition!

A random ranking of recent bad behavior

Most Worst



84

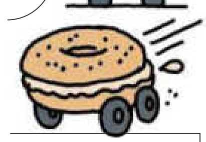
MAKE AMERICA EAT AGAIN

The presidential candidates are causing us so much stress about the future, we're spending less and eating fewer burgers, says Wendy's CEO—and if this doesn't scare you about the state of the union, nothing will.

61

SPICE UP YOUR SUMMER

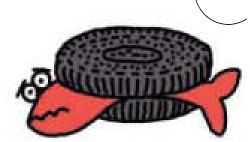
McDonald's plans to sell its pumpkin spice latte starting Aug. 31, the same day Peet's will introduce four pumpkin-forward drinks. Fall now starts in August?



42

STEP AWAY FROM THE SANDWICH

Two New Jersey state assemblymen have proposed a law to make eating or drinking while driving punishable by a $200 to $400 fine, which might be worth it, depending on how hangry you are.



14

HOP ON THE OREO SWEDE WAGON

Swedish Fish Oreos are available for a limited time, because everyone was thinking the same thing you were: "You know what my life needs, if only for a limited time? Swedish Fish Oreos."

Least Worst

ANDREA WAGNER

33, head of design, BigCommerce, San Francisco

What's your job?
BigCommerce is an e-commerce software company that powers online storefronts. I'm in charge of the user experience, and I also manage the folks who do our writing and web design.

How do you dress for the office?
Designers in the digital space have reputations for being black-turtleneck people. I do that, but I like to add color with shoes or layers. I also like to keep it feminine, so I wear heels every day.

Your shoes look intimidating.
I like the block heel, which is easier to run around in all day. It's hard to run around in stilettos, because you're stepping into crevices.

Tell me about your jacket.
It's got this fake fur bodice. When you wear black on black, you have to change textures to give it some visual interest, so you're not a wall of black.

Did your jeans come distressed, or was that you?
They came that way. I appreciate making outfits not so precious by including something distressed.

That's a cool T-shirt. You formalize it by tucking it in, too.
I used to have a job that was client-facing, and you always want to have polish in front of clients—loose shirttails look rough around the edges.

Is your belt gold?
It is. I got it when I was working in D.C. and wore slacks and button-ups and suits. I would get funky-colored accessories to sneak in some personality.

Do you have a rebellious streak with your hair, too?
It's usually platinum blonde, but I'll do pink or purple or blue or lavender or silver. I like to have fun with it. My philosophy is: It will grow back.

PHOTOGRAPH BY DAMIEN MALONEY FOR BLOOMBERG BUSINESSWEEK

Interview by Jason Chen

How Did I Get Here?

MARK BURNETT

President of television and digital, MGM

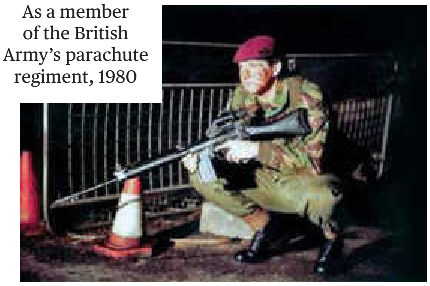
"I was going to apply to Oxford or Cambridge for law and realized that I love the idea of high adventure."

In Utah during the 1995 filming of *Eco-Challenge*, the show that won Burnett his first Emmy

Education

The Warren School, Romford, England, class of 1976

Redbridge Technical College, Ilford, England, class of 1978



As a member of the British Army's parachute regiment, 1980

With Sugar Ray Leonard and Sylvester Stallone at NBC's 2004-05 upfront pitch to advertisers

Work Experience

1978–82
Section commander, British parachute regiment

"I have service medals from Northern Ireland and the Falklands. You're in an elite brotherhood. No one's ever left behind, and you can rely on the people around you. I've tried to build that environment into my shows."

1982–83
Housekeeper and nanny, Beverly Hills and Malibu, Calif.

"I was so bad at cleaning that they ended up hiring a lady to clean the house—including my room."

1984–91
Insurance salesman, T-shirt salesman

"I bought expensive designer T-shirts with slight damages for $2 each and sold them for $18."

1991–2011
President and chief executive officer, Mark Burnett Productions

"When I got the green light for *Survivor*, I didn't even have an island. I convinced Malaysia to give me free airline tickets, hotels, and a helicopter to look for an island. I found Pulau Tiga."

"For *The Apprentice*, I needed someone who was already famous. From the beginning of his real estate career, Donald Trump was a media expert. He was great, I mean totally great, on TV."

2011–14
President and CEO, One Three Media

"A close friend said, 'Nobody is going to watch the Bible on prime-time television. One hundred million people watched [my miniseries] *The Bible*. In Canada, head to head, *The Bible* beat hockey. I reedited it and made a film about Jesus, *Son of God*, and it made $68 million at the American box office. I love Jesus."

On the set of *Ben-Hur* in Italy (second from left), with his wife, 2015

2016–Present
President of television and digital, MGM

"Gary Barber, the chairman of MGM said, 'We've greenlit *Ben-Hur*, and I'd like you and Roma [Downey, Burnett's wife] to produce it.' The movie is out Aug. 19."

With the Donald during *The Apprentice* Season 5 finale. "Mark doesn't talk about politics," a publicist said when asked if Burnett supported Trump's candidacy.

Life Lessons

1. "I'd rather go for it than not have done it. Falling on my face is not painful to me." **2.** "Having the same sales pitch is stupid. Always adjust what you're saying based on the person you're hoping will give you their money." **3.** "Either you're running away from pain or you're running toward pleasure. Identify your internal drivers."

Courtesy subject (2), Getty Images (3), Sean Arbabi (1)

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