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What's News

Business & Finance

Microsoft is being investigated by U.S. authorities over potential bribery and corruption related to software sales in Hungary. **B1**

◆ **Alibaba reported** a 61% increase in sales, as Chinese consumers continued to spend online despite slowing economic growth. **B1**

◆ **Global central bankers** are navigating a new set of threats as they gather for the Fed's annual conclave in Jackson Hole, Wyo. **A2**

◆ **The SEC plans** to rehear dozens of cases after the Supreme Court faulted how in-house administrative-law judges were appointed. **B10**

◆ **Saudi Arabia said** it remained committed to publicly listing Aramco, dismissing reports that the plan had been canceled. **B10**

◆ **A judge ordered** shares of Citgo's U.S.-based parent to be sold at auction unless Venezuela posts a bond. **B6**

◆ **The S&P 500 drifted** 0.2% lower as a new round of tariffs rattled trade-sensitive stocks. The Dow fell 76.62 points to 25656.98. **B11**

◆ **Australia banned** Chinese telecom firms Huawei and ZTE from its next-generation 5G mobile network. **B4**

◆ **Trump's pick** to lead the CFPB cleared a hurdle with party-line approval by a Senate committee. **B10**

◆ **Gap's struggles** to revive its flagship brand continued as declining sales muted gains at its other units. **B3**

◆ **Sales of new homes** in the U.S. dropped for the second straight month in July. **A2**

World-Wide

◆ **Trump took aim** at Justice Department tactics after his ex-lawyer implicated him in illegal hush-money payments, and he again slammed Sessions, who responded that the department wouldn't be "improperly influenced." **A1, A4**

◆ **The CEO of the firm** that publishes the National Enquirer was granted immunity for providing information in the Cohen case. **A4**

◆ **Google said** it had terminated dozens of YouTube channels pushing misinformation on behalf of Iran's state broadcasting arm. **A1**

◆ **U.S.-China trade talks** failed to produce any visible sign of progress, reducing the prospects of an accord being struck soon. **A6**

◆ **Officials from the U.S.** and Mexico played down the chances of an imminent Nafta deal, but cited progress. **A6**

◆ **Australia's Turnbull** was unseated in a party rebellion, with conservative lawmaker Scott Morrison set to become prime minister. **A7**

◆ **The Treasury moved** to block attempts by states to let taxpayers circumvent the new \$10,000 cap on state and local tax deductions. **A3**

◆ **A suspected attempt** to hack into the DNC's voter database was actually a cybersecurity test. **A3**

◆ **Pompeo said** Ford executive Stephen Biegun would take over nuclear talks with North Korea. **A6**

◆ **Hurricane Lane drenched** Hawaii as it approached the islands, but was downgraded to a Category 3 storm. **A3**

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Argentina's Corruption Probe Hits Home for Ex-President



STERN STEP: Argentine police outside the home of ex-President Cristina Kirchner in Buenos Aires during a raid that was part of an anticorruption investigation alleging millions of dollars in bribes for government contracts. Mrs. Kirchner denied the allegations. **A7**

Tech Giants Target Iran

YouTube erases videos linked to propaganda effort; Twitter, Facebook also delete accounts

BY DUSTIN VOLZ
AND ROBERT McMILLAN

America's biggest tech companies are zeroing in on Iran, scrubbing their online networks of fake accounts, videos and social-media posts by the rising cyber adversary aimed at spreading misinformation.

Alphabet Inc.'s Google on Thursday said it had terminated dozens of YouTube channels found to be pushing misinformation on behalf of Iran's state broadcasting arm. The announcement marked the latest in a flurry this week from major online businesses detailing efforts to curtail foreign abuse on their networks, many involving Tehran.

Until now, Silicon Valley's efforts have been focused almost exclusively on Russia, as revelations over the past year about Moscow's influence op-

erations targeting U.S. politics put pressure on social-media giants to detect and remove Kremlin-sponsored campaigns.

Iran's tactics are different, cybersecurity experts said, focusing on advancing its foreign policy interests in ways not as extreme as Russia's efforts to disrupt U.S. elections. Iran's moves have expanded as the toll of international sanctions against the nation rose and tensions between Washington and Tehran increased.

Tech companies are also under renewed pressure as a

number of top executives are slated to testify before Congress in early September about how their internet platforms were hijacked by foreign actors and what they are doing to prevent future abuses.

Google's investigators uncovered evidence that the accounts it took down are connected with the Islamic Republic of Iran Broadcasting, which has been under U.S.

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◆ European airlines halt Iran flights..... B3

Trump Blasts Attorney General

BY PETER NICHOLAS
AND NICOLE HONG

WASHINGTON—President Trump took aim at Justice Department tactics after his former lawyer implicated him in illegal hush-money payments, and he again slammed Attorney General Jeff Sessions, who responded that the department wouldn't be "improperly influenced."

It was the latest sign of how tension is reverberating across the capital after Michael Cohen, the president's former personal attorney, pleaded guilty in Manhattan Tuesday to eight criminal charges, including making illegal campaign contributions related to payments to two women during the 2016 race.

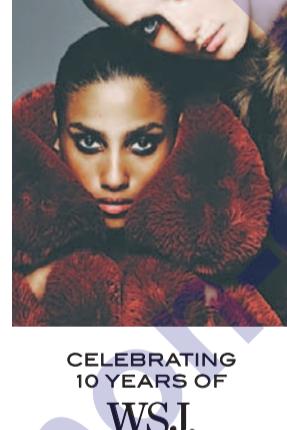
In an interview that aired Thursday on Fox News, Mr. Trump decried the longstanding prosecutorial practice of offering defendants leniency in exchange for information. "I've seen it many times," the president said. "I've had many friends involved in this stuff. It's called flipping, and it almost ought to be illegal."

His comments came before it was publicly revealed that David Pecker, the chief executive of the company that publishes the National Enquirer, was granted immunity by federal prosecutors for providing information about Mr. Cohen

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◆ Publishing CEO received immunity in Cohen case.... A4
◆ Pressure on Sessions builds within GOP..... A4
◆ Manafort juror says holdout blocked full conviction..... A4

TOMORROW



CELEBRATING
10 YEARS OF
WSJ.
MAGAZINE

Five Investors Sealed Fate of Toys 'R' Us

A frantic restructuring effort became a liquidation sale after hedge funds ran out of patience

BY GRETCHEN MORGENSEN
AND LILLIAN RIZZO

When Toys "R" Us sought bankruptcy protection last September, there was good reason to believe the iconic retailer would work through its problems and emerge a leaner but viable company. Its suppliers were confident enough they continued to fill its shelves with toys.

On March 15, however, to the surprise of most people involved, the 70-year-old company announced it was shutting for good. Some 33,000 workers lost their jobs. Vendors now face at least \$350 million of losses. The toy maker Mattel Inc. took a big hit to its bottom line.

Many factors contributed to the retailer's troubles, including the costs of a leveraged buyout, competition from Amazon.com Inc. and a disastrous Christmas season. What pushed it over the edge, however, was a small group of hedge funds.

Solus Alternative Asset Management, a New York hedge fund, pressed four other Toys "R" Us debtholders to conclude that the company was worth more dead than alive, according to two Toys "R" Us directors. That was enough to halt the company's frantic restructuring effort.

Toys "R" Us "had real people, credible institutions, engaged in a serious discussion around potentially reorganizing the company," said David Kurtz,

head of restructuring at Lazard and an adviser to the company, at a March court hearing. There was a deep-pocketed investor talking to the company about backing the effort, he said.

Yet before the company could finish pulling together a reorganization plan, the five debtholders ran out of patience. They held a critical piece of secured debt with a face value of \$668 million—a minority of the \$5.3 billion of debt the company listed when it sought chapter 11 protection, bankruptcy court records show. Under the company's complex capital structure, they had the power to essentially stop the clock on the reorganization effort. Toys "R" Us concluded it had no choice

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ISIS Rape Survivors Face Agonizing Choice

BY ISABEL COLES
AND ALI NABHAN

DUHOK, Iraq—In her baby's budding features, Nisreen can sometimes see traces of his father: the Islamic State militant who raped her, as his cohorts did to thousands of women from the Yazidi minority to which she belongs.

He was the third militant to take possession of Nisreen after she was captured in Iraq along with several thousand fellow Yazidis whom Islamic State targeted in a genocidal campaign in the summer of 2014.

After three years in captivity, Nisreen was finally freed last year as Islamic State's caliphate crumbled. But her community and her family refused to take her back with her child, the product of a forced, taboo marriage with a Muslim. She would have to give up the baby if she wanted to rejoin the Yazidis in Iraq.

Faced with that choice, Nisreen kept her baby. "I can't live without my son," she said, bouncing the eight-month-old on her lap. The 23-year-old

mother didn't want to be identified by her full name, citing concerns about her safety and that of her child.

Nisreen's wrenching dilemma speaks to the challenges of reconciliation in Iraq—not only between communities but within them. Islamic State has been routed from nearly all the territory it once controlled, but it will take much longer to mend the social fabric it ripped apart.

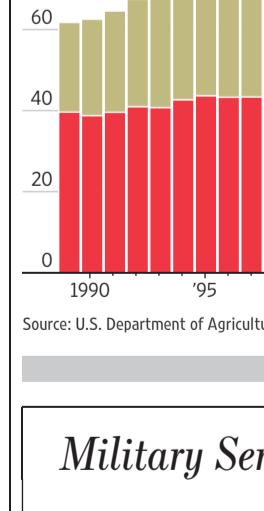
Across Iraq and Syria, communities persecuted by Islamic State no longer want to live alongside Sunni Muslims whom the extremists claimed to represent. Sunnis themselves are torn between those who supported the militants and those who opposed them.

For the Yazidis, the challenges of rebuilding are painfully complex—and particularly consequential. The group numbers fewer than a million world-wide; a majority is in Iraq, displaced, and struggling to start over, with the future of the entire community at stake.

The Yazidi faith, which

U.S. annual meat production ■ Red meat ■ Poultry

100 billion pounds



Source: U.S. Department of Agriculture

THE WALL STREET JOURNAL.

Meat Prices Thaw on Supply

Pork and chicken supplies will continue to rise as U.S. processing plants expand, meat executives said, exacerbating near-record production and storage levels that have pushed down prices. **B3**

Military Service Secrets: Moisturizer, Foam Cleanser

* * *

South Korea is a force in cosmetics—just ask its male conscripts

BY YUN-HWAN CHAE
AND JONATHAN CHENG

SEOUL—Before reporting for his mandatory military service, Kim Sang-heon thought skin care didn't require anything more than a bar of soap.

His views have changed since

"I try to use a facial pack every night," says Mr. Kim, 28 years old, who now works at an office in Seoul. "It's been a daily routine since my time in the military."

South Korea is a force in the global beauty industry and its carefully groomed pop idols have become global stars. And for many guys here, the gateway

to face serums and 10-step skin-care regimens is their time as military conscripts.

During his service, Mr. Kim developed a routine while posted at an observation post along the barbed-wire fences of the inter-Korean demilitarized zone.

"I would wash my face with a

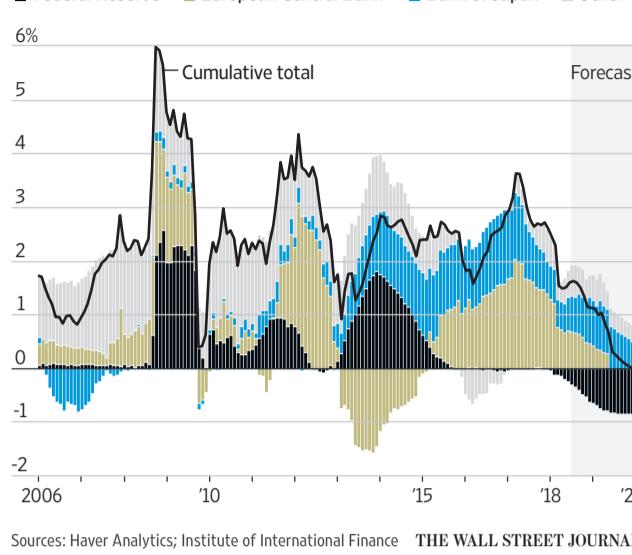
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U.S. NEWS

Uncertainties Loom Over Central Banker Gathering

Pulling Back

Central-bank asset purchases by percentage of GDP



Sources: Haver Analytics; Institute of International Finance THE WALL STREET JOURNAL.

By NICK TIMIRAO

JACKSON HOLE, Wyo.—Global central bankers are navigating a new set of threats as they decide how aggressively to act in closing out an era of exceptionally easy money.

Uncertainties include the prospect of disruptions to economic activity from tariffs imposed by the U.S. on China, Europe, Canada and others, and counter-tariffs imposed by those nations on the U.S. Emerging markets also look vulnerable if capital flight spreads beyond a handful of countries grappling with currency crises. Then there is the potential for discord between the Federal Reserve and President Trump, who has criticized the U.S. central bank in recent weeks for raising interest rates.

Fed Chairman Jerome Powell headlines a long list of central bankers gathering in the Grand Tetons this week for the Fed's annual mountain retreat. The formal discussion will be about the impact of monopolies on economic activity, but these other issues are sure to dominate sideline talk over cocktails and mountain hiking.

Despite the uncertainties, the world's central banks are still managing a relatively bright global economic outlook. For the second straight year, all 45 countries tracked by the Organization for Economic Cooperation and Development are expected to see their economies grow, though just 20 are set to see output accelerate from last year, down from 33 in 2017.

The International Monetary Fund in July projected global

economic output will grow 3.9% this year and next. That would represent the strongest two-year growth run since 2010 and 2011, when economies enjoyed a short-lived rebound from the 2008 financial crisis. Inflation, meanwhile, has picked up to the modest levels many central bankers target, after years of running low.

"The reality is labor markets across the world have been tightening," said Raghuram Rajan, who led the Reserve Bank of India from 2013 to 2016.

Against that backdrop, policy makers have turned to slowly reversing low interest-rate policies that were meant to prevent a downward drift into deflation and recession.

"There is a sense that the global deflation risks have diminished," said Adam Posen, president of the Peterson Insti-

tute for International Economics in Washington. More policy makers "are looking at how the balance of risks has changed."

The U.S. economy, poised for its best annual growth increase in more than a decade, is leading the way. The nine-year economic expansion is one year shy of becoming the longest on record.

Inflation has returned to the Fed's 2% target after falling short for several years, and that should keep the Fed on track to raise rates next month for the third time this year, to a range between 2% and 2.25%. The Fed raised rates three times last year and began to shrink its \$4.5 trillion bond portfolio.

Fed officials are looking past Mr. Trump's critiques, and the markets so far seem convinced it is on the right path.

U.S. WATCH

MAINE

Court Allows Medicaid Expansion to Proceed

Maine's highest court blocked the latest attempt by Gov. Paul LePage to block Medicaid expansion.

Maine's Supreme Judicial Court on Thursday said two lower-court rulings ordering the state to begin executing the voter-approved Medicaid expansion stand.

Backed by nearly 60% of Maine voters in November, the expansion would cover more low-income residents while making the state the 32nd to adopt a key plank of the Affordable Care Act.

Mr. LePage has said Maine was being asked to implement the program without funding from the Legislature, and his administration wanted the expansion put on hold pending a legal appeal.

Peter Steele, a spokesman for Mr. LePage, said the governor's legal team is studying the decision and considering its options.

November's ballot measure arose after the governor vetoed five attempts by the Legislature to expand Medicaid in Maine under the Affordable Care Act.

—Jon Kamp

HOUSING

New-Home Sales Fall, Suggest Soft Market

Sales of new homes declined for the second straight month in July, the latest in a string of economic data pointing to a soft run in the housing market amid an otherwise booming economy.

Purchases of newly built single-family homes—a relatively narrow slice of all U.S. home sales—declined 1.7% to a seasonally adjusted annual rate of

627,000 in July, the Commerce Department said Thursday.

The rate was the slowest since October, in the aftermath of damaging hurricanes that hit the Southern and Eastern U.S.

July's drop bucked economists' expectations of a robust gain and is among recent signs that rising input costs, supply constraints and rising mortgage rates are putting the brakes on a key segment of the economy.

A 52.3% decline in new-home sales in the Northeast helped drive down overall sales in July.

"The new-home market has clearly slowed," said real-estate consultant John Burns.

"Builders have just pushed prices because of cost increases, and there's been a consumer pushback," he added.

—Sharon Nunn

ECONOMY

Jobless Claims Remain Near Lows

The number of Americans filing applications for new unemployment benefits fell last week for the third straight week and continued to hover near historical lows.

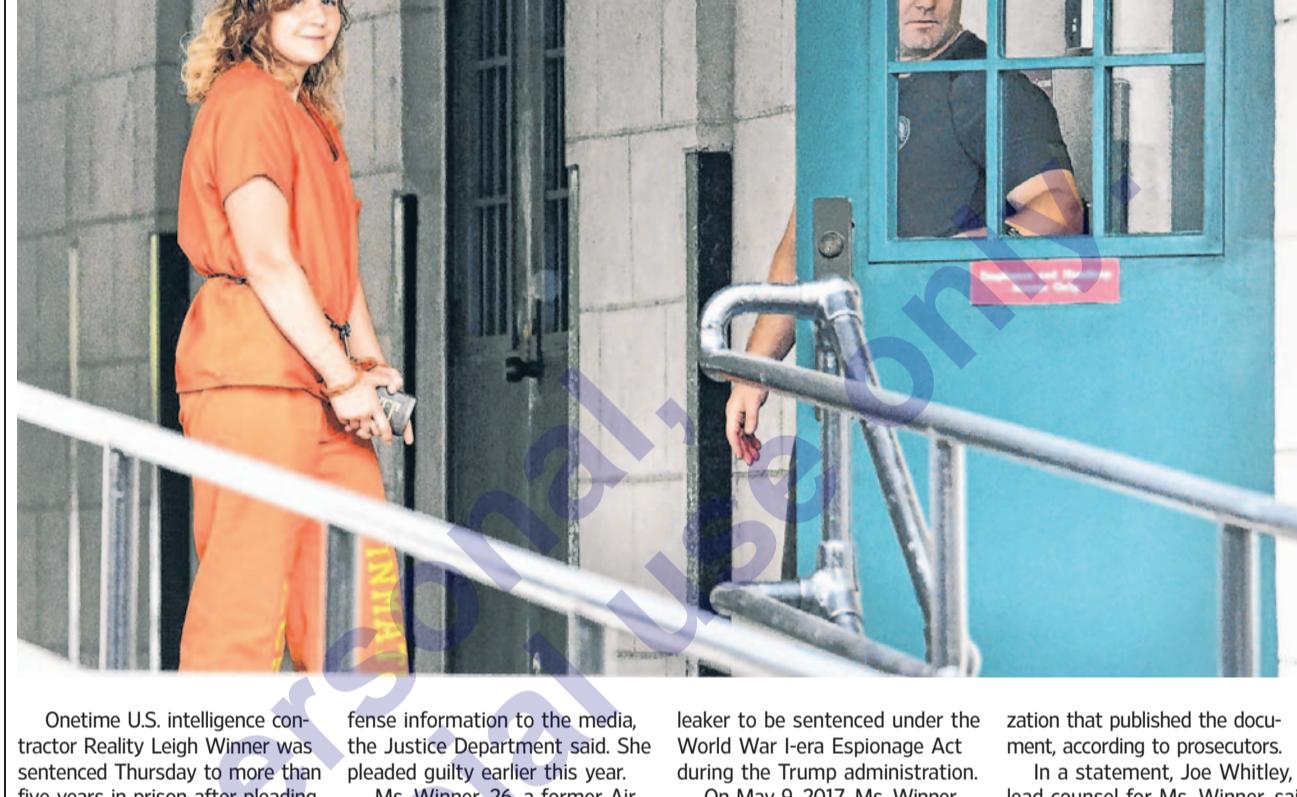
Initial jobless claims, a proxy for layoffs across the U.S., dropped by 2,000 to a seasonally adjusted 210,000 in the week ended Aug. 18, the Labor Department said Thursday.

Data can be volatile from week to week. The four-week moving average of claims, a steadier measure, declined by 1,750 to 213,750.

Thursday's report showed the number of claims workers made for longer than a week decreased by 2,000 to 1,727,000 in the week ended Aug. 11. That figure, also known as continuing claims, is reported with a one-week lag.

—Sarah Chaney

Former Intelligence Contractor Gets Five Years in Prison for Leak



MICHAEL HOLAHAN/THE AUGUSTA CHRONICLE/ASSOCIATED PRESS

One-time U.S. intelligence contractor Reality Leigh Winner was sentenced Thursday to more than five years in prison after pleading guilty to leaking top-secret information about Russian election interference to a news outlet.

The sentence of 63 months for Ms. Winner is the longest ever for a leak of national-defense information to the media, the Justice Department said. She pleaded guilty earlier this year.

Ms. Winner, 26, a former Air Force linguist, lived in Georgia while working as a contractor last year with Pluribus International Corp. and was assigned to the National Security Agency.

She is the first government

leaker to be sentenced under the World War I-era Espionage Act during the Trump administration.

On May 9, 2017, Ms. Winner printed a copy of a secret NSA report detailing a suspected Russian hack of a Florida election vendor during the 2016 presidential campaign. She later mailed it to the Intercept, an online news organi-

zation that published the document, according to prosecutors.

In a statement, Joe Whitley, lead counsel for Ms. Winner, said the sentence and plea agreement "both reflect that Reality recognizes that actions have consequences, and that she has learned from her mistake."

—Dustin Volz

Technology Giants Target Iran

Continued from Page One
sanctions since 2013, and date back to at least January 2017.

The company said it had terminated 39 video channels on YouTube, six blogs on its Blogger platform and 13 accounts on the Google+ social-networking hub that it said were linked to the IRIB. The YouTube channels had collectively accumulated 13,466 U.S. views of the relevant videos, Google said.

"Actors engaged in this type of influence operation violate our policies, and we swiftly remove such content from our services and terminate these actors' accounts," Kent Walker, the company's senior vice president of global affairs, said in a blog post.

Alireza Miryousefi, a spokesman for the Iranian mission at the United Nations, said the account terminations are part of a broader effort by American social media companies "to placate their critics in Washington with allegations against countries many in the U.S. government considers foes." He said the allegation that Iran was behind a coordinated campaign was a "nonsensical accusation."

A Google spokeswoman declined to comment on why the actions against the Iranian accounts occurred now, or whether there had been pressure from the U.S. government to act.

When Clint Watts, a research fellow with the Foreign Policy Research Institute, first began studying Russian influence operations about five years ago, there was already evidence of this type of activity by Iran's state media, he said. But Iran's efforts haven't received as much attention as Russia's because they don't appear to have focused on influencing U.S. elections.

Painted into a corner politically and economically by sanctions, Iran has long sought to push its interests and needle its enemies through the internet. Security researchers have linked Iran to sophisticated spear-phishing attacks (which use fake emails to induce the recipient to reveal confidential information such as passwords), destructive malware and the infiltration of critical computer systems associated with its regional and global adversaries, primarily the U.S., Israel and Saudi Arabia.

Discovery of the alleged Iranian peddling of misinformation coincides with rising tensions between Washington and Tehran. The Trump administration withdrew from the Iranian nuclear deal in May, a

multilateral pact that freed Iran from international sanctions in exchange for curbs on its nuclear weapons program.

Mr. Trump's decision fueled speculation among many cybersecurity experts that Iran may seek to retaliate with increased cyberattacks.

Google said it had briefed the Senate Intelligence Committee and law-enforcement officials about its investiga-

tion. The accounts linked to the IRIB "disguised their connection" to Iran's covert influence operation, Google said.

Google also said it had removed 42 YouTube channels connected to the Russian troll farm known as the Internet Research Agency since it began monitoring that threat last year. Those channels had produced 58 English-language political videos that accumulated fewer than 1,800 views in the U.S., Google said.

The Iranian effort was discovered by the security company FireEye Inc., which reported a handful of suspicious accounts operated under the

name Liberty Front Press to Google, Facebook Inc. and Twitter Inc. about two months ago.

The fake accounts promoted "particular narratives and angles in line with Iranian national interests," such as pro-Palestinian and anti-Israeli stories, said Lee Foster, a manager with FireEye's analysis group. The effort linked to articles posted on Iranian-run websites designed to look like independent media outlets or nongovernmental organizations run out of the U.S., Chile or the U.K., FireEye said.

Google's move came days after Facebook said it had taken down 652 pages and accounts and Twitter suspended 284 accounts they said were part of Iranian influence efforts. At the time, YouTube said it had removed one account believed to be tied to Iranian state media.

Also this week, Microsoft Corp. said it had seized six spoofed internet domains set up by the same Russian hacking group linked to the 2016 election cyberattacks on the Democratic Party. Russian hackers appeared to be broadening their targeting ahead of the U.S. midterm elections in November to include well-connected conservative groups, Microsoft said.

—Douglas Macmillan and Asa Fitch contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Zach Miles, an app developer in Colorado, is 22 years old. A Page One article Thursday about AirPods earphones incorrectly said he is 23.

Toll Brothers Inc. built 2,246 homes in the third quarter, up 18% from the previous year. In some editions Wednesday, a chart with a Page One article about U.S.

home construction incorrectly indicated the number was down 18%.

A graphic with an Aug. 15 Markets article about stock trading showed month-to-date performance of the WSJ Dollar Index, U.S. crude oil and gold prices in percentage terms. In some editions, the percentage sign was omitted.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com or by calling 888-410-2667.

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U.S. NEWS

Hurricane Bears Down On Hawaii

By ARIAN CAMPO-FLORES

Hurricane Lane unleashed torrential rain on Hawaii Thursday, but was downgraded to a Category 3 storm as it barreled toward the islands.

The hurricane, with maximum sustained winds near 125 miles an hour, had already dumped nearly 20 inches of rain on the Big Island by Thursday afternoon. As much as 30 inches of rain could fall on some locations, according to the National Weather Service.

Lane was about 190 miles southwest of Kailua-Kona on the Big Island Thursday, and moving slowly north before a predicted turn west. The center of the storm is expected to approach closely or move over

the state's main islands late Thursday and Friday.

"Hawaii is going to be impacted by Hurricane Lane," said Federal Emergency Management Agency Administrator Brock Long at a Thursday press conference. "The question is how bad."

A hurricane warning was in effect for the Big Island, as well as the islands of Oahu, Maui, Lanai, Molokai and Kahoolawe, according to the Central Pacific Hurricane Center. A hurricane watch, a less-severe designation, was in effect for the islands of Kauai and Niihau.

"Stay off the beach, stay out of the water and evacuate if told to do so," said Rear Adm. Meredith Austin of the U.S. Coast Guard.



The Wailuku River flooded on the Big Island in Hilo as Hurricane Lane approached Hawaii, bringing nearly 20 inches of rain.

MARIO TAMA/GETTY IMAGES

Report Details Meyer's Moves Over Scandal

By BRIAN COSTA

At 7:08 p.m. on July 23, hours after he fired assistant Zach Smith for alleged domestic violence, Ohio State football coach Urban Meyer sent a directive to his staff. "Zero conversation about Zach's past issues," Mr. Meyer wrote.

He then turned his focus to his scheduled news conference the following day, where he would be asked about Mr. Smith. "Need some guidance here," Mr. Meyer wrote to a group of athletic department and football officials.

Gene Smith, Ohio State's athletic director, replied, "I would be careful. Do not get too detailed." Jerry Ermig, the athletic communications director, suggested that Mr. Meyer tell the public, "I really don't even recall any details" of a police investigation of Zach Smith in 2015.

The exchanges, detailed in a report by outside investigators released late Wednesday night, show the extent to which Mr. Meyer and other Ohio State officials attempted to obfuscate both what Zach Smith allegedly did and what they knew about it.

At the news conference following the exchanges, Mr. Meyer categorically denied having any knowledge of any allegations against Mr. Smith in 2015. He later wrote in an Aug. 3 tweet that he was aware of the allegations and apologized for "the way I handled those questions."

An Ohio State representative didn't reply to a request for comment.

The investigative report was made public only after a news conference in which Mr. Meyer, Gene Smith, Ohio State President Michael Drake and investigator Mary Jo White discussed the decision to suspend Mr. Meyer for the Buckeyes' first three games of the season. Its late-night release precluded reporters from ask-



PAUL VERNON/ASSOCIATED PRESS

Ohio State football coach Urban Meyer makes a statement during a news conference on Wednesday. Mr. Meyer has been suspended for the Buckeyes' first three games of the season.

ing Mr. Meyer about many of its detailed findings when he was available.

But a few things are clear from the 23-page report alone. One of them is how intent Mr. Meyer was on concealing the detailed history of Zach Smith's alleged issues. In a text message to his agent on the morning of July 24, shortly before his appearance at Big Ten media days in Chicago, Mr. Meyer wrote, "I will not tell media."

He lived up to that promise. When asked about Zach Smith's alleged abuse while coaching under Mr. Meyer in 2015, Mr. Meyer told reporters he first learned about that late the previous evening.

In fact, according to the re-

port, Mr. Meyer had a strong reaction when Gene Smith told him in 2015 of a police investigation into Zach Smith's wife's claims of abuse. If "you hit her, you are fired," Mr. Meyer

'I will not tell media,' the Ohio State football coach said in a text to his agent.

told Zach Smith in a meeting, according to the report, and closely monitored the investigation "regularly for a period of months."

Nonetheless, Mr. Meyer re-

cently told investigators that until the days following his public remarks, he had "no recollection whatsoever" of the 2015 police investigation. The report said he has "periodically taken medicine that can negatively impair his memory."

After media reports and conversations with Ohio State officials, Mr. Meyer then spoke on the practice field on Aug. 1 with Brian Voltolini, the director of football operations.

They had just seen a new report detailing text messages between Courtney Smith and Mr. Meyer's wife, Shelley, about Zach Smith's alleged abuse in 2015.

Urban Meyer's response, ac-

cording to the report, was to

ponder a question with Mr. Voltolini: How could the coach adjust the settings on his phone so that text messages older than one year would be deleted?

Investigators were unable to determine whether Mr. Meyer ultimately did so, though the report noted, "Often, although not always, such reactions evidence consciousness of guilt."

By then, Mr. Voltolini was aware of a request for Mr. Meyer's phone records. One week earlier, the school newspaper, *The Lantern*, had requested under public-records law access to emails, texts and other materials related to Zach Smith for periods of 2015 and 2016.

On July 26, a university attorney instructed Voltolini and another football staffer to "go get [Coach Meyer's] phone and check his texts with Zach."

Not only was the phone not checked, the report said, it appears no one so much as approached Mr. Meyer about the request.

What is clear from the text messages that investigators were able to retrieve is that through all of the allegations against Zach Smith—starting with his 2009 domestic violence arrest while coaching under Mr. Meyer at Florida—Mr. Meyer remained sympathetic toward him.

The day he fired Zach Smith, Mr. Meyer wrote of the coach in a message to his staff, "We need to help him as he moves frwd." As for Courtney Smith, the report indicates Mr. Meyer wasn't convinced that she was being truthful, even after an Ohio court granted her a civil protection order against Zach Smith.

Summing up the situation in a July 24 text message to Stan White, a retired NFL linebacker who starred at Ohio State, Mr. Meyer wrote, "He said she said."

—Rachel Bachman contributed to this article.

DNC Says Suspected Hack Bid Was a Test

By DUSTIN VOLZ

A suspected attempt to hack into the Democratic National Committee's voter database was actually a cybersecurity test, the organization said.

The DNC, which was hacked by Russian intelligence officers during the 2016 presidential campaign, said Tuesday that it had contacted the Federal Bureau of Investigation after being alerted to an apparent phishing scheme by the computer security firm Lookout Inc., which uncovered a replica of the login page to the DNC's VoteBuilder database during an online scan.

In a statement early Thursday, Bob Lord, the DNC's chief information security officer, said the DNC and its partners who reported the site "now believe it was built by a third party as part of a simulated phishing test."

The test mimicked attributes of a real attack on the committee's voter database but wasn't authorized by the DNC, Mr. Lord said.

"There are constant attempts to hack the DNC and our Democratic infrastructure, and while we are extremely relieved that this wasn't an attempted intrusion by a foreign adversary, this incident is further proof that we need to continue to be vigilant in the light of potential attacks," Mr. Lord said.

VoteBuilder is a system used by the Democratic Party and associated campaigns to collect voter data and track other campaign activities.

One person familiar with the matter said the test site was created at the request of the Michigan Democratic Party by DigiDems, a volunteer group of technology experts that does work for the Democratic Party. The DNC wasn't notified of the test, which led to the confusion over the spoofed site's origin, this person said.

In a statement, the Michigan Democratic Party confirmed that its "digital partners" ran the test out of an abundance of caution.

"Despite our misstep and the alarms that were set off, it's most important that all of the security systems in place worked," Brandon Dillon, the state party's chairman, said. "Cybersecurity experts agree this kind of testing is critical to protecting an organization's infrastructure, and we will continue to work with our partners, including the DNC, to protect our systems and our democracy."

Phishing attempts have been routine for more than a decade against political campaigns and affiliated organizations. But this false alarm comes amid repeated warnings from senior U.S. intelligence officials that Russia is intent on interfering in the 2018 midterm elections. Russia denies involvement in election hacking.

Treasury Acts to Block States' Tax Workarounds

By RICHARD RUBIN

WASHINGTON—The Treasury Department moved Thursday to block attempts by New York, New Jersey and Connecticut to let taxpayers circumvent the new \$10,000 cap on state and local tax deductions.

The proposal would also pinch tax-credit programs benefiting private schools in Georgia, Arizona and elsewhere, largely preventing taxpayers there from getting more money back in tax breaks than they contribute in donations.

State programs can take payments limited by the new federal cap on state and local tax deductions and turn them into charitable contributions that don't hit the same limit. Taxpayers making donations to nonprofits get state tax credits for as much as 100% of their charitable contributions. The donations lower their state tax bills and qualify as charitable contributions on their federal tax returns on top of that.

Treasury's proposal blocks that strategy by requiring taxpayers to subtract the value of state and local tax credits from federal charitable deductions. That treats donations for state tax credits like tickets to charity galas, where donors claiming a tax deduction have to subtract the value of their dinner from their contributions.

Taxpayers could claim the full federal charitable deduction if the state tax credit was for 15% or less of the donation. They also wouldn't have to subtract any benefit they get from a state income-tax deduction for the donation.

New York, New Jersey and Connecticut have all passed laws allowing credit-for-donation programs to circumvent the cap. New Jersey and Connecticut haven't yet issued guidance to local governments on how to implement their workarounds. Lawmakers elsewhere, including California and Washington, D.C., have been considering similar ideas.

Without the new federal

Shriving SALT

High-income households got the bulk of the benefit from a federal deduction for state and local taxes. A new \$10,000 cap this year reduced the number of people who benefit from it, and the size of their breaks.

For the top fifth of income-earners...

...Tax benefit of SALT deduction

...Households benefiting

Before	\$4,490	80.5%
Current law	\$1,750	41.5%

For the bottom fifth of income-earners...

...Tax benefit of SALT deduction

...Households benefiting

Before	\$160	0.6%
Current law	\$140	0.1%

Note: Data for 2018
Source: Tax Policy Center

rules proposed Thursday, New York taxpayers giving money to specified state funds or charities can get an 85% credit

against state income taxes. A New Yorker in the 37% federal tax bracket making a \$10,000 donation could reduce his state

liability by \$8,500 and claim a federal charitable deduction worth \$3,700. The state and the taxpayer would come out ahead—and the federal government would lose revenue.

Under the Treasury proposal, the same taxpayer making a \$10,000 contribution would save \$8,500 on state taxes but would get a federal charitable deduction of only \$1,500, which is worth \$555 at the 37% tax rate. The taxpayer could also get a state tax deduction for the charitable contribution. In all, the taxpayer could be better off paying state taxes directly rather than making the donation, because the total benefit of \$8,500 plus \$555 plus any state tax deduction could turn out to be less than the \$10,000 donation.

The proposal doesn't distinguish between programs that predate the 2017 tax law and ones created this year by New York, New Jersey and Connecticut. Advocates of both groups of programs criticized the rules.

THE WALL STREET JOURNAL

U.S. NEWS

Publishing CEO Got Immunity

National Enquirer boss provided information about Trump, Cohen in hush-money case

BY NICOLE HONG
AND LUKAS I. ALPERT

David Pecker, the chief executive of the company that publishes the National Enquirer, was granted immunity by federal prosecutors for providing information about Michael Cohen and President Trump in the criminal investigation into hush-money payments for two women during the 2016 presidential campaign, according to people familiar with the matter.

In exchange for immunity, Mr. Pecker, the CEO of American Media Inc. and a longtime friend of Mr. Trump, has met with prosecutors and shared details about payments Mr.

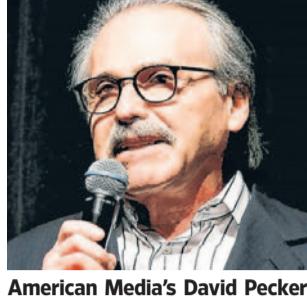
Cohen arranged in an effort to silence the two women who alleged sexual encounters with Mr. Trump, including Mr. Trump's knowledge of the deals, some of the people said.

With Mr. Pecker's testimony, prosecutors now have statements from at least two people—Mr. Pecker and Mr. Cohen—that Mr. Trump was aware of the payments to the women, one of the people said.

Prosecutors in the Cohen investigation have indicated they won't proceed with criminal charges against either Mr. Pecker or Dylan Howard, chief content officer of American Media, for their participation in the deals, according to people familiar with the matter.

Messrs. Pecker and Howard and American Media didn't respond to requests for comment.

Mr. Pecker's assistance appeared to have informed the charging documents made public on Tuesday as part of



American Media's David Pecker

Mr. Cohen's guilty plea to eight criminal charges, including campaign-finance violations tied to the payments.

During his guilty-plea hearing, Mr. Cohen, Mr. Trump's former personal lawyer, said that at Mr. Trump's direction, he broke federal laws on campaign contributions by coordinating payments to the two women for the purpose of suppressing negative information about Mr. Trump and influencing the 2016 election.

American Media executives were involved in both hush-money deals that formed the basis of Mr. Cohen's guilty plea to campaign-finance violations, prosecutors said. One was a \$130,000 payment to Stephanie Clifford—a former porn actress who goes professionally by Stormy Daniels—to keep her from publicly discussing an alleged affair with Mr. Trump.

The second was a \$150,000 payment made to former Playboy model Karen McDougal for her exclusive story of an alleged extramarital affair with Mr. Trump, a story that was purchased by American Media in August 2016 at Mr. Cohen's urging and then never published.

The immunity status of Mr. Pecker was first reported by Vanity Fair. The Wall Street Journal published Wednesday that Mr. Pecker provided information to prosecutors.

Mr. Pecker has had a relationship with Mr. Trump for

decades. In the late 1990s, as chief executive of Hachette Filipacchi Magazines, he published Trump Style, a quarterly magazine distributed to guests at Trump properties. Mr. Pecker has been a frequent guest at Mr. Trump's Mar-a-Lago resort in Palm Beach, Fla.

It isn't clear whether prosecutors have agreed not to pursue American Media, which is struggling financially, for making an allegedly unlawful corporate campaign contribution. The firm, which publishes Us Weekly, Star magazine and Ok!, among other gossip and fitness titles, has been engaged in restructuring its substantial debt, the Journal previously reported.

The company ended last year with an outstanding debt load of \$920 million and added approximately \$80 million more in June when it acquired gossip titles In Touch, Life & Style and Closer, as well as other magazines.

Manafort Juror Says There Was A Holdout

BY ARUNA VISWANATHA

One holdout juror kept Paul Manafort from being convicted on all 18 tax- and bank-fraud counts he faced in the Virginia trial that ended this week, another juror said.

The juror, Paula Duncan, said in an interview on Fox News on Wednesday that the evidence in the case against the former Trump campaign chairman was "overwhelming" and that the other jurors had tried to persuade the lone holdout, an unidentified woman, to convict on all counts.

Instead, the jury voted Tuesday to convict Mr. Manafort on eight counts, including those alleging he had filed false tax returns between 2010 and 2014 in which he failed to report \$16 million in income.

Jurors were deadlocked on the remaining 10 counts, many of which were similar to those on which Mr. Manafort was convicted.

"I did not want Paul Manafort to be guilty, but he was, and no one is above the law," said Ms. Duncan, who told Fox News she was a Trump supporter.

Prosecutors have until Aug. 29 to decide whether to retry Mr. Manafort on the 10 counts.

Ms. Duncan declined a request for further comment.

U.S. District Judge T. S. Ellis, who oversaw the trial, refused to make juror names public and encouraged them after the verdict was announced to refrain from speaking publicly about the deliberations.

On Fox News, Ms. Duncan said the jurors wanted to reach a unanimous decision and that she and the other 10 jurors pressed the holdout to look at the evidence.

"We all tried to convince her to look at the paper trail. We laid it out in front of her again and again, and she still said that she had a reasonable doubt," Ms. Duncan said.

Issues with the jury came up multiple times during the trial, according to transcripts unsealed late Wednesday, and led Mr. Manafort's team to seek a mistrial.

The biggest issue arose on Aug. 10, when a juror told a court security officer she had heard another juror say she didn't believe Mr. Manafort's defense had much of a case.

That tip resulted in a day-long delay in the trial as Judge Ellis questioned the jurors individually and weighed a motion by Mr. Manafort's attorneys to either declare a mistrial or strike the vocal juror. Ultimately, he did neither.

have been cautious in dealing with the fallout from the Cohen investigation and from the conviction of Mr. Trump's former campaign manager, Paul Manafort, on Tuesday by a federal jury in Virginia on eight counts of tax evasion and other crimes. Mr. Trump's frequent response to crises in the past by seizing the initiative has stoked speculation that he might issue Mr. Manafort a pardon.

On Thursday, Rudy Giuliani, Mr. Trump's lawyer, played down the prospect of any imminent action. He said in an interview that he spoke to Mr. Trump a couple of months ago about issuing pardons and advised that it wouldn't be wise to pardon people while the special counsel's Russia investigation was playing out.

Now that Mr. Manafort has been convicted, Mr. Giuliani said he still doesn't believe that a pardon is a good idea. And he said he doesn't expect that Mr. Trump will pardon Mr. Manafort, at least not "right now."

White House press secretary Sarah Sanders said Mr. Trump "has not made a decision" on pardoning Mr. Manafort or anyone else.

Mr. Trump has taken different approaches to Messrs. Manafort and Cohen: praising the former for standing up to prosecutors and painting Mr. Cohen as an untrustworthy figure who played a bit role in his business dealings.

—Lucas I. Alpert and Sadie Gurman contributed to this article.

Pressure on Sessions Builds Within GOP

BY SADIE GURMAN

WASHINGTON — The strained relationship between President Trump and Attorney General Jeff Sessions reached a new low Thursday after a public clash between the two men renewed doubt about Mr. Sessions' future, with some Republican senators indicating they could support Mr. Trump seeking a replacement.

Mr. Trump, in a Fox News interview, issued one of his harshest attacks yet against Mr. Sessions' character, questioning him for stepping aside from the Russia investigation that is roiling the administration.

"The president's entitled to an attorney general he has faith in.... And I think there will come a time—sooner rather than later—where it will be time to have a new face and a fresh voice at the Department of Justice," said Sen. Lindsey Graham (R., S.C.), a senior member of the Senate Judiciary Committee who has often been an ally to Mr. Sessions.

Mr. Graham said Mr. Sessions shouldn't be replaced before the midterm elections, but that it was "likely" he would be replaced after that.

Sen. Chuck Grassley (R., Iowa), who had warned last year that he wouldn't hold a confirmation for a new attorney general, told Bloomberg News that he would have time for a hearing now.

Others warned against firing Mr. Sessions. They cautioned it would be tough to get a successor confirmed in the Senate, where Republicans hold a narrow 51-49 majority and need 50 votes to confirm a nominee.

"In this political environ-



Attorney General Jeff Sessions said the Justice Department's actions wouldn't be 'improperly influenced by political considerations.'

ment, I don't know if the president could get another attorney general confirmed," said Sen. John Kennedy, a Louisiana Republican who also cautioned against overreacting to Mr. Trump's comments.

Sen. John Cornyn (R., Texas), a close friend of the attorney general, warned that Mr. Sessions' departure now would be a mistake, and Sen. Ben Sasse (R., Neb.) said, "it would be a very, very, very bad idea to fire" Mr. Sessions.

Rep. Adam Schiff (D., Calif.) said on Twitter that the Republicans' discussion of replacing Mr. Sessions "as punish-

ment" for his recusal in the Russia matter "represented another crack in our system of checks and balances."

Mr. Sessions' allies say leading the Justice Department has been the fulfillment of long-time goal but he also understands the political and internal chaos that would ensue if he left before the completion of special counsel Robert Mueller's probe into Russian election interference.

The president's lawyer, Rudy Giuliani, said in an interview that in two conversations with Mr. Trump on Thursday, Mr. Sessions didn't come up. But

he echoed the president's dissatisfaction with Mr. Sessions, asking why more Democrats aren't the targets of the Justice Department's investigations.

"What, do you just investigate Republicans? It's ridiculous," Mr. Giuliani said.

Mr. Trump and his allies continue to complain about the Justice Department's decision not to charge the president's Democratic rival Hillary Clinton, although it was made before Mr. Sessions was in office.

Law-enforcement officials say they have grown accustomed to Mr. Trump's attacks since he took office and at-

tempt to tune them out. Even Mr. Sessions doesn't often have strong reactions to Mr. Trump's negative comments about his work, people close to him said, which made Thursday's response unusual.

Although Mr. Sessions' recusal from the Russia probe means he is largely removed from those investigations, Mr. Trump routinely blames the attorney general as the source of his problems, urging him to halt the probe and threatening more than once to fire him.

—Peter Nicholas

and Vivian Salama contributed to this article.

Trump Hits Tactics of Prosecutors

Continued from Page One and Mr. Trump in the Manhattan investigation, according to people familiar with the matter.

Mr. Pecker, the CEO of American Media Inc., is a longtime friend of Mr. Trump. He shared with prosecutors details about the payments that Mr. Cohen arranged in an effort to silence two women who alleged sexual encounters with Mr. Trump, including details about Mr. Trump's knowledge of the deals, some of the people said.

Mr. Cohen has said under oath that the Republican president directed the payments. Mr. Trump has denied he played any role, saying he only learned of them later on. He also has denied the alleged sexual encounters.

Mr. Trump's comments on flipping drew immediate condemnation from former prosecutors, who described it as a common practice that aided the pursuit of justice, though the tactic has been faulted over the years by some defense lawyers.

"Trump's idea would effectively demolish one of the basic and valuable tools of criminal law enforcement in the U.S.," said Stephen Gillers, a professor at New York University.

sity School of Law. In the interview, Mr. Trump also questioned Mr. Sessions' character for recusing himself in the investigation of alleged Russian interference in the 2016 presidential election. "What kind of man is this?" Mr. Trump asked. "I put in an attorney general who never took control of the Justice Department."

Mr. Sessions recused himself because of his involvement in Mr. Trump's presidential campaign. The Cohen investigation stemmed in part from a referral to Manhattan prosecutors from the office of special counsel Robert Mueller. The special counsel is probing Russia's role in the 2016 election, any possible collusion between Mr. Trump's campaign and Moscow and any possible obstruction of justice by Mr. Trump. The president and Russia have denied wrongdoing.

"Even my enemies say that Jeff Sessions should have told you that he was going to recuse himself, and then you

wouldn't have put him in." He took the job, and then he said I'm going to recuse myself," Mr. Trump said.

In his statement hours later, Mr. Sessions said: "While I am attorney general, the actions of the Department of Justice will not be improperly influenced by political considerations."

Officials at both the White House and Justice Department said Mr. Sessions' response represented a new level of acrimony, even though the two men have had a strained relationship for more than a year.

Mr. Trump has often mused about firing Mr. Sessions, a former GOP senator who was one of Mr. Trump's earliest supporters in his presidential run. Republicans on Capitol Hill had strongly rejected that idea, though comments from some senators Thursday suggested that if Mr. Trump were to act against Mr. Sessions, it might now receive less opposition from GOP lawmakers.

Officials at the White House

have been cautious in dealing with the fallout from the Cohen investigation and from the conviction of Mr. Trump's former campaign manager, Paul Manafort, on Tuesday by a federal jury in Virginia on eight counts of tax evasion and other crimes. Mr. Trump's frequent response to crises in the past by seizing the initiative has stoked speculation that he might issue Mr. Manafort a pardon.

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Michael Cohen has implicated the president in hush-money deals.

MARK KAUFZIG/BLOOMBERG NEWS

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WORLD NEWS

U.S.-China Trade Talks End With a Thud

Sides repeat talking points, but lack of visible progress hurts prospects for a deal

WASHINGTON—Trade talks between the U.S. and China failed to produce any visible sign of progress, reducing the prospects of a deal soon, people closely tracking the talks said.

*By Bob Davis
in Washington and
Lingling Wei in Beijing*

The two sides largely repeated talking points during the discussions, these people said. The Chinese side seemed unready to offer new ways to address the Trump administration's concerns that the bilateral trade deficit was too steep and that Beijing was coercing U.S. companies into transferring technology to Chinese partners, they said.

The two sides "exchanged views on how to achieve fairness, balance, and reciprocity in the economic relationship, including by addressing structural issues in China," the White House said, adding that the U.S. side would brief more-senior officials on the results.

The statement didn't discuss follow-up talks or accomplishments.

"To get a positive result



Aluminum ingots at a stockyard in Wuxi, China. The U.S. continues to use tariffs to pressure China.

U.S. election, when President Trump and Chinese leader Xi Jinping could meet at already planned multilateral summits.

The poor results raise questions about that timeline, U.S. officials said. The U.S. side was already sharply divided between those pushing for a deal, led by U.S. Treasury Secretary Steven Mnuchin, and those who wanted to hold off on talks until the U.S. increased the pressure on Beijing by applying more tariffs. For now, the hard-liners seem to have the upper hand.

And yet, it is far from clear the Chinese were prepared to make offers that would satisfy either side of the trade divide in the U.S. administration. In recent meetings with foreign business leaders, Chinese Vice Minister Liu He, who has been leading the Chinese negotiating team, laid out his views of the U.S. requests of China, people briefed on the talks said. They said Mr. Liu seemed to understand U.S. demands.

Those people said the Chinese have divided U.S. demands into three buckets. Roughly 30% to 40% of the U.S. requests involved additional Chinese purchases of U.S. goods, which Chinese officials believe could be met immediately. Another 30% to 40% involved market openings, such as allowing foreign financial firms to own a greater percentage of Chinese

ventures and giving them broader authority to operate. Those could take several years of negotiations.

The remaining 20% to 40% involve U.S. demands for changes in Chinese industrial policy. Those include ending unfair subsidies of Chinese high-tech firms, letting U.S. data firms operate without interference or ending pressure on U.S. firms to transfer technology. The Chinese won't agree to negotiate on many of these, those briefed on the plan said, because of national-security or political reasons. Beijing has said it doesn't force U.S. companies to share technology with their Chinese counterparts.

U.S. officials said they believed this accounting underscored that the Chinese didn't understand U.S. priorities, especially when it came to protecting intellectual property.

For now, the U.S. continues to turn to tariffs to pressure China. As negotiations wrapped up on Thursday, the U.S. put in place \$16 billion in tariffs on Chinese goods, raising the total to \$50 billion. The Chinese have matched them dollar for dollar.

Public hearings continued on U.S. plans to hit another \$200 billion in Chinese imports with tariffs as high as 25%, which would place levies on about half of Chinese imports.

Mexico and U.S. Signal Some Progress on Nafta Deal

By JOSH ZUMBRUN

WASHINGTON—U.S. and Mexican officials played down the chances of the two countries imminently reaching a trade deal but said they had made advances in the negotiations.

Those advances centered on rules for car makers unable to meet stricter regional requirements on manufacturing con-

tent, people familiar with the matter said.

Mexico's chief trade negotiator, Ildefonso Guajardo, said "progress has been made" in bilateral talks to revamp the North American Free Trade Agreement, but that they may need to continue over the weekend and into next week.

"Nothing is agreed until everything is agreed," he said.

Both sides expressed hope

the U.S. and Mexico can hammer out their differences in coming days to allow enough time for Canada to re-enter the talks later next week and clear remaining issues.

"We need to have engagement with Canada and the only way it can happen is if we continue into next week," Mr. Guajardo said Thursday afternoon.

Mexico will swear in Andrés Manuel López Obrador as

president on Dec. 1, and U.S. law calls for a three-month period after a deal is reached before Congress can ratify it. If talks extend into September, Mr. López Obrador would have to sign the deal, and would likely want a bigger say in what he would be signing.

Mr. Guajardo declined to detail the sticking points, but people close to the talks said officials were discussing in-

creased requirements for how much of an auto must be manufactured in North America for it to be imported free of tariffs.

Both sides have agreed to raise the amount of a car that has to be manufactured within North America to 75% from a current 62.5%, according to people close to the talks, and boost the percentage of a vehicle that comes from facto-

ries that pay higher wages—a move aimed at preventing more jobs from going to lower-wage Mexico.

A thornier problem, say people close to the talks, is what to do if auto manufacturers can't meet higher requirements. One proposal is for existing plants to pay a 2.5% tariff if they fail to meet the requirements but for new plants to face a higher rate.

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Secretary of State Mike Pompeo, right, introduced Stephen Biegun in Washington on Thursday.

Ford Executive Will Lead Discussions With Pyongyang

By JESSICA DONATI

WASHINGTON—Secretary of State Mike Pompeo said Ford Motor Co.'s Stephen Biegun would take over nuclear talks with North Korea as the new special representative, naming an industry executive with extensive international experience at a time when the talks largely have stalled.

Mr. Pompeo on Thursday said Mr. Biegun, who served as the company's vice president of international governmental affairs, would travel with him to North Korea next week. They will attempt to prod negotiations that have halted over disagreements about the pace of denuclearization, a declaration of peace, and what concessions the U.S. may be prepared to offer to show good faith.

"The issues are tough, and they will be tough to resolve," Mr. Biegun said, standing beside Mr. Pompeo. "But the president has created an opening, and it's one that we must take by seizing every possible opportunity to realize the vision for a peaceful future for the people of North Korea."

Ford previously had said Mr. Biegun would retire at the

end of August. He had been considered for the role of national-security adviser after President Trump this year decided to fire retired Lt. Gen. H.R. McMaster, who has since joined Stanford University's Hoover Institution.

Mr. Biegun served in a number of national-security and foreign-policy roles prior to joining Ford in 2004, in-

cluding as an adviser to former Senate Majority Leader Bill Frist (R., Tenn.).

Mr. Pompeo will hand over responsibility for the nuclear talks after several trips to Pyongyang, during which he pressed the North Koreans to move to denuclearize before the U.S. agreed to make concessions.

Pyongyang wants the U.S. to agree to a declaration of peace, which would formally end the Korean War fought be-

tween 1950-1953, and offer economic benefits as it dismantles its nuclear apparatus.

The U.S.-North Korean relationship, which warmed during a summit of national leaders in June, appeared to sour after the North Korean foreign ministry issued a statement after Mr. Pompeo's latest visit in July accusing him of "gangster-like" tactics.

Seoul is encouraging Washington and Pyongyang to make concessions to build trust. South Korean presidential adviser Moon Chung-in, who is considered respected in both Washington and Pyongyang, will help drive U.S.-North Korea talks forward.

The two Koreas have continued to foster a conciliatory mood this year through the ups and downs of exchanges between the U.S. and North Korea over Pyongyang's nuclear program.

North Korean leader Kim Jong Un is set to host South Korean President Moon Jae-in next month in Pyongyang for the year's third inter-Korean summit. The two countries also have organized reunions between family members separated for decades because of the war.



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WORLD NEWS

Australia's Treasurer To Succeed Turnbull

By RACHEL PANNETT

SYDNEY—Conservative lawmaker Scott Morrison unseated Malcolm Turnbull in a party rebellion to become Australia's prime minister, marking a rightward shift for the ruling coalition as it grapples with the rise of fringe parties akin to those that have realigned politics in the U.S. and Europe.

Mr. Morrison, 50 years old, seized the leadership of the Liberal Party—the country's main conservative bloc—in a ballot of its lawmakers Friday, after voter surveys suggested the government was headed for defeat in elections due next year. A former tourism executive from Sydney, Mr. Morrison is a Christian who has backed greater rights for religious groups. He is viewed as a compromise candidate capable of healing the divisions between the Liberal Party's moderates and harder-line conservatives such as Mr. Dutton, who had voiced unease about Mr. Turnbull's policies on climate change, immigration and same-sex marriage.

Australian voters don't directly choose the prime minister. They instead elect a party, whose members can determine their chief from their ranks and can replace a leader in office.

While the choice of Mr. Morrison could help arrest the drift of some traditional conservative voters toward hard-right and fringe candidates, the bitterness of the leadership dispute risks splintering

infighting that have afflicted its politics despite continued economic growth and prosperity. No leader in that period has survived a full term without being ousted by their party.

Mr. Turnbull, a millionaire former banker with progressive social views, found himself increasingly at odds with many of those in the party he headed.

The immediate catalyst for the rebellion was Mr. Turnbull's attempts to mandate Australia's emissions-reductions targets under the Paris climate accord.

On Monday, Mr. Turnbull backed away from those efforts to try to save his job. A day later he saw off an initial challenge by Mr. Dutton, but the modest scale of that win fueled doubts about Mr. Turnbull's ability to unify his party and claw back a deficit in the latest polls. But the result of Friday's ballot was even closer, 45-40, suggesting divisions remain.

The tough-talking Mr. Morrison, who until Friday was the



Scott Morrison, Australia's new prime minister, has a reputation for solving political problems.

country's treasurer, has a reputation for solving political problems. In a previous stint as immigration minister he oversaw a contentious sea blockade in which the navy and paramilitary border guards were ordered to tow away boats carrying asylum seekers and, according to Indonesian police, pay people smugglers to turn refugee boats around.

As welfare minister under Tony Abbott, whom Mr. Turnbull replaced as prime minister in 2015, Mr. Morrison's job was to find ways to cut spending on pensions and unemployment benefits.

As treasurer, he attempted to push corporate tax cuts through a restive Senate. He succeeded in legislating tax cuts for small and medium-size businesses, though the party lost a key battle Wednesday when the Senate voted against lowering taxes for big companies.

Australia is enjoying a 27-year run of economic growth,

but stagnant wage growth, inflationary pressures, job losses and a backlash against globalization have stoked voter discontent.

A property boom has fueled concerns about affordability, while household debt relative to income is among the world's highest.

Like mainstream conservatives elsewhere, Australian politicians have grappled with the increasing popularity of fringe parties and how far rightward to steer in response.

Argentine Ex-President's Homes Raided in Graft Probe

By RYAN DUBE

Argentine police raided two homes of ex-President Cristina Kirchner, in the latest graft probe involving a former Latin American president as a sweeping anticorruption movement takes hold in the region.

The search on Thursday of Mrs. Kirchner's Buenos Aires apartment and a home in the southern Patagonia region came a day after the Senate partially lifted her immunity from prosecution as a sitting senator, deepening an investigation that prosecutors say is laying bare a widespread corruption scheme during her administration.

The probe is the latest example of a reckoning that was unthinkable in Latin America just a few years ago: More than a dozen powerful ex-presidents from across the political spectrum are under criminal scrutiny or already in jail.

Mrs. Kirchner, a 65-year-old firebrand leftist facing multiple corruption probes, denies wrongdoing. She said she is a victim of political persecution by conservative rivals and partisan judges she calls the "Judicial Party" that are intent on preventing her from running again for the presidency next year.

"This is an instrument of persecution and banishment of popular leaders," she said.

Prosecutors say Mrs. Kirchner and her late husband and predecessor, Néstor Kirchner, led a conspiracy that involved construction and power companies paying at least \$165 million in cash bribes in exchange for lucrative public contracts from 2005 to 2015, when they ruled.

At the center of the probe are a former government chauffeur's eight small notebooks that were obtained by newspaper La Nación and given to prosecutors. For more than a decade, the driver kept detailed, handwritten notes of deliveries of bags of cash to the Kirchners, jotting down the dates, people and amounts of bribes, prosecutors say.

More than a dozen former officials and business leaders have been arrested this month, many agreeing to cooperate with investigators.

In recent months, from Argentina to Guatemala, ex-presidents who are considered folk heroes among allies at home



Argentine police officers, above, raided a home belonging to ex-President Cristina Kirchner in Buenos Aires on Thursday, while her supporters demonstrated.

have been imprisoned, extradited or forced under the microscope in criminal probes.

"This is unprecedented," said Rubens Ricupero, a former Brazilian finance minister. "I'm not aware of anything comparable in scale and importance."

Observers say the trend was sparked four years ago by a massive Brazilian corruption scandal. Dubbed Car Wash, the investigation shook Brazil's political and business establishment and opened the door to the impeachment of leftist former President Dilma Rousseff.

Also in Brazil, Luiz Inácio Lula da Silva, the leftist former leader once hailed as "the most popular politician on earth" by President Obama, was jailed in April in a graft case. Two months later, Panama's conservative ex-president, Ricardo Martinelli, was extradited from the U.S. to face charges of corruption and illegal wiretapping of political rivals.

In El Salvador, prosecutors are seeking the extradition of Mauricio Funes, the leftist ex-president, accused of stealing millions of state funds by filling plastic garbage bags with cash used to pay for things

like plastic surgery. His right-wing predecessor, Tony Saca, was sentenced this month to 10 years in jail for embezzlement.

Guatemala's Alvaro Colom is barred from leaving the country amid a fraud investigation, while his jailed successor, Otto Pérez, has been ordered to stand trial for a customs bribery conspiracy. In Peru, prosecutors are investigating four ex-presidents.

In July, an Ecuador judge requested the detention of Ra-

fael Correa, a leftist who currently lives in Belgium, in an investigation of a kidnapping of a lawmaker, months after his vice president was convicted of corruption. A couple of weeks later, Álvaro Uribe, Colombia's conservative ex-leader, resigned from the Senate after the Supreme Court said he should be interrogated in a witness tampering probe.

All the former presidents deny wrongdoing, except El Salvador's Mr. Saca, who pleaded guilty.

The crackdown has been enabled by better-trained and more independent prosecutors, as well as legal changes like the use of plea bargaining, former U.S. and Latin American officials say.

Brazil's Car Wash also played a vital role, as the scandal extended throughout the region when Brazilian construction firm Odebrecht SA acknowledged paying nearly \$800 million in bribes in 12 countries, mostly in Latin America.

"Not only did it find a lot of money spread around all over governments but it had an inspirational quality for judiciaries and prosecutors," said John Feeley, the former U.S. ambassador to Panama.

Anticorruption crusaders are cautious as to whether the cases signify a turning point in curbing graft in Latin America. Governments and legislators have been slow to pass laws to improve accountability and increase transparency.

Two big exceptions to the trend are Venezuela, where some analysts say widespread corruption has deepened that country's crisis, and Mexico, where an inept and politicized

judiciary has failed to prosecute deeply rooted corruption. Transparency International ranks Venezuela 169th and Mexico 135th out of 180 nations.

Some politicians are also concerned about the economic impact of the investigations, though some economists say tackling graft is key to improving market conditions and income distribution in Latin America.

In Argentina, where economic activity fell 6.7% in June from the year-earlier period, thousands of people protested graft this week, carrying signs calling for Mrs. Kirchner to be imprisoned. President Mauricio Macri, who inherited adverse economic conditions from the free-spending Mrs. Kirchner, says no one will be protected, even if the latest corruption scandal leads to more political and economic turmoil.

"We deserve a more just society," said Mr. Macri, whose cousin is implicated in the scandal. "I've never seen anything like this."

—Jeffrey T. Lewis contributed to this article.



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—Jeffrey T. Lewis contributed to this article.

Ex-Swiss Banker Pleads Guilty in Venezuela Money-Laundering Case

By JOSÉ DE CÓRDOBA

A former Swiss banker has pleaded guilty in Miami federal court to helping launder \$1.2 billion of money embezzled from Venezuela's bankrupt state oil company in a scheme that involved close relatives of a Venezuelan official.

People familiar with the case say that official is President Nicolás Maduro.

Matthias Krull, a 44-year-old Panama-based former Swiss bank executive, pleaded guilty to one count of conspiracy to commit money laundering on Wednesday, the Justice

Department said.

As part of his plea, Mr. Krull promised to cooperate with the investigation involving the three stepsons of Mr. Maduro, people with knowledge of the case said.

The stepsons aren't named in court documents detailing Mr. Krull's agreement with prosecutors, but they are described as "Los Chamos," or The Kids, and as the stepsons of "Venezuelan Official 2," whom the people have identified as Mr. Maduro.

The documents say that the three young men received €159 million (\$184 million) from the

embezzlement scheme.

The plea agreement and indictment of eight additional people, including two former Venezuelan officials, come at a time when tens of thousands of Venezuelans are trying to leave a country where the economy is in meltdown.

Venezuela's Information Ministry didn't respond to calls and an email seeking comment. In the past, Caracas has routinely dismissed U.S. corruption allegations against Venezuelan government officials, their families and state oil company Petróleos de Venezuela as part of an international conspiracy

in which dollars bought far more Venezuelan bolívares on the black market than at the official government rate. Bolívares acquired on the black market could then be used to buy back dollars at the government rate, allowing the people involved to reap massive profits.

"Arbitrage between the official, government-sanctioned rate and the black-market rate is the main source where the great recent Venezuelan fortunes have been made," says Moises Naim, a distinguished fellow at the Carnegie Endowment for International Peace.

and former Venezuelan development minister.

The country's economy has shrunk by more than half since Mr. Maduro assumed power in 2013. As the country has plunged into hyperinflation, the government this week cut five zeros off the currency and printed new bank notes. The black market yields as much as twice the amount of bolívares for each dollar compared with the official rate.

—Kejal Vyas contributed to this article.

◆ Venezuela faces loss of Citgo control..... B6

WORLD NEWS

ISIS Rape Survivors' Agony

Continued from Page One
blends elements of Christianity and Islam with ancient Iranian religions and features worship of a peacock angel, making the group a target for Islamic State.

Having designated them pagans, the militants embarked on a purge of the Yazidi homeland in northwest Iraq.

Within days, the U.S. dropped its first bombs in the war against Islamic State, citing the duty to avert a "potential act of genocide" against the Yazidis. It was too late.

The militants had already begun culling hundreds of adult men and were rounding up more than 6,000 adherents of the faith as spoils of war.

Women and girls—as young as nine, the United Nations reported—were awarded to fighters who raped and sold them in slave markets, real and virtual.

In one such forum on Telegram called "Caliphate Market," a fighter with the alias "Falcons of War" sought to purchase a woman, posting his specifications among advertisements for PlayStation consoles, secondhand cars and suicide belts: "She must be beautiful, good at cooking and housekeeping. Age doesn't matter. She should be cheap."

Yazidis soon began efforts to recover the captives through smuggling networks and—four years on—around half have been brought back. That leaves more than 3,000 still missing, though nearly all the territory Islamic State once occupied in Iraq and Syria has been retaken.

Iraqi officials estimate there could be several hundred Yazidis in the last patch of land controlled by the militants in eastern Syria.

After years of abuse, some have embraced Islam and denounced their own people as infidels. Others will never be found, dead or alive.



A Yazidi woman who had been held captive by Islamic State looked out from a shelter built as a safe space for the women in Dohuk, Iraq.

ALEXANDRA E. HOWARD FOR THE WALL STREET JOURNAL (2)



Even with Islamic State gone, few Yazidis have returned to their homeland. As many as 100,000 have left Iraq, and the rest are in camps to which they fled during Islamic State's incursion.

In the aftermath, the insular and deeply conservative community has grappled with some of its most basic principles.

As women began emerging

from Islamic State captivity, Yazidi spiritual leader Baba Sheikh broke with tradition by instructing the community to welcome them back, though their rape by Muslims broke rules about intermarriage.

Children fathered by their Muslim captors posed a more complex challenge. In the Yazidi religion, both parents must be Yazidi for a child to belong to the faith. "Our blood re-

mains pure," said a custodian of Lalesh, the holiest place in the Yazidi religion.

Many Yazidi women were given contraceptives in captivity, but some inevitably became pregnant; how many children were born is impossible to know, Iraqi and Kurdish officials said, but smugglers and aid workers said they number at least dozens, if not hundreds.

"They are not our children," declared Tahsin Ilyas, a Yazidi living at a camp in northern Iraq. "They are the children of Daesh," he said, using another name for Islamic State.

The message, he said, is conveyed to Yazidi captives before they are rescued: "If you bring your children we don't want you."

Forced to choose, most women have left their children behind, or in some cases been pressured into giving them up, officials and Yazidi activists said. Rescuers or the smugglers helping them placed the babies in orphanages in Syria and Iraq, or gave them to Muslim or Christian families.

Some Yazidi women may have chosen to stay in captivity to avoid the risk of losing their children, said Behzad Farhan, a Yazidi who coordinates smuggling operations.

The children are already considered Muslim under Iraqi law, because religion is passed down from the father. Dr. Jan Kizilhan, a German psychologist of Yazidi descent who has

treated hundreds of survivors, said the Iraqi government should change the law.

"Reconciliation involves the majority taking the first step towards the minority," said Dr. Kizilhan. "This includes that the children who are from IS terrorists must be [legally] recognized as Yazidi. But this also means that the Yazidi must recognize the children as their own."

Nisreen's child was conceived about one month after she was forcibly wed to an Iraqi militant toward the end of 2016. Around her, a major urban battle was unfolding, as Iraqi forces closed in on Mosul. The father of her unborn child fought against them.

Word of his death reached her during the Muslim fasting month of Ramadan. She felt no relief. "I thought: where will I go? I'm pregnant and I don't know what the Yazidis will do to me."

Eventually, Iraqi forces retook Mosul and the surrounding area, reuniting Nisreen with her surviving relatives. Then her next ordeal began.

When they saw she was pregnant, Nisreen's relatives took her to hospital for an abortion. At eight months, the doctors said it would be too dangerous.

She gave birth to a healthy boy. Nisreen's mother urged her to give him up, but she refused. Elders from the community tried to sway her—to no avail. Then her relatives told her to come home with the baby, and she said no.

"I didn't trust them," Nisreen said. "I thought maybe they will take my son from me and give him away."

Instead, she moved into a safe house in Duhok, in northern Iraq, run by Dr. Paul Kingery, an Oregon native who is working to help mothers rescued from Islamic State.

There, she applied for resettlement. "I want my son to have a good life," Nisreen said after being granted asylum in a Western country where others from her community are being resettled.

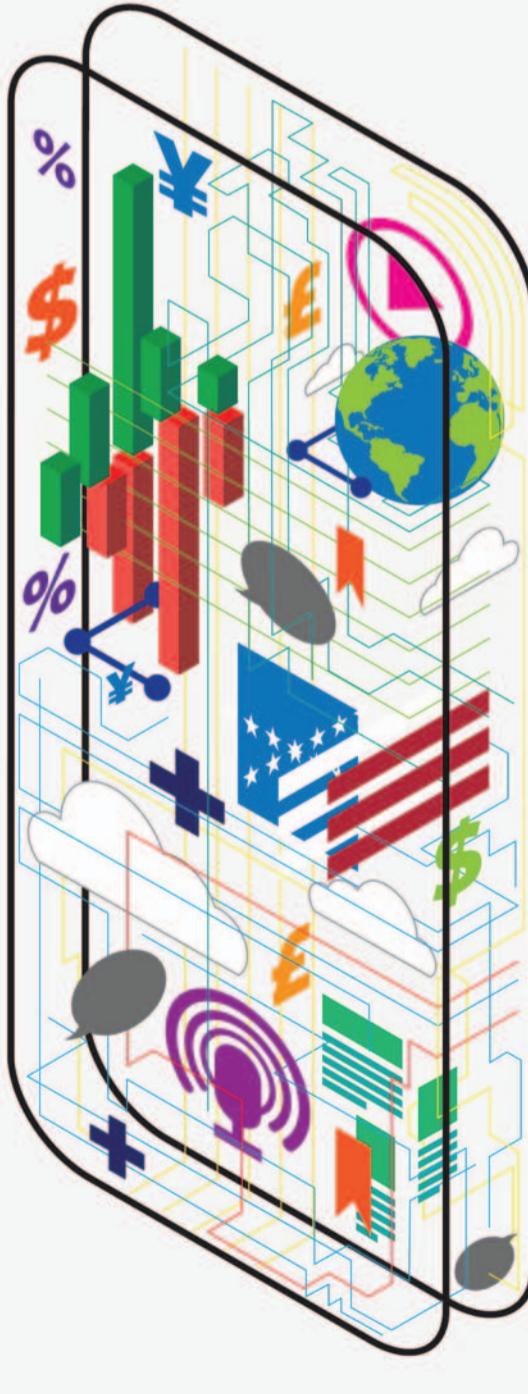
She hasn't yet decided if she will raise her child as a Yazidi. "I will follow my heart."

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FROM PAGE ONE

Toys 'R' Us Ran Out Of Time

Continued from Page One

but to liquidate.

Creditors have long played a key role in determining whether companies operating under chapter 11 bankruptcy protection will live or die. The five funds in this case—they also included Angelo, Gordon & Co., Franklin Mutual Advisers, Highland Capital Management and Oaktree Capital—were exercising their rights as creditors and their duties to generate returns to their investors.

In an Aug. 21 letter to a Toys "R" Us employee-advocacy group, lawyers for Solus and Angelo Gordon said, "the unfortunate result for Toys "R" Us was neither our clients' desired result nor caused by our clients."

Today, as the Toys "R" Us case shows, these kinds of creditors wield more influence than ever. Since the financial crisis, the practice of layering companies with tiers of debt has become more common, restructuring experts say, which adds to the complexities of bankruptcy filings. As hedge funds and other investors accumulate stakes in these tiers of debt, they can gain a so-called fulcrum or crucial position in restructuring negotiations.

Creditor power

"Secured creditors have developed greater power to control the process than Congress expected them to have when it created chapter 11, and probably more than is healthy for a system in many cases," says Jonathan Lipson, a Temple University professor focused on bankruptcy. "Hedge funds have their own liquidity needs, their own investors looking for certain kinds of returns in certain periods. It can be hard for them to be patient with a reorganization process."

The chapter 11 bankruptcy system is designed to provide a transparent and fair process for resolving creditors' claims against financially troubled companies. It sets up a pecking order among those who are owed money, with secured bank lenders generally sitting at the top, bondholders in the middle—secured, then unsecured—and stockholders at the bottom.

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GREATER NEW YORK

MTA Still Paying for Empty Headquarters

Agency spends about \$4 million a year on the complex even as it faces a looming deficit

BY PAUL BERGER

The Metropolitan Transportation Authority has spent millions of dollars maintaining its empty former headquarters in Midtown Manhattan since a dispute between the city and state stalled a deal to lease the building two years ago, according to agency documents.

The 20-story complex sits on a prime block of Madison Avenue, a stone's throw from Grand Central Terminal. The MTA spends about \$4 million a year maintaining the three buildings, according to the authority's preliminary budget for 2019.

That is a rounding error in the MTA's \$17 billion operating budget. But it also is a notable expense at a time when the authority is cutting costs as it faces a looming deficit. The stalled deal prevents the MTA from accessing funds that could be used to modernize and expand its sputtering

subway system.

"It's extremely frustrating," said Tom Prendergast, who ran the MTA until early 2017.

During Mr. Prendergast's tenure, hundreds of MTA workers were moved into the authority's offices at 2 Broadway in lower Manhattan so the headquarters—spread across three adjoining buildings at 341 Madison Ave., 345 Madison Ave., and 347 Madison Ave.—could be sold.

But New York City stepped in at the last minute to protest terms of the deal because it took away real-estate tax revenues from the city.

The poor relationship between the administrations of New York Gov. Andrew Cuomo and New York City Mayor Bill de Blasio, both Democrats, had been a significant factor in the delay in resolving the dispute, according to people familiar with the matter.

MTA Chairman Joe Lhota rejected the idea that the strained relationship was to blame.

In a statement, Mr. Lhota, who was appointed by Mr. Cuomo last summer, said he is working closely with de Blasio administration officials to re-

Transit Plans Need Injection of Funds

The Metropolitan Transportation Authority needs vast sums of money to pay for repairs to the decaying system.

A deal to sell the MTA's former Manhattan headquarters would give the agency a revenue stream it could borrow against to fund some of its capital needs.

The state-controlled MTA runs New York City's subway and buses, two commuter railroads

solve the disagreement. "There has been nothing acrimonious about our negotiation and interaction," he said.

Freddi Goldstein, a spokeswoman for Mr. de Blasio, said: "Any cause of a delay is unbeknownst to us and could possibly be attributed to a transition in leadership. We began hearing from the MTA again after Joe Lhota started. We met them at the table and have been negotiating in good faith ever since."

The MTA announced its intention to sell or lease the 25,000-square-foot parcel of

and nine bridges and tunnels.

Its current five-year capital plan, which pays for maintenance and upgrades to tracks, rolling stock, bridges and stations, totals \$33 billion.

That funding plan runs through 2019. The next plan would require even larger sums.

In addition to the usual costs associated with running the nation's largest transportation agency, the MTA must find tens of billions more dollars to overhaul the subway and bus systems over the next 15 years.

Andy Byford, New York

land in 2011 as it struggled to recover from the 2007-08 financial crisis.

In April 2016, the MTA said it intended to lease its headquarters to Boston Properties Inc. for 99 years. At the time, MTA officials estimated the deal was worth nearly \$1.3 billion, according to authority documents.

The sizable sum was made possible, in part, because of a 2015 change to city zoning laws near Grand Central Terminal that would allow Boston Properties to demolish the headquarters and raise a much

larger building in its place.

In an earnings call in the summer of 2016, Boston Properties Chief Executive Owen Thomas said the firm expected to construct up to a 900,000-square-foot office building. But the city stepped in at the last moment to protest that, as part of the agreement, the developer would make payments to the MTA in lieu of real-estate taxes, depriving the city of revenues.

MTA documents show that authority officials estimate those payments would total \$961 million during the term

of the lease. The agency expected to receive an additional \$316 million in base rent from the developer. "It has been a major issue," said one person familiar with the deal. "That is why this has been held up."

As a result, the empty headquarters has languished in a bustling part of the city. On a recent weekday, one worker sat behind a desk in the building's empty lobby, while another sat on an office chair in front of an elevator bank.

The city and the state are edging toward an agreement that would give the city a share in the development, people familiar with the MTA deal say.

Ms. Goldstein said the city is "hopeful that we will find a path forward." Jon Weinstein, a spokesman for the MTA, said the authority expects "to resolve any outstanding issues relevant to completing the deal in the near future."

A spokeswoman for Boston Properties declined to comment. But the firm's CEO, Mr. Thomas, said in an earnings call the project "will not be ready for any kind of new development or tenant conversations for some time."

Playboy Club Stages a Comeback

The 'Mad Men'-era establishment is set to reopen in New York City, but will it hop?

BY CHARLES PASSY

In its heyday during the "Mad Men" era, the Playboy Club was a New York City gathering place for celebrities and businesspeople alike—and a hot spot known for its scantily clad servers, aka bunnies.

Now, the club, long affiliated with the namesake magazine, is set to make a comeback 32 years after it closed in the city.

The new establishment, situated at 512 W. 42nd St. in Manhattan, is slated to open Sept. 12, according to its website and a person close to the club.

But the Playboy Club version 2.0, as it might be called, comes with a built-in contradiction.

The club is positioning itself as a luxury-minded establishment worthy of modern-day New York, at least judging from details provided by the person close to it. But the establishment arrives as issues surrounding women's rights and sexual harassment, as exemplified by the #MeToo movement, have been at the forefront.

That has left some hospitality-industry experts ask-

ing if the club will be seen as a painful reminder of another era when women were routinely objectified, if not outright harassed.

"It is really rotten timing" to open a Playboy Club, said Clark Wolf, a restaurant consultant based in New York and California.

Club officials declined to comment. The club is a joint venture between Playboy Enterprises, which controls the magazine and the broader Playboy brand, and Merchants Hospitality, which owns several Manhattan bars and restaurants.

Still, the person close to the club, which is costing \$10 million to build, pointed to several key details concerning its operations.

Designed by Cenk Fikri, a Cypriot-born hospitality specialist, the club will feature several lounges, bars and event spaces, including a backgammon lounge with custom-built tables.

Staff will include the signature server bunnies, who will be dressed in Roberto Cavalli-accessorized uniforms.

Richie Notar, the New York restaurateur who became best known as a managing partner of the Nobu chain, will be charged with running the club. He will

also be creating a special su-

shimi menu.

All this won't come cheap to those who want to partake. The person close to the club said tiered memberships, which include access to exclusive Playboy events in New York and globally, run from \$5,000 to \$100,000 a year.

Members will have reciprocal privileges with London's Playboy Club, which opened in 2011.

At one time, the Playboy

The club arrives as women's rights and sexual harassment are in the headlines.

Club was a global phenomenon. The original club opened in Chicago in 1960, but it soon spawned locations in New York and the rest of the country, in addition to international cities.

But as times changed, those clubs fell out of favor and closed. A new Playboy Club opened in Las Vegas in 2006, but it closed after six years.

Beyond the issue of whether the club and its

bunnies will be seen as offensive to a new generation of patrons, hospitality-industry experts say the establishment could face a range of challenges.

In particular, they say that bar and restaurant customers, especially millennials, aren't interested in the costly, exclusive-minded approach that is at the heart of the membership experience. And they don't like locking themselves into long-term commitments, either.

"They don't even sign memberships to health clubs. They do month-to-month," said Jon Taffer, a hospitality consultant who hosts the "Bar Rescue" program on the Paramount Network.

Still, Pamela Wiznitzer, a veteran New York mixologist, notes that the Playboy Club in London has proved popular. And despite what some in the industry predict, she said the New York location may have few controversies.

The issue, said Ms. Wiznitzer, is less the fact there are bunnies and more about how the women on staff are treated. It all depends on the corporate culture, she added.

"A woman who decides to be a bunny at the Playboy Club might be treated better than a legal assistant at a law firm," she said.



John Lennon and his wife Cynthia visited the Playboy Club in 1964.

Early Polls Are Mixed on the Race for Governor in Connecticut

BY JOSEPH DE AVILA

of 3.9 percentage points.

Douglas Schwartz, Quinnipiac University's poll director, said Connecticut's status as a blue state fueled Mr. Lamont's lead, and he received strong support from women who disapprove of Republican President Trump.

Mr. Schwartz said there is still time for Mr. Stefanowski to make up ground, and added that few voters are paying close attention to this race in August. "You don't want to count Stefanowski out at this stage," he said. "I wouldn't."

Sacred Heart University/Hearst Connecticut and Great



Ned Lamont, left, will face Bob Stefanowski in November.

Blue Research, a market-research firm, also released a poll Thursday showing Mr. Lamont with a 3.9 percentage point lead that fell within a margin of error of 4.32 percentage points.

The Sacred Heart poll found a "major gender gap" in the race, with 49% of female voters supporting Mr. Lamont, compared with 30% for Mr. Stefanowski.

The Quinnipiac poll was based on live interviews with 1,029 Connecticut voters. The Sacred Heart poll used 502 likely voters.

"Whether we're up or down, we don't weigh in on polls because we are fighting for every vote every day," said Marc Bradley, campaign manager for Mr. Lamont. "We're focused on providing financial relief for the middle class, cre-

ating jobs, overcoming our fiscal challenges and moving our state forward."

Mr. Stefanowski said the Sacred Heart poll is closer to what his private internal polling is showing. "It's a very close race in a traditionally Democratic state," he said. "The Quinnipiac poll is a clear outlier."

Both Messrs. Lamont and Stefanowski are wealthy businessmen who are self-funding their campaigns. Mr. Lamont, who worked in the cable industry, said his background as an entrepreneur will help him jump-start the state's econ-

omy. Mr. Stefanowski, who has worked for UBS Investment Bank and General Electric Co., wants to phase out the state's income tax over four years.

The candidates also have attempted to draw Mr. Trump and current Gov. Dannel Malloy, a Democrat, into the race. The Sacred Heart poll found about 31% approve of Mr. Trump and 16% of Mr. Malloy.

Mr. Lamont has said his opponent would bring Mr. Trump's style of politics to Connecticut, while Mr. Stefanowski said a Lamont win would be a continuation of the Malloy administration.

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GREATER NEW YORK

Mr. Fix-It Tackles Public-Housing Repairs

BY MELANIE GRAYCE WEST

On a recent tour of a public housing complex in the Bronx, Vito Mustaciolo walked into an apartment that smelled of mold. The floors had been covered with newspapers to soak up the constant drips, and the walls and ceiling had buckled from water damage. Paint peeled from the walls in sheets.

The entire line of apartments above this one had similar problems. And though requests for repairs had been filed to the New York City Housing Authority, the work had not been done.

Mr. Mustaciolo, the newly appointed general manager of NYCHA, was frustrated by what he saw. He stuck around to give NYCHA staff a verbal work order of repairs. Later, he said he might swing by unannounced—even on a weekend or at night—to check the progress and take photos. The management technique isn't scalable but gets results.

"I like to see things for myself," Mr. Mustaciolo said.

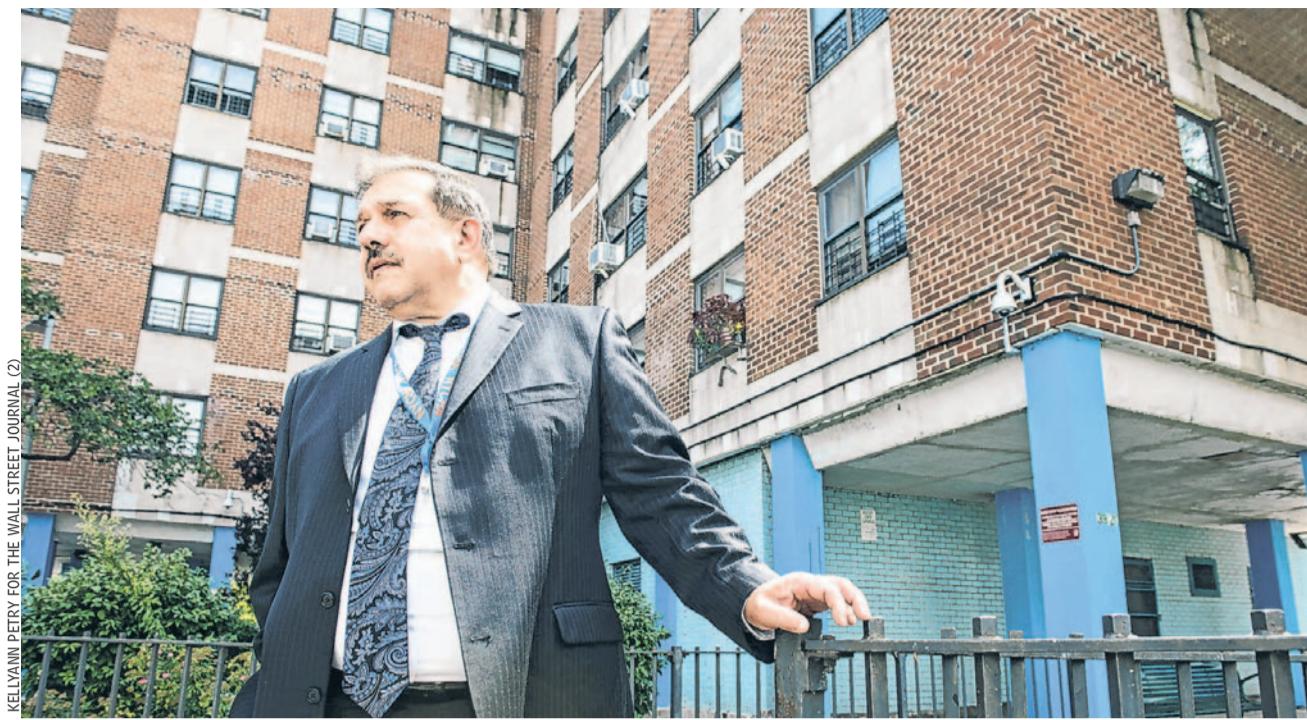
"Once Vito gets involved, it's going to be taken care of," said Monique Johnson, the Throggs Neck resident council president who led him to this apartment.

Broadly speaking, Mr. Mustaciolo's job is to remedy the vast set of problems that have arisen from decades of disinvestment in the city's public housing system.

Home to some 400,000 New Yorkers, NYCHA's 325 developments need some \$31.8 billion in repairs, the agency has said. Hundreds of children living in NYCHA housing have tested positive for elevated lead levels, a revelation that came after federal investigators found agency officials made false statements about lead paint inspections of apartments.

As part of a recent settlement, NYCHA will submit to federal oversight. Understandably, NYCHA staff—already too few in number—suffer from poor morale. Roughly a third of the 11,218 NYCHA workers live in a NYCHA residence.

In February, Mr. Mustaciolo, 58 years old, left his role as a deputy commissioner at the



Vito Mustaciolo, the newly appointed general manager of the New York City Housing Authority, recently visited the Throggs Neck Houses in the Bronx. Below, graffiti was scrawled on mobile boilers outside the complex, which residents say often don't work.

city's Housing Preservation and Development Department to become NYCHA's acting general manager, succeeding Michael Kelly, who resigned in late January. He took the "acting" part of the role seriously. He wanted to finish his career at HPD where his staff was like family. He "was having fun," he said, and even able to take a little time off.

Vito Mustaciolo is determined to make improvements at NYCHA buildings.

Yet, barely two months in and after meeting residents, Mr. Mustaciolo had a change of heart and wanted the new challenge. People who have worked with him say he is the best person, maybe one of the few people, who can tackle the problems at the troubled agency.

Vito—he generally prefers to use only his first name—is a "get-things-done guy," who is going to make a huge differ-

ence at NYCHA, New York City Mayor Bill de Blasio has said. Manhattan Borough President Gale Brewer simply says Mr. Mustaciolo is "my favorite person in the world."

Vicki L. Been, the former HPD commissioner and now a professor of law at New York University, said Mr. Mustaciolo is super-efficient in his thinking and planning, but deeply empathetic and generous to residents. "He just has a sterling reputation," Ms. Been said.

He works hard, a trait he picked up from his father and uncle who ran a home heating-oil business on Staten Island, where he was born and raised.

With broad fix-it knowledge learned at his dad's side and from years earning spare bucks as a gofer at construction sites, Mr. Mustaciolo has hands-on technical knowledge. That has helped him to earn respect among workers, according to Kevin Norman, director of the housing division at Local 237, which represents some NYCHA employees.

"He is absolutely in the weeds," said Mr. Norman. "The problem is, the job is far more



political in nature."

Winning over tenant leaders is a more difficult task.

"All I get is his voice mail. He just doesn't respond," said Daniel Barber, who lives in the Jackson Houses in the Bronx and is chairman of the NYCHA tenant group, the Citywide Council of Presidents, which has sued NYCHA. "He doesn't sit down with the leadership in place, elected by the people to hear the issues."

Mr. Mustaciolo says he has met with Mr. Barber and prefers to sit down one-on-one with leaders. He admits he

should be better at managing his time and his meetings run long. "I like to talk," he said.

Patricia Simpson, the president of the resident association of the Patterson Houses in the Bronx, said that while she "got good vibes" during Mr. Mustaciolo's recent visit, "I want to see action."

Temporary boilers at her complex, which often don't work, won't last through the winter and new ones are supposed to be arriving soon.

"There are so many promises that we have been made. I don't trust promises," she said.

GREATER NEW YORK WATCH

SETON HALL

Investigation Starts Into Potential Abuse

Seton Hall University has begun an investigation into potential sexual abuse at two seminaries it hosts following misconduct allegations against ex-Cardinal Theodore McCarrick and other priests.

In a letter posted to the university's website, President Mary Meehan referred to the recent accusations against the former cardinal, who served as Archbishop of Newark from the mid-1980s until the early 2000s. The Vatican removed him from public ministry in June after it determined allegations he molested a teenager more than 40 years earlier were credible.

The allegations against Archbishop McCarrick and other priests at the Newark archdiocese "may have involved seminarians at Immaculate Conception Seminary School of Theology and the College Seminary at St. Andrew's Hall," Dr. Meehan wrote.

At the time of his removal, Archbishop McCarrick denied the teen's abuse allegations. Last month, a Virginia man said Archbishop McCarrick abused him over a span of two decades, beginning when he was about 11. Archbishop McCarrick hasn't responded publicly to these allegations.

—Associated Press

CONNECTICUT

Residents Can Text 911 in Emergencies

Connecticut residents can now use text messages to reach 911 emergency dispatchers.

Gov. Dannel Malloy announced Thursday that the state has launched the text-to-911 service as part of a new emergency communications system.

Officials say voice calls to 911 are still the best way to contact emergency services. The text service is aimed at people who are deaf or have a speech disability. It also is intended for when it is unsafe to place a voice call, such as during home invasions.

—Associated Press

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LIFE & ARTS



MAGNOLIA PICTURES (2)

BY JOHN ANDERSON

THESE DAYS, storytellers are charged with trespassing if they don't carry the proper genetic credentials. Still, the unlikely, bitter-sweet, bristling comedy "Support the Girls" is easily one of the best films of the year, and the most sympathetic to women, despite having been made by a man. How can this be? Luckily, Andrew Bujalski's remarkable movie—with its killer performance by Regina Hall—is not just about women. It's about men being idiots. And no one is arguing ownership of that narrative.

In the early 2000s, Mr. Bujalski surfaced as the most accomplished exponent of what would be known as "mumblecore," an appellation that was embraced by no one, but which was a tidy term for some very good low-budget, emotionally complex movies (among them Mr. Bujalski's "Funny Ha Ha," "Mutual Appreciation" and "Beeswax"). It's no surprise, then, that the writing and direction of "Support the Girls" is superb, or even that the whole story is a nacho platter's worth of contradictions: A female-empowered, day-in-the-life movie, set in Hooters-style restaurant where the waitresses are young, beautiful, sometimes a bit dim ("I love being professional," says one. "That's huge for me"), and who have to exhibit grace under pressure, in an environment designed to be hostile.

FILM REVIEW

Social Consciousness At the Saloon

The staff of a Hooters-like restaurant look out for one another, and stand in stark contrast to the slimy men who frequent their establishment

"This is a mainstream place, a family place," insists Lisa (Ms. Hall), the manager/mother hen at the rather obviously titled Double Whammies, a side-of-the-highway joint where the *spécialité de la maison* is the "big ass beer" and the clientele are a bunch of mugs. Lisa, whom we first meet crying in her car before starting another shift, is the boss everyone wants, someone whose concern for her "girls" goes far beyond the call of duty—and whose sense of duty is more motherly than managerial: She doesn't call the cops on the cook whose cousin was found stuck in the air ducts overnight, trying to rob the



restaurant safe; she holds an unauthorized car wash for Shaina (Jana Kramer), a waitress who ran over her abusive boyfriend with her car the night before and had to be bailed out (by Lisa). She protects her staff from the owner, Cubby (the ever-reliable James Le Gros),

Haley Lu Richardson and Regina Hall, left; Shayna McHayle, Ms. Richardson, AJ Michalka and John Elvis, above

who won't let Lisa put more than one African-American on any one shift and is sweating over the incipient arrival of a new neighbor, the Mancave, a corporate chain that Cubby fears will be a kind of Quadruple Whammies. And she gently steers the young women away from doing the kinds of things they all know they can do, if they want to get bigger tips.

The incidents that make up the table-hopping narrative of "Support the Girls" are so amusing, seamless and well-acted that the viewer only

gently becomes aware of the film's seething subtext, about the compromises that women make, without thinking, just to get through the day. That, and the micro-aggressions they suffer at the hands of an opposite sex whose members are even more oblivious. Call it self-flagellation on Mr. Bujalski's part, but while there are only a couple of men who'd be called villainous in "Support the Girls," there's not one who isn't casually obnoxious, or clueless. The fact that no one really notices is one of Mr. Bujalski's very cogent points.

Without taking any credit away from the rest of the cast, Ms. Hall owns the movie and her performance is a tour de force. That said (it will be said again and again), Mr. Bujalski has worked near-miracles with young actors, or nonactors—"Computer Chess" (2013), his period piece about early computers, is a good example of that—and he does it again in "Support the Girls." Haley Lu Richardson, as the almost pathologically cheerful Maci, gives a breakout performance. (She can be seen next week, too, in "Operation Finale.") Dylan Gelula is terrific as the too-savvy Jennelle. And the statuesque rapper Shayna McHayle, whose Danyelle is the Keith Richards to Lisa's Mick Jagger, has never made a movie before. She couldn't have chosen a better one for her, shall we say, entrée.

Mr. Anderson is a Journal TV critic. Joe Morgenstern is on vacation.

FILM REVIEW

'PAPILLON': ISOLATION AND INFAMY

BY JOHN ANDERSON

THERE'S NO ESCAPING 1973's "Papillon," even during the most dire moments of director Michael Noer's ambitious remake, which stars Charlie Hunnam ("Sons of Anarchy") and Rami Malek ("Mr. Robot") and does its damnedest to separate itself from the original. Yes, it reimagines the story of the French convict, memoirist and inveterate flight risk Henri Charrière in brutal, gritty, naturalistic fashion. But despite its virtues—and there are several—what it does best is illuminate our relationship with movie stars.

Steve McQueen, the original Papillon (as Charrière was known, thanks to his butterfly tattoo), was among the last of a species cultivated by classic Hollywood, an icon of cool and a performer who enjoyed an ineffable on-screen charisma that translated into an intimacy with his audience—they were all in on this joke called movies. Cary Grant was the same. George Clooney, too. McQueen was the furthest thing from a Method actor. In fact, he wasn't even considered a great performer—his efforts to attain gravity as he got older, with such projects as "An Enemy of the People," were gently dismissed. (McQueen died at age 50, in 1980.) But his particular kind of stardom made it possible to



actually enjoy something like "Papillon," with its bleakness and violence, its constant reversals of fortune, and the injustice at its center. "Welcome to the penal colony of French Guiana," the welcoming warden memorably drones, "whose prisoners you are, and from which there is no escape." With McQueen, audiences knew this wasn't damnation. It was merely a challenge.

The same cannot quite be said for "Papillon" à la Mr. Noer, which is a much more intimate film, dramatically and visually, and one in which the fate of its prisoners is genuinely grotesque, even Dantesque. Mr. Hunnam plays Papillon with a certain fierceness and swagger, but his psyche is largely impenetrable. And that's a loss: As the story



Charlie Hunnam (above right) and Rami Malek with Mr. Hunnam (left), in 'Papillon'

goes, Papillon, a thief, is framed for a murder in Paris and, as per the French criminal justice system of 1933, shipped off with hundreds of others to his country's infamous South American prison, where inmates were forced to spend as many years as colonists as they were sentenced for their crimes. Papillon refuses to accept guilt, incarceration or exile: From the minute he embarks for the Southern Atlantic he is determined to escape, and his unquenchable desire to free himself has been the nut of the story ever since Mr. Charrière published his book in 1969. Mr. Hunnam, however, makes that impulse inaccessible.

His Papillon does have the good fortune to be shipmates with the forger and counterfeiter Louis Dega (Mr. Malek), whose life Papillon saves, and whose very real money backs their various escape plans. Mr. Malek gives an eccentric performance, but he won't make anyone forget Dustin Hoffman, whose original Dega was an endearing coward, a fatalist and a masterpiece.

The "Papillon" of 1973 was an epic, at the tail end of an epic era. The barbarity of the jailers was largely caricature, a suggestion of cruelty rather than something more graphic. Mr. Noer goes for realism, and the horror is, yes, far more real. And much less amusing.

LIFE & ARTS

TELEVISION REVIEW | By Dorothy Rabinowitz

In the Wake of the Missing

FLASHY THOUGH IT IS, the title "Tangled Lies" offers only modest intimations of the glut of interconnected afflictions, most of them mental, that make up this marvelously sustained thriller of a soap opera about two missing teenage girls. Like all series on the disappeared, a genre hard to beat for instant emotional force, this one focuses on the unassayable terror of the family left behind. Here single mother and psychologist Nora Telese (a powerfully persuasive performance by Vanessa Incontrada) wakens one day to discover that her adored 16-year-old daughter, Camilla (Eleonora Gaggero)—the adoration is mutual, the girl is a model of wholesomeness—has not returned from a party. Not the party her mother thought she was attending, either. She'd gone out with her more flamboyant friend Sonia (Pamela Stefana)—a seductive sort in her depressed way—who dreams of a big future far from home, maybe as a model.

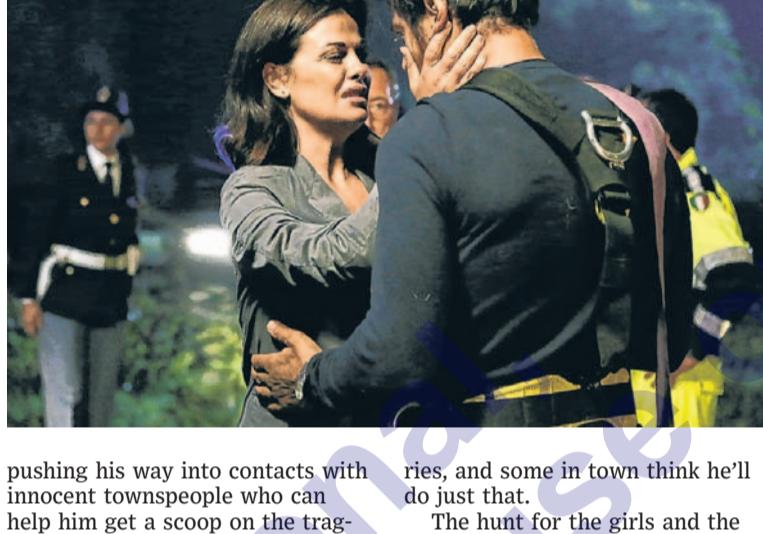
This Italian-language series (original title, "Scomparsa") is set in San Benedetto del Tronto on the Adriatic coast, an alluringly scenic backdrop for the steady unearthing of hidden darkness and secrets in the lives of the inhabitants of this sun-filled world, all revealed as local obsession over the case of the missing girls grows.

As does the plot, which thickens with each new likely suspect—a drama whose tensions roll on unflagging with its family histories, love triangles, adultery and also touches here and there of favorite contemporary themes without which no television offering now feels complete. Among them, sexual preferences and related problems and unjust bias against immigrants. As often happens, the writers seem to have gone to considerable effort to work these subjects into the plot and that laboriousness shows.



Eleonora Gaggero and Pamela Stefana, above, and Vanessa Incontrada and Giuseppe Zeno, right, in 'Tangled Lies'

True, there's no point in expecting logic in a thriller built on wildly improbable invention and a universe of suspects who appear in the course of this six-part saga, each episode of which runs a lengthy hour and a half. This, of course, provides room for the luxury of detail that provides the crucial heft to this tale—the police employing their advanced tracking techniques; the embittering complications that can emerge when a child has gone missing, as they do in the tormented family of Sonia. Not least there's the long, colorfully telling look at the local culture. There's even a visit from a national journalist from a big-city paper, who looks, as he's meant to, like a shoddily ambitious type,



ACORN TV (2)

pushing his way into contacts with innocent townspeople who can help him get a scoop on the tragedy—the veritable model of what some might call an enemy of the people sure to write damaging sto-

ries, and some in town think he'll do just that.

The hunt for the girls and the criminal responsible for their disappearance is led by police investigator Giovanni Nemi, a conspicu-

ously commanding presence portrayed by Giuseppe Zeno. One intense look from Giovanni can make suspects tremble, and it can also melt hearts. He's a complex character brought beautifully to life: a hard-nosed lawman driven by emotion as he works desperately to find the missing girls, a father worried that his flighty estranged wife will succeed in winning custody of his beloved young son. And he's in the grip of a developing attachment—a resolutely controlled one most of the time—to Nora, whose anguish over her missing daughter never diminishes.

Still, she gets herself through the days, worn looking, her mind befogged by grief, but still fully capable of reclaiming her role as a professional when the occasion arises and of performing as a psychologist, crisply delivering advice and interpreting behavior in the chaos that ensues after the girls' disappearances. Then there are the other times when she gets through the hours by going off to consult the local medium who claims to have visions of the missing teenagers. She makes no apology for the visits to this seer, whose visions appear to be nourished by immense quantities of booze—for, essentially, abandoning rationality and mental rigor. Yes, a psychologist is not supposed to be seeking answers from a medium, but, as she informs investigator Nemi, she must have something, some answer to stop the unremitting agony of knowing nothing about her missing daughter. The medium is at least providing hints of hope.

By the time this thriller ends, a bit of exhaustion may have set in, along with a wish not to say goodbye to investigator Nemi. It's been, nonetheless, a captivating ride all the way.

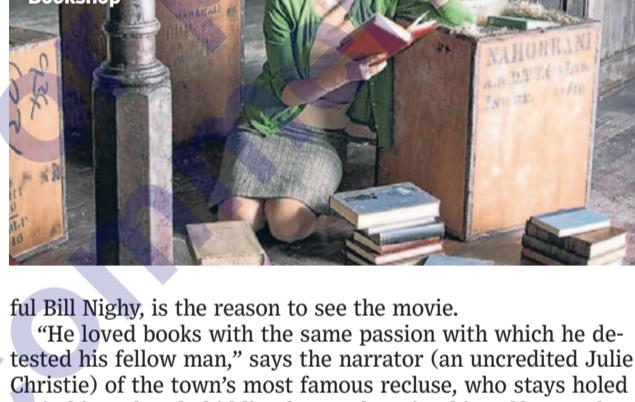
Tangled Lies
Monday, Acorn TV

FILM REVIEW

A RECLUSE TURNS A PAGE

BY JOHN ANDERSON

AS CLEANLY APPOINTED and precise as Penelope Fitzgerald's prose, "The Bookshop," based on Fitzgerald's 1978 novel, seems very much a fable. Few of the characters seem intended as reality-based; they're more like entries in an emblem book, representing virtue and envy, greed and sloth. The exceptions, happily, are two: Florence Green (Emily Mortimer), who in 1959 has the audacity to open a book store in the East Anglian village of Hardborough; and Mr. Brundish, the man who becomes her best customer—and who, as played by the wonder-



TRANSMISSION

ful Bill Nighy, is the reason to see the movie.

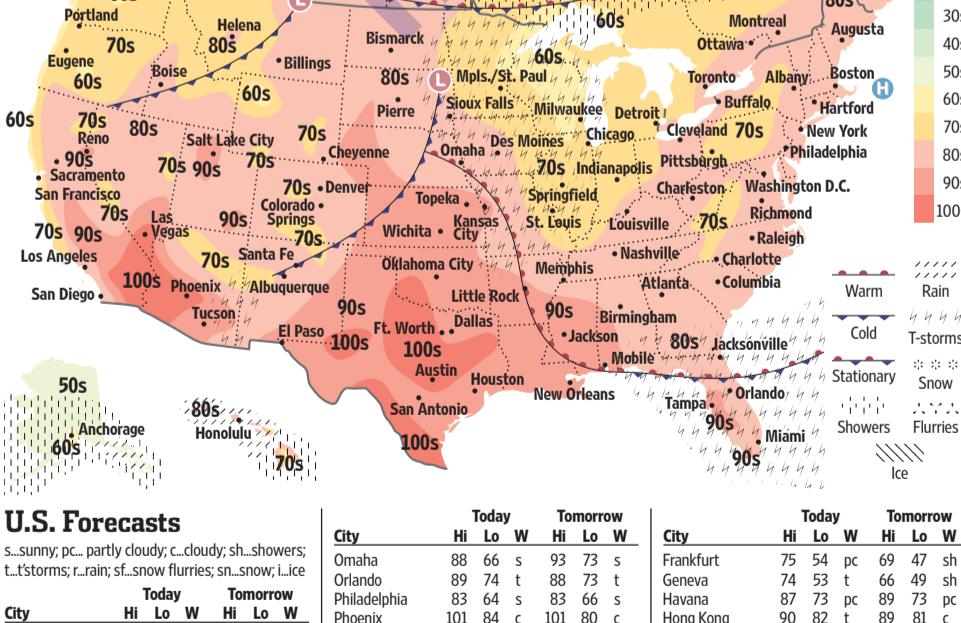
"He loved books with the same passion with which he detested his fellow man," says the narrator (an uncredited Julie Christie) of the town's most famous recluse, who stays holed up in his rather forbidding home, devoting himself to read-

ing. "I would undoubtedly visit your shop one day," he says in a congratulatory note to the new owner, "if I ever went out."

Instead, Mr. Brundish gives the widowed Mrs. Green carte blanche to send him anything she thinks he'd like, and she does—"Lolita," for instance, and "Fahrenheit 451." On such inflammatory literature is born a relationship that comes very close to rescuing a story that despite anything screenwriter-director Isabel Coixet did with it was going to lack a satisfying movie conclusion. "As you already know, literature has done a lot of damage," Mr. Brundish says to Florence at one point. "Those damn Bronte sisters, for example." Ms. Coixet hasn't exactly damaged literature, but neither has she justified its appropriation.

She does populate the film with an ancillary cast of eccentrics, misanthropes, weirdly precocious children and the poisonous Mrs. Gamart (Patricia Clarkson), who campaigns to have Florence ousted from the damp old building where she's set up shop. Ms. Clarkson is always fascinating; only on second viewing did I notice how much Ms. Mortimer was doing while Mr. Nighy was stealing a scene. In the end, though, it's his movie. And likely wasn't supposed to be.

Weather



U.S. Forecasts

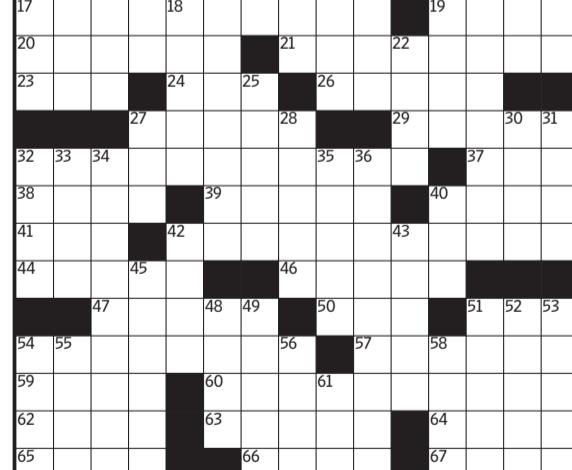
S=sunny; pc=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Anchorage	61	51	pc	60	55	pc
Atlanta	84	68	pc	85	68	t
Austin	102	75	s	100	75	pc
Baltimore	82	62	s	82	65	s
Boise	84	52	pc	85	55	s
Boston	84	66	s	82	64	s
Burlington	86	65	s	85	66	pc
Charlotte	83	62	s	85	65	pc
Chicago	71	67	t	84	73	pc
Cleveland	82	66	s	81	71	pc
Dallas	99	78	s	98	79	s
Denver	89	61	s	90	61	t
Detroit	79	67	pc	79	72	sh
Honolulu	88	77	r	86	76	r
Houston	97	78	s	94	77	pc
Indianapolis	73	68	t	84	72	t
Kansas City	91	73	pc	95	76	s
Las Vegas	102	79	s	102	79	s
Little Rock	72	62	s	92	74	s
Los Angeles	83	68	pc	82	69	pc
Miami	89	79	pc	88	75	s
Minneapolis	77	66	t	85	72	pc
Nashville	86	70	pc	89	72	pc
New Orleans	92	78	s	91	78	t
New York City	82	66	s	80	66	s
Oklahoma City	97	76	pc	96	75	s
Edinburgh	58	44	t	61	47	c

International

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	64	52	sh	61	50	t
Athens	89	72	s	89	73	s
Baghdad	112	84	s	112	83	s
Bangkok	91	78	t	90	80	sh
Beijing	90	69	s	91	72	s
Berlin	75	56	c	69	51	pc
Brussels	67	50	pc	63	48	t
Buenos Aires	57	40	r	56	41	s
Dubai	107	91	pc	108	91	s
Dublin	58	44	c	62	51	pc
Edinburgh	58	44	t	61	47	c

The WSJ Daily Crossword | Edited by Mike Shenk



MIND THE GAP | By Marie Kelly

The answer to this week's contest crossword is a six-letter noun.

Across

- 1 Black-tie event
- 5 Inviting to a burglar, perhaps
- 9 Puller of Lohengrin's boat
- 13 Hot spot
- 14 Like Supreme Court justices
- 16 Muscle quality
- 17 *Post-parade detritus
- 19 The Ponte Vecchio spans it
- 20 Waikiki word of gratitude
- 21 **All Along the Watchtower" songwriter
- 23 End for ethyl or methyl
- 24 Psych 101 topic
- 26 Place
- 27 Greedily devour
- 29 Home appearance
- 32 *It may make waves
- 34 Dulce de (ice cream flavor)
- 35 Concealed anew
- 36 Attorney's activity, at times
- 37 Will you look at that!"
- 38 End for decor or design
- 39 Pepsi creator Bradham
- 40 Fewer than few
- 41 "The Force Awakens" heroine
- 42 *Heckler from the dugout
- 44 Gap between words
- 46 Sacred: Prefix
- 47 Peter of "Arsenic and Old Lace"
- 50 Rank for Endeavour Morse, John Luther and Jane Tennison: Abbr.
- 51 Copying
- 54 *Bravura performance
- 57 Part of a service
- 59 Bring in

► Email your answer—in the subject line—to crossovercontest@wsj.com by 11:59 p.m. Eastern Time Sunday, August 26. A solver selected at random will win a WSJ mug. Last week's winner: Kent Davis, Macon, Georgia. Complete contest rules at WSJ.com/Puzzles. (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

PUZZLE CONTEST

28 Take the wrong way
30 Prime
31 Column heading on a bridge tally
32 2006 film set in Radiator Springs
33 Home of Conference USA's Miners
34 Feature of some British pound coins
35 Concealed anew
36 Attorney's activity, at times
40 Cpl., e.g.
42 Blyleen in Cooperstown
43 Projecting window
45 Flugelhorn's kin
48 Dark red
49 Booted the ball
50 MDX maker
52 Plucked instruments
53 Vault settings
54 Clothes line
55 Folded fare
56 Reel off
58 Creeping colonists
61 Meditative faith

Previous Puzzle's Solution

TAP	RE	SHOW	SMOG
AWE	EL	PASO	CAGE
BARRY	MANIL	E	EURO
BRIE	STE	STEFANIE	YELL
TAHOE	EDNA	LAURE	

SPORTS

GOLF | By Jason Gay

WILL YOU PAY TO WATCH TIGER & PHIL?

A Thanksgiving golf duel between Tiger Woods and Phil Mickelson makes for a television experiment: pay-per-view golf



How much money will you pay to watch Tiger Woods and Phil Mickelson play golf?

Sorry: I don't mean watch them play in person, in the sprawling backyard of your country estate. I mean on TV.

Sometime during the Thanksgiving 2018 holiday weekend—when most of America will be debating going for a run, only to eat another fistful of stuffing—Woods and Mickelson will tee off in a televised, 18-hole duel live from Las Vegas, with \$9 million on the line.

Nine million bucks! That's a half million a hole—or ½ of a Gulfstream for two men with nine-figure net worths.

I have to admit: On a sports holiday weekend that is pretty much food, football, nap, football, food, football, football, nap, football, Tiger vs. Phil is an intriguing bit of counterprogramming.

In the aftermath of Thanksgiving dinner, you are more or less sick of everyone in your family. Why not kick back with tryptophan, Tiger and Phil?

Longtime rivals, Woods and Mickelson are, by far, the two biggest names in their sport. Even better, Woods has recently been playing some of his best golf in years. Hints of the old Tiger have tantalized fans and goosed TV ratings.

There's also this: The Tiger/Phil relationship is one of the most closely studied interactions in all of sports. Are they friends or frenemies? The banter and body language will be as interesting as the play itself.

(Of course, name a person you wouldn't play golf with for \$9 million.)

But Wednesday's announcement of "The Match" (good grief, they need a better name) contained this odd bit of news:

It's going to be pay-per-view.

That's right. If you're planning to hang with Woods and Mickelson, it's going to cost you some bucks.

The price has yet to be finalized, a spokesperson for Turner Sports, the event's producer, told me. (The date did not appear on the official event release, though ESPN reported it will be Friday, Nov. 23.)

Already, I'm a little spun around.

Pay-per-view...golf?

This will be an adjustment. I don't know about you, but here's



SAM GREENWOOD/GETTY IMAGES

Phil Mickelson, left, and Tiger Woods will tee off in a televised, 18-hole duel live from Las Vegas, with \$9 million on the line.

how I like to watch golf: I like to turn it on, and keep it on in the background. I'll watch a bit, then get up, walk around, make a sandwich, peek back for a minute, walk around some more, go back to the fridge, talk to the cat, water the plants, do a puzzle, knit a winter hat, come back to the golf, see who's up, who's down...

I like the noise of TV golf nearly as much as I like watching it. It's passive TV, almost narcotic. Who among us hasn't fallen asleep to Jim Nantz's soothing sotto voce during Masters weekend? This is a shame-free zone, people! Who doesn't enjoy a nice little TV golf nappy-poo?

And it's free. Consequential golf is on TV all the time, for zero dollars.

Pay-per-view is a different vibe. Pay-per-view sports tend to be loud, Barnum-esque and bloody. It's largely the domain of visceral combat sports like boxing and mixed martial arts. The public has a solid history of paying to

watch two people fight, with the unspoken prospect of something crazy happening, like someone's ear getting partially bitten off.

I really don't think anyone's ear is getting partially bitten off in pay-per-view golf.

Naturally, there's some spicy new media choreography at play here—"The Match" (still can't believe that blah name) will be brought to you by WarnerMedia, the media Frankenbaby born of the recent AT&T-Time Warner merger.

WarnerMedia's properties were all over the announcement: Turner Sports is producing and the event will be distributed by its fancy-pants new streaming service, "B/R Live," as well as by DIRECTV. Outlets like HBO, Bleacher Report and TNT will be chipping in on content.

It feels a little road-testy, another experiment for our digital sports future. Is this what the coming decades of sports viewing will look like?

BUT WHAT'S IT GOING TO COST? you ask. THE ONLY THING THAT MATTERS IS WHAT IT COSTS.

I don't think you can get away with charging \$99, like promoters did for record-setting PPV fights like Floyd Mayweather-Manny Pacquiao and Mayweather's cuckoo tangle last year with Conor McGregor.

Those were long-awaited ones-offs, the latter one basically a freak show. Fights like those—you don't know if it's going to last an hour or 15 seconds. It was easy filling your living room with knuckleheads willing to slip you \$5 for the privilege of watching from your couch.

Are you going to charge your relatives to watch Tiger & Phil's turkey time money grab? Are you going to pass the hat with the aunts and uncles?

Tell the truth: You'd probably pay \$99 to see some of your relatives fight each other.

I think \$50 is too much. Paying

\$50 to watch golf on TV is like paying someone \$50 to brush your teeth. It's worse than paying \$180 for a steak sandwich. I also think \$29.99 is too much. I know it's Tiger and Phil—after a while, it's still golf, people! Two men hitting a tiny ball around with sticks!

To me, the only way this makes sense is to come in at the bargain price of \$5. How about \$4—*Fore!* Ten dollars, max. You're already irritating the casual fan. If you're WarnerMedia, you want to show off your fancy-pants platforms, leave a good taste in the mouth of existing and potential consumers.

So \$4. Are we in?

There: I solved Tiger & Phil, Thanksgiving weekend, and the future of media.

By the way, it will cost \$99.99 to watch my Thanksgiving Family Touch Football Game. But someone definitely has the chance of getting their ear partially bitten off. For another \$10, I'll guarantee it.

TENNIS

The U.S. Open Completes Its Makeover

BY TOM PERROTTA

A DECADE AGO, the U.S. Open became a wet mess for players, fans and television producers.

Due to weather delays, the men's final turned into a Monday event, instead of Sunday, from 2008 to 2012.

The most memorable meltdown came from American Andy Roddick in 2011, whose match on Louis Armstrong Stadium was delayed, and eventually moved, because water popped up from underground.

"Why are we out here?" Roddick said to Brian Earley, the tournament's referee. "I'm really starting to get pissed off."

The old, crumbling U.S. Open is now fully gone, first improved by new small courts, more seats to watch practice, and a flexible roof that covers Arthur Ashe Stadium. And now, there is a new Armstrong Stadium, with a retractable roof and modern construction.

"I've been asking for 30, 40 years, 'Please, make an indoor stadium at the U.S. Open,'" said John McEnroe, who won the U.S. Open four times. "And not only do we have one, but we have two now. So they deserve a round of applause."

The new stadium seats 14,069 people, with the open-roof structure putting shade on most of the seats. And when the roof is closed, there's still natural air.

The walls, made from clay-based terracotta louvers, look like they're made of thin bricks with spaces between them. The louvers are set at 45-degree angles to prevent rain from hitting seats, while letting much-needed air inside.

"We weren't allowed to use air

conditioning here," said Daniel Zausner, the U.S. Tennis Association's chief operating officer.

The Rossetti architecture firm, which has worked with the U.S. Open for decades, came up with the idea for terracotta (more than 14,000 of the louvers have been used).

"We had to be open to be naturally ventilated," said David Richards of Rossetti. "The question was, how do we get the air in, but how do we keep most of the water out?"

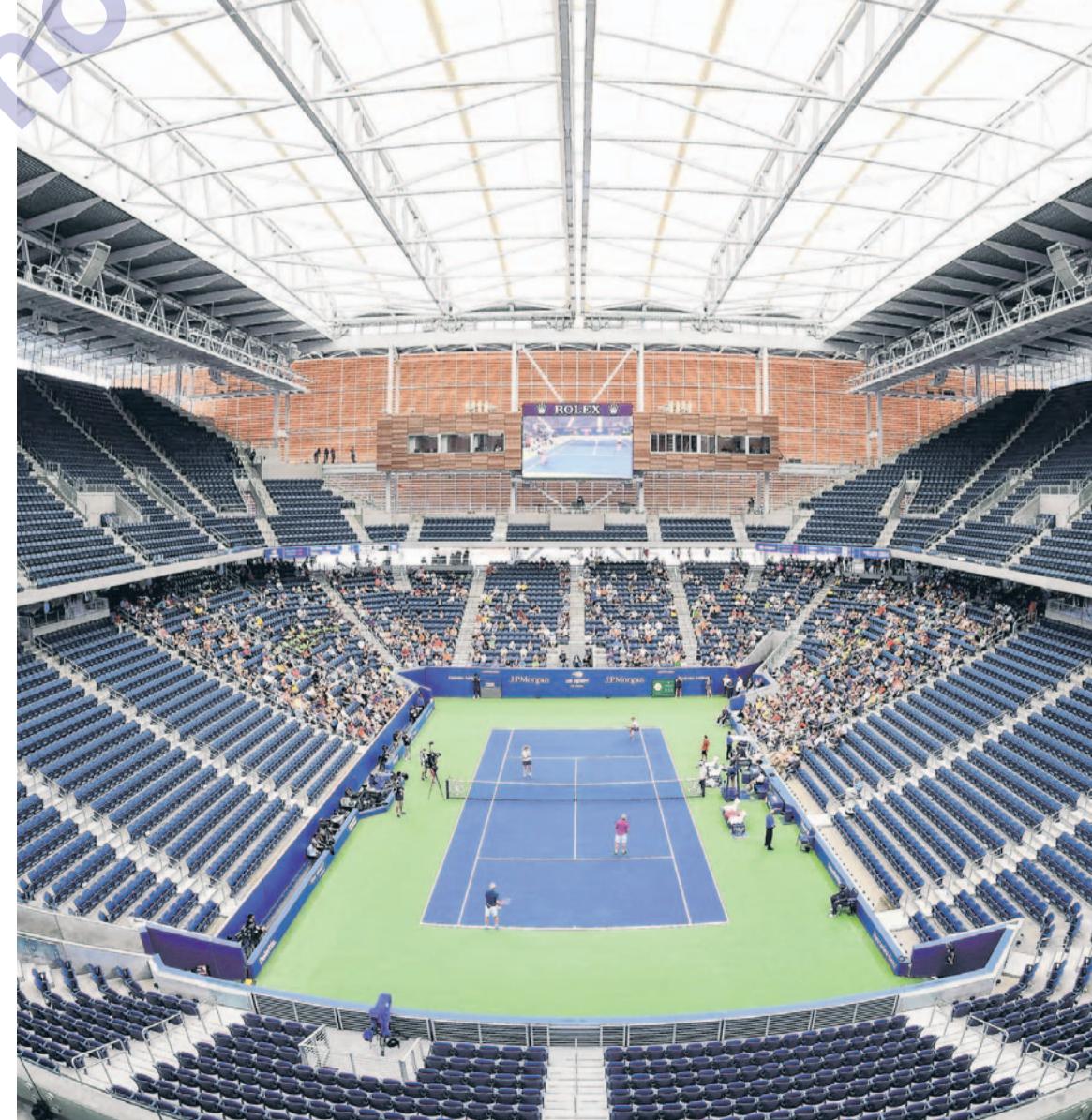
The new stadium ends an overhaul at the Billie Jean King National Tennis Center that began in 2011 and has cost the USTA \$600 million. The roof fabric is as thin as a credit card and can be closed in less than six minutes. The roof is 124 feet high and can still be operated, Rossetti claims, in a thunderstorm with 31 mph wind.

During construction, there was some fear among fans that the opening of the new Armstrong would mean that no single ticket could get fans into both of the two largest stadiums, as is the case at the other Slams.

The USTA instead divided the seats into two parts. The lower section is reserved seating, but 7,000 seats above that are for general admission.

During most of the tournament, more matches will be played in Armstrong than in Ashe. Ashe, which used to have three matches in the afternoon, will now have two while Armstrong has three. Each stadium will have two matches at night.

The French Open is the only Grand Slam left without a roof, but plans to build one in time for the 2021 tournament.



STEVEN RYAN/GETTY IMAGES

The new Louis Armstrong Stadium seats 14,069 people, with the structure putting shade on most of the seats.

OPINION

When Justice Is Partial

POTOMAC WATCH
By Kimberley A. Strassel

U.S. Attorney Robert Khuzami took a few moments in his Tuesday statement about Michael Cohen's plea deal to sing neutrality's praise: "His day of reckoning serves as a reminder that we are a nation of laws, with one set of rules that applies equally to everyone."

Noble words, and they used to mean something. But a disparity of justice is at the heart of our current crisis of faith in institutions. Americans aren't outraged that the Federal Bureau of Investigation felt obliged to investigate allegations leveled at campaigns, or that a special counsel is looking at Russian electoral interference. They are instead furious that Lady Justice seems to have it in for only one side.

The country has watched the FBI treat one presidential campaign with kid gloves, the other with informants, warrants and eavesdropping. They've seen the Justice Department resist all efforts at accountability, even as it fails to hold its own accountable. And don't get them started on the one-sided media.

And they are now witnessing unequal treatment in special counsel Robert Mueller's probe. Yes, the former FBI director deserves credit for smoking out the Russian trolls who interfered in 2016. And one can argue he is obliged to

pursue any evidence of criminal acts, even those unrelated to Russia. But what cannot be justified is the one-sided nature of his probe.

Consider Mr. Cohen, the former Trump lawyer who this week pleaded guilty to eight felony charges. Six related to his personal business dealings; the other two involved campaign-finance violations arising from payments to women claiming affairs with Donald Trump. The criminal prosecution of campaign-finance offenses is exceptionally rare (most charges are civil), but let's take Mr. Khuzami's word for it when he says Mr. Cohen's crimes are "particularly significant" because he's a lawyer who should know better, and also because the payments were for the purpose of "influencing an election" and undermining its "integrity."

If there is only "one set of rules," where is Mr. Mueller's referral of a case against Hillary for America? Federal law requires campaigns to disclose the recipient and purpose of any payments. The Clinton campaign paid Fusion GPS to compile a dossier against Mr. Trump, a document that became the basis of the Russia narrative Mr. Mueller now investigates. But the campaign funneled the money to law firm Perkins Coie, which in turn paid Fusion. The campaign falsely described the money as payment for "legal services." The Democratic National Committee did the same. A Perkins Coie spokesperson has claimed that nei-

ther the Clinton campaign nor the DNC was aware that Fusion GPS had been hired to conduct the research, and maybe so. But a lot of lawyers here seemed to have been ignoring a clear statute, presumably with the intent of influencing an election.

Prosecutions under the Foreign Agent Registration Act (FARA) are also exceptionally

Mueller is determined to sniff out any wrongdoing he can find—on one side.

rare, though Mr. Mueller is getting media kudos for hammering the likes of Paul Manafort and Rick Gates for failing to register as lobbyists for foreign entities. The law is the law.

But under this standard, where are the charges against the principals of Fusion GPS, who Sen. Chuck Grassley has said look to have been lobbying on behalf of powerful Russians against a U.S. sanctions law, with its payment again funneled through a law firm? This was a sideline to its dossier work, but Mr. Mueller usually has no issue with sideline charges.

Or what about an even-handed look at dossier author Christopher Steele? FARA also requires foreigners to register if they act on behalf of a foreign principal. Recently disclosed emails from senior Justice Department official Bruce

Ohr show the British Mr. Steele pleading the case to the Justice Department on behalf of a Russian oligarch, Oleg Deripaska.

Of the seven U.S. citizens Mr. Mueller has charged, five have been accused of (among other things) making false statements to federal officials.

But there have been no charges against the partisans who made repeated abjectly false claims to the FBI and Justice Department about actions of their political opponents. There have been no charges against those who leaked classified information, including the unprecedented release of an unmasked conversation between former national security adviser Mike Flynn and a Russian ambassador. Nothing.

Some of these charges might not stand up in court, but that's beside the point. Plenty of lawyers would poke holes in the campaign-finance charges against Cohen, or the "lying" charges against Mr. Flynn. Special counsels wield immense power; the mere threat of a charge provokes plea deals. It's the focus that matters.

Prosecutors can claim all they want that they are applying the law equally, but if they only apply it to half the suspects, justice is not served. Mr. Mueller seems blind to the national need for—the basic expectation of—a thorough look into all parties. That omission is fundamentally undermining any legitimacy in his findings. Lady Justice does not wear a blindfold over only one eye.

Write to kim@wsj.com.

Religious Freedom and the Burqa

HOUSES OF WORSHIP
By Charlotte Allen

Former U.K. Foreign Secretary Boris Johnson recently generated outrage with comments about the burqa. In a column for the Telegraph earlier this month, Mr. Johnson joked that the head-to-toe veils made a woman look like a "letterbox" or a "bank robber." Muslim leaders in Britain labeled the remarks dehumanizing and called on Prime Minister Theresa May to investigate "Islamophobia" in the Conservative Party. She demanded her former cabinet member apologize.

Mr. Johnson's ham-handed humor obscured his actual argument: He opposes, on grounds of personal freedom, government-imposed restrictions on female veiling. And there is great variety within Islamic headgear. Not all Islamic veils are technically burqas, which cover a woman's entire body, including the face. Other garments include the niqab, where a face-covering allows the eyes to be seen; the chador, which leaves the face uncovered; and the hijab, or head scarf.

National bans of varying comprehensiveness have been passed in Denmark, France, Belgium and the Netherlands. Some localities in Germany, Italy and Spain also have restrictions in place. Some African countries, including Chad, Cameroon and Niger, have restricted Islamic head-cover-

ings too, often citing terrorism concerns.

Supporters of such prohibitions typically argue that requiring a woman to cover her face or hair, as many interpretations of Islamic law do, is simply "misogynistic," as Farzana Hassan wrote in the Toronto Sun last year. Ms. Hassan argued that headscarves promote "archaic notions of gender roles and women's modesty." Traditional Muslim cultural norms, dictated and enforced by men, make it impossible for young women to throw off their hijabs without incurring social sanctions. "Refusal is not offered as a realistic option," Ms. Hassan concluded.

Opponents counter that restrictions on head-coverings reflect anti-Muslim prejudice, as the bans are often supported by the nationalist far right. They also argue that prohibition threatens everyone's religious freedom. Bishop Michel Santier, the French Catholic Church's top official for interreligious dialogue, declared in a 2010 statement opposing the anti-face-veil legislation: "If we want Christian minorities in Muslim majority countries to enjoy all their rights, we should in our country respect the rights of all believers to practice their faith." He added: "The French, including the Catholics among them, should not let themselves be gripped by fear or a 'clash of civilizations' theory."

These arguments become more appealing after looking

at how the religious fare in America today. Only a narrow Supreme Court ruling in June prevented an evangelical Christian baker from being forced to create a custom wedding cake for a same-sex marriage. A live-and-let-live attitude toward minority religious practices may be the only way that believing Christians can guarantee their own protection from a secular elite that openly despises them.

Banning Islamic veils goes too far—but some British schools now require them.

Further, while many Muslim women may feel pressured by male authority figures, many wear their veils and scarfs freely and proudly, as markers of their religious and cultural identities. New Yorker writer Elif Batuman, a secular Turkish-American, has written about donning a head scarf while traveling in Recep Tayyip Erdogan's Turkey. Instead of regarding her with hostility and suspicion as a young foreign woman traveling alone, Turkish men and women treated her with respect and deference: "I felt a rising sense of freedom, as if for the first time I could look wherever I wanted and not risk receiving a hostile glance."

Nonetheless, the "clash of civilizations" is real enough. In

Britain, home to about three million Muslims, some estimates show the Islamic population has been growing 10 times as fast as the non-Muslim population. When Muslims reach a critical mass—in Britain and elsewhere—the culture becomes Islamic, like it or not. What was graciously tolerated in a minority suddenly becomes mandatory for the majority. Earlier this year it was reported that some 150 schools in Britain, including schools receiving government funding, make the hijab compulsory for female students. In 2014 the Subway sandwich chain removed pork-based ham and bacon—staples of the British diet—from its menu in 200 branches across the U.K. and Ireland.

Boris Johnson may believe in the "sweet air of freedom" that would allow a woman to wear a niqab on a public street if she likes. But most religious Muslims don't share that Western tolerance, and they certainly don't share in Westerners' breast-beating over "white privilege." Soon enough it may be as unthinkable for a U.K. woman to go outdoors without her head scarf as it is to find a slice of real bacon at a U.K. Subway. The problem of what to do now about Islamic head-coverings will be solved in one unpleasant way or another.

Ms. Allen is author of "The Human Christ: The Search for the Historical Jesus" (Free Press, 1998).

Don't Lock Ex-Prisoners Out of Jobs

By Chandra Bozelko

Prisoners in 17 states have been on strike since Tuesday, refusing their work assignments until Sept. 9 on grounds that prison labor is exploitative. They have a point: Nationwide, inmates are paid an average of 86 cents an hour, according to a study conducted by the Prison Policy Initiative. But prison labor could be one of the greatest hopes for reducing recidivism—if it's managed right.

I worked in a prison kitchen for almost five years. I dreaded it when I started but soon gained skills and understanding of food service, an industry that rarely lags. Drop me into any industrial kitchen today, and I can run it. That is, if I'm allowed to. When I was first released and desperate for a job in 2014, I applied to work in Whole Foods' kitchen and was rejected because I was a convicted felon.

Unemployment among for-

mer prisoners is historically high—approximately 27%. Despite laws designed to help people with criminal records get jobs, one study found more than half of former inmates remain unemployed eight months after release.

If you use inmates as workers, hire them after their release.

Prison labor could help. Right now companies and government entities can contract to hire convicts while they are in custody, then discriminate against them when they apply for jobs after release. California pays inmates \$1 an hour to battle wildfires. But on release they can't become firefighters because that job requires certification as an emergency medical technician, for which felons are ineligible. Similarly Starbucks, Victoria's Secret, BP and

McDonald's all use prison labor. But these companies' non-discrimination policies don't include criminal convictions as a protected status.

Why not require any outside employers using prison labor to earmark positions for formerly incarcerated people? Better yet, companies that hire the incarcerated could use that employment as an apprenticeship—preparation for a more advanced position a worker could start soon after release. To reward inmate fire service, California could relax its licensing requirements for them.

Even with this potential for postcarceral employment, a sticking point with prison labor is the low wages. Four states—Alabama, Arkansas, Georgia and Texas—pay incarcerated workers nothing. Contracting for prison labor isn't supposed to be as exploitative as it's become. In 1979, Congress passed the Justice System Improvement Act, cham-

pioned by Illinois Sen. Charles Percy after a riot at Pontiac Correctional Center killed two guards and a policeman. The law requires that inmates be paid the same wage as free employees performing the same tasks, with no more than 80% deducted for room, board and victims' funds. Local labor unions had to give their blessing to any prison industry.

If prison labor is "slavery," the way out of the bondage would be to enforce this law. Because private companies' records are not subject to freedom-of-information laws, verifying that workers are actually paid the required wage is difficult. The problem, then, isn't the act of contracting for prison labor, but the way it's done. That can and should be reformed.

*Ms. Bozelko is vice president of the National Society of Newspaper Columnists and won a Webby Award for her blog, *Prison Diaries*.*

BOOKSHELF | By Howard Schneider

Termites And Us

Underbug

By Lisa Margonelli
(*Scientific American/FSG, 303 pages, \$27*)

The subtitle of Lisa Margonelli's "Underbug: An Obsessive Tale of Termites and Technology" might suggest that the book is a manual on how to destroy what many consider to be a particularly loathsome insect. It's a reasonable assumption, but not the case. Ms. Margonelli respects termites, admires them, even likes them. So what is this book about? I struggled with definitions throughout my reading of it, finally concluding that it's a scientific quest, a travel chronicle (Australia, Namibia, various locations in the U.S.), a compendium of profiles of gifted scientists, a series of philosophical musings and a speculation on the future of the planet. In short, it's an odd book, made odder still by the fact that it's often simultaneously engrossing and exasperating. And yes: The reader who perseveres through "Underbug" will also learn a thing or two about the recondite workings of termite civilization.

The book begins in 2008 when Ms. Margonelli, exhausted from reporting and writing about energy crises (she had just published a book, "Oil on the Brain," on the subject), joins a termite-hunting expedition for a change of pace. Her subsequent investigation of termites lasts about eight years. Early on, she learns that "just as humans dream of making robots to imitate the way termites build, we also want to copy the way they digest wood and grass, to make replacements for gasoline."

From there her interest becomes a fascination and radiates out to encompass both the scientific and the metaphysical. The termite's relationship to a number of fields, from evolution to information theory, can seem tenuous at times: Many of the people and much of the research she scrutinizes, such as her inquiries into the creation of biofuel, are focused on using these reprehensible creatures—Ms. Margonelli would take exception to my animadversion—as stepping stones to other ventures.

Some intriguing termite facts: There are "at least three thousand named termite species" and presumably lots more still undiscovered. Moreover, "only" (my quote marks) 28 species are "invasive pests." Some soldier termites slam their mandibles shut at 120 miles an hour. "All termites... live in their own version of a big commune." These communes can be dirt mounds that reach heights of "up to thirty feet." Termites are notorious and despised because they feed on wood—it is speculated that they eat "between \$1.5 [billion] and \$20 billion in U.S. property every year"—but some species are content with grass or dirt. Ms. Margonelli takes a rather cosmic view of the termites' endeavors: "If termites, ants, and bees were to go on strike, the tropics' pyramid of interdependence would collapse into infertility, the world's most important rivers would silt up, and the oceans would become toxic."

The despised creatures are not merely wood eaters. Their behaviors are relevant to the fields of robotics, artificial intelligence and beyond.

Termites, Ms. Margonelli suggests, are "the poster bug for the twenty-first century—a little guide to really big ideas." Space constraints prevent me from discussing these ideas in detail, but briefly: This poster bug strikes chords in the traditional sciences (biology, chemistry, physics) as well as the au courant ones (robotics, computer programming, artificial intelligence). Readers will be introduced to the importance of homeostasis—the equilibrium of living things—in termites and their mounds, the microbes in the termite's gut and the frustrating research into re-creating the termite's metabolism.

One recurrent theme has to do with swarm intelligence (the ability to create complex wholes out of simple and disparate parts) and, specifically, what roboticists call "global-to-local" (the propagation of an action into a chain of events similar to "the way that termites build—coordinating thousands of individuals with a simple ruleset for every local termite but apparently no overarching plan as that global mound takes shape"). Swarm-intelligence theories as a "termite solution to the world's problems [have been] tough to find," but "global-to-local" theses remain the great hope of roboticists. A viable theory, Ms. Margonelli writes, "could change the way computer networks run, how wars are fought, and how disasters get responded to."

The most fraught of the sundry fields Ms. Margonelli explores have to do with national defense and the attempts by the Pentagon to extrapolate from termite attributes to create cutting-edge weaponry. "Everything termites do," the author writes, "the military would like to do, too." It's a circumstance that perturbs her. Apropos drones, she writes that their "unthinking, constant presence... is one of the essences of termiteness, the very soul of the technological superorganism."

"Underbug" isn't for the casual reader. Its structure is reminiscent of a termite mound, either baroquely convoluted or profligately shambolic, depending on how it's viewed. The book is best read as a collection of essays. And while Ms. Margonelli writes well and tries to maintain a blithe tone, the science is complex and demands at least a modicum of background knowledge on the part of the reader. But she raises weighty, worthy questions about the moral underpinnings of termite research and, indeed, of the nature of science in general.

Ms. Margonelli reports that studying termites is "undeniably trippy." For some, perhaps; but reading about them didn't turn me on. I wasn't surprised to discover that today's termites are the evolutionary offspring of the cockroach, which the author describes as "the most despised of bugs." Surely, then, the second most despised is the termite?

Mr. Schneider reviews books for newspapers and magazines.

Coming in BOOKS this weekend

Mario Vargas Llosa on the case of Enric Marco • The rich and gritty history of the Bowery • Opera for opera's sake • Claire Tomalin's life of her own • Neel Mukherjee on the end of British empire • Sam Sacks on new fiction • & more

OPINION

REVIEW & OUTLOOK

The Forbidden ‘I Word’

Shhh. Whatever else you do, please don't mention the “I word” between now and November. That's the public message from Democratic leaders and most of their media friends this week after Michael Cohen's guilty plea and his criminal allegations against President Trump. Between now and Election Day, “impeachment” is the forbidden word.

“If and when the information emerges about that, we'll see,” says once and perhaps future House Speaker Nancy Pelosi. “It's not a priority on the agenda going forward unless something else comes forward.”

Mr. Cohen's charges are serious, says Senate Democratic Whip Dick Durbin, but impeachment talk is “premature” because “more information has to come forward” and it's “too early in the process to be using these words.”

Under the coy headline “Can Trump Survive?”—you already know his answer—Washington Post columnist E.J. Dionne counsels Democrats that “the argument for impeaching Trump suddenly became very strong, but this does not mean that turning 2018 into an impeachment election is prudent.”

And if you believe this misdirection, you probably also believe that Donald Trump didn't canoodle with Stormy Daniels.

The political reality is that Democrats are all but certain to impeach Mr. Trump if they take the House in November. After what they've said and the process they've set in motion, Democrats won't have much choice. They simply don't want to admit this now *before* the election lest they rile up too many deplorables and independents who thought they elected a President for four years.

* * *

Let's make the reasonable guess that Democrats retake the House with 228 seats, a narrow but solid 10-seat majority. They'll have done so after two years of claiming that Mr. Trump is an illegitimate President who conspired with the Kremlin to steal the 2016 election, that he is profiting from the Presidency for personal gain, that he obstructed justice by firing James Comey, and that after Michael Cohen's plea the President is now “an unindicted co-conspirator” in campaign-finance fraud.

If Democrats finally gain the power to do something about this menace to mankind, do they suddenly say “never mind”?

No doubt Democrats would start slowly by revving up the investigative machinery: sub-

poenas, hearings, all covered to a fare-thee-well by the media. Michael Cohen will be a major witness, as will the others named in the plea-deal documents. The Trump tax returns will get a star turn.

Once this starts, it will be hard to stop even if Democratic leaders want to. It will be even harder to stop if special counsel Robert Mueller writes a report to his superiors (that will inevitably leak) saying he couldn't indict a sitting President but here is the evidence that he may have obstructed justice or have shady finances. The evidence may not even matter much since impeachment is a political process and Congress defines what are “high crimes and misdemeanors.”

Meanwhile, the battle for the 2020 Democratic nomination will be underway, with multiple candidates vying for the hearts and minds of liberal voters. They'll compete to see who can be the loudest voice for impeachment. Even Terry McAuliffe, the former Virginia Governor who wants to run for President and who defended Bill Clinton against impeachment, has said impeaching Donald Trump is “something we ought to look at.”

There will be more-in-sorrow-than-anger calls for sober judgment, but political momentum has a mind of its own. The party's liberal base will demand that Democrats be counted on an impeachment vote, and so will its media elites, who want vindication for believing that Mr. Trump could never have legitimately defeated their heroine.

The smarter political play might be to wait until 2020 and ride a potential wave of national fatigue with Mr. Trump, but don't underestimate the degree to which liberals want this President to be politically humiliated and legally punished. Read their Twitter feeds and columns if you don't believe us.

We don't know how impeachment would play out politically in 2019 and 2020. An impeachment based on acts that have nothing to do with Russian collusion would offend much of the public, but as the New York Times joyfully put it this week, “that may not matter.” While a conviction in the Senate may seem improbable at this point, Democrats might not care because they'll have made Republicans defend Mr. Trump's behavior.

The main point about this election year is that no one should believe Democrats when they say that impeaching Donald Trump isn't on their agenda. It's their only agenda.

Operation Mother's Attic

Investigators in New Jersey dubbed their mission Operation Mother's Attic. They found the lawbreakers online, providing them with the address of a luxury home and a meeting time. When the trucks pulled up, local, state and federal law enforcement awaited. Who was the target of this cloak-and-dagger sting?

Not burglars or drug dealers but unlicensed intrastate moving companies. This week the New Jersey Division of Consumer Affairs' Office of Consumer Protection announced it had caught 29 unlicensed movers, assessing fines from \$2,500 to \$5,000.

In at least 10 states you can become a mover with no more than a truck, strong biceps and entrepreneurial spirit. But in New Jersey aspiring movers must submit extensive documentation to apply for a license, including proof of insurance, articles of incorporation, financial statements and samples of “all forms the business will use.” The license costs \$400 and must be renewed annually. Movers must also submit semiannual disclosures detailing their prices. The Division of Consumer Affairs even dictates the font size and margins for these filings.

No surprise, then, that there are only some 320 licensed public movers in the state, or one

per 28,000 residents. The result is that it costs more to move.

New Jersey says it conducted Operation Mother's Attic to protect consumers against fraud and other risks. Attorney General Gurbir Grewal described one scam in which unlicensed movers “hold truckloads of property hostage until the customer pays an extortionate fee.” But extortion is already illegal in New Jersey.

Mr. Grewal also said unlicensed movers may lack adequate insurance, “creating the risk that homeowners will be left high and dry if their property is seriously damaged.” But consumers can decide for themselves if they're willing to pay a premium for added protection—worth it to move a Steinway piano but maybe not your second-hand futon. Consumers can also research movers, starting with Yelp reviews. The New Jersey Warehousemen & Movers Association publishes a list of movers who exceed the minimum standards and have a reputation for good service.

The best solution would be to repeal the licensing requirement. Laws should be enforced, but mountains of paperwork and regulation have done much better at driving good people out of state than making New Jersey less corrupt.

San Francisco vs. the Fish

The good liberals of San Francisco love to advertise their green virtue, such as

their recent ban on plastic straws. But

The city is learning how Central Valley farmers feel.

Tuolumne, which also provides water to farmers in Modesto in the Central Valley. But San Francisco could face the biggest cutbacks because its water rights are lower than those of farmers.

“The concern is that this would hit commercial and industrial customers,” said Steve Ritchie, assistant general manager at the San

Francisco Public Utilities Commission. A prolonged drought could force San Francisco businesses and residents to curb their water consumption by 40%.

The water board says farmers in the Central Valley could rely more on groundwater, but that too has been restricted. “From where we sit, this has been all take and no give,” complained Democratic Assemblyman Adam Gray of Merced. Added Democratic Assemblyman Rudy Salas of Bakersfield: “When was it a crime to grow food to put on our tables?” Ask your fellow Democrats, Mr. Salas.

San Francisco has proposed spending more on ecological restoration including measures to curb predatory fish that are feasting on salmon. But environmentalists are demanding even more water cutbacks. Maybe hometown Rep. Nancy Pelosi and Twitter CEO Jack Dorsey could launch #saveourcity.

State overlords have long restricted water deliveries to farmers south of the Sacramento-San Joaquin River Delta, ostensibly to protect salmon and smelt. But despite the hundreds of billions of gallons every year flushed out to the Pacific Ocean, the fish are still struggling. Thus the State Water Resources Control Board has now proposed restricting water from the San Joaquin River's tributaries as well.

The board this week held public hearings over its plan to double water flows in the Tuolumne, Stanislaus and Merced Rivers to provide more cold water for migrating salmon as well as endangered kayakers and white-water rafters. The plan would mean 290,000 to 673,000 fewer acre feet of water available for human consumption. Each acre foot is enough to sustain one household.

San Francisco pipes its pristine water from the Hetch Hetchy reservoir in Yosemite and the

Francisco Public Utilities Commission. A prolonged drought could force San Francisco businesses and residents to curb their water consumption by 40%.

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LETTERS TO THE EDITOR**Many Data Sets Show High U.S. Inequality**

The claims by Phil Gramm and John F. Early (“The Myth of American Inequality,” op-ed, Aug. 10) that the OECD measures overestimate income inequality in the U.S. compared with other countries are unwarranted.

For its statistics the OECD relies on existing international standards and on sources most suitable for international comparison (the Population Survey's Annual Socio Economic Supplement, ASEC, for the U.S.), while ensuring the same conventions are applied to all member countries.

The OECD excludes Medicare/Medicaid and consumption taxes from its income definition (household cash income after taxes and transfers) due to these standards. Their inclusion would require, to preserve comparability, also including the in-kind health-care services provided by public agencies in most OECD countries, as well as agreement on how such services should be valued and to whom they should be attributed.

A broader income definition would consider not only in-kind transfers to people on low incomes but also capital gains, which would make the dis-

tribution even more unequal. Improved statistics would address underreporting across the entire distribution, not just for lower incomes.

Would a broader income definition change cross-country comparisons? Evidence from the OECD expert group currently producing inequality estimates consistent with totals from national income and product accounts and based on a broader welfare metric suggests that comparisons are unlikely to be biased against the U.S.—as under-coverage in ASEC is significantly higher for items such as dividends, mixed income and interest received.

Income distribution statistics are complex and there is scope for improvement. What we can confirm at this stage from a variety of measurement angles—household income surveys, tax data and measures of wealth inequality—is that economic inequalities are higher in the U.S. than in most other OECD countries.

MARTINE DURAND

Chief Statistician and Director, Statistics and Data Directorate
OECD
Paris

Cotton Is Wrong, Sentencing Reform Is Right

As the former police chief in two major American cities, New Orleans and Nashville, head of a state police agency and now a professor of criminology, I know that Sen. Tom Cotton is misguided about sentencing reform (“Reform the Prisons Without Going Soft on Crime,” op-ed, Aug. 16).

Current federal criminal justice policies don't effectively stop the cycle of crime: they get in the way of smart, effective law enforcement and put people in prison who don't belong there.

Too often, ineffective and outdated

federal mandatory minimum sentencing laws send lower-level offenders to

prison for far too long. As police and

prosecutors are forced to spend their

time on nonviolent crimes, we have

fewer resources to go after the most

dangerous threats to public safety—

and taxpayers foot the bill for that unnecessary incarceration. To be serious

about public safety, we must recalibrate how long people spend in prison.

I now lead a group of more than 200

current and former police chiefs, sheriffs and prosecutors who have spent

years pushing Congress to enact com-

prehensive criminal justice reform. We

were thrilled to see President Trump

Sen. Cotton would have us believe that all criminals are incorrigible and efforts to reduce incarceration are folly. This is nonsense. His pessimism about the potential for prisoner rehabilitation ignores the realities of reform.

Texas simultaneously closed prisons and decreased its crime rate faster than the national average; reducing incarceration can go hand in hand with increased public safety. Likewise, “smart on crime” policies instituted over the last decade have actually lowered the percentage of people who return to prison within three years of release from 48% of those released in 2005 to 37% in 2012. Not only is no one predestined to return to a life of crime, but these new strategies are helping keep them on the straight and narrow.

LARS TRAUTMAN
Washington

Special Counsels, Truth and Perjury Traps

Regarding your editorial “Trump Waives the Privilege” (Aug. 20): President Trump's lawyer, former New York City Mayor Rudy Giuliani, confronted the hard truth of media arbitration of the truth when he was questioned by Chuck Todd on NBC's “Meet the Press.” Mr. Todd pressed Mr. Giuliani to concede that if the president would agree to talk to Mr. Mueller, he would have no need to worry as long as he tells the truth. Mr. Giuliani responded that testimony given in an investigation represents each person's version of the truth. He noted that two people can have very different recollections and perceptions regarding past conversations and events. Slight differences in versions of the truth can plant seeds for obstruction of justice charges.

A few days before the Don McGahn

cooperation leak and Mr. Giuliani's interview, New York Gov. Andrew Cuomo delivered a speech in which he said that, “We are not going to make America great again. It was never that great.” He subsequently said that his comment about America was “inartful,” adding that, “Of course America is great and of course America has always been great.” If Mr. Cuomo had provided his two takes on America while under oath, he clearly would have to reconcile mutually-exclusive truths about America or face punishment; but for the most part his friends in the media will give him a pass. They don't do that for Republicans.

MATT HALL
Gainesville, Fla.

New York Mayor Sides With Haves Against Have Nots

Jason L. Riley makes many good points in “Getting Around Is About to Get Harder for Minorities” (Upward Mobility, Aug. 15). Had he more space he might have noted that most of the for-hire drivers are in fact minorities trying to increase their income. New York Mayor Bill de Blasio is just one more liberal white man trying to prevent the little guy from getting ahead. Essentially he's supporting the limited number of haves—the cabs—from competition from the have-nots.

STEPHEN RESTAINO
Chesapeake, Va.

Pepper ... And Salt

THE WALL STREET JOURNAL



“Good afternoon, business or economy class?”

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to wsj.ltrs@wsj.com. Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

VIC BROWN
Paoli, Pa.

STEPHEN WEEKS
Houston

OPINION

Dems Seek The House By Running For Mayor

By Ted Rall

The 1994 Contract with America revolutionized congressional midterm elections. A potent conservative message nationalized campaigns between local incumbents and challengers. Republicans took the House and held it for 12 years—until Democrats did something similar in 2006.

Democrats would probably take the House if the midterm elections were today. Historically, however, Democratic leads tend to shrink as November draws closer. And this time the party is taking the opposite approach. It's advised candidates to come up with their own message—"like you're running for mayor," in the words of Rep. Cheri Bustos of Illinois.

Unlike in 2006, the party tells candidates to come up with their own message.

The Contract with America was specific. It promised a floor vote on eight internal reforms and 10 bills. The Democrats' 2018 equivalent, blandly called "For the People," offers what the New York Times calls "a relatively anodyne agenda—lowering health care and prescription drug costs, increasing worker pay, cleaning up corruption." Absent are issues that captivate the progressive base—abolishing Immigration and Customs Enforcement, impeaching President Trump, "Medicare for all" and even abortion.

Could the party leadership's memory be dimming? National messaging was key to the Democrats' 2006 sweep—specifically, the slogan "Rubber-Stamp Congress." In a 2005 memo, Rahm Emanuel, chairman of the Democratic Congressional Campaign Committee, called the rubber-stamp message "a strategic lynch pin [sic] in our goal to nationalize the elections."

Three years after the invasion of Iraq, the war had become so unpopular that a senator from Illinois was making a name for himself by calling it "dumb." Five years after 9/11 the glow of the global war against terror had faded. The administration botched the response to Hurricane Katrina. Bush fatigue had set in.

Democrats nationalized the 2006 midterms around a simple message: America needs checks and balances.

"From all we know from the exit and opinion polls, it is safe to conclude that far from being about social values, or other broad ideological issues, this year's midterm elections were a referendum on Bush and GOP control of Congress, a judgment about performance, not ideology," the Pew Research Center's Andrew Kohut concluded at the time.

So why have national Dems denationalized this year's midterms? Because they're still riven by intramural conflict. The progressive Bernie Sanders wing is faster-growing and more energetic, but the corporatist Hillary Clinton elites are still in charge of the Democratic National Committee. So they've put their hands up, walked away, and decided to hope that Tip O'Neill was right when he observed that "all politics is local"—never mind that he was wrong in 1994 and 2006.

The Democratic centrists, led by Minority Leader Nancy Pelosi, are going with what they believe to be the lesser of evils: bland and vague over exciting and specific. In the age of Donald Trump—who is nothing if not exciting—playing it safe is a gamble.

Mr. Rall is a political cartoonist and author of "Francis: The People's Pope," the latest in his series of graphic novel-format biographies.

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By Edward C. Prescott
And Lee E. Ohanian

Some Keynesian economists argue that the U.S. economy's recent uptick is only a "sugar high." They predict that the slow-growth conditions of the Obama years will soon return. But this pessimistic view is misguided. Better economic policies are the primary reason the economy has improved since 2016. If pro-growth policies remain in place, the economy's strong performance will likely continue.

The growth paths in a market economy depend on the quality of government policies and institutions. These affect the incentives to innovate, start a business, hire workers, and invest in physical and human capital. If policies are reformed to increase incentives for market economic activity—as many have been under President Trump and the Republican-controlled Congress—then investment and labor input expand as the economy rises to a higher growth path. Once the economy reaches its new growth path, labor and investment stabilize at higher levels.

When policies change to depress these incentives, the economy moves onto a lower long-run growth path. That happened after the 2007-09 recession. Because of the severity of the downturn, the economy recovered organically to some extent. But that partial recovery stalled by the end of 2014 because of higher tax rates and increased regulation. These policies produced a long-run growth path below the prerecession path.

It's clear the recovery ended in 2014 because the two hallmarks of recovery—investment's share of gross domestic product and labor input relative to the adult population—stopped increasing. This left a large gap between actual output and the output level that would have occurred had the economy recovered to its prerecession growth path. According to our calculations, the U.S. cumulatively lost about \$18 trillion in income and output between 2007 and



DAVID KLEIN

2016. Everything suggested this shortfall would persist or even grow.

Yet economic performance began to improve beginning in the first quarter of 2017. Real GDP growth accelerated to about 2.7% between the end of 2016 and the second quarter of 2018, up from about 2% between 2014 and the end of 2016. The share of GDP devoted to nonresidential business investment rose to a historic high.

The economy isn't on a 'sugar high.' Pro-market policy improved incentives to work and invest.

The best measure of labor input—the total number of market hours worked divided by the 16-and-older population—is growing faster than in 2014-16, and is now close to its all-time high. This is all the more impressive since the growth rate of the working-age population is slowing. Perhaps the most exciting aspect of the current economy: The emergence

of better job opportunities has reduced the number of people on disability. This has led the Social Security Administration to reverse its previous warning that the disability system would become insolvent as soon as 2023.

U.S. economic performance is the strongest in years. One policy driving this turnaround is the substantially lower corporate-tax rate, which has made the U.S. more competitive with other countries. Regulatory changes—such as the partial rollback of Dodd-Frank and new leadership within the Consumer Financial Protection Bureau—also have proved helpful, particularly for small businesses, which are benefiting from lower record-keeping and compliance costs. Meanwhile, the number of regulatory pages in the Federal Register has been cut by a third since President Obama's last year in office. That's a major reason the National Federation of Independent Business reports that more small-business owners are hiring than ever. They're also increasingly optimistic about the future of the U.S. economy.

As the two hallmarks of recovery

are still rising, the economy likely has not reached its new, higher growth path. This means that the U.S. can expect above-normal growth in the coming months, possibly even years.

Growth rates could improve with further policy changes. One example is a reduction in trade barriers. Since the General Agreement on Tariffs and Trade was signed 70 years ago, international commerce has expanded dramatically, hugely benefiting U.S. consumers by lowering prices and increasing the variety of available goods. The average household's benefits from trade are greater than \$10,000 a year, according to the Tax Foundation. Further cooperative trade agreements—rather than wide-ranging tariffs—would expand these already large benefits.

A second area for reform that could put the U.S. on a still-higher growth path is health care. The rise of health-care costs is the most important reason wages have not increased more for U.S. workers. The extra compensation is swallowed up by health-insurance premiums. Expanding medical savings accounts and decoupling health plans from employment would create incentives for both consumers and their health-care providers to economize on health-care spending. This would lower costs without compromising quality.

U.S. economic performance over the past decade illustrates the substantial influence of government policies on growth. While some are reluctant to admit it, the current performance is a result of policies that basic economic theory tells us will increase investment and hiring. Even greater prosperity is possible if policy makers stay the course and continue to implement pro-market economic policies.

Mr. Prescott, a 2004 Nobel economics laureate, is director for the Center for the Advanced Study in Economic Efficiency at Arizona State University. Mr. Ohanian, a senior fellow at the Hoover Institution, is associate director of the center at ASU.

Modi Abandons Reform for Populist Nostrums



EAST IS EAST
By Sadanand Dhume

When Narendra Modi became India's prime minister in 2014, he styled himself as a business-friendly politician with a Thatchereite zeal for "minimum government." As he gears up for next year's general election, Mr. Modi sounds more like a tub-thumping Latin American populist.

This metamorphosis is evident in rhetoric and policy. In his appeal to voters, Mr. Modi champions ambitious welfare schemes for the poor. His government has raised trade barriers, retreated from promised privatization, and appointed a nativist ideologue opposed to foreign investment to the board of the central bank.

Mr. Modi remains the front-runner, but he is no longer the overwhelming favorite he was a year ago. Political uncertainty makes fresh reforms unlikely.

Let's start with the rhetoric. In a speech to the nation last week marking 71 years of independence from Britain, Mr. Modi unfurled an expansive populist vision. He tom-tommed government programs to ensure that every Indian owns a home and gets access to electricity, water, cooking gas and a toilet.

The prime minister reiterated a promise to double farmer incomes by 2022 and talked up a government program that has shovelled small loans to an estimated 130 million people. Mr. Modi reckons that these loans are a proxy for job creation. He pointed out that when a (presumably rich) person "in an AC room" discovers that "three poor families are being served with his tax money," he finds it "highly satisfying for his soul." Just in case someone missed the memo, Mr. Modi declared that

"our country works for the pride and honor of the poor people."

Mr. Modi also touted a new health-insurance program that will allow the poor to be "admitted to big hospitals free of cost" and receive "free treatment for serious diseases." He boasted that this program, dubbed Modicare by the media, would cover 500 million people, more than the population of the U.S., Canada and Mexico combined, and nearly as many people as live in Europe.

References to the U.S. and Europe are deliberate. Mr. Modi is selling his people the dream of development. But while the objective may be laudable, the dangers of stoking unrealistic expectations are real. With a per capita income of about \$2,000, India lacks the resources to support a welfare state. Moreover, the protectionist and statist policies Mr. Modi favors have not worked before.

Earlier this year, India raised tariffs on labor-intensive goods such as toys, footwear and furniture, and on electronics such as mobile phones and televisions. It also retaliated against the Trump administration's steel and aluminum tariffs by raising duties on almonds, apples and motorcycles, among other products. These actions reverse a trend of lowering

trade barriers dating back to India's economic reforms in 1991.

Historically, high tariffs bred corruption as rival businessmen lobbied politicians to manipulate duties. The tariffs also inflicted shoddy and needlessly expensive products on Indian consumers. In an op-ed, Columbia University's Arvind Panagariya,

He champions ambitious welfare-state schemes and protectionism while abandoning privatization.

an authority on global trade who served in Mr. Modi's government until last year, cautioned that protectionism could turn India "from the turnpike on which we have been traveling all these years on to the dirt road."

On privatization, the government's record has acquired a farcical cast. It quietly shelved the much-touted privatization of state-owned Air India in June after failing to attract any bidders. The government evidently press-ganged the state-owned Life Insurance Corp. of India to buy a ma-

jority stake in the loss-making state-owned IDBI Bank. No serious analyst believes the official version, that an insurance company suddenly decided to buy a rotten bank.

In effect, India's privatization program has become a dodgy accounting exercise in which one government-owned entity buys stakes in another rather than an attempt to streamline the economy by selling unproductive assets to private bidders.

One of the organizations that opposed the Air India privatization was the Swadeshi Jagran Manch, an economic affiliate of the Rashtriya Swayamsevak Sangh (National Volunteers Corps), the Hindu nationalist group that provides Mr. Modi's Bharatiya Janata Party with its top leadership and most committed cadres. Earlier this month, the government placed the group's chief ideologue, S. Gurumurthy, best known as India's leading opponent of foreign investment, on the board of the Reserve Bank of India.

Mr. Modi's goal of raising Indian living standards is laudable. But the only way to achieve this is through market-friendly reforms, not by doubling down on government, erecting trade barriers, and turning to cranks for economic advice.

The Hedge Fund That Makes iPhones

By Thomas Gilbert
And Christopher Hrdlicka

When you buy a share of Apple stock, you do not simply buy into a \$1 trillion technology company. You also buy a share of one of the world's largest investment companies: Braeburn Capital, a wholly owned subsidiary of Apple. Braeburn manages a \$244 billion financial portfolio—70% of Apple's total book assets. Apple acts like a hedge fund by supporting this portfolio with \$115 billion of debt.

Like a hedge fund, Apple provides minimal disclosures on Braeburn Capital's holdings. But unlike a hedge fund, Apple does not restrict itself to accepting funds from sophisticated investors. Apple invests the money of everyday investors, like a mutual fund—but without telling investors what they own, the most basic protection mutual funds offer.

Equity and debt holders beware. Similar shadow hedge funds abound within S&P 500 industrial companies. Most disclose less information than Apple about their activities. Our research, published in the Journal of Finance, shows that in 2012 these corporations managed a combined portfolio of \$1.6 trillion of nonoperating financial assets. Of this amount, almost 40% is held in risky financial assets, such as corporate bonds, mortgage-backed securities, auction-

rate securities and equities. Current accounting standards require companies only to report aggregate valuations on a quarterly basis.

Like Apple, these companies lever up. The debt may appear safe at first when it is backed by financial assets. But these assets are not the safe and liquid ones that typically facilitate day-to-day operations. By shifting into riskier and more illiquid financial assets, corporations hurt their debt holders, ostensibly to help equity holders.

Big industrial companies need to disclose more about their investments.

Equity holders don't seem to gain any benefit, though. Our research shows that large holdings of risky financial assets are associated with the destruction of value. The market values a dollar of risky financial assets at substantially less than a dollar. Large risky asset holdings are also associated with poorer corporate governance, CEO overconfidence and risk-incentivizing executive compensation such as stock- and option-based pay.

Through these shadow hedge funds, industrial companies chase after alpha. But beating the market is

hard, and the attempt destroys value through fees and the ensuing management distraction from the core business. Only the most select hedge-fund and mutual-fund managers outperform the market. It seems unlikely that the financial industry's best money managers would choose to work for industrial companies at lower pay. Moreover, if corporate treasurers truly create value, companies should be happy to trumpet their success. Instead they hide their results from investors by taking advantage of weak disclosure requirements.

Harmonizing the disclosure standards of these shadow hedge funds with those required of mutual funds and other financial intermediaries—including quarterly reporting of every asset held and daily marking-to-market of the portfolio value—is critical for an informed investor base. This could be accomplished. Any company holding more than 1% of book assets in non-cash-equivalent financial securities should be required to hold these assets in a subsidiary that reports its net asset value daily. Investors should be able to evaluate the performance of these shadow hedge funds for themselves and decide how they want to invest their money.

Messrs. Gilbert and Hrdlicka are assistant professors of finance at the Michael G. Foster School of Business at the University of Washington.



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WORLD NEWS

Scandal Shadows Pope's Visit to Ireland

Pope Francis is under pressure to address a global crisis in country scarred by sex abuse

BY FRANCIS X. ROCCA

VATICAN CITY—When Pope Francis lands in Ireland on Saturday, he will be visiting a once-devout Catholic society that is increasingly challenging the church's authority—and where anger is running high over decades of sexual abuse of minors by Catholic priests.

The pope's delicate two-day trip comes as clerical sexual abuse scandals unfold in other countries, including the U.S., and many Catholics are criticizing the pope's response to the crisis as inadequate.

The topic is thus likely to dominate his visit, and his statements and gestures on the subject there will play out to a global audience.

It will be the first visit to Ireland by a pope in nearly 40 years. When John Paul II went in 1979, he drew 1.25 million people to an outdoor Mass in Dublin, more than a third of the country's population.

At that time, the prestige of Catholicism in Ireland was virtually unquestioned, and the na-



Pope Francis at his weekly Vatican general audience. The pope is set to visit Ireland on Saturday.

tion's public mores were in line with the teachings of the church. Divorce, homosexual acts and abortion were illegal.

By 2016, 78% of the Irish described themselves as Catholic, down from 93% in 1981. But according to Archbishop Diarmuid Martin of Dublin, even those diminished numbers overstate the church's strength; younger Irish increasingly identify with no religion at all, he said.

"The main body of believing and practicing Catholics and the main leadership of the Catholic Church belong to a generation which is different to that of the future. And that's the big challenge," Archbishop Martin said in an interview.

Ireland's shift has been dramatically reflected in referendums in which voters approved same-sex marriage in 2015 and the legalization of abortion in 2018 by hefty margins, with considerable percentages of churchgoing Catholics voting in favor of change.

"We no longer have this quiescent, passive laity, who inter-

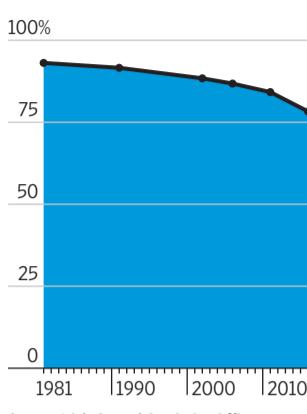
rogate nothing and who are obedient in a deferential and unquestioning way," said Mary McAleese, a former president of Ireland and a critic of the Catholic hierarchy.

The causes for this cultural change include the spread of formal education and an economic boom that shaped a more cosmopolitan society. But a key factor has been the revelation of clerical sexual abuse.

Judicial inquiries over the past two decades have uncovered widespread abuse of mi-

Leaving the Flock

Percentage of the population identifying as Roman Catholic in Ireland



Source: Irish Central Statistics Office
THE WALL STREET JOURNAL.

dals are there. They've done enormous damage, and they're still doing enormous damage because the wounds of those scandals are there."

The prospect of the papal visit has "opened up people's anger and distress" over the abuse and the coverups by church officials, said Colm O'Gorman, a sex-abuse victim and the executive director of Amnesty International Ireland, who has organized a protest in Dublin to coincide with the pope's outdoor Mass on Sunday afternoon.

Archbishop Martin said the pope would undoubtedly address the abuse crisis during the visit, adding that he would have to be "extremely sensitive to understand...the anger in these people."

"The pope just needs to tell the damn truth," Mr. O'Gorman said. "He needs to admit that the institutional church and the Vatican directed, implemented and oversaw the coverup of these crimes."

The pope plans to meet with some abuse victims in Ireland, as he has done in the U.S. and Chile, and as his predecessor Pope Benedict XVI did regularly on foreign trips, the Vatican spokesman said. The spokesman declined to give a response to Mr. O'Gorman's comments.

WORLD WATCH



CUBA

U.S. Eases Travel Warning for Citizens

The State Department relaxed its travel advisory for U.S. citizens traveling to Cuba, while still urging heightened caution and keeping in place restrictions the Trump administration imposed last year.

A travel notice the State Department posted Thursday assigned a "Level 2" warning to Cuba, recommending increased caution, spokesman Noel Clay said. It replaced an advisory that previously gave Cuba a "Level 3"

warning, meaning travelers should reconsider their trips. Mr. Clay didn't specify why authorities eased the warning.

The U.S. reduced staffing levels in its embassy in Havana last year after numerous employees were sickened by what officials have referred to as targeted attacks against U.S. personnel there. More than 20 American diplomats suffered symptoms including dizziness, concussions and hearing loss.

U.S. officials haven't determined "the cause or source of the attacks and the investigation continues," Mr. Clay said.

—Courtney McBride

IRAN

U.K. Dual National Gets Prison Furlough

Iran released British dual-national Nazanin Zaghari-Ratcliffe on Thursday on a three-day furlough from prison, where she has been serving a five-year sentence for her conviction on what U.K. officials say are murky charges of spying.

Ms. Zaghari-Ratcliffe, a project manager for Thomson-Reuters Foundation, was reunited after two years with her 4-year-old daughter, Gabriella, said her British husband, Richard Ratcliffe.

Ms. Zaghari-Ratcliffe's detention has been a source of tension between Iran and the U.K. as the British government has pressed for her release. She is among nearly a dozen dual-nationals—including Americans—sentenced by Iran's Revolution Court on spying convictions and used as leverage to swap prisoners and settle cash disputes with foreign governments.

Jeremy Hunt, the U.K. foreign secretary, said Thursday that Iran should "capitalize on the goodwill from today's announcement by going the whole way and releasing Nazanin."

—Farnaz Fassihi

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U.S. Probes Microsoft on Bribery

By DREW HINSHAW
AND JAY GREENE

Microsoft Corp. is being investigated by U.S. authorities over potential bribery and corruption related to software sales in Hungary, according to people familiar with the matter.

The investigation follows a series of similar probes into Microsoft business partners that surfaced in 2013 in five other countries. Microsoft made a push earlier this decade to expand in emerging

markets, as well as smaller, middle-income countries like Hungary. In some cases, those bets have turned into legal and reputational challenges.

The U.S. Justice Department and the Securities and Exchange Commission are probing how Microsoft sold software such as Word and Excel to middleman firms in Hungary that then sold those products to government agencies there in 2013 and 2014, according to these people.

Microsoft sold some of its products to these intermediaries at steep discounts, and then these firms sold the products to the Hungarian government at closer to full price, these people said. Investigators are probing whether the middleman companies used the difference to pay bribes and kickbacks to government officials, the people said.

Microsoft said it moved quickly to investigate itself after it became aware of "potential wrongdoing" at its Hungarian operations in 2014, according to a statement to

The Wall Street Journal by the company's deputy general counsel, David Howard. The company said it is cooperating with the Justice Department and SEC.

"We're committed to ethical business practices and won't compromise these standards," said Mr. Howard in the statement. Microsoft said it fired four employees related to its probe in Hungary, including its country manager, Istvan Papp. The company also said that last year it terminated business relationships with four

partners in Hungary, saying they violated its policies. The company said it has also bolstered efforts to increase transparency about discounting.

Mr. Papp, in a WhatsApp message to the Journal, said he was a "respected member" of the Microsoft "family." He said he "received only positive feedback from the management." He declined to comment further. Representatives from the Hungarian government didn't respond to re-

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Alibaba Withstands China's Slowdown

By LIZA LIN

E-commerce giant **Alibaba Group Holding** Ltd. reported a 61% increase in sales, as Chinese consumers continued to spend on the internet despite slowing economic growth.

Alibaba, the operator of China's two largest e-commerce platforms, Taobao and Tmall, said Thursday that its core e-commerce business kept charging ahead in the most recent quarter, driving overall revenue up 61% from the year-earlier period to 80.9 billion yuan (\$11.8 billion).

NYSE-listed Alibaba collected higher commissions and sold more ads to merchants in its fiscal first quarter, which ended June 30, as consumers kept up their purchases on its websites, the company said in a written statement. The growth comes even as China's economy posted slower growth in the same period, weighed down by a top-priority government debt cleanup and fears of prolonged trade friction with the U.S.

"Domestic consumption is supported by three important trends we have seen in the past several years, and which we believe will continue to be the case," said Joe Tsai, Alibaba's vice chairman in a call with investors. "Real wage growth with more people joining the middle class, healthy

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◆ Alibaba affiliate Ant Financial slips amid WeChat fight.... B4

INSIDE



There are nearly 17,000 new-car dealerships in the U.S., which directly employed 1.1 million people last year, according to the National Automobile Dealers Association.

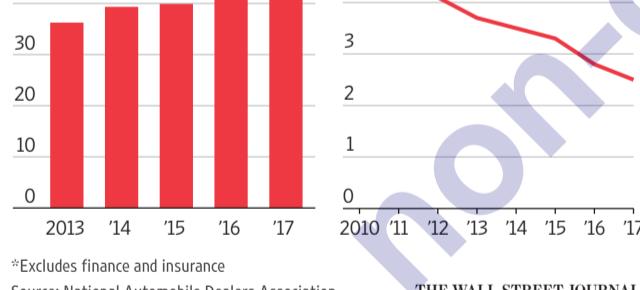
Car Dealers Labor to Keep Young Workers

By ADRIENNE ROBERTS

Dealership Churn

Turnover rates are on the rise at car dealerships as margins fall.

Turnover rates



Car dealerships are facing a roadblock: persuading workers in their 20s and 30s to work and stay in an auto retail business defined by long shifts, weekends on the selling floor, haggling and commission-based pay.

Nearly 60% of dealership hires are millennial workers, and more than half of those new hires turn over annually, according to a study by Hireology, a talent and management firm.

Millennials are especially averse to working in dealerships because they carry more debt than other generations

and are looking for stable pay, but most dealerships pay salespeople only on commission, Hireology said.

Many millennials say car dealers have an outdated approach to selling that doesn't always fit their values, even if the jobs have the potential to pay well. Younger workers aren't interested in haggling with customers and are far less tolerant of the "old boys' club" atmosphere still common at many dealerships, said Earl Stewart, owner of Earl Stewart Toyota in North Palm Beach, Fla.

"Car dealers are selling cars like it is the 1960s," Mr. Stewart said.

With more buyers walking into dealerships armed with pricing information pulled from the internet, salespeople are finding it more difficult to retain the upper hand in negotiating a car's final price.

That has caused profits on new-car sales to shrink in recent years, and along with it, the potential commission a sales staffer can earn upon closing a deal.

There are nearly 17,000 new-car dealerships in the U.S., which directly employed 1.1 million people last year, according to the National Automobile Dealers Association. Dealers say they are struggling

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SWINE FEVER IN CHINA INSPIRES FEARS

COMMODITIES, B11

COKE'S GLOBAL STRATEGY TAPS LOCAL TASTES

MARKETING, B3

STREETWISE | By James Mackintosh

Playing Monopoly Pays Off for Investors



Is rising corporate power hurting capital spending, wage growth and U.S. productivity? Central bankers meeting in Jackson Hole, Wyo., to discuss the issues will be worrying that the answer is yes. Investors should be thrilled if it is.

Economists are divided about the extent to which the changing structure of the economy is creating new monopolies, hurting consumers and workers and damaging corporate investment for the future. The division is easy enough to explain by looking at big technology disruptors: **Alphabet**, **Amazon**, **Apple** and **Facebook** are investing massively. They offer products that consumers love. They mostly pay their workers more than other companies, and cities are falling over themselves to attract their operations. Study them, and it is hard to conclude that new corporate monopolies are exploitative, although of course in the fu-

ture they might be.

Look elsewhere, and the U.S. economy does seem to have become less competitive. In almost every industry the top five businesses have a bigger market share, and although evidence on corporate markups is mixed, profits are up a lot and the share of economic output going to workers is down.

What the Federal Reserve worries about, shareholders

should embrace. Less of the economy going to workers means more going to capital—that is, investors. Of course, having a functioning economy and democracy matters, but let the companies that will suffer from that sit in someone else's portfolio. The ones you want have a commanding position in their business, limited competition and less need to invest. So long as they don't

trade at too high a premium to the market, these are the stocks to own for the long run. This, broadly speaking, is the Warren Buffett maxim. Mr. Buffett likes to talk about "moats" protecting a company, rather than monopolistic positions, but so long as they deliver profits shareholders shouldn't worry too much about the label.

If there are more of these companies, all the better for investors. That means more opportunities to find stocks able to generate a higher return on equity thanks to their ability to push through price rises, limit investment, or both.

There are two particular risks faced by this approach. First, maintaining capital discipline is hard. CEOs sitting on big piles of cash love to find ways to spend it instead of giving it back to shareholders.

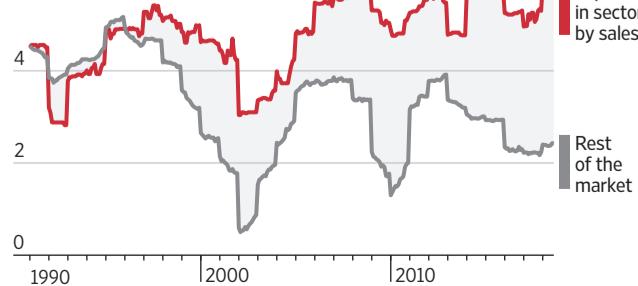
Second, the monopoly will eventually come under attack. The latest wave of disruption has hit a lot of the traditional "quality" stocks,

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Leaders of the Pack

The biggest U.S. stocks in each sector are becoming more profitable at the expense of the rest.

Return on average total assets



Retail Stocks Roar Back On Consumer Strength

By BEN EISEN

on 16% this year, including 5.6% in August alone.

"Wages are up. Employment is up. Interest rates are low. So it's really a very good economic time for consumers," said Paul Hogan, a portfolio manager and analyst at Fidelity Asset Management, which counts **Ross Stores** Inc. among its holdings. The off-price retailer's stock has risen 18% this year, though shares declined in after-hours trade Thursday after the latest earnings report.

Not long ago, retail stocks were in free fall as investors worried that traditional retailers couldn't compete in the new world of e-commerce. Target shares dropped 9.7% last year even as the broader market surged, marking its third straight year of declines.

Target's rebound is due partly to recent efforts to improve stores and ratchet up its e-commerce business. Other bricks-and-mortar retailers have struggled. Lingerie company **L Brands** Inc., for example, reported a decline in comparable sales on Thursday for

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BUSINESS & FINANCE

More Sears and Kmart Stores to Close by November



PATRICK GORSKI/NURPHOTO/ZUMA PRESS

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Alibaba Withstands Slowdown

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household balance sheets based on high savings rates, and easier access to consumer credit."

Before the results, investors had been increasingly worried about the toll slowing economic growth in China might have on e-commerce stocks, said Jerry Liu, China internet analyst at UBS Investment Bank in Hong Kong.

As China's growth slows, consumers' retail confidence and merchants' willingness to spend on advertising might be affected, he said.

Alibaba's rise in revenue was also accompanied by the company's success from its push into bricks-and-mortar stores. Its effort to meld online and physical store sales through initiatives such as its Hema grocery chain, which operates more than 45 outlets across China, are now paying off and helping to boost sales, the company said Thursday. Alibaba has been trying to di-

versify beyond e-commerce to remain competitive in the fast-evolving internet-services sector in recent years.

On Thursday, Alibaba also reported earnings for the quarter declined 41% to 8.7 billion yuan on a one-time stock-compensation charge from the revaluation of an affiliate, Ant Financial Services Group. Without the stock-compensation charge, Alibaba said its net income rose 33% from a year earlier.

The Hangzhou-based company's fortunes stand in contrast to a fierce rival and peer, **Tencent Holdings** Ltd. Chinese social-media and games giant Tencent posted a rare profit decline and lower-than-expected sales earlier this month, as government regulators make it harder for the company to earn money off its most popular videogames.

Still, Alibaba's stellar sales growth comes at a cost. In the same statement, the Chinese technology company said it would merge its Ele.me food-delivery business with affiliate Koubei, which offers reviews and information similar to Yelp Inc., into a new unit focusing on serving consumers. Alibaba and other shareholders, including **SoftBank Group** Corp., will invest more than \$3 billion into the new unit.

Although it was necessary to invest in local services such as food delivery to cater to changing consumer needs, these investments would weigh on profit in the near term, Maggie Wu, the company's chief financial officer warned on the call Thursday.

Alibaba has also been aggressively acquiring stakes in companies to expand. In July, the company invested \$2.2 billion in Focus Media, a Chinese outdoor advertiser, to strengthen advertising beyond its online platforms. In May, Alibaba, its majority-owned logistics unit Cainiao Network and other investors spent nearly \$1.4 billion for a 10% stake in express-delivery company ZTO Express Inc.

Retail Stocks Roar Back

Continued from page B1
the latest quarter, pushing its shares down 11% for the day.

Even so, many brands are being helped along by Americans' increasing willingness to spend. Retail sales in July rose by 6.4% from a year earlier, data showed last week, suggesting that U.S. consumers are spending at a much faster pace than inflation as they benefit from a strong economy and tax cuts, econo-

The company said in a statement this week that it told employees at those locations that the stores will be closed in November.

Sears said liquidation sales at stores that are being closed will start next week at the earliest.

As of May 5, the company had 894 Sears and Kmart locations.

"We continue to evaluate our network of stores, which is a critical component to our integrated retail transformation, and will make further adjustments as needed," Sears said in the

mists say.

Years of an improving labor market have given households more money to spend. Though rising fuel prices may be one wild card for the pickup in consumption, economists say they aren't particularly worried about it yet.

Meanwhile, grocery stores, department stores, restaurants and clothing stores are all seeing stronger spending, the data show. While one measure of consumer sentiment hit a one-year low recently, it remains high by historical comparison.

Beyond the cyclical trends helping these companies, some investors are betting that younger customers will increasingly shop at traditional

stores as they buy their own homes and have children.

"What people have doubted is that this next generation is going to care about bricks-and-mortar retail as boring as Target," said Tony Scherrer, director of research at Smead Capital Management, which owns stock in the company and has added to it this year. "We've taken the other side of the bet."

Though retail stocks aren't as cheap as they once were, they're still finding favor among Smead and other so-called value investors. The SPDR retail ETF currently traded this week at roughly 17 times earnings over the last 12 months, versus more than 21 times for the broader S&P 500.

Shopping Spree

Performance of retail shares since the start of the year.



SPENCER PLATT/GETTY IMAGES

With more buyers walking into dealerships with pricing information from the internet, salespeople are finding it difficult to negotiate.

Youths Run From Jobs In Car Sales

Continued from page B1

to control employee turnover, which has steadily increased over the last five years even though U.S. auto sales have remained robust. A low unemployment rate has also contributed to staffing difficulties.

Dealers expect the problem to worsen as generations younger than millennials enter the workforce.

Some younger workers also say they are turned off by the proverbial image of the smooth-talking, pushy car salesman out to trick buyers into paying more for a vehicle.

Drew Lowe, a 32-year-old

salesman at Lexus of Lehigh Valley in Allentown, Pa., said many of his friends were surprised when he told them he was going to sell cars. When his friends hear the term "car salesman," they think "plaid coat and gold pinkie ring, 30 trips up to the office to talk to the manager...and the sales-

person pretending to be your friend," Mr. Lowe said.

Mr. Lowe said he surprised himself with his job choice, since he had never considered working at a dealership before.

But he found a retailer with a one-price policy that didn't force him to haggle with customers.

Nissan Motor Co. said it has had 100% turnover for sales staff at its dealerships in the last year. That means some positions are turning over more than once a year, a rate that is costly for dealers in both time and money, said Jim Hooke, a senior manager at Nissan's dealer training group.

The churn can be frustrating for consumers. Vehicles have become more technologically advanced, requiring salespeople to be more knowledgeable. But instead, potential buyers are increasingly dealing with staff who may know less about a vehicle's features and technology than they do, dealers say.

Even as more buyers are doing their car-shopping research online,

state laws still require that most purchases be made in person at dealerships.

Mike Gnitecki, a 33-year-old

paramedic, said he was ready

to buy a new Hyundai Accent when he stopped by his local dealership to look at one, but was so turned off by the salesperson's lack of knowledge about the vehicle that he left the store. He said the Hyundai salesperson kept turning to the car's window sticker to answer basic questions.

"If I could buy a [new] car on Amazon.com or eBay.com, I would," said Mr. Gnitecki, who bought a Toyota Prius from a more informed dealer instead.

Chace Pate, a general manager at Hyundai of Longview—the dealership Mr. Gnitecki visited—said turnover has been a problem. The dealer recently began requiring online training for salespeople and changed the pay structure, so employees are paid by how many vehicles they sell a month, rather than on a traditional profit-based commission, he said.

Some dealers are also instituting no-haggle policies,

where the dealer sets an advertised price and sticks to it,

relieving salespeople from having to negotiate to complete a sale.

Others are increasing pay, shortening workday hours and offering perks such as free college tuition for

employees who stay. The average car salesman earns \$44,700 a year, according to 2017 data from the Bureau of Labor Statistics, much higher than the average annual pay of \$27,500 for all retail sales jobs.

Ryan Gremore, president of O'Brien Mitsubishi in Normal, Ill., said he recently increased commission-based pay for his sales staff by 5% and began monthly sales bonuses. The efforts have helped, he said.

"They aren't looking around the corner or jumping ship every time there's a bad month," Mr. Gremore said.

Notice of Intention to Declare Final Dividend (O. 18, r. 7)
THE COMPANIES LAW
NOTICE OF INTENTION TO DECLARE FINAL DIVIDEND

ICP Strategic Credit Income Master Fund Ltd. in Official Liquidation (Master Fund)

BUSINESS NEWS

Gap Sales Fall 5% at Flagship Brand

By KHADEEJA SAFDAR

Gap Inc.'s struggles to revive its flagship brand continued in the latest quarter as declining sales muted gains at the retailer's other units.

Comparable sales at the company's main brand declined 5% in the most recent quarter from a year earlier, sending shares down 6.6% in after-hours trading.

Chief Executive Art Peck called the performance unacceptable and attributed the problems to an inventory backlog that he said the company was working to correct. "We believe the worst is behind us," he said on a conference call Thursday.

Companywide comparable sales increased 2% in the second quarter from the year-earlier period. That includes Old Navy, which increased 5%, and Banana Republic, which edged up 2%.

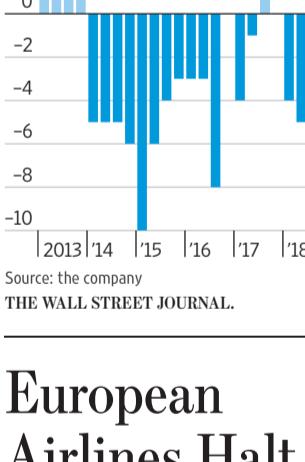
Earlier this year, Gap Inc. parted ways with the leader of its flagship brand, Jeff Kirwan, and gave the job to Neil Fiske, who previously worked at Billabong. Mr. Peck said the company is still working to clear inventory at the brand and expects to see improvement later in the year.

Several executives have tried to revive the Gap brand, but wardrobe basics have evolved since its heyday. In recent years, the brand has lost market share to fast-fashion rivals like Zara. Old Navy, the company's budget brand and biggest division by sales, has been a bright spot, helping to shore up companywide results even as Gap has struggled.

Gap brand needs to revamp its product offering, said Neil Saunders, managing director of GlobalData Retail. "While the market is moving forward, Gap is, at best, standing still," he said in a note Thursday. "That the brand cannot deliver, even over a period of very robust consumer spending, is evidence that it is still broken."

Mind the Gap

Gap's comparable sales change from a year earlier



European Airlines Halt Iran Flights

By DIMITRIOS KONTOS

British Airways and Air France-KLM said Thursday they will stop flights to and from Iran in September, citing commercial reasons.

BA, International Consolidated Airlines Group SA's biggest airline, said it is suspending its London to Tehran service "as the operation is currently not commercially viable," with the last outbound flight on Sep. 22 and the last inbound flight the following day. The company said it is in discussions with partner airlines to offer customers rebooking options or full refund.

Air France-KLM said it has already reduced its Paris to Tehran service to once a week and will suspend it Sept. 18.

Deutsche Lufthansa AG said that for the time being it doesn't plan to stop flying to Iran but is "closely monitoring developments with regards to the sanctions announced."

The U.S. has announced sanctions targeting Iran's trading of gold and other precious metals, its car industry and the purchase of dollars.

The Many Flavors of Coca-Cola

In search of growth, soda giant is pressing local units to develop new beverages

When **Coca-Cola** Co. directed its global subsidiaries to launch more local flavors last year, the company's Indian arm came up with a unique drink: chunky mango juice. Indians commonly squeeze mangoes to soften them and then

By Eric Bellman
in New Delhi
And Jennifer Maloney
in New York

bite a hole in the tropical fruit's tough skin to suck out the pulp, Coke's Indian drink developers knew. So they concocted a beverage to mimic that experience, called Maaza Chunky.

The invention of an India-only product was something the beverage behemoth wouldn't have attempted three years ago, but it reflects a push by Coke Chief Executive James Quincey to get the company to shed its culture of cautiousness, expand into new categories and bring products to market faster.

"There are products out there in the world that perhaps we wouldn't have tried a few years ago," Mr. Quincey said in an interview.

Before Mr. Quincey was named CEO in May 2017, investors and analysts had criticized the Atlanta-based company for focusing too long on sugary soft drinks, even as consumers switched to healthier options and the company's global beverage volumes stalled.

Since then, Coke has pushed harder to diversify, launching more than 500 new products and variants last



Under Chief Executive James Quincey, the soda maker has been working to diversify its beverage offerings for various markets.

year, a record for the company and an increase of roughly 25% over the previous year. Recent launches include a cucumber-flavored Sprite in Russia, a line of whey shakes in Brazil, a sesame-and-walnut drink in China and a salty lemon tonic water in France and Belgium. Coke says its expanding portfolio is helping to drive its recent growth in volumes.

"We're not betting the ranch on every idea until it's proven to have some traction," Mr. Quincey said. "I think we see more innovation in the marketplace...but just as importantly, a focus on removing the things that don't work."

Coke is asking its interna-

tional arms—which deliver more than half its revenue—to experiment and speed up their research and development efforts. It used to take a year or more to get a new product to store shelves in India; now it can take just four months, executives say.

"We have this mandate now to go create products and businesses which are much more in tune with the local needs," said Shehnaz Gil, one of Coke's executives in India. "It's part sommelier, part science."

Creating Maaza Chunky was complicated. Because of the drink's consistency, Coke had to develop a new can and a way of filling it.

Focusing too much on new,

unproven brands has risks. Rival **PepsiCo** Inc. learned that lesson last year when it shifted too much shelf space and advertising money to new brands like Izze Fusions, a fruit juice-soda blend. Sales and market share fell for core brands, including Pepsi-Cola, Mountain Dew and Gatorade.

In Japan, Coke has for years brought new products to market more quickly and frequently than it has elsewhere in the world. Its recent launches there include a laxative Sprite and the company's first alcoholic drink—a fizzy lemon concoction. By contrast, other Coke business units around the world have depended more on brands origi-

nally developed for Americans.

The new strategy calls for the company to "lift and shift" the best local innovations and acquisitions and bring them to other countries, Coke says.

The company launched Coca-Cola Plus Coffee in Australia last fall. Based on the drink's reception there, the company made some tweaks before rolling out versions to markets including Vietnam and Turkey.

Some inventions fall flat. The company's last attempt at a coffee-flavored soda flopped soon after launching in Europe and North America in 2006. The flavor put people off, and Coca-Cola discontinued Blak in the U.S. the following year.

Lower Meat Prices Pinch Hormel and Sanderson

By JACOB BUNGE

Pork and chicken supplies will continue to rise as U.S. processing plants expand, meat executives said, exacerbating near-record production and storage levels that have pushed down prices.

Hormel Foods Corp. on Thursday cut its sales forecast for this year as the Spam maker confronts lower pork prices, tariffs and rising freight costs. **Sanderson Farms** Inc. reported third-quarter profit of \$11.5 million compared with \$115.8 million a year earlier, far below analysts' expectations.

"Tariffs, freight, supply levels and demand have all created market volatility," said Jim Sheehan, Hormel's chief financial officer, on a conference call.

Hormel shares declined 3.1% on Thursday, while Sanderson's stock fell 0.2%.

Meatpackers are betting that growth in consumption in the U.S. and internationally will carry them through the slump. Tougher U.S. trade policies have prompted tariffs on U.S.-produced meat in major markets like Mexico and China. Some companies are

cutting prices, while supplies in U.S. facilities are approaching records. Lean hog futures prices have dropped 26% so far this year at the Chicago Mercantile Exchange.

Huge pork plants opening across the Midwest are competing for hogs and putting pressure on less efficient plants. Hormel said Thursday that it will sell a hog-processing plant in Nebraska to

26%

How much lean hog futures have fallen this year at the CME.

farmer-owned **WholeStone Farms** for \$30 million.

WholeStone plans to renovate the plant and add a second shift that will boost output beyond the 10,500 hogs slaughtered there each day, Hormel Chief Executive Jim Snee said. He estimates those upgrades would have cost Hormel around \$80 million.

WholeStone didn't respond to a request for comment.

The expanded plant will

add to pork-industry capacity that has swelled 8% in two years, according to the National Pork Board. That figure is expected to rise with the opening of another pork plant in Iowa in the months ahead.

Mississippi-based Sanderson, meanwhile, said it would move ahead with plans to open a poultry plant in Texas in 2019 that will boost its processing capacity by 9%.

Chief executive Joe Sanderson said he expects demand for poultry will continue to grow, but said that high supplies and low prices for red meat have made it harder to get chicken featured in restaurants and grocery stores.

"I have never seen a scenario where beef and pork affected [chicken]," Mr. Sanderson said on a conference call. "I was wrong about that."

Hormel's overall third-quarter profit rose 15% to \$210.2 million, or 39 cents a share. Hormel reduced full-year revenue guidance by \$400 million at the midpoint to between \$9.4 billion and \$9.6 billion.

—Kimberly Chin contributed to this article.

◆ Disease prompts fear of a pork shortage in China..... B11

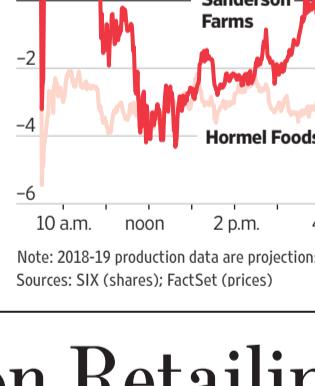


The companies' shares declined on Thursday after the reports.

Cheap Meats

Shares in meat companies fell on Thursday as rising production weighed on earnings and prices.

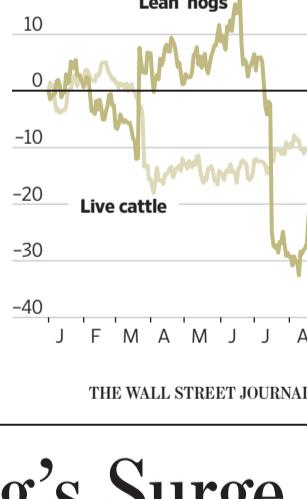
Share performance on Thursday



Note: 2018-19 production data are projections

Sources: SIX (shares); FactSet (prices)

Change in futures prices



J F M A M J J A

THE WALL STREET JOURNAL.

Victoria's Secret Misses Out on Retailing's Surge

By KHADEEJA SAFDAR

recent additions to the product lines are performing well. "What's new in the assortment is what's working," she said.

Shares in L Brands fell 11% to close at \$28.25 Thursday.

Since she joined Victoria's Secret, Ms. Singer has launched bra styles emphasizing comfort and fit, in an attempt to appeal to shoppers looking for more natural looks. But the company has continued to struggle. The latest results come as a robust U.S. economy is spurring more people to open their wallets, boosting retailers as diverse as **Home Depot** Inc. and **Nordstrom** Inc. **Walmart** Inc. and **Target** Corp. both delivered their best quarterly performances in years.

Victoria's Secret was once a top performer in the retail industry, powering years of growth with images of busty models at its more than 1,000

largely mall-based stores. Two years ago, L Brands CEO Leslie Wexner took charge of the brand and announced changes that were intended to ensure it didn't suffer the same fate as other specialty brands.

He exited the lingerie brand's swimsuit business and doubled down on sports bras to address the rise of the so-called athleisure trend. Mr. Wexner later hired Ms. Singer to help execute the strategy.

The brand is still struggling as young consumers now prefer more authentic marketing and garments that resemble crop tops, with simple sizing and lower prices. It is also facing new competition from niche competitors and entrants such as **American Eagle Outfitters** Inc.'s Aerie brand, which uses more natural-looking models.

Despite resorting to heavy promotions, Victoria's Secret

has struggled to draw customers to its stores. Recently, those troubles have spilled over into Pink, once a bright spot that drew in younger customers before they transitioned to Victoria's Secret.

Analysts say the company has had plenty of time to execute on its strategy and it has become more apparent that its plans haven't played out.

"The biggest surprise is Pink, which was once a quiet but powerful driver," said Simon Siegel, an analyst at Nomura Instinet. "We're now seeing it hitting a ceiling."

L Brands said Pink CEO Denise Landman will leave the company later this year and be succeeded by Amy Hauk, a merchandising executive at Bath & Body Works. On Thursday, Ms. Landman said the brand is still popular among college-age women. "I do not think, nor do I think anyone in

this room believes, that Pink has lost its ability to connect with customers," she said.

Comparable sales at Victoria's Secret declined 1% in the second quarter from a year earlier, and the brand's merchandise margin rate fell across all major categories as the company used promotions to clear inventory.

Nearly half of the stores run by L Brands, which also owns Bath & Body Works, are also in second- and third-tier malls. In an interview earlier this year, Mr. Wexner defended the large fleet of mall-based stores, saying that the demise of bricks-and-mortar locations has been overstated.

For the year, L Brands lowered its earnings-per-share guidance from between \$2.70 and \$3 to between \$2.45 and \$2.70. It predicted third-quarter earnings per share between zero and 5 cents.

TECHNOLOGY

WSJ.com/Tech

Australia Puts Ban on China Firms

Australia banned Chinese telecom firms **Huawei Technologies** Co. and **ZTE Corp.** from its next-generation 5G mobile network, aligning it

By Mike Cherney in Sydney and Dan Strumpf in Hong Kong

with U.S. policy on the matter and underscoring concerns about the possibility of cyber-spying by Beijing.

The Australian government said Thursday that companies that are "likely to be subject to extrajudicial directions from a foreign government that conflict with Australian law" wouldn't be able to guarantee security of the network.

The statement didn't specifically mention Chinese companies, but Huawei said it had been informed that both it and ZTE had been banned from the rollout.

"This is an extremely disappointing result for consumers," Huawei Australia said on its verified Twitter account. "Huawei is a world leader in 5G. Has safely & securely delivered wireless technology in Aust for close to 15 years."

A spokesman for Huawei, the world's biggest supplier of

telecom equipment, didn't immediately respond to a request for further comment. A ZTE spokeswoman declined to comment.

Australia's intelligence agencies have been pushing for Huawei to be blocked from the network, though recently there had been speculation that a compromise might be reached. American officials had raised concerns about the matter to Australia's leadership earlier in the year, The Wall Street Journal previously reported.

Canberra's decision is a setback for Huawei's global ambitions in the race to develop next-generation 5G technology. Being a leader in 5G technology is a priority for Huawei because telecom carriers are expected to be buying 5G software and equipment for years as it is rolled out worldwide.

The company has been aggressively pushing to set standards for 5G technology and has poured huge sums into 5G research and development, budgeting \$800 million for 5G R&D this year on top of \$1 billion already spent. So-called fifth-generation networks are expected to bring faster internet speeds, as well as provide



Huawei's booth at a trade fair in Europe. The Australian government cited cybersecurity as a reason to ban Huawei and ZTE.

the connectivity behind driverless cars, virtual reality and other cutting-edge technologies.

Canberra's ban marks the most concerted effort by an American ally to block Huawei from participating in next-generation 5G networks. Huawei and ZTE will be "very concerned whether Australia is setting an example" that other countries could follow, said Wei Li, a lecturer at University of Sydney Business School.

Other American allies have heightened their scrutiny of Huawei. Last month, the U.K. government said a review of

Huawei's engineering found "shortcomings" in the company's engineering processes. Huawei said it was working to address the concerns.

In its statement, the Australian government said that 5G differs from current networks, which include two parts. In existing networks, a "core" is where the most sensitive functions—for example, voice and data routing—occur, while the "edge" connects customer equipment such as phones and laptops to the core.

But in a 5G network, "the distinction between the core

and the edge will disappear over time," the government said. "This shift introduces new challenges for carriers trying to maintain their customers' security, as sensitive functions move outside of the highly protected core environment."

The matter is the latest turbulence for Australia's relationship with China, which is an important trading partner. Australia recently approved new counterespionage safeguards that China believed were directed against it, and Australian officials blocked Huawei from building an undersea cable to the Solomon Islands.

In a routine press briefing Thursday, a Chinese Foreign Ministry spokesperson said China was "gravely concerned" about the Australian decision.

"Instead of exploiting all kinds of excuses to create hurdles and taking discriminatory measures," he said, "we urge the Australian side to abandon ideological biases and create a sound environment for the fair competition of Chinese enterprises in Australia."

—Te-Ping Chen in Beijing contributed to this article.

Ant Financial Stumbles as It Fights WeChat

BY STELLA YIFAN XIE

Ant Financial Services Group's latest quarterly profit fell by roughly half, as the Chinese financial-technology giant spent heavily to attract and retain customers in China's fast-growing internet-consumer economy.

The Hangzhou-based company, which is controlled by Chinese billionaire Jack Ma, earned 2.43 billion yuan (\$355.2 million) in pretax profit for the three months ended in June, versus 5.24 billion yuan for the same period a year earlier.

Privately owned Ant doesn't report quarterly results, but its pretax profit can be calculated from disclosures in the results of e-commerce company **Alibaba Group Holding Ltd.**, which has a profit-sharing agreement with Ant.

Ant, which earlier this year raised about \$14 billion in capital and earned a valuation of about \$150 billion, is one of China's fastest-growing and most influential financial companies. It owns the country's largest mobile- and online-

payments network, operates the world's largest money-market mutual fund, and has facilitated loans to millions of people and small businesses. The company was created after Alibaba in 2011 spun out its Alipay unit. Ant Financial, through Alipay, handles payment transactions on Alibaba's websites as well as for scores of offline venues, and earns fees from selling technology services to banks and other financial firms.

The sharp drop in Ant's quarterly profit was partly the result of a battle with **Tencent Holdings Ltd.** for market share and dominance in China's swelling mobile-payments industry. Tencent's payment service, through its social-messaging app **WeChat**, is also used by hundreds of millions of Chinese citizens to make payments for things as diverse as coffee and taxi rides, and is Alipay's main rival.

Both companies have been offering heavy subsidies to users, bricks-and-mortar retailers and other merchants to get them to use their payment systems, essentially funding

discounts and providing cash rebates to customers.

Ant earlier this year posted a quarterly loss of about 1.9 billion yuan—it's first such loss in two years—because of what Alibaba described as "aggressive marketing and promotion" activities.

In the most recent quarter, the sharp decline in Ant's profit was a result of its "investments in user acquisition, product innovation and international expansion," according to the Alibaba filing.

Alibaba is in the process of taking a one-third stake in Ant, its financial affiliate. It would replace a profit-sharing agreement put in place before Alibaba's 2014 initial public offering that has seen Ant pay Alibaba royalty fees and software-technology service fees equal to 37.5% of Ant's pretax profit each quarter.

Ant and Alibaba don't disclose Ant's revenue, but The Wall Street Journal previously reported Ant's annual sales topped \$10 billion in 2017, a year in which the company earned roughly \$2 billion in pretax profit.

Honeywell Spinoffs On Track

BY ALLISON PRANG

Honeywell International Inc. is moving ahead with plans to break up the company as part of its effort to simplify its operations.

Two planned spinoffs—to be called Resideo Technologies Inc. and Garrett Motion Inc.—filed registration documents with the Securities and Exchange Commission on Thursday, giving investors an early look at their operations after they split from the manufacturing conglomerate.

Resideo will include **Honeywell's** ADI Global Distribution and home divisions, producing equipment such as thermostats, water heaters, security-control devices and sensors. Garrett will house Honeywell's transportation-systems division, which makes turbochargers and compressors for cars and trucks.

Garrett plans to list its shares on the New York Stock Exchange under the symbol **GTX**, according to its filing. Resideo didn't immediately provide details in its filing on where its shares would trade.

Honeywell, whose operations include manufacturing aircraft engines and catalysts to produce gasoline, decided last year that spinning off the businesses would be the best path to simplify its operations. The Garrett spinoff is expected to be completed by the end of the third quarter and the Resideo spinoff by the year's end.

In connection with the spinoffs, Honeywell said it would get a dividend from the companies of about \$3 billion.

Resideo expects to incur about \$1.23 billion in debt in connection with the spinoff while Garrett expects to incur about \$1.58 billion in debt, according to securities filings.

On Thursday, Honeywell also raised its earnings guidance for the year. It expects to report an adjusted profit of between \$8.10 and \$8.20 a share, from \$8.05 to \$8.15 a share.

The company said it was increasing its guidance as a result of confidence in its business as well as an accounting change related to Bendix asbestos liabilities.

In July, the company had increased its sales guidance when it reported quarterly results. For that three-month period, sales rose in all of Honeywell's divisions.

Shares in Honeywell were up 1.1% on Thursday. Shares have gained 16% over the past 12 months.



Gamers play 'Forza Horizon 4' computer games using Microsoft Xbox consoles in Germany.

DOJ, SEC Investigate Microsoft

Continued from page B1

peated requests for comment.

U.S. authorities have a wide remit to investigate and prosecute allegations of corporate bribery and corruption overseas under the U.S. Foreign Corrupt Practices Act. The law prohibits businesses from paying bribes to win or maintain business.

Many big companies, including Microsoft, have processes in place to solicit internal whistleblower complaints and report possible violations to federal agencies. In many instances, federal investigators don't find anything wrong after they start to scrutinize an allegation.

Seven of the 10 biggest fines in the FCPA's 41-year-existence have been imposed in the last five years, according to the specialist website FCPA Blog. Since 2010, the SEC has rewarded whistleblowers with up to 30% of any fine imposed, encouraging a rise in employee reporting.

So far that hasn't changed with the administration of President Trump, who called the FCPA a "horrible law."

Last year, the Justice Department and SEC imposed a \$965 million settlement—their biggest ever—against Sweden's

Telia Co. AB for violations in Uzbekistan. Attorney General Jeff Sessions has said he wouldn't relent on pursuing foreign-bribery cases.

The Wall Street Journal reported in 2013 that U.S. authorities had examined Microsoft's relationship with business partners in China, Romania, Italy, Russia, and Pakistan amid allegations these partners may have bribed government buyers or provided kickbacks.

It couldn't be determined if the U.S. is continuing to investigate Microsoft in any of those countries. Representatives from the Justice Department and the SEC declined to comment. Microsoft said it is cooperating with U.S. authorities related to corruption issues in "various countries," according to the company's annual filing with the SEC earlier this month.

The SEC separately scrutinized Microsoft deals in the Czech Republic, looking at allegations it may have fallen afoul of American antibrigacy laws there, according to people familiar with the matter. It couldn't be determined if American authorities are continuing to look into those allegations. Authorities in the Czech Republic are investigating Microsoft over allegations of anticompetitive behavior, according to people familiar with the matter. Microsoft said it was aware of the probe by Czech authorities and was cooperating.

In Romania, Microsoft's for-

mer country manager Călin Tatomir is scheduled for trial next month, charged with laundering money and complicity in the abuse of public office during his time as the company's leader there. Prosecutors say he helped intermediaries selling Microsoft software to the government get an "undue advantage" through methods of corruption they haven't specified. His lawyer declined to comment on the charges. Microsoft itself isn't charged with any wrongdoing.

Microsoft in 2012 made an effort to dissuade the Hungarian government from using free word-processing and spreadsheet software from ri-

vals. In November 2012, then-Chief Operating Officer Kevin Turner met with Hungarian Prime Minister Viktor Orban, who brought with him a group of small company owners, according to a government statement.

Over the next two years, Microsoft sold roughly \$30 million annually in software to such companies, sometimes at discounts that could run as high as 30%, according to people familiar with the matter. It couldn't be determined how much of those sales have been subject to scrutiny.

Microsoft sales employees based outside of Hungary signed off on the discounts,

according to one of the people. Microsoft said those decisions were based on misrepresentations by the rogue Hungarian employees. Not all of those discounts were passed on to the government agencies that ultimately bought the software from the middlemen, the people said.

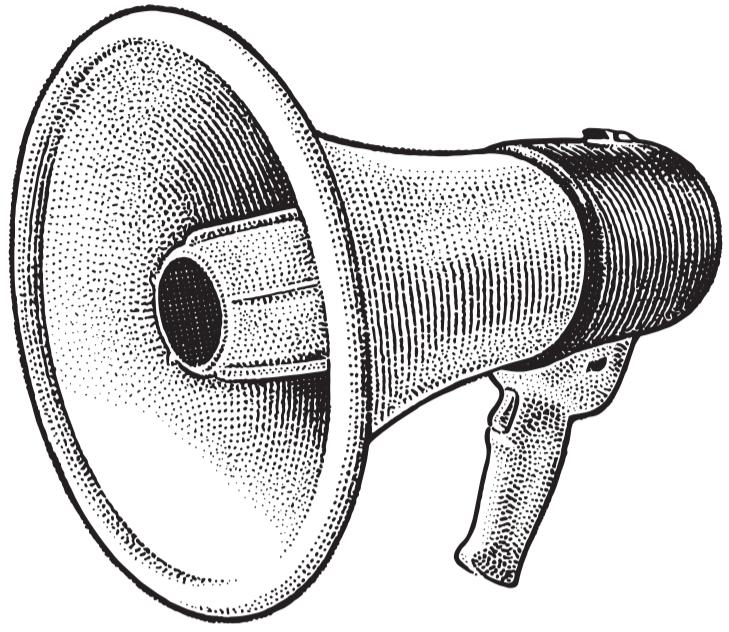
The deals helped boost sales, and they helped lift the profile of the local unit. In a press release in June 2015, Microsoft cited Hungary as its "best-performing...subsidiary, of its size, for two years running" over the previous five years.

—Philip J. Heijmans contributed to this article.

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COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Open	
Copper-High (CMX)-25,000 lbs.; \$ per lb.	2,6415	2,6555	2,6410	2,6525	-0,0160	959	
Aug	2,6415	2,6555	2,6410	2,6525	-0,0160	113,658	
Dec	2,6875	2,6885	2,6350	2,6775	-0,0160		
Gold (CMX)-100 troy oz.; \$ per troy oz.	118.30	119.30	118.40	118.70	-9,30	187	
Aug	119.80	119.80	118.50	118.90	-9,40	57,643	
Oct	119.80	119.80	118.50	118.90	-9,40	57,643	
Dec	120.28	120.40	119.20	119.40	-6,37	375	
Feb'19	120.46	120.46	119.30	119.50	-9,30	33,764	
June	121.48	121.50	120.00	121.80	-9,40	7,417	
Dec	122.30	123.40	122.80	122.80	-9,80	3,982	
Palladium (NYM)-50 troy oz.; \$ per troy oz.	919.90	919.90	905.20	911.20	-7,00	11,312	
Sept	909.00	909.10	895.00	900.90	-7,70	10,984	
March'19	894.00	894.00	891.80	893.40	-7,00	343	
Platinum (NYM)-50 troy oz.; \$ per troy oz.	777.50	777.50	773.40	775.20	-15,30	5	
Oct	795.40	795.60	774.80	778.40	-15,30	76,313	
Silver (CMX)-5,000 troy oz.; \$ per troy oz.	14,625	14,625	14,485	14,527	-0,208	23	
Dec	14,845	14,845	14,555	14,642	-0,208	134,016	
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.	68,07	68,12	67,32	67,83	-0,03	415,834	
Oct	67,70	67,75	67,01	67,53	0,02	186,686	
Dec	67,36	67,41	66,71	67,24	0,04	300,811	
Jan'19	67,09	67,13	66,46	66,98	0,05	174,518	
June	65,66	65,66	65,06	65,58	0,03	168,036	
Dec	63,90	63,92	63,38	63,84	0,04	218,331	
NY Harbor Usd (NYM)-42,000 gal.; \$ per gal.	2,1698	2,1780	2,1577	2,1754	-0,0071	57,463	
Oct	2,1749	2,1834	2,1629	2,1807	-0,0071	97,922	
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.	2,0694	2,0710	2,0456	2,0592	-0,0088	56,680	
Sept	2,0694	2,0710	2,0456	2,0592	-0,0088	56,680	
Oct	1,9641	1,9641	1,9420	1,9551	-0,0055	143,710	
Natural Gas (NYM)-10,000 MMBtu.; \$ per MMBtu.	2,957	2,982	2,935	2,964	-0,008	69,782	
Oct	2,944	2,969	2,926	2,953	-0,009	230,006	
Nov	2,974	2,998	2,959	2,986	-0,011	179,924	
Jan'19	3,154	3,177	3,143	3,166	-0,012	194,679	

Cash Prices | WSJ.com/commodities

Thursday, August 23, 2018

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

Thursday

Energy

	Coins, wholesale \$1,000 face-a	10812	Thursday
Propane,tet,Mont Belvieu-g	0.9903		
Butane,normal,Mont Belvieu-g	1.1865		
NaturalGas,HenryHub-g	2.960		
NaturalGas,TranscoZone3-i	2.890		
NaturalGas,TranscoZone6NY-i	2.850		
NaturalGas,PanhandleEast-i	2.370		
NaturalGas,Opal-i	2.340		
NaturalGas,MarcellusNE PA-i	2.590		
NaturalGas,HaynesvilleLA-i	2.870		
Coal,Caplc,1,250Btu,1S202-r,w	73.200		
Coal,PwdrRvrBsn,880Btu,0.852-r,w	12.150		

Metals

	Fibers and Textiles	Grains and Feeds	Fats and Oils
Burlap,10-oz,40-inch NY yd,n,w	0.5700		
Cotton,11,16 std lw-mdMphs-u	0.8023		
Cotlook 'A' Index	*93.05		
Hides,hyv native steers piece fob-u	55,500		
Wool,64s,staple,Terr del,u,w	6,000		
Barley,top-quality Mnpls-u	n.a.		
Bran,wheat,middlings,KC-u,w	85		
Corn,No.2 yellow,Cent Ll-bp,u	3,1150		
Corn gluten feed,Midwest,u,w	11,40		
Corn grain meal,Midwest,u,w	434,8		
Cottonseed meal,u,w	265		
Hominy feed,Cent IL-u,w	98		
Meat-bonemeal,50% pro Mnpls-u,w	255		
Oats,No.2,milling,Mnpls-u	2,9400		
Rice,Long Grain,Milled, No.2 AR,u,w	25,75		
Sorghum,(Milo) No.2 Guif-u	7,5175		
Soybean Meal,Cent IL,rail,ton,48-u	322,70		

Metals

	Food
Beef,carcass equiv.index	
choice 1-3,600-900 lbs,-u	n.a.
select 1-3,600-900 lbs,-u	n.a.
Broilers,National comp wghtd,u,w	0.8613
Butter,AA Chicago	2,2475
Cheddar cheese,bbi,Chicago	157,50
Cheddar cheese,bch,Chicago	165,00
Milk,Nonfat dry,Chicago lb.	86,25
Cocoa,Ivory Coast-w	0.9966
Coffee,Brazilian,Comp	1,2523
Eggs,large white,Chicago-u	1,1350
Flour,hard winter,KC	15,95
Hams,17-20 lbs,Mid-US,fob-u	n.a.
Hogs,Iowa,S. Minnesota-u	50,29
Pork bellies,12-14 lb MidUS-u	n.a.
Pork loins,13-19 lb MidUS-u	0.9521
Steers,Tex,Oklahoma,Choice-u	n.a.
Steers,feeder,Oklahoma,city-u,w	163,25

Silver, troy oz.

	Gems and Feeds
Barley,top-quality Mnpls-u	n.a.
Bran,wheat,middlings,KC-u,w	85
Corn,No.2 yellow,Cent Ll-bp,u	3,1150
Corn gluten feed,Midwest,u,w	11,40
Corn grain meal,Midwest,u,w	434,8
Cottonseed meal,u,w	265
Hominy feed,Cent IL-u,w	98
Meat-bonemeal,50% pro Mnpls-u,w	255
Oats,No.2,milling,Mnpls-u	2,9400
Rice,Long Grain,Milled, No.2 AR,u,w	25,75
Sorghum,(Milo) No.2 Guif-u	7,5175
Soybean Meal,Cent IL,rail,ton,48-u	322,70

	Fats and Oils
Corn oil,crude wet/dry mill,u,w	27,0000
Grease,choice white,Chicago-h	0.2600
Lard,Chicago	0.2778
Soybean oil,crude,Cent IL-u	0.2778
Tallow,bleach,Chicago-h	0.2800
Tallow,edible,Chicago-u	n.a.

	Source: Dow Jones Market Data
KEY TO CODES: A=ask; B=bid; BP=country elevator bids to producers; C=corrected; E=Manfra, Tordella & Brooks; G=ICE; H=Hurley Brokerage; I=Natural Gas Intelligence; M=monthly; N=nominal; n.a.=not quoted or not available; R=RNL Energy; S=Platts-TSL; T=Cotlook Limited; U=USD; W=weekly; Z=not quoted. *Data as of 8/22	

Source: Dow Jones Market Data

Largest 100 exchange-traded funds, latest session

Thursday, August 23, 2018

ETF

Symbol

Closing

Chg

YTD

Price

BANKING & FINANCE



The offering was originally meant to be completed last year and would have created the world's biggest public company.

SEC Starts Over on Cases With In-House Judges

BY GABRIEL T. RUBIN

The Securities and Exchange Commission said it plans to rehear dozens of cases that were pending before its in-house administrative-law judges, following a June Supreme Court ruling that faulted the appointment process for those judges.

The agency, in an order late Wednesday revealing how it was responding to the ruling, said it had reappointed the judges to comply with the court holding. The SEC said it would give all the cases pending before the in-house judges, or that had been appealed to the commission, the opportunity for a new hearing.

The order said the agency would start fresh on all of the cases, telling the judges they "shall not give weight to or otherwise presume the correctness of any prior opinions, orders, or rulings."

The SEC halted activity in administrative cases after the Supreme Court's ruling, which said the agency's judges must be appointed by the commissioners themselves rather than by SEC employees. The SEC uses in-house courts for about 20% of all litigated actions brought by the agency.

Restarting cases will mean a significant amount of duplicative paperwork.

The case that triggered the agency's move involved Raymond Lucia, a former investment adviser. He challenged the status of the SEC judges after a judge found he committed fraud and banned him from the industry for life. His case was included in Wednesday's list of matters that are entitled to a new trial.

Some of the cases that must be reheard are fairly formulaic—involving, for example, public companies that have ceased to make public securities filings with the SEC and have therefore had their securities deregistered. While the outcome of those cases is likely not in doubt, restarting them will nonetheless mean a significant amount of duplicative paperwork by SEC employees.

"The commission is obviously hoping that, in the long run, this extra effort will pay off in eliminating literally years of challenges to pending proceedings," said Stephen Crimmins, a former SEC lawyer now at Murphy & McGonigle PC.

The high court found the SEC improperly selected its five judges, who were picked through a civil-service process rather than appointed directly by commissioners. The court said the judges should have been selected by the president or his direct appointees, such as SEC commissioners, given the extraordinary powers they wield.

The SEC's in-house courts generated little controversy for decades, until the 2010 Dodd-Frank Act gave the SEC power to use them in cases against a broader group of defendants. The commission's decision to ramp up use of the administrative courts in 2014 sparked complaints about their fairness and independence.



SEC headquarters

Saudis Say Aramco IPO Still Lives

DUBAI—Saudi Arabia said Thursday it remained committed to publicly listing its national oil company in the future, dismissing reports that

committed to the IPO of Saudi Aramco at a time of its own choosing when conditions are optimum," said Mr. Falih, who is also chairman of Aramco.

His statement came amid reports the government had officially called off the listing. The Wall Street Journal also last month reported that preparations had stalled and that government officials doubted the IPO would ever go forward.

People close to the process reiterated Thursday that the listing isn't likely to happen in the near term. The IPO's financial advisers, HSBC Holdings PLC, JPMorgan Chase & Co. and Morgan Stanley have redirected resources to other

projects, although the Saudi government hasn't officially declared the process dead, these people said.

"No one was ever told this is off. It is just assumed it is," said a person close to the Saudi royal court.

First proposed by Saudi Crown Prince Mohammed bin Salman in January 2016, the IPO was originally meant to be completed last year and would have created the world's biggest public company. The listing of roughly 5% of Aramco was billed as the main feature of Saudi Arabia's national transformation plan, known as Vision 2030.

The proceeds of the public offer—up to \$100 billion depending on the valuation—

had been earmarked for the Saudi sovereign-wealth fund to use to diversify the country's economy from its dependence on oil.

But the partial sale of the country's prized asset also faced opposition from some quarters of the Saudi government and officials are now encouraging Aramco to buy a 70% stake in chemical firm Saudi Basic Industries Co. The Public Investment Fund owns the stake, which is worth roughly \$70 billion and could use the proceeds of the sale to make investments previously planned with the cash raised from the Aramco IPO.

Mr. Falih said the timing of an Aramco listing would de-

pend on speed of the Sabic acquisition, which is expected to take months to complete.

The minister also said the oil giant has taken steps that illustrate its continued commitment to a listing, including the appointment of a new board and investor-relations team.

The energy company also has made Aramco a joint stock company and undertaken the first independent certification of its hydrocarbon reserves, he said.

"This is all positive progress on what is a complex process, preparing the company and the kingdom for what will ultimately be a global landmark market offering," Mr. Falih added.

CFPB Nominee Clears Senate Banking Panel

BY YUKA HAYASHI

since taking it over last November. Ms. Kraninger is a close associate of Mr. Mulvaney, who also heads the OMB.

The banking panel also approved Mr. Trump's nominees for several other financial agencies.

Among them were Kimberly A. Reed, a former Treasury Department official, as head of the Export-Import Bank, and Elad L. Roisman, a Republican Senate aide, as a commissioner of the Securities and Exchange Commission.

The committee approved Dino Falaschetti to head the Office of Financial Research, a financial-data agency under



ANDREW HARRER/BLOOMBERG NEWS

Critics say Kathy Kraninger lacks consumer-finance experience.

the Treasury Department.

The Trump administration sent layoff notices to 40 employees at the OFR last week, following through on proposed budget cuts.

The most controversial nominee was Ms. Kraninger, who has been criticized by Democrats for her lack of experience on consumer-finance

issues.

Democrats have attempted to tie her to the Trump administration's immigration policies, citing her work as a senior White House budget official on agencies involved in immigration.

At her confirmation hearing at the Senate panel in July, Ms. Kraninger pledged to pur-

sue the "proper balancing of all interests" including consumers and financial companies, signaling she would continue a shift in the bureau's operations from the consumer-focused policies of the Obama era.

Some banking-industry executives have welcomed her nomination as a sign the administration is committed to pursuing the CFPB overhaul started by Mr. Mulvaney, who, like other Republicans, had long criticized the agency for what they see as its regulatory overreach.

Jaret Seiberg, an analyst at Cowen Washington Research Group, said some GOP lawmakers see Ms. Kraninger's confirmation as a high priority because she has "come to represent a deregulatory view of government."

It isn't known when the Senate might hold a final vote on her or the other nominations.

—Ryan Tracy contributed to this article.

Mattress Firm Hires Deal Maker

By SOMA BISWAS

Retail chain Mattress Firm Inc. has hired **Guggenheim Partners** to negotiate a debt restructuring with corporate parent **Steinhoff International Holdings NV**, according to people familiar with the matter.

Guggenheim is trying to strike a deal to restructure the hundreds of millions of dollars of debt Mattress Firm owes to Steinhoff, the South African owner of retail brands. The debt talks may end in an effort by Guggenheim to sell the mattress retailer, the people said.

Guggenheim is early in its efforts at Mattress Firm, and no bankruptcy is contemplated currently, the people said.

A spokesman for Steinhoff

declined to comment. Representatives from Mattress Firm and Guggenheim didn't respond to requests for comment.

Mattress Firm also is working with **AlixPartners**, which is helping to assess its store footprint and liquidity issues, The Wall Street Journal previously reported.

Steinhoff, which has €9.6 billion (\$11.07 billion) in debt, saw its share price plummet after disclosing accounting irregularities last fall.

In July, the South African retailer got some breathing space from its creditors, reaching a deal with most of its bondholders and lenders suspending all interest payments and debt maturities for three years. Reorg Research reported Mattress Firm's retention of Guggenheim earlier this week. Steinhoff paid \$2.6 billion for Mattress Firm in 2016, aiming to expand its presence in the mattress industry. The sale occurred less than a year after Mattress Firm bought Sleepy's mattress stores for \$780 million.

Guggenheim is early in its efforts at Mattress Firm, and no bankruptcy is contemplated currently, the people said.

A spokesman for Steinhoff

Eventbrite Readies New Listing

BY MARIA ARMENTAL

Eventbrite Inc., which provides ticketing and other services for events from pop-up dinners to festivals, is moving ahead with plans to trade on public markets.

A securities filing Thursday, the first public document on the planned initial public offering, indicates the company intends to raise up to \$200 million, but that figure is used to calculate filing fees and is often changed.

The San Francisco company, which was valued at more than \$1 billion as of 2014, filed documents confidentially with the Securities and Exchange Commission in June.

It plans to use proceeds from the offering to pay down debt and other corporate purposes.

Class A shares, which would be sold to the public, would have one vote each, while Class B shares would have 10 votes.

Current investors, including **Tiger Global Management** and **Sequoia Capital**, would retain voting control through their ownership of Class B shares, according to the filing.

The documents also offer a first glimpse at the company's financials, showing that Eventbrite had more than \$200 mil-

lion in revenue in 2017. Eventbrite makes most of its money from fees charged in connection with the sale of tickets on its platform. It has also reported losses in recent years and warned that it may struggle to reach and maintain profitability as it faces higher costs, including those tied to

expansion efforts.

For the first half, Eventbrite reported a loss of \$15.6 million on \$142 million in revenue, compared with a loss of \$8.3 million on \$88 million in revenue for the first half of 2017.

Eventbrite, founded in 2006, has been expanding aggressively.

Since 2015, Eventbrite has bought seven companies including Ticketfly from Pandora Media Inc., European ticket companies Ticketea and Ticketscript and Canada's Picatic E-Ticket Inc.

Last year, Eventbrite issued about 203 million tickets across about three million events.

Nearly one-third of its revenue last year came from outside the U.S., according to securities filings.

Goldman Sachs Group Inc., JPMorgan Chase & Co., and Allen & Co. will lead Eventbrite's IPO.

—Josh Beckerman contributed to this article.

Andrew Harrer/Bloomberg News

MARKETS

Treasurys Gain as Data Offer Mixed Outlook

By DANIEL KRUGER

U.S. government bonds edged higher after an array of economic reports delivered a mixed message.

The yield on the benchmark 10-year Treasury note fell for a second consecutive trading session, to 2.821% from 2.823% Wednesday. Yields drop as bond prices rise.

Yields rose briefly after the Labor Department said the number of Americans filing applications for new unemployment benefits fell last week for the third straight week, continuing to hover near historic lows.

Initial jobless claims, a proxy for layoffs across the U.S., dropped by 2,000 to a seasonally adjusted 210,000 in the week ended Aug. 18. Economists surveyed by The Wall Street Journal expected 215,000 new claims last week.

Yields slipped after the Commerce Department said sales of new homes in the U.S. fell for the second straight month in July after a stark drop in June. Purchases of newly built single-family homes—a relatively narrow slice of all U.S. home sales—declined 1.7% to a seasonally adjusted annual rate of 627,000 in July. Economists surveyed by the Journal had expected a 2.2% gain.

"That might mean economic growth is starting to decelerate a bit more quickly than people expected," said

Chris Ahrens, chief market strategist at First Empire Securities, adding that it is also a sign that higher borrowing costs could become a stronger headwind to growth, he said.

The economy grew at a 4.1% annualized pace in the second quarter, the fastest rate since 2014.

Yields were weighed down by Wednesday's release of minutes from the Federal Reserve's July 31-Aug. 1 meeting, where officials discussed in greater detail their concerns over how prolonged trade disputes could disrupt economic growth.

The minutes also showed that policy makers discussed dropping language from their postmeeting statement that has for years described monetary policy as "accommodative," a term applied to policies that stimulate economic activity. Most officials have signaled they are eager to raise rates to a level that neither spurs nor slows growth, though there is considerable uncertainty about what constitutes this neutral rate.

AUCTION RESULTS

Here are the results of Thursday's Treasury auction. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

FOUR-YEAR, EIGHT-MONTH TIPS	
Applications	\$39,838,584,700
Accepted bids	\$14,986,736,700
"noncompetitively"	\$35,221,200
Auction price (rate)	100.986989 (0.724%)
Interest rate	0.625%
Bids at clearing yield accepted	69.55%
Cusip number	9128284H0
The Treasury inflation-protected securities, dated Aug. 31, 2018, mature on April 15, 2023.	

U.S. Schedules Sales of \$217 Billion in Debt

The Treasury Department will auction \$217 billion in securities next week, comprising \$104 billion in new debt and \$113 billion in previously sold debt. Details (all with minimum denominations of \$100):

◆ **Monday:** \$51 billion in 13-week bills, a reopening of an issue first sold on May 31, 2018, maturing Nov. 29, 2018. Cusip number: 912796QL6.

Also, \$45 billion in 26-week bills, a reopening of an issue first sold on March 1, 2018, maturing Feb. 28, 2019. Cusip number: 912796PT0.

Also, \$36 billion in two-year notes, dated Aug. 31, 2018, maturing Aug. 31, 2020. Cusip number: 9128284Y3.

Noncompetitive tenders for both bill issues must be received by 11 a.m. EDT Monday and competitive tenders, by 11:30

a.m. For the notes, the deadlines are noon and 1 p.m., respectively.

◆ **Tuesday:** \$37 billion in five-year notes, dated Aug. 31, 2018, maturing Aug. 31, 2023.

Cusip number: 9128284X5. Non-competitive tenders must be received by noon Tuesday; competitive tenders, by 1 p.m.

◆ **Wednesday:** \$17 billion in one-year, 11-month 0.043% floating-rate notes, a reopening of an issue first sold on July 31, 2018, maturing July 31, 2020. Cusip number: 912828Y53.

Also, \$31 billion in seven-year notes, dated Aug. 31, 2018, maturing Aug. 31, 2025. Cusip number: 9128284Z0.

Noncompetitive tenders for the FRN's must be received by 11 a.m. Wednesday; competitive tenders, by 11:30 a.m. For the seven-year notes, the deadlines are noon and 1 p.m., respectively.

So far, another quarter of strong economic growth and robust corporate profits has helped the stock market steer past the trade spat. The S&P 500 has risen more than 5% since the end of June and is on pace for its best three-month stretch of the year. But with more than 95% of the broad index's companies having reported earnings, the tit-for-tat



A Nuor steel plant. The company's shares fell 2.8% Thursday, as manufacturers are expected to take a big hit from new trade curbs.

New Tariffs Push Down S&P

By MICHAEL WURSTHORN

Tech Twist

The Nasdaq Composite fell Thursday, halting a five-session winning streak.

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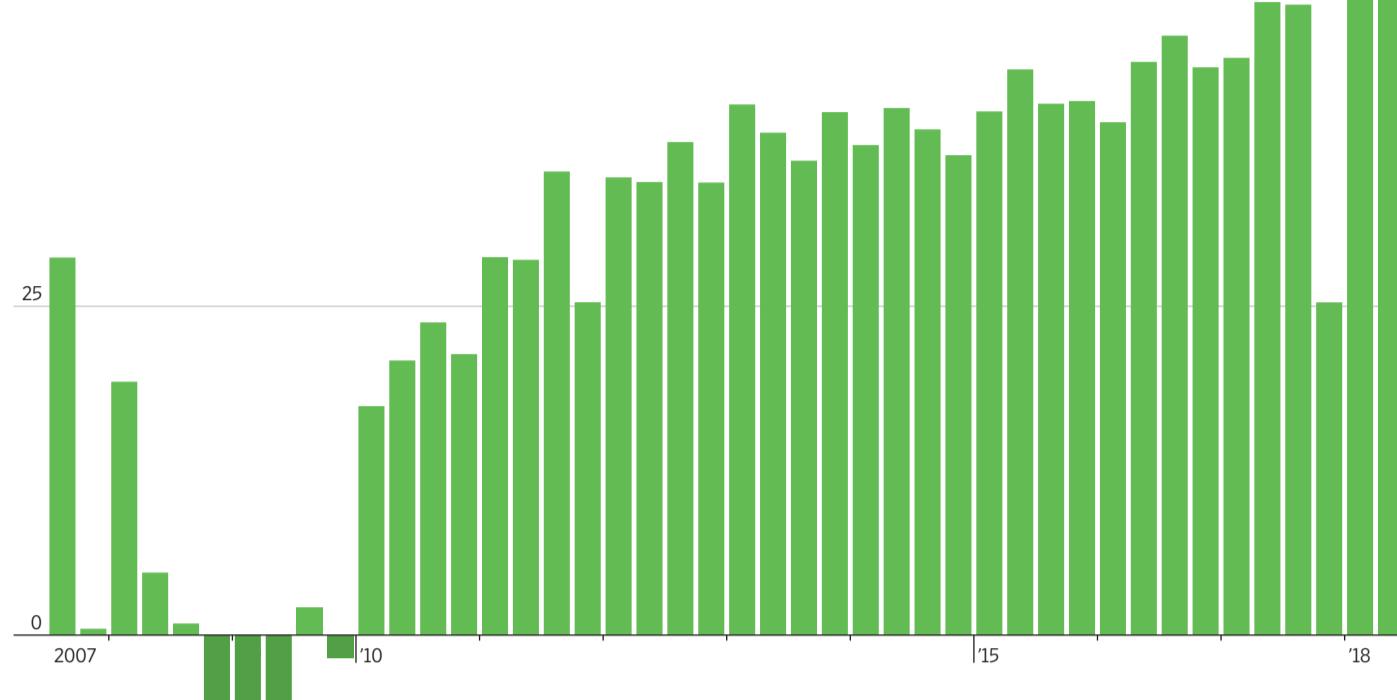
4575

MARKETS

Tax Cuts Stoke Record Bank Profits

Bank profits are at a record...

\$50 billion



How the tax bill changed bank profits

Actual profits

Estimated profit without tax bill

4Q 2017

\$25.5 billion

\$42.2 billion

1Q 2018

56.0

49.4

2Q 2018

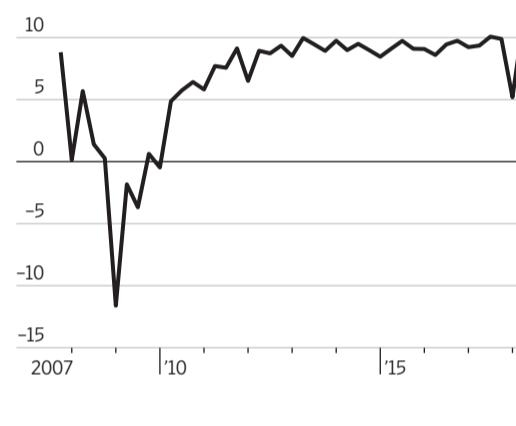
60.2

53.8

That has boosted investor returns.

Rising returns are being driven by higher profits and share buybacks.

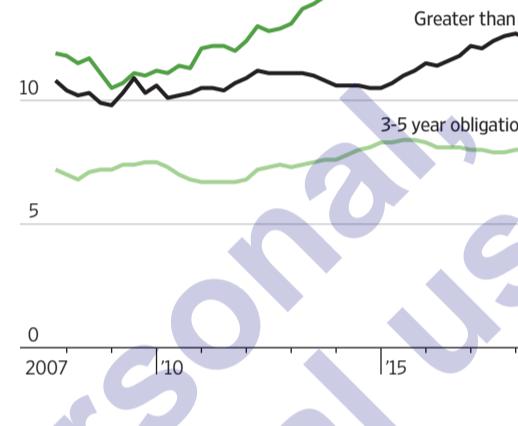
Average return on equity



But debt has increased...

Rising long-term debt means more exposure to rising interest rates.

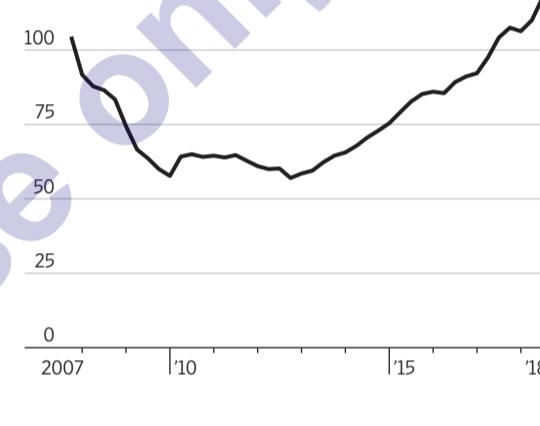
Long-term loans and securities as a share of total assets



...and so has banks' bulwark against souring loans.

Loan-loss reserves relative to noncurrent loans are at the highest level since the crisis.

Coverage ratio

Note: Quarterly return on equity is an annualized rate
Source: Federal Deposit Insurance Corp.

THE WALL STREET JOURNAL.

HEARD ON THE STREET
FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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Foreign Accents Lose Charm in U.S.

The world is about to become a tougher place for American companies.

Corporate profits have been strong and, while a strong domestic economy and lower taxes have provided a boost, investors shouldn't discount the important role the global economy has played. An unusual period of synchronized growth has both bolstered overseas sales and, until recently, strengthened foreign currencies, lifting their value when translated into dollars. A recent FactSet analysis found earnings at S&P 500 companies that do more than 50% of their sales from overseas was up 13.5% in the second quarter from a year earlier. At companies that did less than half overseas, earnings grew by 8.6%.

Recently, Turkey's financial woes and collapsing currency have rekindled worries about emerging-market vulnerabilities. China's economy is decelerating. Manufacturing surveys show global factory-sector growth hit its peak in January, falling since then. The trade spat between the U.S. and China has entered into could weigh further on overseas growth. In turn, retaliatory tariffs against the U.S. could hurt American companies as customers overseas seek alternatives.

Compounding the problem, all these issues have bolstered the dollar's value. So far this quarter, it is averaging 4.5% higher than a year ago, on a trade-weighted basis. That will exert a drag on U.S. companies' overseas profits for the first time in five quarters.

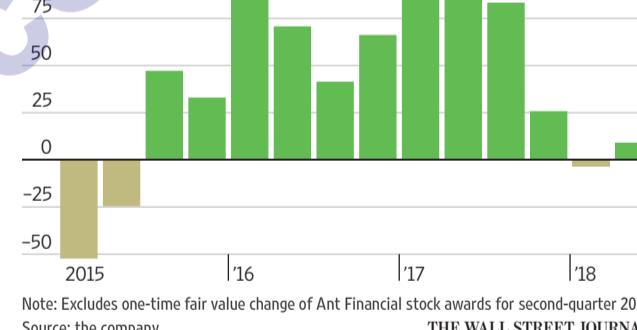
Meanwhile, the domestic economy continues to do well, aiding companies that do all or most of their business at home. Investors may start to prefer stocks with a little less global flair.

—Justin Lahart

Alibaba Ventures Drag on Margins

Slow Day

Alibaba's quarterly operating income, change from a year earlier



Note: Excludes one-time fair value change of Ant Financial stock awards for second-quarter 2018

Source: the company

Meituan Dianping, which is looking to list in Hong Kong at a \$60 billion valuation. Meituan has lost money for the past three years, stripping out investment gains and one-time items. Alibaba also has yet to prove that its foray into physical stores will complement its e-commerce business.

Alibaba's shares fell Thursday, but they have recouped most of the losses incurred this month after disappointing results from other Chinese technology companies, such as Tencent Holdings.

The stock is now trading at 30 times next year's earnings, about the same multiple as Tencent.

Tech stocks are never for the fainthearted. Even so, the risks look more acute than ever when a company exchanges profit growth in its proven core business for investments in unproven startups.

—Jacky Wong

OVERHEARD

Investors love to draw connections between the occupant of the White House and the performance of the stock market. The evidence is pretty thin.

President Trump said in an interview that he thinks "the market would crash" if he were impeached. But when John F. Kennedy was assassinated in November 1963, the S&P 500 fell just 2.8% and recovered within days.

The near-impeachment of Richard Nixon and impeachment of Bill Clinton, meanwhile, happened during epic bear and bull markets, respectively, that continued after the events.

Or think back to January 1992, when George H.W. Bush fainted while having dinner with Japan's prime minister. Rumors that he had died sent stocks down less than 1%. If the prospect of "President Quayle" didn't do the trick then, investors can breathe easy about Mr. Trump's legal travails.

H&M Needs to Do More to Keep Business From Fraying

H&M needs a more radical restyling.

The world's second-largest fashion chain by sales has fallen behind as consumers have moved online. Despite a big decline, the stock hasn't priced in the new reality.

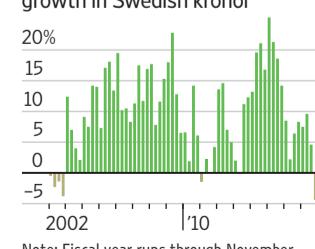
For years, Hennes & Mauritz delivered metronomic profit growth by rolling out new stores, most of them under the namesake H&M banner. Consumers loved its combination of low prices, high fashion and convenient locations.

About three years ago, however, the formula stopped working. The Swedish company was slow to react as consumers—and other retailers—moved on.

One change was the rise of online fashion via companies

Out of Fashion

H&M's quarterly sales growth in Swedish kronor



Note: Fiscal year runs through November

Source: FactSet

such as Amazon.com's Zappos in the U.S. and Zalando and ASOS in Europe. Another was the expansion of offline discounters like Primark, a European chain that now has nine U.S. stores, the most recent of which opened in Brooklyn, New York, last

month. Zara-owner Inditex, the world's top clothing retailer, used a more flexible and rapid sourcing model to meet fashionistas' desires for novelty in a way that H&M's design setup—with most clothes ordered a season in advance—couldn't. Compared with more innovative peers, H&M no longer seems so chic, or convenient.

The company is now addressing these deficiencies, but too late and too timidly. The scale of the transformation required is daunting. It will take time and money, with no guarantee of success.

H&M's stock has fallen more than 60% in the past three years as profits have plunged and the scale of the company's problems has become clear. But it could fall

still further. A valuation of more than 15 times 2018 earnings offers little compensation for the costs and risks of a turnaround operation. Analysts are penciling in modest growth in profit next year, but the consensus forecast is predicated on an improvement in sales.

There was little evidence of the long-awaited improvement in the latest results. The company doesn't report like-for-like sales growth, but UBS calculates this crucial figure was minus-4% for the quarter through May, only marginally better than the recent trend. And inventories as a share of sales hit a new high in June, implying H&M's summer offerings didn't resonate with consumers. The company will be aggressively

clearing clothes in the current quarter, hitting margins.

Chief Executive Karl-Johan Persson has started investing more aggressively in the logistics required to speed up the supply chain and integrate online and store operations—with mixed results so far. He has been less forceful in shutting underperforming stores. He will close just 150 outlets this fiscal year out of a total approaching 5,000. The recent sales trend suggests many more closures are necessary, while the remaining stores may need refurbishment to bring back shoppers.

H&M has faced the costs of inaction, but not yet the costs of action. A turnaround is still uncertain and far off.

—Stephen Wilmot



Cue From
A Roommate
Ann Dowd's road
to acting **M4**

MANSION

THE WALL STREET JOURNAL.

\$3.195 Million
Jamie Dornan's
California modern
hits market **M2**



Friday, August 24, 2018 | M1

HOMES | MARKETS | PEOPLE | REDOS | SALES



Above, golfer Davis Love III lives on St. Simons Island surrounded by more than 100 acres of undeveloped land. Below, an airplane hangar on the property of a former plantation in Sheldon, S.C.

KELLY BOYD FOR THE WALL STREET JOURNAL (2)

LOW COUNTRY LUXURY

Wendy Paulson has been drawn to the sea islands of Georgia since her seventh-grade English teacher introduced her to "The Marshes of Glynn," the Sidney Lanier poem depicting the open saltwater marshes and braided live oak trees of the state's coastal Glynn County.

Today, she and her husband, former U.S. Treasury Secretary Hank Paulson, own a large swath of that land. In 2015, they paid almost \$33 million to buy Little St. Simons Island, a roughly 11,000-acre barrier island that's accessible only by boat. The island remains among the least developed of Georgia's Golden Isles and has just a small lodge that can accommodate 32 overnight guests.

Rather than build a sprawling new house, they converted a small existing cottage into a simple two-bedroom home with a metal roof, and put the entire island into a conservation easement, preventing future development.

"It's not a mansion, but the island is our 'Green Mansion,'" says Ms. Paulson, referencing William Henry Hudson's book about a traveler visiting the tropical forests of Venezuela. "It's more about the live oaks, the Spanish moss, the solitude. And the opportunity to experience a relatively pristine ecosystem in this country."

It's a sentiment shared by many of the wealthiest homeowners on the sea islands of Georgia and

Super wealthy homeowners are carving out their own idylls on the secluded landscapes of Georgia and South Carolina's sea islands.

BY KATHERINE CLARKE



South Carolina, where the wild, dreamy landscape of the Low Country is often what draws buyers. Some of the priciest homes are on large estates, typically former plantations, with easements precluding development. Other wealthy homeowners are donating millions of dollars to local preservation groups that buy up land to keep it from builders.

The desire to protect the land has gained more urgency recently as soaring luxury-home prices are making developers eager to build. In Glynn County, which includes part of the mainland as well as Little St. Simons and Sea Island, luxury-home prices—for the top 5% of the market—were up 21% for first four months of the year compared with the year-earlier period, according to Realtor.com.

That makes it one of the fastest-growing luxury markets in the country, according to a spokeswoman for the listings portal. (News Corp., owner of The Wall Street Journal, also operates Realtor.com under license from the National Association of Realtors.) A roughly 4,000-acre property known as the Hampton Island Preserve, on the market for about \$50 million, has drawn interest from developers who want to build approximately 500 homes on the site, as well as a wealthy Saudi investor who would keep the land for himself, says the listing agent.

The Paulsons and other local homeowners were among those who ponied up \$25 million to buy a Please turn to page M6

Real-estate snapshot

\$935,000

Entry price of a luxury home

21

Number of sales at or above \$1 million during the first four months of 2018

-13%

Percentage change from the same period last year

+13%

Percentage change since 2015

Source: Realtor.com data for Glynn County, Ga.

INSIDE STORY

It's Not a Barn, It's a Sculpture.

Art collectors Howard and Cindy Rachofsky spent \$2.3 million to turn a century-old outbuilding into a funky party space.

BY NANCY KEATES

THERE'S NO HAY, no horses and no livestock in this Napa, Calif., barn. Slide open the door and behold a minimalist space with a long, gray dining table and chairs wrapped in white linen. Oversize white lanterns hang from ceiling rafters. On either side of the table, two large, mirrored cubes reflect the vineyards outside and refract the light that filters through the slats of the exterior walls, creating a kaleidoscope effect.

"It's totally surreal," says Howard Rachofsky, a 74-year-old Dallas investor and art collector who with his wife, Cindy, commissioned the barn.

"No matter where you're sitting, you get a super weird freaky feeling," adds Mrs. Rachofsky, 62, who worked in the fashion indus-

try before turning to philanthropy full time.

The barn is a functional sculpture—one that cost about \$2.3 million and took about two years to design and construct, a process that involved moving the 100-year-old outbuilding from its original position right next to the 4,500-square-foot main house.

Architect William Duff of San Francisco-based firm WDA says the Rachofskys approached the barn project like they were commissioning a sculpture, giving him creative freedom that is unusual for architects, who tend to be buffeted by the ever-changing aesthetic demands of their clients.

"We gave him free rein," says Mrs. Rachofsky. "When you commission a piece, you can't ask the artist to run it by you first."

Mr. Duff's goal was exploring the play of

Please turn to page M12



The minimalist interiors feature a long, gray dining table and oversize white lanterns, above. The barn, below left, and main house sit on 9 acres. Below right, a gym inside the barn.



JASON HENRY FOR THE WALL STREET JOURNAL (3)



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NBA's Kerr Pays Over \$7 Million For Home

GOLDEN STATE Warriors head coach Steve Kerr and his wife, Margot, purchased a home in San Francisco's Presidio Heights neighborhood for \$7.35 million, according to public records. The house had been on the market with an asking price of \$5.799 million.

The roughly 4,000-square-foot house has views of the Golden Gate Bridge and the Presidio. The three-story home dates to the 1920s and has four bedrooms and 3½ baths. There is a fireplace in the living room, and the formal dining room opens onto a patio.

The seller is the Patricia Christina Hellman Trust, according to public records. Mrs. Hellman, an artist and philanthropist, died in 2017 at age 83. She was the widow of private-equity pioneer Warren Hellman.



Erin Thompson of Compass represented the seller, while Monica Pauli, also of Compass, represented the Kerrs.

Mr. Kerr, 52, has been the head coach of the Warriors since 2014, winning NBA championships in 2015, 2017 and 2018. He was unavailable for comment.

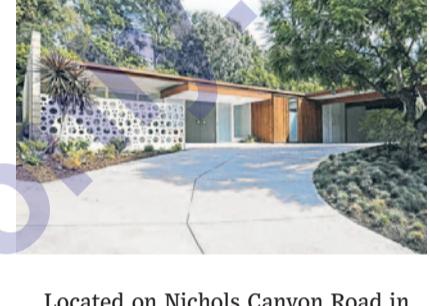
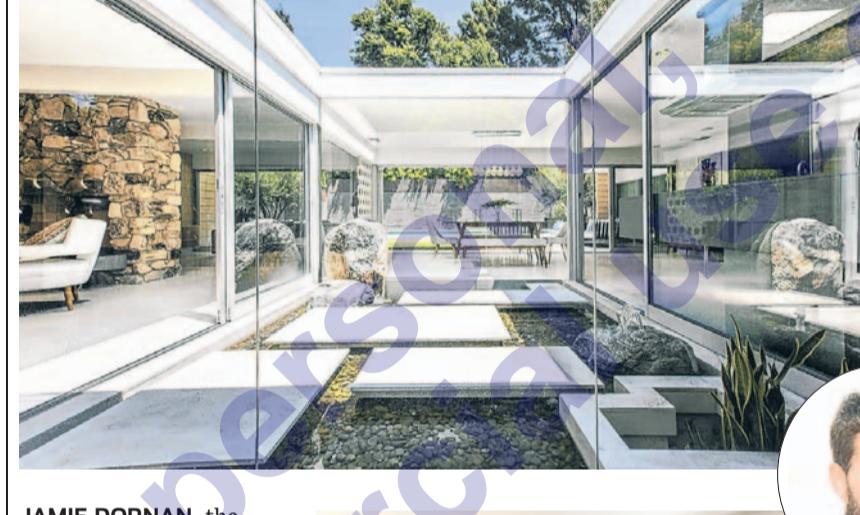
The Kerrs' new home is walking dis-

tance to a Presidio Heights house that Warriors general manager Bob Myers bought in 2016 for \$10.275 million, according to public records. Mr. Myers was also unavailable for comment.

The Warriors are planning to move from Oakland's Oracle Arena to the new Chase Center in San Francisco's Mission Bay neighborhood in 2019.

—Sarah Tilton

'Fifty Shades' Actor Dornan Asks \$3.195 Million in L.A.



JAMIE DORNAN, the Northern Irish actor best known in the U.S. for his leading role in the "Fifty Shades of Grey" movie series, is listing his Los Angeles home for \$3.195 million, according to the listing agent.

Mr. Dornan, who also starred in the British crime drama "The Fall," bought the home for \$2.843 million in 2016, property records show. He purchased the house under the Where's the Danger Trust, records show. "I don't know what that's about," said his real-estate



agent, Jeff Kohl of the Agency, of the name. He declined to comment on why Mr. Dornan was selling or if he intends to find a new home in L.A. He is based primarily in Europe, Mr. Kohl said.

Located on Nichols Canyon Road in Hollywood Hills, the modern-style home was originally built in 1959, then redesigned and expanded in the 1960s by architect Val Powelson.

It has a distinctive glass box atrium that allows light to flood into the common areas of the house and a boulder-theme water feature. Floor-to-ceiling glass windows open directly to a pool and spa area with a deck and a fire pit. The master suite also opens onto the pool. There are four bedrooms in all.

"It's basically the epitome of the classic California modernist home with walls of glass and everything opening to the pool," Mr. Kohl said. He said the home is perfect for a young family, since it's one story. The neighborhood terrain is flat, he said, so kids can ride their bikes safely.

Mr. Dornan has two young children with his wife, film composer Amelia Warner. He is about to star in HBO's "My Dinner with Hervé" and is slated to star in a new film version of "Robin Hood" later this year. He declined an interview request.

—Katherine Clarke

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THE WALL STREET JOURNAL.
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MANSION

INSIDE STORY

In New Jersey, Medieval Meets Modern

Superstorm Sandy hastened the \$750,000 renovation of a 1930s stone house owned by a couple involved in art and antiques

BY CANDACE TAYLOR

Antiques dealer Michael Pashby specializes in 17th- and 18th-century furniture. His wife, Sandra Amann, an art conservator, focuses on modern and contemporary works.

When superstorm Sandy sent an 80-foot-tall tree crashing through the roof of their weekend home in rural New Jersey, they seized the opportunity to meld their styles in redoing the circa-1930 stone-and-timber home.

Now, after a multiyear renovation that cost roughly \$750,000, Mr. Pashby, 67, said that "parts of it are new, but they blend in perfectly."

The couple first saw the Stone House, as it is known locally, while boating on Highland Lake, about 50 miles from their primary home on Manhattan's Park Avenue. "It looks really quite lovely from the water because it's so much stone," Ms. Amann said of the house, which is made from local fieldstone and set amid a rocky outcropping. "It has all these walls, so it looks like some sort of Medieval structure."

The house still had its original wallpaper when they bought it in 2003, paying \$525,000 for the roughly 2,500-square-foot home. The couple loved the home's original detail, so they made few changes, even keeping the mint-green 1930s bathroom tile.

Then Sandy hit. With the upper portion of the house extensively damaged, they took the opportunity to do a renovation they'd long considered. They hired Manhattan architect Ali C. Höcek to put an addition on the house, raising the ceiling in an attic to create a sitting room overlooking the lake, among other upgrades.

The challenge, Mr. Höcek said, was making the addition fit with the historic character of the house while balancing the contrasting sensibilities of its occupants, which is reflected in the home's combination of Arts and Crafts-style stonework and more modern-looking casement windows.

"The steel is Sandra, the stone is Michael," said Mr. Höcek.

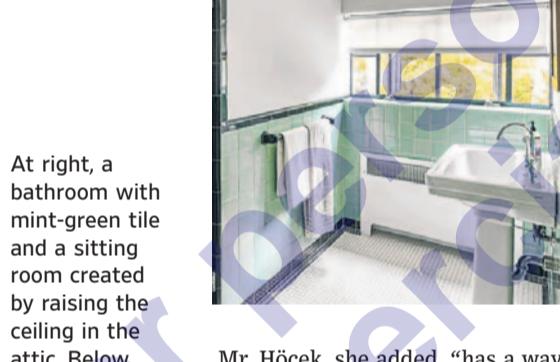
One major hurdle, Mr. Höcek said, was making sure the new stonework would seamlessly blend into the original multicolored granite. The mason found a local quarry with the necessary stone, then paid careful attention to "replicating the way the stones are laid and the size of the mortar," Mr. Höcek said. To match the home's original steel casement windows, the team used a combination of reclaimed steel and new steel sourced from Switzerland.

The new addition upstairs has a wall of glass overlooking the lake, and French doors open to a stone terrace. Though the windows look very similar to those in the original portion of the house, the new room has a decidedly contemporary feel, with black leather chairs, an overhanging steel lamp, and a colorful, three-piece coffee table. Abstract prints by the artist Agnes Martin hang on the wall.

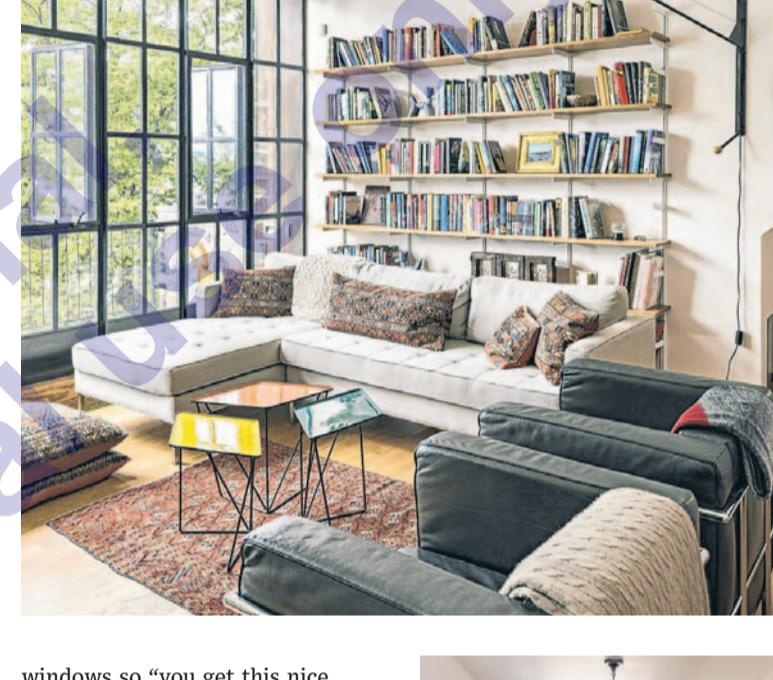
"My taste is way more modern than Michael's, but I do like the marrying of the two," said Ms. Amann.



Sandra Amann and Michael Pashby, left, paid \$525,000 in 2003 for the roughly 2,500-square-foot property in rural New Jersey, above.



At right, a bathroom with mint-green tile and a sitting room created by raising the ceiling in the attic. Below right, the entryway. At left, the back terrace. Overall renovations cost about \$750,000.



Mr. Höcek, she added, "has a way of being sympathetic with what exists while adding something that is perhaps more modern. I think [he does] that particularly nicely."

Another long deferred-project was gutting a room at front of the house, which wasn't only "awful" in appearance but turned out to be sinking into the ground, Mr. Höcek said. "It looked like a tiki restaurant," Ms. Amann said. "A sinking tiki restaurant," Mr. Höcek added.

They replaced the room's walls with floor-to-ceiling casement

windows so "you get this nice eastern light through the trees," Mr. Höcek said.

Barely used before Sandy, the room now serves as an office, where Ms. Amann said she likes to retreat when she has reports to write.

But she is especially partial to the room upstairs, where she loves to sit in the morning "and just sort of sequester myself." With a wine cooler and coffee maker up there, laughed Mr. Pashby, "Sandra hardly ever comes downstairs."



DOROTHY HONG FOR THE WALL STREET JOURNAL (6)



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HOUSE CALL | ANN DOWD

Aunt Lydia Almost Held A Scalpel

'The Handmaid's Tale' actress was studying to be a surgeon until her roommate spoke up

The first 10 years of my education were spent at a Catholic school in Springfield, Mass. One day, when I was in the seventh grade, my chore was to sweep the classroom. I rushed the job so I could play basketball.

Just after I picked up the ball, my math teacher appeared in the gym. She took me out of the game and marched me back upstairs. I had missed one of the corners.

As I worked the large broom, I was furious. These re-dos went on for months. Over time, I came to realize I was no different or better than anyone else and that jobs needed to be done correctly.

It was a lesson I had first learned at home. I was the second oldest of seven children, and chores were a way of life for us. If your task wasn't completed, you were called right back to finish it.

My parents were strict but loving. My father, John, ran the Dowd Insurance Co. in town, which was started by his great-grandfather. My mother, Dolores, was a homemaker who kept an eye on all of us. To this day, she's kind and gentle.

We lived in a three-story brick home in Holyoke, Mass. My favorite space was the den, where we watched TV.

In our house, generosity and doing what's right were valued. My parents taught us that the most important thing was for all of us to love each other. They did a great job, though we also fought like cats and dogs.

I grew up with two brothers and four sisters. My oldest sister, Kate, and I shared a room. Then I had my own bedroom. My mother warned me to keep it neat or I'd lose it. I soon was living with my youngest sister, Beth.

At school, none of the nuns were cruel, just stern and virtuous. In first grade, one of them told us Santa Claus didn't exist. She also told us not to tell our parents we knew. When I told my father, he was angry.

Despite following the rules in school, I was regularly in trouble. The nuns thought I had an attitude problem. I'd say whatever I wished and didn't hesitate to speak out about any injustice. Being outspoken came naturally.

For all of my father's talk about living life seriously, he had soft spots. He was a good singer, he enjoyed the theater and he loved reading us stories. When I was 12, he took Kate and me to see a local performance of "The Sound of Music." Throughout the musical, he explained everything that was going on, much to the aggravation of everyone around us. But his narrative brought the show to life for us.

In junior high school, I began performing in plays. I played the Nurse in "Romeo and Juliet." The thrill for me was understanding the character and what she was doing in the play. It was subtle, but it was the best feeling ever.

In 1974, during my senior year of high school, I told my father I didn't want to attend Holy Cross, his alma mater. I needed to go my own way. He was crushed. When he became ill later that year, I told



▲ Ms. Dowd, on left in polka dots, with her mother, Dolores, her father, John, and her six siblings in Sunapee, N.H., in 1969.

Acting Out

First role after acting school:

Sarah in 'A Different Moon' (1983) in Chicago

First TV film:

Debby in 'First Steps' (1985)

First feature film:

Peggy in 'Green Card' (1990)

Scariest female film character:

Linda Blair in "The Exorcist"

terrified me more than any

film character. I

saw the movie when I was 18.

When I saw her

head turn

around and

heard her voice

from the

depths of hell

and saw that

green stuff

come out of her

mouth, I was

numb with fear.'

MANSION



Ann Dowd in her Manhattan home.

him I had changed my mind. He was overjoyed.

Six weeks later, while my parents were on vacation, he died of a hemorrhage at age 47. His death was shattering for our family.

At Holy Cross, my plan was to become a surgeon. But the first thing I signed up for was an acting class taught by Don Ilko, who had taught my sister, Kate. She loved him. Then I signed up for my pre-med classes.

During my sophomore year, my life began to change. First, my organic-chemistry professor, Mike McGrath, told me I was doing well but he sensed I wasn't truly happy. A year later Prof. Ilko said I could be an actress if I wanted to.

Finally, in my senior year, my roommate, Maribeth, asked if I wanted to act instead of becoming a surgeon. I said, "Yes, I think so."



▲ Ms. Dowd as the brutal Aunt Lydia, right, with Elisabeth Moss in Hulu's 'The Handmaid's Tale.'

After graduation, I auditioned for acting school. I dreaded telling my mother, but when I did, she let me off the hook after about 20 minutes. She's a realist and saw something happening in me.

Today, I live with my husband,

Lawrence, and our three children in the Chelsea section of New York. We've lived in the city since 1988 and moved into our current three-bedroom apartment in 2000.

My favorite space is our terrace. It faces the Empire State Building. I love sitting outside and taking care of our plants.

I still have my father's old wooden file cabinet with 15 small drawers. I keep personal things in there now. I often wonder what he would have thought of me becoming an actress. I imagine he knew all along.

—As told to Marc Myers

Ann Dowd, 62, is an Emmy-winning television, film and stage actress. She plays Aunt Lydia in the Hulu series "The Handmaid's Tale," a role that has earned her a 2018 Emmy nomination.



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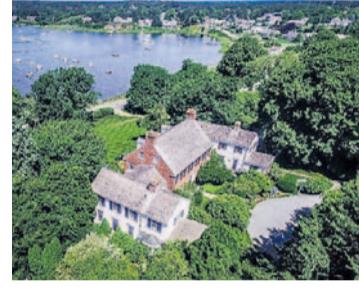
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Mr. Davis's property is located on a private tract of land with expansive marsh views, as well as its own horse barn and stables. The main residence totals more than 10,000 square feet.

Wealthy Buyers Seek Luxury in The Low Country

Continued from page M1

roughly 600-acre parcel of land known as Cannon's Point across from Little St. Simons, on the north end of nearby St. Simons Island. Billionaire Philip Anschutz, an owner of the L.A. Kings hockey team, recently purchased nearby Sea Island and plans to keep portions of it undeveloped. He and other wealthy homeowners also contribute to the St. Simons Land Trust, an organization that has bought about 1,000 acres of St. Simons through local contributions to preserve it, according to the trust.

"Selfishly, the people who live on the island don't want it to change too much," said Davis Love III, a champion golfer who lives on St. Simons surrounded by more than 100 acres of undeveloped land. "We're 2.5 miles from the grocery store but we feel like we're 100 miles away."

Some of the largest estates in the region are owned by major figures in sports, finance and show business, who flee to the islands for peace and quiet as well as the saltwater fishing, shrimp boils, horse riding and hunting. On St. Simons, folks in the know can tell who is in town from the different colored tails of the private jets lined up on the tarmac at the local airport, said David Pope, executive director of the land trust.

Among the Hollywood types who have put down roots on the islands is actor Ben Affleck, who paid \$7.11 million in 2003 for a compound on Hampton Island Preserve. Mr. Affleck said he fell in love with Georgia while filming the movie "Forces of Nature" with actress Sandra Bullock in the 1990s.

"I come there to write and I often take a little boat down the river to the ocean and visit some of the small islands on the sea," Mr. Affleck said in an email. "Usually dolphins come along and I love jumping in the water to swim along with them. There is a kind of quiet, soft low breeze [that] comes through the countryside and it makes long walks wonderful through the live oaks and the loblolly pines."

He says with his three children getting older, he doesn't get out there as often as he would like, so he is putting the home up for sale and may build a smaller one nearby. The estate spans roughly 87 acres; at the center sits a Southern antebellum Greek Revival Plantation home with sprawling rear verandas overlooking the North Newport River. A path from the main house leads to the so-called Oyster House, a 10,000-square-foot rustic barn with bunk beds salvaged from marine vessels, according to Dicky Mopper of Engel & Völkers Savannah, a real-estate agent who is listing Mr. Affleck's property for \$8.9 million.

For Congressman Mark Sanford, the former governor of South Carolina, the islands offer a similar sense of peace. He shares ownership of Coosaw Plantation, a sprawling island property of more than 3,000 acres about an hour's drive from Charleston, with his siblings. Their father bought it several decades ago and, in 2009, the family put about half into a conservation easement, pro-



Wealthy homeowners are trying to protect the landscapes from further building. "The people who live on the island don't want it to change too much," says Mr. Love, shown below with his cat.



FROM LEFT: KATHI LATOURETTE; AMANDA PAULSON

Hank and Wendy Paulson, with their grandchildren at right, turned a small cottage on Little St. Simons Island into a simple two-bedroom home. They put the entire island, which they bought in 2015, into a conservation easement.



MANSION



tecting it from future development.

"My siblings and I have become very attached emotionally to this piece of land and we wanted to leave our kids this legacy," Mr. Sanford said, noting the increasing demand from developers. "A lot of places where I grew up hunting as a boy are now developments," he said.

He sees the property as a refuge. "It's been a place I could go and just be," he said, recalling a night spent lying on a dock with his sons watching meteor showers. "There's a component to needing private space if one is in public life."

Taylor Glover, an Atlanta businessman who owns a 7-acre parcel on the edge of Cannon's Point Nature Preserve on St. Simons, one of less than half a dozen homes surrounding the 600-acre parcel, said he was lured by the privacy of the home when he purchased it. Public records show he paid \$5.1 million for the home in 2016.

"I don't like traffic, I don't like hearing blowers next door, I like the seclusion," he said. "The marsh houses all kinds of things, so I can watch the birds and other wildlife."

On a recent tour of Mr. Glover's estate, small black crabs scuttled out from under the leaves on the driveway and an armadillo darted from behind a tree. Mr. Glover's staff grows peaches and figs. Not a single other home can be seen from the 120-foot screen porch in the back.

Living on a large remote estate does have its challenges. For Christina Bates, who owns a former plantation known as Huspa in Sheldon, S.C., maintaining the property is hard work. It takes around 45

Christina Bates, whose husband died last year, has put a 325-acre estate in Sheldon, S.C., up for sale for \$5.9 million. Large oaks line the way to the home.



KELLI BOYD FOR THE WALL STREET JOURNAL



minutes to traverse the bulk of the 325-acre estate, which is surrounded by water on three sides, on an all-terrain vehicle that looks like a sturdier version of a golf cart. Since her husband died last year, she must rely on her sons, both local tug boat captains, to tend to the long grass and remove fallen trees.

A half-mile avenue of moss-draped oaks leads to her roughly 4,500-square-foot main home, which was designed in "Frank Lloyd Wright-style" by her late husband. Her estate includes two grass airstrips and hangars because her husband was a racing pilot, as well as two small additional islands.

Ms. Bates recently decided to put the home up for sale for \$5.9 million, says Susan Whitfield of Daniel Ravenel Sotheby's International Realty. She plans to search for a family retreat in North Carolina. But she cherishes the memories from the property. "My husband and I used to take out horses out and ride through Huspa every morning," she says. "Every day was a new discovery for us."



The main home, designed by Ms. Bates' late husband, totals roughly 4,500 square feet. The property also has two grass airstrips and hangars; her husband was a racing pilot.



Local Hangouts

Harold's Country Club in Yemassee, S.C., a down-home Southern cooking joint is based in a former garage. It's open Thursday through Saturday each week. It serves a buffet with items such as pork chops, rice and gravy on Thursdays, and accepts orders for steaks only on Saturdays. A family-run business, it also sells fishing bait and tackle.

MANSION

ANNOTATED ROOM

A Staircase That Takes A Step Up

\$1 million project touts Jefferson Memorial marble

By KAREN BRUNO

A grand staircase in a 19th-century townhouse in Washington, D.C., was refurbished with a garden in mind—the one on the Georgetown property. The two-story stairway winds from a top-floor living room, to the garden floor, to a lower level. Baltimore-based interior designer Patrick Sutton brought the garden inside with wall textures and a mirrored ceiling that suggests a conservatory. The Federal-style brick house, once owned by a U.S. diplomat, is now occupied by a businessman. "This is a home where my client entertains international guests," Mr. Sutton says, "so I wanted to create a stairway of substance, befitting the home's location in our nation's capital and honoring the monuments of the city." Total cost: \$994,770.

1. Two large chandeliers made of handblown glass globes and designed by Mr. Sutton are suspended vertically from the ceiling, illuminating the windowless space and providing focal points. The fixtures are Opera Prima chandeliers from the Los Angeles-based Bourgeoise Bohème Atelier. **Price:** \$9,000 each

4. The ceiling was relatively low so Mr. Sutton designed a mirrored, iron strapwork frame that was given a rustic, faux-bronze treatment—also by Cardine. "It gives the illusion that you are in a taller space," he says. "And because you descend from a living room to the garden level, I wanted to allude to a conservatory." **Price:** \$68,000, with installation by Pyramid Builders of Annapolis, Md.

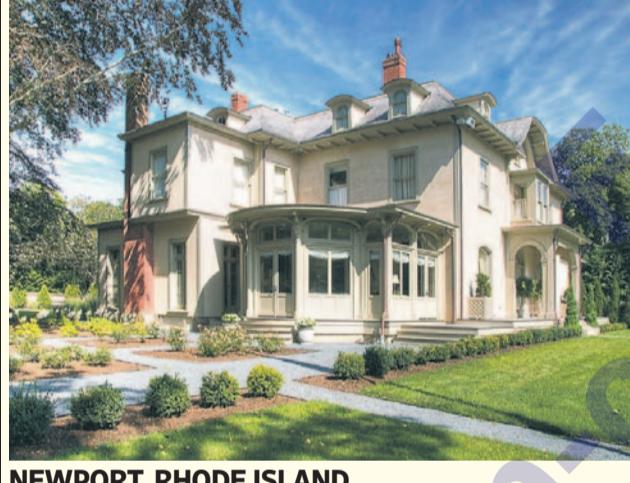
2. The designer hinted at the garden by giving the surrounding walls a fresco-like treatment: three coats of gray plaster, topped with a layer of white wax. The treatment is by Artstar Custom Paintworks in Baltimore. **Price:** About \$22,770, including labor

5. The original wooden stairs were replaced by a reinforced steel structure and landings designed by Washington, D.C., architect Anthony Barnes. Each of the 27 stair treads and risers has slightly different dimensions. Each marble tread locks into the one below it for support, and the inside of the stair's solid-marble stringer creates a self-supporting spiral arch braced at each end. Because the home is in the nation's capital, Mr. Sutton and the owner chose Vermont Imperial Danby marble for the stairs. It is the same stone used for the exterior of the Thomas Jefferson Memorial. **Price:** \$750,000, including structural work



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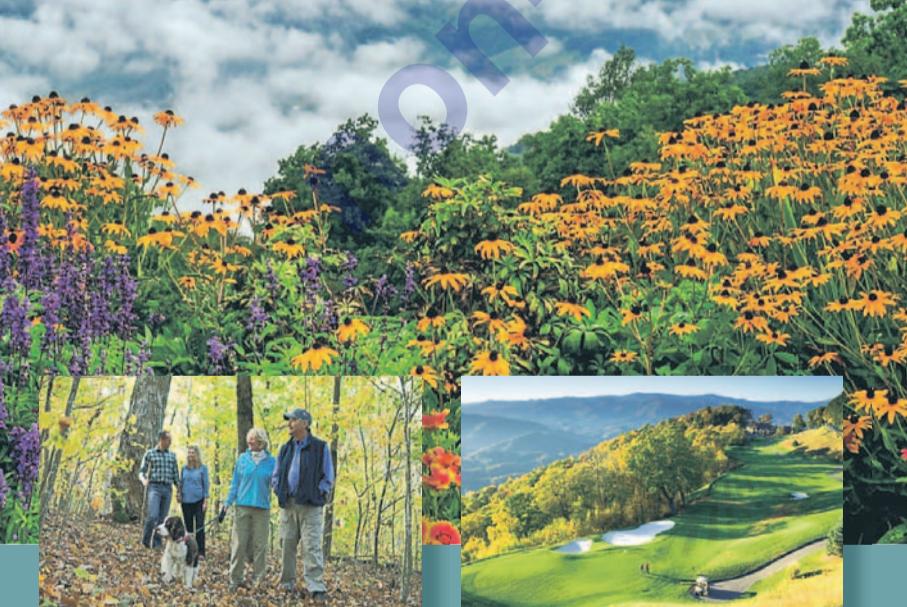
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PRIVATE PROPERTIES

Townhouse Sale Is Among Priciest In New York in 2018

REAL-ESTATE INVESTOR Joseph Chetrit has sold a townhouse on New York's Upper East Side for a price in the low-\$40 million range, making it one of the priciest New York City townhouse deals to close so far this year, according to sources with knowledge of the deal.

Mr. Chetrit, a onetime owner of the Sony Building and Hotel Chelsea, listed the townhouse for \$51 million in November 2017. It was part of a collection of three adjacent mansions Mr. Chetrit bought from Lenox Hill Hospital in 2007.

Mr. Chetrit paid a combined \$26 million for six adjacent brownstones, then combined them into three. The properties are represented by Noble Black, Richard Steinberg and Roger Erickson of Douglas Elliman. The agents declined to comment on

the identity of the buyer, who purchased through a limited-liability company. The deal closed earlier this week.

The 36-foot-wide townhouse is the largest of the three. It measures about 15,000 square feet with eight bedrooms. The traditional design features marble, onyx and brass finishes. There is a wall of glass on the ground floor overlooking the limestone-clad courtyard. A second townhouse is currently on the market for \$39 million, while the third is not yet on the market.

Mr. Chetrit couldn't be reached for comment.

One person familiar with the deal said the buyer fell in love with the home, located at 110 East 76th St., while visiting it as part of the 2018 Kips Bay Decorator Show House. The buyer reached a deal with some of the



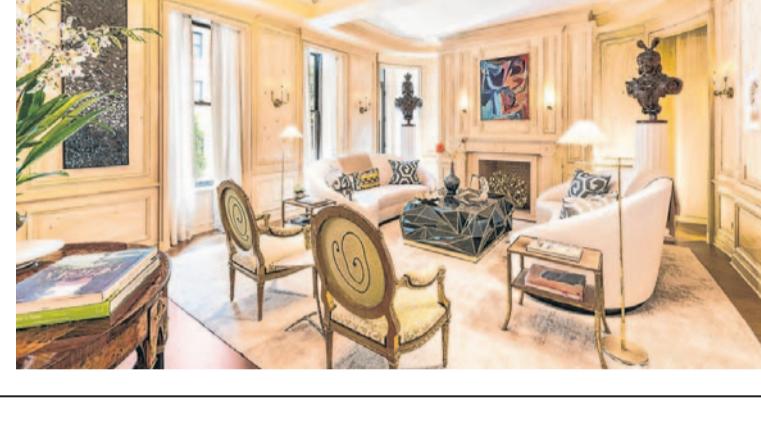
The Upper East Side townhouse measures about 15,000 square feet with eight bedrooms.

event's interior designers to retain some of their design elements, that person said.

The largest townhouse deal so far of 2018 closed in February, when Chinese conglomerate HNA Group sold a property formerly owned by art heir David Wildenstein for \$90 million, property records show.

—Katherine Clarke

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FROM MY PERSPECTIVE

North Texas' Other Big Boom

I recently read a piece by *Dallas Morning News* real estate editor Steve Brown with a somewhat provocative title: "Dallas hotel building boom is second only to New York City."

Brown cited figures in a new summary by industry analysts Lodging Econometrics. Among trend reports, real estate intelligence and many other things, the company tracks, measures and interprets statistics on hotel construction.



The report showed that, at the midway point of this year, Dallas had the second-highest number of new hotel projects anywhere in the country, just a few ticks behind the Big Apple. According to Brown, "Dallas has a total of 156 hotel projects with 18,908 rooms in the construction pipeline or planned in the second quarter." New York City? Just 13 projects ahead of us.

While sports teams and companies don't necessarily crow all that much about being in second place, this should make the local business community in North Texas feel on top of the world. For our region, such a statistic is a huge win, a significant reaffirmation of smart planning and hard work.

North Texas' growth has been at a record-breaking pace. With scores of people moving to the area for employment opportunity, terrific housing and more, the hotel boom is yet another confirmation of how desirable it is to be here. Most of the roar Brown writes about is just north of Dallas, in Frisco, Lewisville, McKinney, Plano and Denton. According to the Lodging Econometrics report, there are nearly 50 new hotels — totaling more than 6,300 rooms — now under construction. An additional 70-plus — more than 8,600 more rooms — are scheduled to start in the next 12 months.

As Brown reported in his story, if the slated projects are built, it will increase the hotel-room supply in North Texas by a whopping 21.3 percent. That's 21 percent more people coming to shop, eat and spend here — and perhaps fall for the place and move here.

At Briggs Freeman Sotheby's International Realty, we're especially excited about that last part. We know the great towns, neighborhoods and houses to direct them to.


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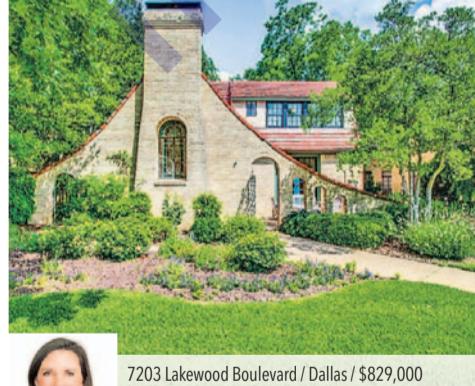
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MANSION

After a Redesign, It's Not a Barn, It's a Sculpture

Continued from page M1
light: how it moves during the day and changes with the weather, so that the effect of being inside is one of a constantly shifting perspective. He placed the building on a thick slab of concrete, raising it up from the yard and the vineyards as if it's on a pedestal. The walls slide open on all four sides so guests can move in and out and walk around the exterior to admire it.

The couple put a gym and a catering kitchen and bar inside the barn's mirrored boxes; they use the dining space for philanthropic events and dinners with friends.

"When they first started doing dinners there, I wanted to open it up as a restaurant, but they said no," says Matt Looney, the couple's son, who is a chef. At Mr.

Looney's wedding earlier this summer, an arbor arched over the driveway, which was lined with tables to seat 160 people from the house to the barn.

The Rachofskys purchased the 9-acre estate in 2012 for \$3.775 million. They liked the solid construction and the Craftsman-style facade of the main house,

rics from Morocco, creating an exotic cocktail lounge.

The landscaping includes extensive vegetable and flower gardens and acres of Cabernet grapes—not for wine but because they wanted to create visual continuity with the vineyards that surrounded them.

Lush vegetable and flower gardens, trumpet vine, wisteria, and fig and walnut trees frame a perfectly manicured emerald-green lawn dotted with sculptures. Six large, tooth-shaped figures by Kiki Smith in the front yard double as stools; ceramic and concrete pieces that look like chairs by Lee Hun Chung are placed by the bocce court; and guests like to dangle their legs into the openings of a Jacob Kassay work in back that resembles a giant fire pit.

The Rachofskys, well-known art collectors, aren't new to architecture that doubles as art. Their all-white house in Dallas, designed by architect Richard Meier and finished in 1996, became such a public attraction that they moved out for 12 years and raised their two children in a house a mile away. Six years ago they moved back in, but all visitors are now directed to a warehouse 4 miles north of the property for viewing and education.

Living in Napa four months of the year has changed their lives, the couple says. Mrs. Rachofsky says she hardly goes outside in Dallas, mostly because of the weather and the mosquitoes; in Napa she is barely inside, and she agonizes over her gardens. "If a dahlia doesn't grow I am devastated," she jokes. Mr. Rachofsky works out twice a day in the barn's gym, picks tomatoes and herbs for lunch and dinner, and spends hours clearing flower blossoms off the grounds with a leaf blower.

Keeping the barn clean is also a

which has two bedrooms and a modern, rectangular swimming pool with white stone coping.

But they didn't like the interiors, which had brown wood on all the cabinets, floors and window trims. The couple spent about \$4 million to pare it down, bringing in Dallas interior designer Robert Dailey, who added a skylight, put steel over the fireplace and on the stair railings, and painted walls white and floors gray. The bathrooms are new, including a powder room with Japanese decorative paper on the walls.

They transformed what they called a Home Depot two-bedroom guesthouse into a 1970s hippie-chic space that resembles a boutique hotel, with white lacquered walls, a black floor, a turquoise shag rug and canary-yellow modern chairs. Behind the guesthouse, inspired by a trip to Morocco, they painted an old gazebo bright blue and yellow and added multicolored tiles and fab-

ric from Morocco, creating an exotic cocktail lounge.

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Keeping the barn clean is also a



JASON HENRY FOR THE WALL STREET JOURNAL (4); CESAR LUIJAN (OHIO)



Above, a bird perches on Ugo Rondinone's 'The Loving,' made of blue-stone, concrete and steel. Below, the bocce court in the back of the house.

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Cindy and Howard Rachofsky, shown at left with their dog Sophie, bought the Napa property for \$3.775 million, including the main house, seen above from the backyard.

constant activity. The slats let in all kinds of insects and critters. "I had no idea birds could squish themselves down to squeeze into a 1-inch hole," says Mrs. Rachofsky. The mirrored cubes need cleaning to stay reflective. Dust and dirt require constant vacuuming. They put a plastic sheet around the entire building in the

winter to protect it from the rain, giving it a distinctive look. "It's like a giant condom," says Mr. Rachofsky.

Still, like their Meier house in Dallas, which also requires unrelenting upkeep, they say practicality wasn't the top priority. "We didn't want it to look like every barn in Napa Valley," says Mr. Rachofsky.

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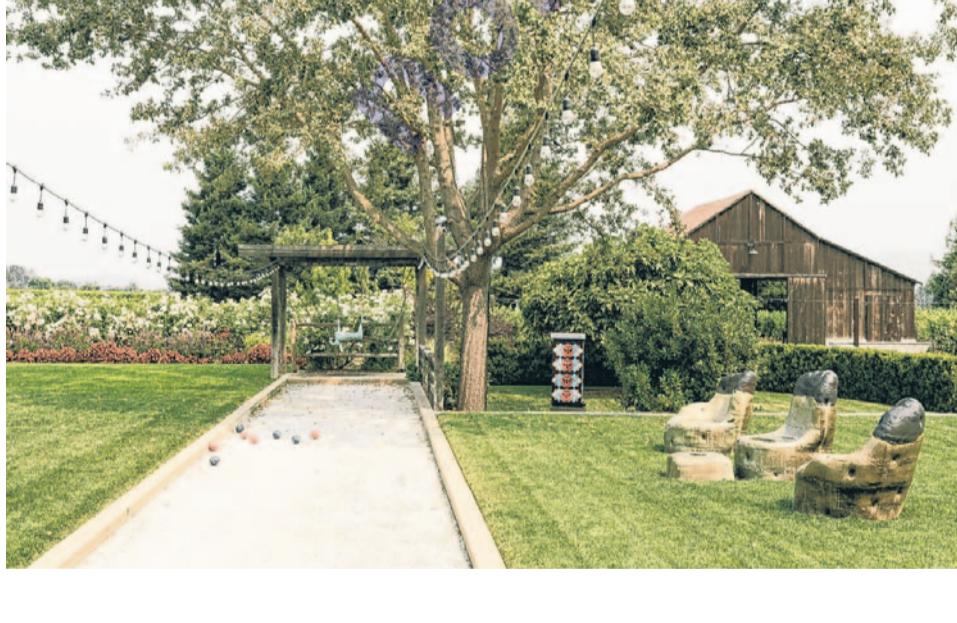
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NEW USE | MORE BARN CONVERSIONS

Aurora, Ohio ▶

This historic barn was redesigned by Washington-based Blackburn Architects into a private entertainment space with a kitchen, dining room, family room and two guest bedrooms. The project cost about \$2 million.

Leesburg, Va.

Blackburn Architects also turned an 1800s, 8,800-square-foot barn into entertainment space with a kitchen, bathroom and living area for about \$2 million. A wall of glass overlooks the Potomac River.

Pleasant Valley, N.Y.

A 100-year-old barn was remade into an entertainment space by Poughkeepsie N.Y.-based Daniel Contelmo Architects. The year-long project added a bar, kitchen, bunk beds,



pool table and five-car garage.

Greenwich, Conn.

An 1860s barn from the Albany, N.Y., area was redesigned into a guest and entertainment space by Greenwich-based Douglas Vanderhorn Architects. The project took 15 months and cost about \$1.5 million.