Bloomberg Businessweek

July 13 — July 19, 2015 | bloomberg.com

TO SELL A Mockingbird Sequel

A STORY ABOUT
HARPER LEE,
HER LAWYER,
AND THE
ETHICS OF CONSENT

p46

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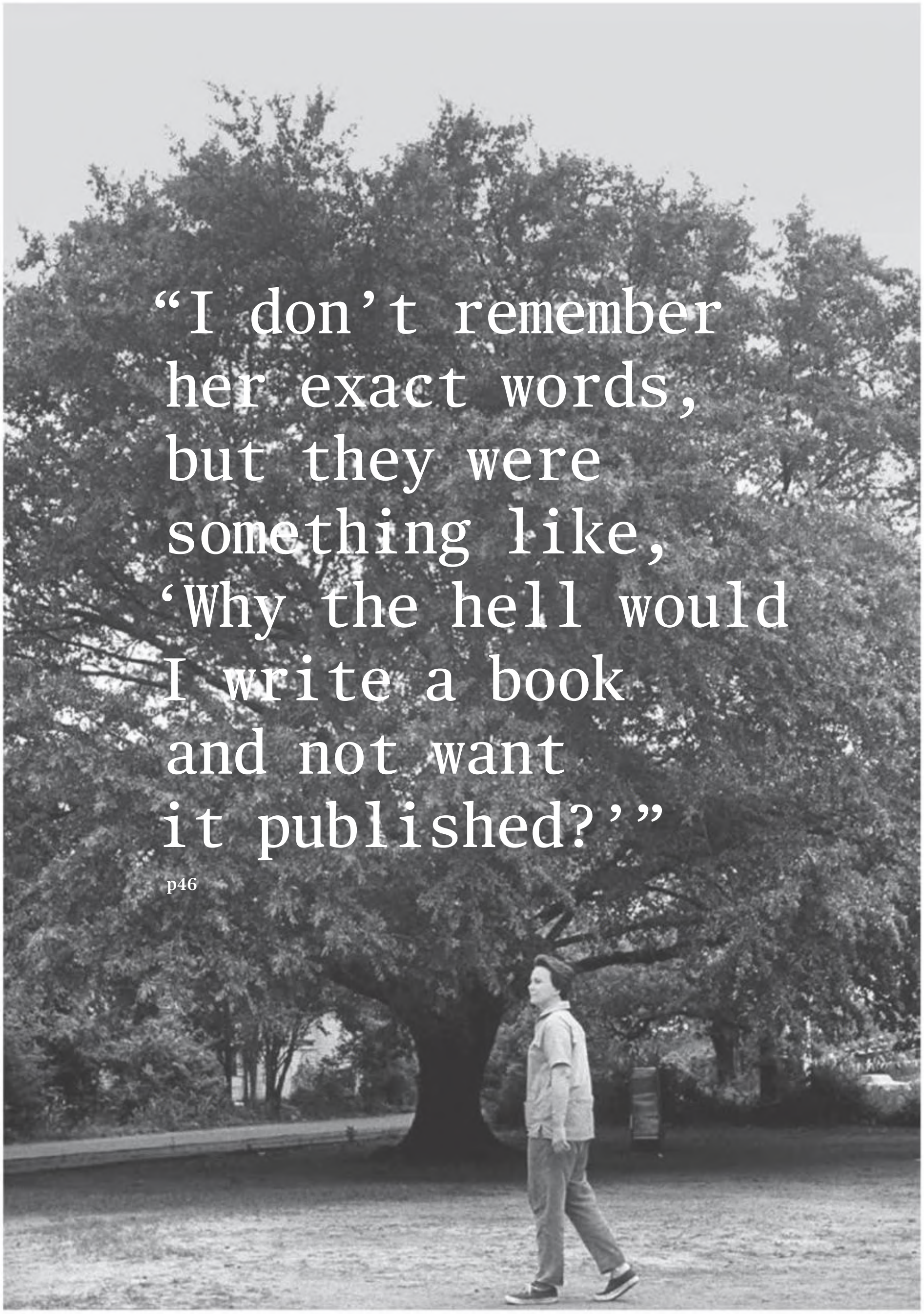

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ILLUSTRATION BY ALLISON COLPOYS

Cover Trail

How the cover gets made

Domestic Cover

1
"The cover is on Harper Lee and investigates rumors that her lawyer may be taking advantage of her in her old age."

"Who's Harper Lee?"

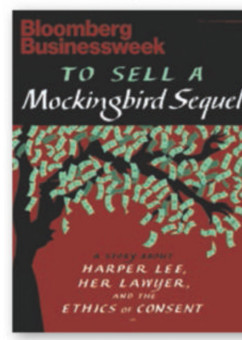
"She wrote one of the most famous books in the world, *To Kill a Mockingbird*."

"Oh, I love that one. For the cover let's do Katniss Everdeen giving a lawyer the middle finger."

"You're thinking of *Mockingjay*."

"Right, right. OK, I have no idea what to do for this cover."

"We could reinterpret the original *Mockingbird* book jacket."



International Cover

1
"The story is on China's market bubble."

"We could just do type and make it look like a bubble."

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"No."

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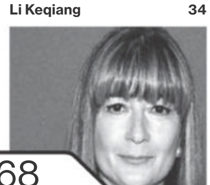

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Corrections & Clarifications
"Should I Stay or Should I Go?" (Opening Remarks, July 6-July 12, 2015) incorrectly implied that Greece's last debt restructuring didn't impose losses on private-sector creditors; it did. B "The Peaceniks on the Rockefeller Payroll" (Politics/Policy, July 6-July 12) incorrectly identified Seyyed Hossein Nasr as a professor at Georgetown University. He teaches at George Washington University.

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Opening Remarks

Merkel's Mean Vision of Europe

By Michael Schuman

More than a first among equals, she's the most dominant leader in the euro zone with virtual veto power over decisions

"The lesson of this crisis is more Europe, not less Europe," Angela Merkel said in 2012 as the integrity of the region's monetary union was threatened by financial instability, touched off by Greek debt, that was spreading through the euro zone's weaker economies. By "more Europe," the German chancellor meant a deepening of the continent's noble mission—peaceful integration to ensure prosperity and democracy—of which the common currency, the euro, is the ultimate symbol.

In the intervening three years, Greeks have come to understand "more Europe" as something different: "more Germany." That was one of the few clear messages sent in a referendum on July 5 that had everything to do with Greek voters' views on how Merkel had imposed her vision of Europe on the zone and if their troubled nation would be better served as part of its grand project, or not.

One can debate whether the Greeks, through titanic feats of economic mismanagement and political hubris, have dug their own grave or merely provided others the shovel. But even if Prime Minister Alexis Tsipras commits to another deal, attention has deservedly shifted from the fed-up and diminished debtors to their lenders. Of course, that's the European Union, a complex organism with numerous regional and national leaders that, in league with the International Monetary Fund, has so far committed $265 billion in bailout funds to Greece. But this is how the EU really works: Germany is the monetary union's dominant economy, and its chancellor is the region's dominant leader, with virtual veto power over zonewide decisions. That puts the spotlight squarely on Merkel. And what it's revealed, despite her calm but firm entreaties, is an economic bully.

Germany and other euro zone countries backed the financing of bailouts, and in return imposed reform on its recipients and other weak member economies. Anything requiring Germany to change its ways, however, went nowhere.

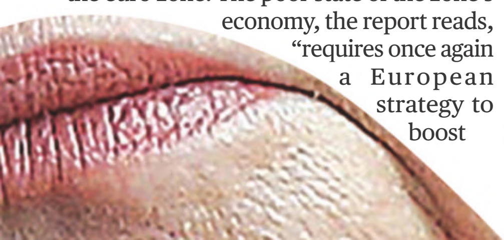
The centerpiece of Merkel's cure for Europe was fiscal retrenchment. It was an almost maniacal drive for reduced budget deficits and debt levels—the targets for which were already enshrined in euro zone agreements—combined with reforms to labor markets and welfare programs. Merkel believed that such policies would strengthen the euro zone's financial position and competitiveness. The medicine may be bitter, but in the end, like an ailing patient, Europe would rise from its sickbed with renewed vigor.

The result has been stagnation. After contracting for two years, euro zone gross domestic product crept up less than 0.9 percent in 2014. At 11.1 percent in May, unemployment has barely budged from 11.6 percent the year before. (Compare that with the U.S. jobless rate of 5.3 percent.) Greece, of course, has had it the worst. The terms forced on the Greeks in return for bailouts were politically, socially, and economically unreasonable. The pace and extent of the mandated budget overhaul were extremely severe, especially amid a global downturn. Through all its pain—astronomical unemployment, a shrinking economy—the burden of Greece's debt has increased, to 177 percent of GDP in 2014 from 103 percent seven years earlier.

Merkel's insistence on a hard line isn't masochism, just politics. One poll released in early July showed that 85 percent of Germans surveyed opposed making

concessions to Greece. Merkel has faced resistance to a softer line from within her ruling coalition. Amid the recent bailout negotiations, one lawmaker from Merkel's Christian Democratic Union derided the euro zone's policy toward Greece as a "financial carousel." Her hard-nosed finance minister, Wolfgang Schaüble, once said that Greece "cannot be a bottomless pit." Such attitudes are fostered by a widespread perception among Germans that Greece is unworthy of their aid. "*NEIN*," blasted a headline in the tabloid *Bild* earlier this year. "No more billions for greedy Greeks!" it insisted. Even the referendum results produced little sympathy. Shortly after the vote, Georg Fahrenschon, head of the association of German savings banks, said "the Greek people have spoken out against the foundations and rules of the single currency bloc."

Such sentiments have hindered efforts to tackle the crisis from the start. For the euro zone to emerge from its woes, change across its economies, not only in its weakest links, is necessary. Fresh growth opportunities would then offset the negative effects of painful restructuring and reform. Countries with stronger fiscal positions such as Germany should boost budget spending to increase demand. Greater joint action at the European level is critical as well. A March study by the Brussels-based think tank Bruegel outlined how the integration of national markets is far from complete. Governments still employ conflicting regulations to protect corporate champions and hamper the formation of Europewide labor and service markets. For example, uncoordinated pension schemes and tax codes inhibit the movement of workers around the euro zone. The poor state of the zone's economy, the report reads, "requires once again a European strategy to boost growth and employment, in which the single market has a central role."



While Merkel has thumped her fellow leaders into painful reforms, she has dodged needed changes at home. In 2012 she pressed her neighbors into a new fiscal compact that tightened oversight of national budgets. Yet rather than taking advantage of German financial strength to increase spending, Merkel balanced the national budget in 2014 for the first time in 45 years. Germany runs a tremendous current account surplus—7.5 percent of GDP in 2014, compared with 2 percent for China—which means it should be buying more from the rest of Europe, stimulating exports and growth there. Many economists and policymakers have called on Germany to reduce its surplus by reforming its economic model. "Policies to promote more domestic investment and demand would be good for the German economy and for the global economy," U.S. Secretary of the Treasury Jacob Lew said in a 2014 visit to Berlin.

Achieving that, however, would entail altering Germany's own economy by, for instance, getting coddled service industries to increase productivity and wages. A 2014 study of the German economy by the Organisation for Economic Co-operation and Development argued that such steps would also help Germany by boosting potential growth as its labor force ages. The country's leaders, however, see its surplus as a measure of its economic superiority and react angrily to any criticism. "It would be absurd to discuss whether German competitiveness should be reduced," Jens Weidmann, president of the German central bank, said in April.

That German view—the euro zone's problems aren't of Germany's making—has dictated Berlin's approach toward the crisis. Merkel has played the unrelenting taskmaster, treating her beleaguered neighbors not as partners, but as spoiled children who could be set right only by the rod. Last year, French President François Hollande and Italian Prime Minister Matteo Renzi advocated greater flexibility in the austerity program to promote job creation. "If everyone does austerity, we'll have even slower growth," Hollande groused in October. Merkel would have none of it. "We have had times in Europe with very high deficits and yet no growth, so we must learn from the past," she said. When some European leaders proposed "eurobonds," instruments backed by the zone to ease financing costs on individual states, Merkel rejected the idea.

Even the IMF, in a June report on Greece's finances, deemed the country's debt load "unsustainable" and recommended relief. Merkel accepted only minor concessions to bailout demands, insisting that the Greeks impose further tax hikes and public spending cuts. She labeled her offer "generous."

Is it any wonder, then, that the Greeks said no? They may be only the first. Joblessness and recession have persuaded other voters in Europe to seek a new course. Gaining popularity in Spain, where unemployment is 22.5 percent, is the leftist political movement Podemos, which also seeks a fairer deal from the rest of Europe. "The problem isn't Greece, the problem is Europe," Podemos's chief, Pablo Iglesias, said in late June. In Italy, Beppe Grillo, leader of the anti-establishment Five Star Movement, called for a referendum to decide if Italy should remain in the monetary union.

Europe's leaders characterized a no verdict in the Greek referendum as a vote against the idea of Europe. In fact, the resounding no was a vote against the existing harsh reality of membership in present-day Europe. Unless Europeans act as partners in their grand quest for solidarity, they will end up with less Europe, not more. Ⓑ

SEAN GALLUP/GETTY IMAGES

To read Noah Feldman on Obama's global legacy and Noah Smith on Generation X's wealth problem, go to

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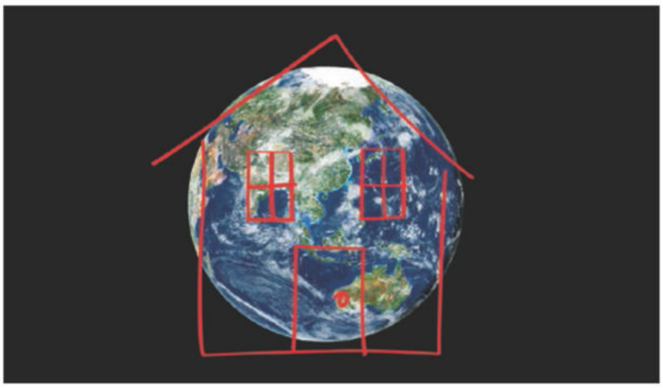
The Unrecognized Global Crisis

Almost 60 million people have been displaced by conflict



The United Nations' latest refugee report, released in mid-June, is bracing. Wars and other conflicts have displaced almost 60 million people. The number of forcibly displaced people rose by more than 8 million in 2014. More than 30 million are children. There are more refugees in the world than at any time in recorded history. Yet this global crisis is mostly unrecognized as such; instead, it's seen as a collection of regional crises, taking place along the Syrian border, in the southern U.S., and along coastal Myanmar.

This is a man-made catastrophe that affects every nation on earth—and the world's richest countries have a practical and moral obligation to do more about it.

Too many in the U.S. and Europe see themselves as under siege from economic migrants (or worse, Islamist terrorists) posing as asylum seekers. So the first order of business for the developed world is to change perceptions.

Most of the displaced, 38 million people, are stuck inside their own countries. Of those who manage to escape, 86 percent go to the mostly poor and often fragile countries nearby. Images of refugees crossing the Mediterranean suggest a human wave crashing on Europe, but their numbers—about 100,000 so far this year—are small relative to the wider crisis and to Europe's population of 500 million. Lebanon hosts one Syrian for every four of its own citizens. Turkey, population 75 million, has at least 1.6 million refugees. The poverty-stricken sub-Saharan neighbors of Sudan, Somalia, and Eritrea have taken in 3.7 million people.

Resettling tens of millions of refugees in richer nations isn't the answer. Yet neither is closing off immigration altogether. Resettlement can play a role in regulating the flow, and rich countries could develop categories of temporary visas. Refugees would be given shelter on the understanding that they would return home if and when they can do so safely.

More needs to be done to make it possible for the displaced to remain in their own regions. That means providing the shelter, schools, and medical care that refugees need. It also means putting civilian boots on the ground to help countries already straining to create jobs for their own people.

At a recent conference, donor countries pledged less than half the $8.5 billion that the UN said was needed this year to give food and shelter to 12 million Syrians scattered across the Middle East. Some countries have been far more stingy than others: While the U.S. and U.K. have together delivered more than 40 percent of the UN-solicited aid for Syrian refugees in 2015, Saudi Arabia has pitched in only 0.5 percent. Russia has contributed 0.1 percent, and China has given nothing.

There is no single or permanent solution. That's no excuse for failing to do what's possible. This crisis will require more help and attention from the more stable and prosperous parts of the world. It will also require more action at the source.

Jim Webb's Rebellion

The Democrat wants to be president but is out of tune with constituencies

Jim Webb has been a decorated soldier, a secretary of the Navy, a U.S. senator, a best-selling author, a Hollywood screenwriter, and, as of July 2, the first person this year to have announced his presidential candidacy in a Facebook post.

Unfortunately, Webb has also offered a vague defense of the Confederate flag. The descendant of Confederate officers chastises fellow Democrats for not understanding the values and traditions of working-class whites (especially those of Scots-Irish descent). Yet he seems oddly tone-deaf when it comes to race.

After nine black worshipers were gunned down in a Charleston church, conservative Republicans across the South reconsidered their positions on the Confederate battle flag. Not Webb. On Facebook, he urged Americans to "think through these issues with a care that recognizes the need for change but also respects the complicated history of the Civil War." For most black Americans, the history is not that complicated.

Webb has also managed to offend another constituency by arguing that women in the military shouldn't serve in combat roles. Winning over either group won't be easy.

Yet he's betting that his populist views on economics and dovish views on military force will win him a national following. His opposition to the toppling of Saddam Hussein and Muammar Qaddafi, both supported by Hillary Clinton, will provoke a healthy debate within the party over America's role in the world. While Clinton has begun targeting income inequality and criticizing hedge fund managers, Webb pushed to hike taxes on bonuses paid to those working for banks that received bailouts.

Webb has written that "the greatest realignment in modern politics would take place rather quickly if the right national leader found a way to bring the Scots-Irish and African Americans to the same table, and so to redefine a formula that has consciously set them apart for the past two centuries."

He could be right about that. Unfortunately, he doesn't seem to understand that his views on a symbolic but consequential issue may make it harder to build that coalition. B

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▶ **Spain's job machine relies heavily on low-paid temporary workers to boost employment**

▶ **"It's impossible to find fairly compensated full-time work"**

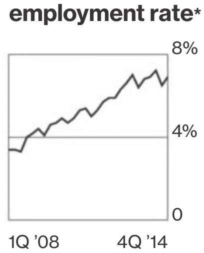
Spain created about 500,000 jobs last year, more than any euro zone country except Germany. With the economy forecast to grow a healthy 2.9 percent in 2015, Prime Minister Mariano Rajoy predicts another half-million jobs will be created by yearend. It's evidence, his government says, that Spain is benefiting from reforms in 2012 that made its labor market more flexible. Similar reforms are being pursued in France, Italy, and other European countries struggling with high unemployment.

Almost all the new jobs, though, are what the Spaniards call *trabajo basura*, or garbage work—low-paid and dead-end. Government data show that 92 percent of the positions being created are temporary, with some lasting only a few days. One-fourth of labor contracts signed in the first three months of 2015 were for one week or less. Spanish temps make an average €12,000 ($13,289) annually, half the amount earned by people with open-ended contracts, which have no fixed length.

Since being laid off from long-term jobs in 2012, Madrid electrician Alberto Naveiras, 36, and his girlfriend, Ester Mansilla, a 31-year-old cook, have bounced from one trabajo basura to another. In mid-June, Mansilla landed her 10th gig, helping a restaurant get through the wedding season. Naveiras's latest contract, supervising maintenance at an apartment complex for 16 hours a week, started a few days later. "You can have experience and good education, but it's impossible to find fairly compensated full-time work," Mansilla says.

University graduates haven't been spared. Víctor Laste, a 35-year-old veterinarian, worked as an exterminator in Madrid after losing his job in 2010 and failing to find employment in his field. He recently started a pest-control business. "We are much less assured of a secure future and the development of a normal life," says Laste, a father of two.

Spain's under-employment rate*

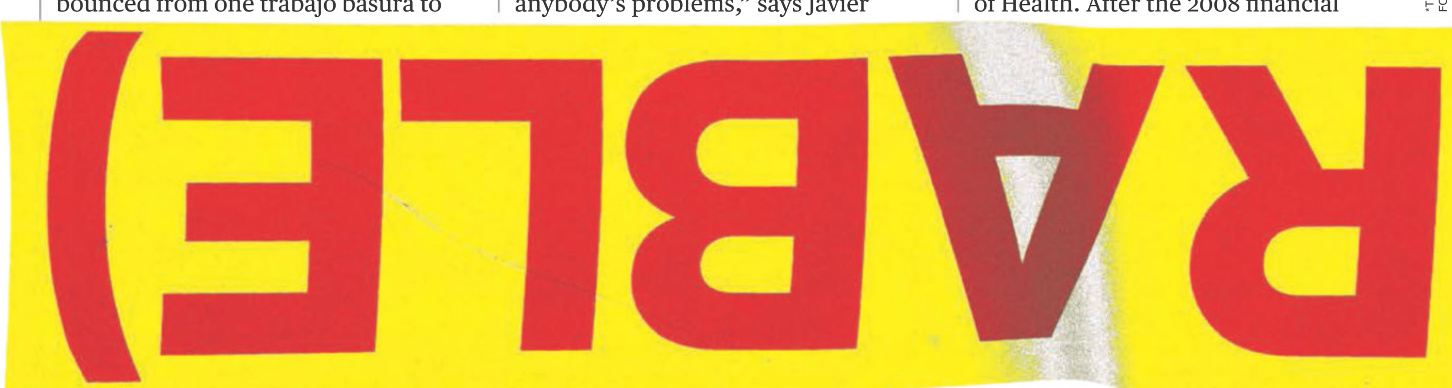


Even a bad job, presumably, is better than no job in Spain, where unemployment is 22.5 percent, the highest in the euro zone after Greece. "Nobody is saying that by hiring somebody part-time for €500 a month, you're solving anybody's problems," says Javier Díaz-Giménez, an economics professor at the IESE Business School in Madrid. But, he says, "Spain needs 2.5 million jobs—good, bad, or average."

Still, the country is locking in place a system in which older workers enjoy decent pay and generous protections under long-standing union contracts, while everyone else gets trabajo basura. European countries struggling with competitiveness can learn from the Spanish experience. Boosting temporary work makes a labor force less attractive to companies. Research by economists in Spain and elsewhere shows that temporary workers are less productive than those on long-term contracts, in part because they rarely get on-the-job training to improve their skills. Such training is essential in Spain, where only 55 percent of people age 25 and older have a high school diploma, compared with 86 percent in Germany and 81 percent in the U.S.

Spain also lags in research and development that could lure better-paying jobs in industries such as pharmaceuticals and information technology. Spain "never had a big program of research and innovation," says Irene Cortés, a critical-care doctor who now does research at the U.S. National Institutes of Health. After the 2008 financial

*THE UNDEREMPLOYMENT RATE IS THE SHARE OF THE 15- TO 74-YEAR-OLD LABOR FORCE WORKING PART-TIME AND SEEKING MORE HOURS. DATA: EUROSTAT



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crisis, R&D spending was slashed.

Labor reforms that don't go far enough can widen the gap between those with and without good jobs. Spain's 2012 legislation reduced the power of unions and limited mandatory payments to laid-off workers to make it easier for employers to hire and fire. But significant protections remain, and courts have weakened the reforms by siding with workers in labor disputes, says Juan Dolado, an economist at the European University Institute in Florence, Italy. Average pay for workers with open-ended contracts fell only 5 percent after the reforms. Severance payments declined, but a worker with 10 years' tenure still gets seven months of wages if laid off, more than twice the average for industrialized countries, Dolado says.

Although Spain has long had a high proportion of temporary workers, their situation has worsened. Wages are down an average 20 percent since 2008, while the average length of a temporary contract fell from 79 days to 53.

Spain could encourage companies to hire more long-term workers by further scaling back severance pay and other protections. Some Spanish economists are urging the government to introduce an open-ended hiring arrangement for everyone, with workers gradually acquiring more protections the longer they stay on the job. Italy's government has proposed tax incentives for employers that hire all workers on open-ended contracts.

Spain is "one of the least-friendly places, at least in the developed world, to create jobs," says Gayle Allard, an economist at IE Business School in Madrid. "Salaries are low because productivity is low, but productivity is low partly because of high temporary employment. It's just a vicious cycle." —*Carol Matlack and Nick Leiber*

The bottom line Spain will generate about a million new jobs in 2014 and 2015, but most are of low quality and short duration.

Money

A Switch to the Drachma Would Be Costly

▶ **Problems start with printing bills and getting them to Greek banks**

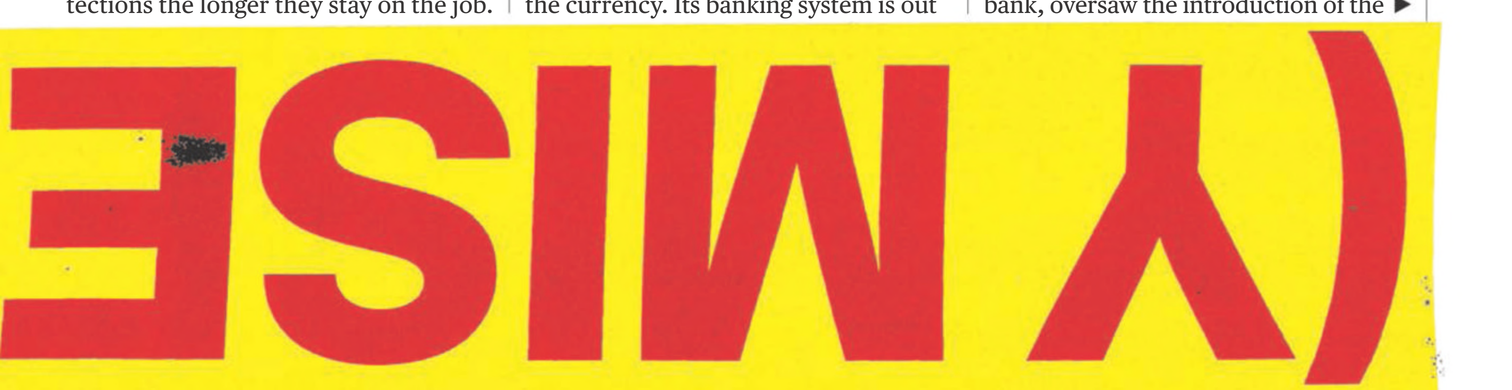
▶ **"A currency is a national business card, so you want to make it right"**

Greece's government says it intends to keep the euro even after voters rejected the harsh terms of a proposed bailout by the euro zone in the July 5 referendum. Many economists, though, say it will be hard for Greece to stick with the currency. Its banking system is out of cash, and the only way to get more is for the European Central Bank to pump in funds. Yet the ECB may not do that if Greece can't secure a new bailout. Rejection by the ECB could force Greece to create a new drachma to keep its economy running.

Countries switching currencies must grapple with two major questions: how to introduce new notes and coins, and what to do with bank accounts, debts, and stocks and bonds denominated in the old currency. The Greek central bank owns a press in the Athens suburb of Holargos that prints euro notes. That plant printed the pre-euro drachma and could make the new one.

If Greece leaves the euro zone, its new currency must project solidity and confidence. "A currency is a national business card, so you want to make it right," says Ralf Wintergerst, head of bank notes at **Giesecke & Devrient**, a Munich company that's printed money since 1852. Wintergerst says introducing a currency typically takes at least six months, sometimes as long as two years. Artists must draw the notes, security experts must add anticounterfeit measures such as watermarks and special inks, and bankers must plan how much of each denomination is needed and how to get the money to the banks.

In 1993, Boris Raguz, now head of the Treasury Directory at Croatia's central bank, oversaw the introduction of the ▶



Cash on Hand

Physical euros in Greece as of May 31

€45,208,020,000

About 3.5 percent of the value of all euros in circulation

On June 29, Greece capped ATM withdrawals at €60 a day per card

If Greece returns to the drachma, shops might accept both currencies

SOURCE: BLOOMBERG ANALYSIS OF BANK OF GREECE FIGURES

◀ country's currency, the kuna, after the breakup of Yugoslavia. "The most challenging thing was to make sure the new currency was available everywhere," he says.

Because of the time required to distribute new notes and coins, the euro and drachma would have to exist side by side for a while. The two currencies would probably start at a one-to-one exchange rate, which might be fixed for a period of time. The euro itself was created in 1999 but existed only in a virtual state for three years, used for electronic transactions at a fixed rate against the francs, marks, and other currencies it replaced. On Jan. 1, 2002, euro bills and coins were introduced. The old currencies were accepted for two more months.

Unlike most other currencies that have been abandoned by a country, the euro will remain in circulation across Europe if Greece decides to switch. Greek banks might move credit card transactions to the new drachma immediately, but shops could accept both—or perhaps only euros if merchants doubted the value of the new currency. The drachma might have little appeal to Greeks, who would expect its value to fall fast and far once the market was allowed to set the exchange rate.

"As soon as anyone got new drachmas stuffed in their pockets, they would do whatever it takes to get rid of them," says Jacob Kirkegaard, a senior fellow at the Peterson Institute for International Economics in Washington. According to Kirkegaard, Greece's many importers might demand payment in euros rather than drachmas. Euros would cover importers' costs better than a rapidly depreciating drachma.

Ludek Niedermayer headed the risk management department at the Czech central bank after Czechoslovakia split into two countries in February 1993. He says the Czech Republic and Slovakia were relatively isolated, having emerged from communism less than four years earlier. That, he says, helped protect the new Czech koruna. Greece, he notes, is far more integrated into the European economy.

"If you introduce a currency that no one wants, it's a very bad start," Niedermayer says. "I would advise Greeks to stop thinking about leaving the euro at all. It wouldn't be a happy ending for them." —*Matthew Campbell and Alex Webb*

The bottom line Although some economists say Greece will have to abandon the euro, many Greeks want to keep the single currency.

Energy

Industry Swelters in a Hot Egyptian Summer

▶ The regime supplies plenty of power to homes, not to factories

▶ "It's more important to generate electricity" for households

As Egyptian industrialist Moataz al-Alfi enjoys the chilly blast from his air conditioning—the first time in three summers his Cairo home has had a reliable electricity supply—he knows the cool air is coming at the expense of his fertilizer factories. The government has taken "a sovereign decision that it's more important to generate electricity" for households than provide energy to factories, says al-Alfi, chairman of **Egypt Kuwait Holding**.

Although the government has been practicing such triage since 2011, it's "much worse" this year, he says. Repeated power cuts, especially during the summer months, helped ignite popular anger against Islamist President and Muslim Brotherhood leader Mohamed Mursi, who was toppled by the army in July 2013 after widespread protests. The current government, led by former army chief Abdel-Fattah El-Sisi, isn't taking any chances. With fuel supplies low, the primary focus is keeping the lights on and the air conditioners humming at home.

That decision carries risks for the economy, which has stagnated during four years of turmoil. The government forecasts growth greater than 4 percent for the first time since 2010. That's partly because of the stimulus from public works such as the construction of a second canal in Suez. This year's growth figure also benefits from an easy comparison with the poor economic performance in 2014.

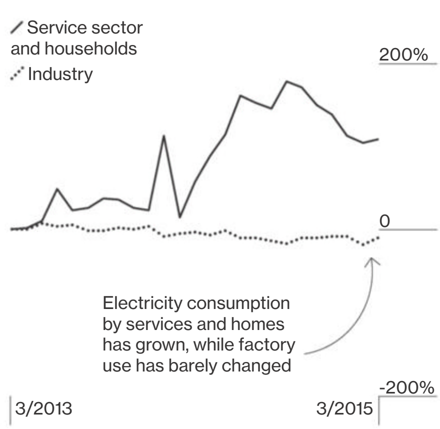
Growth would be higher if more energy were available for industry. Nonoil exports tumbled 20 percent, to $8 billion, in the first five months of 2015. "We give priority to electricity" for households, says Khaled Abdel Badie, chairman of state-run **Egyptian Natural Gas Holding**. The power generation industry, which has a mandate to avoid outages in Egypt's homes, gets "100 percent of their needs, and then we give the rest to factories."

Many Egyptian industries use natural gas to operate their plants, and fertilizer makers use it as a raw material. At the end of March the government told Egypt's steel, petrochemical, and cement producers that pumping natural gas into factories would be "halted indefinitely," says Mohamed Hanafy, head of the Chamber of Metallurgical Industries at the Federation of Egyptian Industries. Most factories have been unable to operate more than 40 days this year, he says.

Steelmaker **El Ezz Aldekhela** said in late June that its plants were

Keeping the Lights On

Change in Egypt's electricity use since March 2013



DATA: EGYPT'S CENTRAL AGENCY FOR PUBLIC MOBILIZATION AND STATISTICS experiencing a "severe" natural gas shortage. Shares in the company have tumbled 26 percent this year, more than three times the drop in the benchmark EGX 30 Index. Al-Alfi's Egypt Kuwait Holding has dropped 16 percent.

Egyptians began to feel an energy crunch after the 2011 uprising against Hosni Mubarak. Once-robust investment in natural gas exploration in Egypt's fields dwindled, and demand quickly outpaced supply. Seeking to bridge the gap, the government began importing liquefied natural gas in April and leased the equipment that turns LNG back into gas. That gas then gets pumped into the pipelines that serve power plants.

Egypt's factory owners hoped that the LNG would be shared between households and industry, says Mohamed Abu Basha, a Cairo-based economist at EFG-Hermes Holding. But "the extra gas only allows improvement in electricity to households, not more." Abu Basha says the gas supply to factories should improve when additional equipment for converting LNG starts operating in October.

The industrial slowdown means Egyptian companies are struggling to export, adding to a foreign currency squeeze that's left the country dependent on handouts from the oil-rich Gulf regimes. To make fertilizer, natural gas goes to plants that produce for the local market, not to exporters, says Mohamed Salem, head of research at investment bank Prime Securities in Cairo. Exports of petrochemicals and building materials fell 28 percent in the first five months of 2015. At the mercy of political priorities, Egypt's industries have little to do but wait for the summer to end. —*Ahmed Feteha and Tamim Elyan*

The bottom line Because Egypt's factories are getting less power than they need, they're exporting far less than they could.

Technology

How Satellite Photos May Change Economics

▶ **Tiny, cheap satellites will orbit the globe recording everything**

▶ **They could "remake the whole stock and economic research industry"**

In 52 seconds, a shoebox-size satellite covers the distance from Los Angeles to Las Vegas and captures high-resolution photos of the beaches, freeways, mountains, and deserts 250 miles below.

With more than 50 such satellites, **Planet Labs**, a San Francisco startup founded in a garage by former NASA engineers, now has one of the largest-ever imaging fleets aloft, each orbiting the globe every 90 minutes. Together they can photograph most of the planet every day.

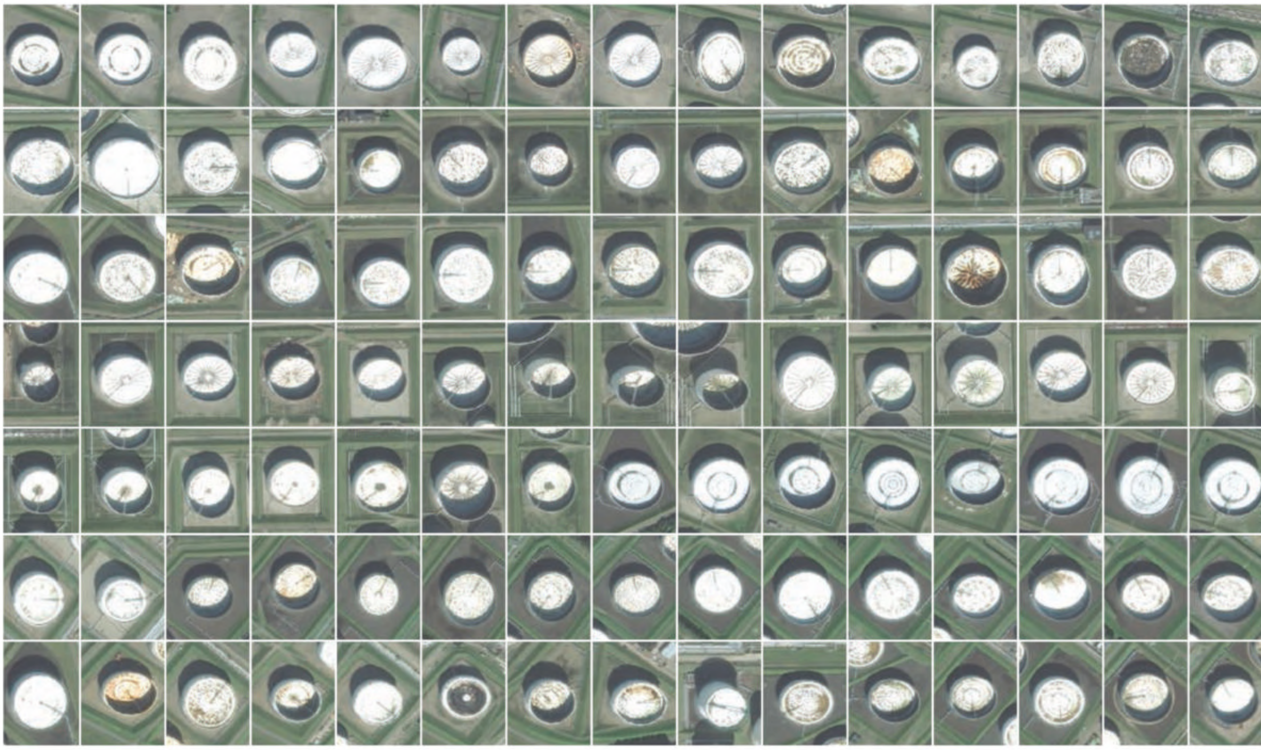
Embedded in the terabytes of photos the satellites beam to earth are clues to the global economy. Big data software can now quickly extract economic indicators from photos of farms, factories, and ports. Pictures of retailers' parking lots can help estimate sales and customer traffic. Satellite images of activity at 6,000 Chinese factories are being translated into a new manufacturing index. Energy investors will soon be able to access data based on satellite photos of oil tank farms worldwide to know if stocks of crude are falling or rising.

"This is one of those really rare game changers that come along very infrequently but has the ability to remake the whole stock and economic research industry," says Nicholas Colas, chief market strategist at Convergex Group, a brokerage in New York. "We still make monetary policy in this country based on surveys of a few thousand households and businesses." That approach will continue: The U.S. Department of Labor's Bureau of Labor Statistics and the U.S. Department of Commerce's Bureau of Economic Analysis say they don't ▶

A cruise boat on the Nile in Cairo

XINYU CUI

Oil Storage Tanks



These images show oil storage facilities around the globe. Crude is stored in massive tanks whose capacity can be estimated from the shadows they cast. How full they are can be gauged from the shadows on the interior lids, which move up and down based on the amount of oil in the tank.

◀ use satellite data and don't plan to.

Millions of photos are useless, of course, until they become data. That transformation is the goal for startups such as **Spaceknow** in San Francisco. Chief Executive Officer Pavel Machalek says imagery eventually will track all the world's trucks, ships, mines, and warehouses to attain what he calls "radical economic transparency."

Orbital Insight founder James Crawford, whose team worked on NASA's Mars rovers, wants to create the "macroscope" that will alter the world as microscopes did centuries ago. The Palo Alto company uses advanced image processing and algorithms to track national and global trends. One product estimates sales at 60 U.S. retail and restaurant chains. Others generate a global poverty map and predict illegal deforestation by watching for road construction and other signs of logging. Customers include hedge funds, banks, government agencies, nonprofits, and multinationals—"anyone who needs to understand the world at scale to make decisions," Crawford says. (Orbital has received funding from Bloomberg Beta, a venture capital division of Bloomberg LP, owner of *Bloomberg Businessweek*.)

Declassified U.S. Air Force satellite imagery has allowed economists to measure the brightness of cities at night, a proxy for the size of the power grid and the economic activity it generates. Myanmar, one of the poorest nations in the world, is emerging from a half-century of military rule. The country's official data show growth that's been averaging 10 percent a year for more than a decade. Brown University economists studied the lights glowing at night across Myanmar and concluded the power grid wasn't generating enough electricity to support 10 percent growth. Instead, the Brown University researchers estimated the economy was expanding by 3.3 percent on average.

Xavier Sala-i-Martin, an economics professor at Columbia University, used night-lights data to question World Bank estimates that 30 percent of the globe lives in poverty. He says satellite photos suggest the number is only 6 percent. Some critics point out the data on electric light could indicate industrial activity instead of lower poverty.

Andrew Dabalen, lead economist for the poverty global practice at the World Bank, says that even though satellite data has "a lot of promise, it's not a substitute for having face-to-face data collection directly from households." So World Bank researchers are looking at ways to pair satellite images with census surveys to better estimate income. "It's not perfect, but you can get a rough idea how the poor and rich are distributed across space in a country," he says.

Wall Street is getting interested. Rich Abbe, co-founder of **Iroquois Capital Management** in New York, was intrigued enough by analysis from **Remote Sensing Metrics** that Iroquois bought a stake in the Chicago company and started using its tools. Recently he used its reports on parking-lot totals to invest in consumer companies such as Chipotle Mexican Grill and J.C. Penney. And he sees more possibilities in other industries—including mining and oil rigs—now that he has "an interesting macroview." —*Jeff Kearns, with Kelly Bit*

The bottom line The earth is quickly being encircled by hundreds of tiny satellites photographing economic activity.

Edited by Christopher Power
Bloomberg.com

COURTESY ORBITAL INSIGHT

Rethinking Disneyland For the Chinese Family

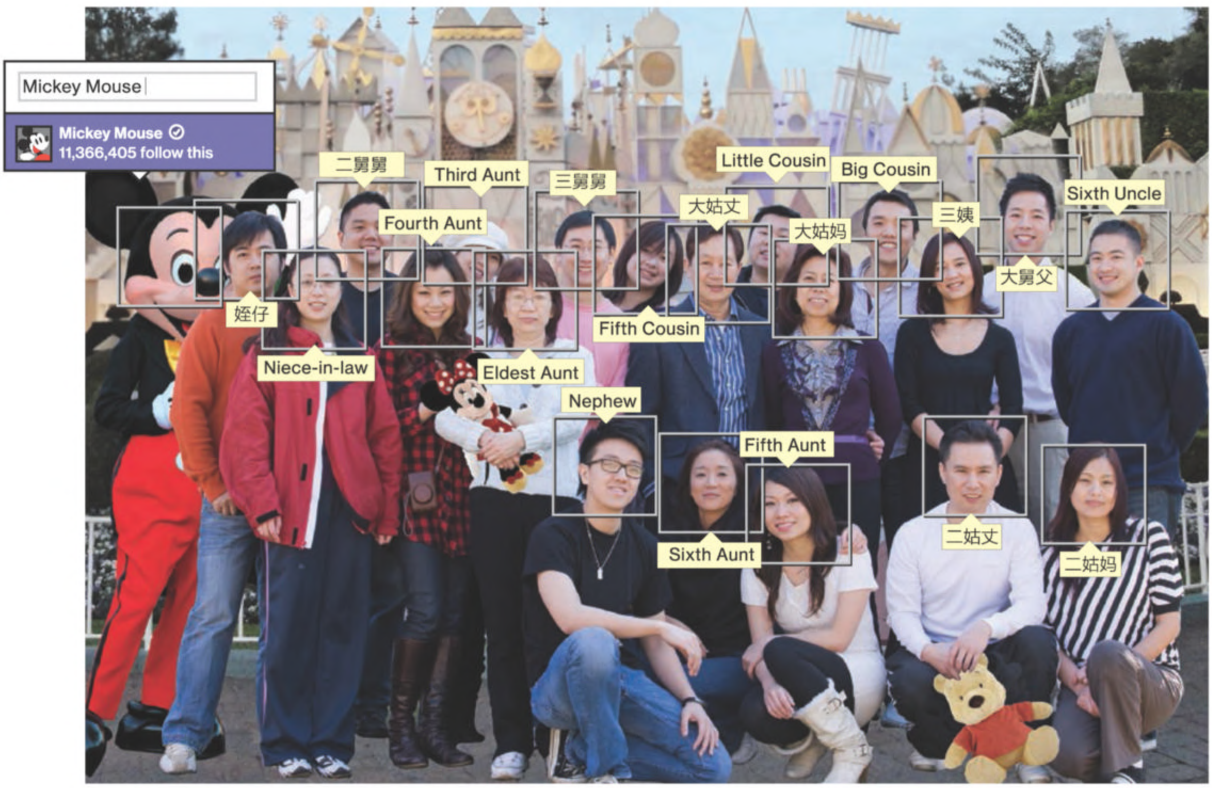


PHOTO ILLUSTRATION BY TRACY MA; FAMILY: SUPERSTOCK; CASTLE: COURTESY DISNEY; CASTLES: ILLUSTRATIONS BY SIMON ABRANOWICZ

▶ The Shanghai park is designed with extended families—and even line jumpers—in mind

▶ "We're building something that's authentically Disney and distinctly Chinese"

As any parent who's hauled awe-struck kids through a Disney park in the U.S. knows, the stars of the show are the ever-present Mickey, Minnie, and the fairy tale princesses (think Cinderella, Ariel, and Elsa) that **Walt Disney** transformed into a perpetual profit machine. But visitors to Shanghai Disneyland, set to open next spring, will be wowed by a new cast member in a starring role: Chinese culture. Whether it's the giant glass peony blossom representing nobility and good fortune at the center of a fairy-bedecked fountain, the "lucky" cloud patterns painted on some spires of the massive castle dwarfing the park, or the traditional dim sum restaurant in the Disneytown night life area, every detail will exhibit a heavy dose of mainland history and customs.

"We're building something that's authentically Disney and distinctly Chinese," Disney Chairman Robert Iger says. "It definitely will be Disneyland in China, but we'll obviously be respectful of the Chinese culture and relatable to the people of China."

In May the company opened the world's largest Disney Store in Shanghai, the mainland's most affluent metropolis. But the $5.5 billion resort Disney is building in partnership with Shanghai's local government–within a three-hour drive of more than 330 million potential visitors–is a far bigger bet on China's rising middle class. It's also the entertainment giant's largest foreign investment ever.

Despite Disney's longtime success in theme parks, risks remain. Since the 1980s, many Chinese real estate developers have added entertainment components to their projects, so there are plenty of rivals for mainlanders' leisure-time dollars. The number of Chinese amusement parks, including water parks and other destinations with rides, is expected to reach 850 this year, up 40 percent since 2006, according to consultant IBISWorld. Comcast's **Universal Studios** is building a theme park in Beijing, and **DreamWorks Animation** is opening a film studio and entertainment complex in Shanghai.

Attractions operated by local competitors, such as Songcheng Park in Hangzhou and Chimelong Ocean Kingdom in Hengqin, rank among the most attended in the world, according to consulting firm Aecom.

"They [Disney] have to be on top of their game," says Dennis Speigel, a theme park consultant from Cincinnati who's worked in China. "It better be sized correctly, it better be finished properly, because the Chinese are so into technology and social media, now they know what's going on."

China's one-child policy and a desire by extended families to travel together often mean there are as many as four adults for every kid in the parks, says Craig Hanna, chief creative officer for Thinkwell Group, a theme park designer based in Los Angeles, which has done work in China. So operators need to design plenty of seating, restaurants, viewing areas, and open space where older family members can camp out while others go on rides, Hanna says.

Chinese companies don't typically offer paid vacation time, so park attendance tends to surge around a handful of national holidays, according to Tony Sze, senior counselor of the **Chimelong Group**, one of China's largest park operators. To reduce the waits at rides during peak times, the company schedules parades and street performances to draw customers elsewhere in its parks, he says. Disney has been adding games, videos, and robots to distract Shanghai customers while they wait.

Another challenge is the Chinese propensity for line-cutting, detailed in a 2010 article in *InPark Magazine*, published by the International Association of Amusement Parks & Attractions. The article described tactics such as "constant walking," moving forward while pretending there's no line, or using a kid as an "advance man" to snake through the queue, bypassing the waiting throngs. The article recommended enclosed lines that narrow to single file so people can't jump ahead.

"Rather than pull people away and say 'I'm sorry, you can't do that,' you make it impossible," says John Rust, senior creative director at Rethink Leisure & Entertainment, another California-based theme park designer.

The Shanghai Disney Resort will feature 11 acres of gardens at its center, with benches and areas for strolling. Playing to Iger's mandate to focus on Chinese culture, the Garden of the Twelve Friends will blend Chinese zodiac symbols with Disney characters. Remy, from the Pixar film *Ratatouille*, represents the Year of the Rat. The lambs from *Mary Poppins* do the same for the Year of the Sheep.

The Chinese like large-scale visuals, Hanna says. And Disney will satisfy that with Shanghai's Enchanted Storybook Castle, the tallest and largest such structure at any Disney park. Chinese parkgoers also expect live entertainment. Outside the Shanghai park will be Disneytown, a shopping plaza with no entry fee that will serve as a kind of overflow area and include a theater with the first Mandarin-language live production of *The Lion King*.

Disney has learned from past mistakes. Disneyland Paris opened in 1992 to French criticism of the lack of wine on its menus; Shanghai will have plenty of local food at various prices. The 310-acre Hong Kong Disneyland was dinged at its debut as too small; Shanghai will be three times the size. And the Paris park, with seven on-site hotels with a total 5,765 rooms, suffered from a lodging glut; Shanghai will open with two Disney-run hotels totaling 1,220 rooms. "They've definitely learned some lessons," says Lee Cockerell, who supervised food offerings at the hotels at Disneyland Paris when it opened. "Understand the culture, respect the culture, and make sure the guests are going to get what they expect." —*Christopher Palmeri, with Gregory Turk*

The bottom line The $5.5 billion Shanghai Disneyland is customized for China, where adult visitors may outnumber kids 4 to 1.

DATA: DISNEY, THE AMERICAN INSTITUTE OF ARCHITECTS

Airlines

No, You Can't Open the Exit Door to Get Air

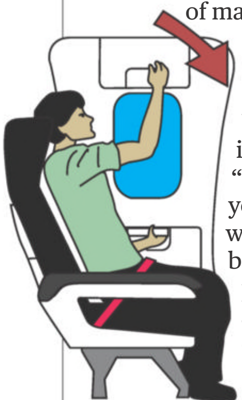
▶ Vietnam's discounters struggle to educate a wave of first-time flyers

▶ Learning "how to take someone down if he attacks us from behind"

When Nguyen Thanh Chuong opened the emergency exit of **VietJet Air** Flight 175 as the plane prepared to leave Hanoi for Ho Chi Minh City on April 17, the 43-year-old farmer from a village on the outskirts of Hanoi didn't mean to cause any trouble. He just wanted to find the bathroom. Chuong's rookie mistake activated the Airbus A321's evacuation slide, causing a three-hour delay that cost the airline about ▶

◀ $30,000 and set off a chain reaction of schedule disruptions. Such mishaps are likely to be repeated. The emergence of a middle class and the rise of discount carriers is causing headaches for flight crews and ground staff across Asia as the world's fastest-growing region for aviation welcomes 100 million new flyers every year.

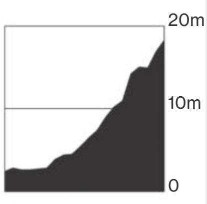
"People are now more mobile than they have been in the history of mankind," says Graham Hunt, head of Embry-Riddle Aeronautical University Asia in Singapore. "The fact that you have people who have never before seen an airplane getting on airplanes is a real challenge."



Only one in five of Vietnam's 90 million citizens has flown, but within two decades virtually all Vietnamese are expected to have traveled by air, estimates Airbus Group. At least 30 percent of the 10 million passengers VietJet will handle this year will be first-time flyers, says Luu Duc Khanh, managing director of the airline, which has been operating for almost four years.

Khanh advocates better communication and education for the public, as well as "sterner warnings from airlines and aviation regulators" to reduce the number of incidents such as Chuong's door opening. The farmer was fined $687 but was excused after he showed that he lives below the poverty line and his family is recognized for contributing to the nation's revolution.

Vietnam's air passenger traffic



DATA: GENERAL STATISTICS OFFICE OF VIETNAM

Stories of confused first-timers meddling with emergency exits regularly crop up. A 61-year-old opened one last July in Thanh Hoa province, claiming he forgot **Vietnam Airlines**' instruction not to do so without a cabin attendant's permission, and a farmer opened another one in April to get some fresh air, according to local media.

"We're trained to keep a close eye on passengers sitting near the exit doors," says Huong Nguyen, who's worked as a flight attendant for two carriers, including one based in Vietnam. VietJet said it also stations cabin crew outside bathrooms to avoid mishaps when first-time flyers fail to lock the door, and tells passengers to use airsickness bags to dispose of chewing gum.

"It took me a while to figure out what to do," says Le Ngoc Linh, a 24-year-old Hanoi hairdresser who boarded her first flight about five months ago. "I saw a woman walking back and forth down the aisle, looking for the toilet." Some passengers argue loudly with flight attendants because they don't understand instructions; others remove the life jackets from under seats and try to take them home, assuming they're included in the ticket, Huong says.

Cases of passengers harassing or abusing staff are common. A 35-year-old Hanoi resident was barred from flying for six months for slapping an airport employee in April after being told her carry-on luggage exceeded weight limits, the *Thanh Nien News* said. Another woman was fined $344 for kicking a VietJet employee in June.

Local airlines have come up with a novel way to help cabin staff cope with such behavior: martial arts training. That's in part to deal with unwanted touching by passengers, says Huong, who's been schooled in "how to take someone down if he attacks us from behind." She's also been taught how to use plastic handcuffs and tape to bind aggressive passengers.

Vietnam has liberalized its aviation market, fostering low-fare airlines such as **Jetstar Pacific Airlines** that sell round-trip tickets for flights between Hanoi and Ho Chi Minh City for as little as $108. And as Vietnam's per capita income has doubled, to $1,740, in 2013 from 2007, according to the World Bank, Vietnamese have more money to spend on travel. "Suddenly you have a lot of lower-income families who can afford air travel," says Nguyen Xuan Thanh, a senior fellow at Harvard's Kennedy School of Government who's based in Ho Chi Minh City. "This is similar to what is happening in China."

Things have gotten so bad there that China's National Tourism Administration created a "National Uncivilized Traveler Record" for the travel industry, listing particularly troublesome flyers. In January members of a tour group angry about a weather delay opened emergency exits on a **China Eastern Airlines** flight in Kunming just before takeoff. The previous month, a first-time flyer opened an emergency door on a **Xiamen Airlines** plane to get some fresh air as the plane was taxiing for takeoff.

> "That you have people who have never before seen an airplane getting on airplanes is a real challenge."
> —*Graham Hunt, Embry-Riddle Aeronautical University Asia*

Back in Vietnam, flight attendant Huong and her colleagues keep an eye out for newbies. Most are easy to spot because they look nervous or excited, she says. "Some of them carry helmets, and sometimes they put their helmets on when the plane is landing." —*John Boudreau and Nguyen Dieu Tu Uyen*

The bottom line Only one in five Vietnamese has ever flown. Within 20 years, the entire populace is expected to have taken a flight.

Fast Food

Taco Bell's App Is a Fix for the Munchies

▶ The chain says customers who use it are buying and eating more

▶ "We sell steak, as crazy as that sounds"

Fast food can never be fast enough. When **Taco Bell** introduced a food-ordering app in October, the chain figured it could speed up service for customers and cut down on wrong orders, so the next time you ask for a chicken soft taco you won't wind up with a bean burrito.

What Taco Bell didn't know was how much extra food Americans order when they do so from the privacy of their smartphones. "You don't want to say large or order extra cheese—you look like a pig," says Hope Neiman, chief marketing officer at **Tillster**, a company that helped develop the app. "But if I'm sitting here tapping, who cares?"

That's why Taco Bell's Live Más app, available for its 6,000 U.S. restaurants, has been downloaded more than 3 million times. Customers who use it also spend more than $10 on an average order—about 20 percent more than those who order in person, says Taco Bell.

"When you're able to swipe back and forth and put lettuce on or off your product, you start to feel like you're in control," says Jeff Jenkins, Taco Bell's former director of digital experiences. (He recently took a similar job with Whole Foods Market.)

The app is pretty easy to use, even when you're hungry: After storing your credit card information, tap and swipe to select from the menu, then hit "submit." To ensure the food is hot, the order is filled only when a customer is within 500 feet of a Taco Bell and notifies the store that he'll pick up the food inside or at a drive-thru window—the app includes what's known as a geofence to determine a user's location.

Scott Bermingham, a 30-year-old software support technician in Atascadero, Calif., eats at Taco Bell about once a week. He uses the app to order a custom bean burrito with extra sauce, extra cheese, and sour cream. He likes that he doesn't burden cashiers with his order. "Sometimes you feel bad for the person trying to get it right," he says.

Brian Niccol, Taco Bell's chief executive officer, says the app makes it easy to survey the full array of menu offerings—bacon, for example, can be added to tacos and burritos for 70¢. "This has opened people's eyes," he says. "If you've only ordered crunchy tacos from us, you might not realize we sell steak, as crazy as that sounds."

Taco Bell's same-store sales rose 6 percent in the quarter that ended on March 21, beating corporate parent Yum! Brands' two other food chains, **KFC** and **Pizza Hut**. (KFC doesn't have an app in the U.S.; Pizza Hut has one that lets customers order and pay.) The app has reinforced Taco Bell's standing with young, tech-savvy customers, says Darren Tristano, executive vice president at research firm Technomic. "Taco Bell is way, way ahead on this stuff," he says. "They were early, they put the right investment in, and they've made it a priority. They really figured it out."

Starbucks, also a leader in mobile payments, takes an estimated 8 million of them through customers' phones each week; ordering ahead is available at only about a third of its U.S. locations. **McDonald's** and **Burger King** have lagged behind on mobile ordering. Burger King's app provides coupons and locations; McDonald's has said it will release a global app this year but hasn't said whether it will take orders.

Competitors may want to replicate one odd twist of the Taco Bell experience. In early surveys by the company, customers reported that the food ordered on a smartphone tasted better. That's hard to imagine. But so was a Fiery Doritos Locos Tacos Supreme. —*Craig Giammona*

The bottom line Taco Bell's ordering app, downloaded more than 3 million times, has boosted sales and made people hungrier.

ILLUSTRATIONS BY 731

Autos

Smooth Roads Are Rare. Rolls-Royces Are Not

▶ Ultraluxury carmakers get a warm welcome in Kazakhstan

▶ "Kazakhs used to show off with horses. Now it's cars"

Like so many successful Asian businessmen, Beibit Alibekov isn't shy about displaying his wealth by buying cars—the more luxe, the better. Last year he picked up a fifth, a Rolls-Royce Phantom, which has a current starting price of about $480,000. But he didn't score the posh ride at a dealership in Beijing, Hong Kong, or Tokyo. The 31-year-old Alibekov got his at the Rolls showroom that opened in October in his native Kazakhstan, where the average person lives on about $330 a month.

"Kazakhs used to show off with horses. Now it's cars," says Alibekov, who owns a media company and imported his first Bentley Flying Spur used from the U.S. in 2007 for $130,000.

Thanks to an abundance of riches from oil and metals, the former Soviet republic has a large enough wealthy class to lure the likes of Rolls-Royce, Bentley, and Maserati to the potholed streets of Almaty, Kazakhstan's biggest city. More people in the Central Asian country have ordered Bentley's upcoming sport-utility vehicle than in all of neighboring Russia.

With growth in China's luxury market slowing, places such as Kazakhstan and Azerbaijan are increasingly fertile territory for the makers of the world's most expensive cars. Demand for upscale vehicles in such frontier markets is forecast to grow more than 9 percent a year through 2020, compared with about 2 percent in North America and Europe, IHS Automotive estimates. Four of the six dealerships Rolls-Royce opened last year were in emerging markets: Azerbaijan, Cambodia, Kazakhstan, and Mexico. "We do see demand" in nontraditional markets, says Peter Schwarzenbauer, the management board member responsible for Rolls-Royce at parent **BMW**. "That's why we're going there."

Of course, countries like Kazakhstan and Azerbaijan won't replace China, where luxury car demand is forecast to grow 6 percent annually over the next five years. While demand for luxury goods is slowing there, it's still the world's biggest car market. "There's also demand for our top-of-the-line models in smaller emerging markets like Vietnam or Kazakhstan," says Ola Källenius, global sales chief at **Daimler**'s Mercedes brand. "In this price range, even small sales volumes matter."

There are about 250 Bentleys on Kazakh roads, including 60 vehicles sold since the British marque's Almaty dealership opened in 2011, says Vladimir Toropov, who directs sales for Bentley and Maserati there. Deliveries will likely double once Bentley's new Bentayga SUV is available, Toropov says, adding that his average Kazakh customer already owns four or five cars. For a typical customer, a Bentley is something like a tuxedo. Says Toropov: "He has an everyday suit, a sport suit, and needs an evening suit." —*Christoph Rauwald and Nariman Gizitdinov*

The bottom line Demand for upscale cars in frontier markets like Kazakhstan is expected to grow 9 percent annually through 2020.

Edited by James E. Ellis and Dimitra Kessenides
Bloomberg.com

July 13 — July 19, 2015

iVote

▶ Los Angeles County calls in Silicon Valley designers to upgrade election technology

▶ “If you have a bad experience the first time you vote, you have a lower chance of coming back”

Tomorrow’s Voting Machine
L.A. hired IDEO to create a voting system that offers a contemporary experience and equal access for all. “It has to be modern, progressive, yet familiar,” says Blaise Bertrand, the head of IDEO’s design team. “If it’s too foreign, they’re not going to adapt to it.” A prototype is in the final design stages, and L.A. hopes to switch to the machines in time for the 2020 presidential election.

1.

Check in. Poll workers give voters a piece of paper with a QR code tied to their home address. The code tells the machine which ballot to display. IDEO pushed for the county to use heavy card stock, which Bertrand says will feel “substantial”—like the act of voting.

2.

Get situated. Voters take the paper to the booth and put it into a scanner. Their choices appear on a touchscreen, which tilts downward so voters in wheelchairs can use it. A privacy filter keeps people walking by from seeing the screen.

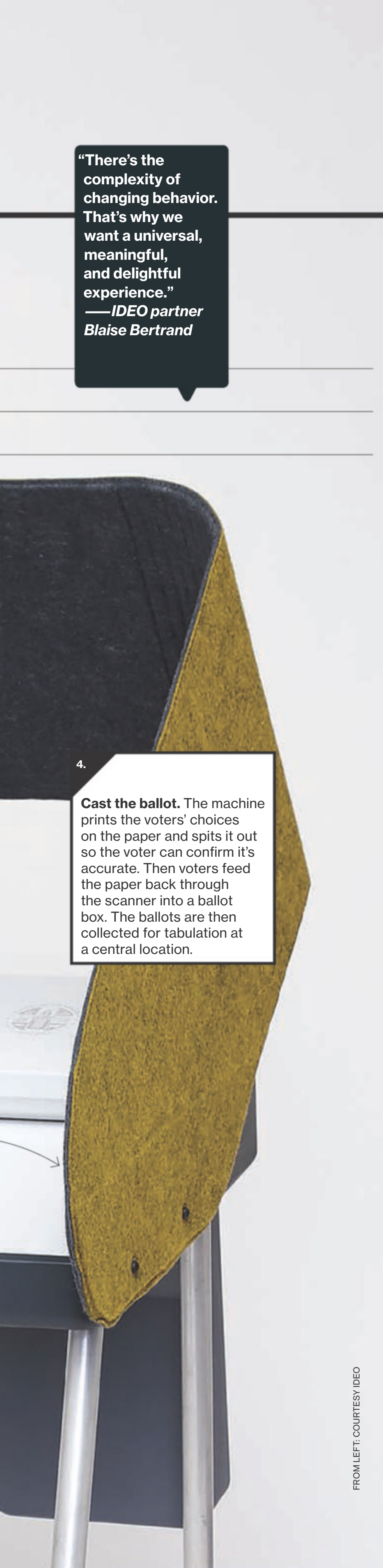
3.

Make selections. Voters are prompted to pick a language. The races and ballot measures they’re eligible to vote on are displayed on the screen. Voters make their selections and review their choices when they’re finished.

Accessibility
Every booth has headphones and remote controls for vision-impaired voters. In testing, IDEO learned that blind voters often come with an aide, so there’s a second headphone jack for a helper.

Setup
The legs of the voting booth detach from the bottom of the table, which fits into a wheeled carrying case.

Color
IDEO chose to make the booth exteriors chartreuse—a warm, wholly nonpartisan color. Bertrand says the felted material provides “tactility” that makes it homey.



“There’s the complexity of changing behavior. That’s why we want a universal, meaningful, and delightful experience.”
—IDEO partner Blaise Bertrand

4.

Cast the ballot. The machine prints the voters’ choices on the paper and spits it out so the voter can confirm it’s accurate. Then voters feed the paper back through the scanner into a ballot box. The ballots are then collected for tabulation at a central location.

FROM LEFT: COURTESY IDEO

Last year, a bipartisan commission established by President Obama declared that the U.S. faces an “impending crisis in voting technology.” After the 2000 Florida recount showed the world that the American presidency could be determined by hanging chads, Congress set aside $3.3 billion, most of it to help local election officials upgrade their voting machinery. Bureaucrats with relatively little experience buying advanced technology rushed to purchase machines developed to satisfy the sudden demand. Those devices, designed in the years when Palm and Nokia owned the smartphone market, are mostly outdated. There’s no new money on the horizon, and even if local governments had the budgets for upgrades, they wouldn’t want the standard products currently available.

Now, Los Angeles County, the largest voting jurisdiction in the U.S., has hired **IDEO**, a design company with roots in Silicon Valley, to overhaul how it serves up democracy. IDEO has developed a touchscreen system that incorporates features familiar to voters used to scrolling and tapping. Election administrators across the country are closely watching the experiment. They want to know if L.A. can solve the problem of American voting. “For a long time people muttered that somebody should do something about this,” says Doug Chapin, who runs the University of Minnesota’s Program for Excellence in Election Administration. “What Los Angeles County is doing is just that.”

After the 2008 election drew record numbers to the polls, Dean Logan, L.A.’s top election official, decided it was time to replace the county’s obsolete machines, which are based on technology developed in the late 1960s. A nonprofit focused on helping disabled people vote connected him with IDEO, whose work includes creating Apple’s first mouse in 1980 and helping Bank of America use its website to encourage more savings in 2006. The county has signed two contracts with IDEO totaling $14.7 million. Logan has adopted IDEO’s philosophy and practices, such as keeping multicolored Post-it notes in his car for brainstorming sessions on the fly. “We wanted to focus on the voting experience,” he says. “We know if you have a bad experience the first time you vote, you have a lower chance of coming back.”

Design in the election world is driven by federal and state statutes. California code specifies that certain parts of the ballot be in “heavy-faced Gothic capital type not smaller than 30-point” and that voting boxes be “at least three-eighths of an inch square.” The regulations are supposed to create fairness, but the results “aren’t necessarily very usable,” says Chapin. “Los Angeles completely flipped that on its head. For them the unit of analysis, the polestar, was the voter.”

Los Angeles County has about 5 million registered voters, more than most states, and must print ballots in 11 languages, including Hindi, Khmer, and Tagalog. On any given election day, the county can print as many as 300 different ballots to cater to local races. And California’s ballots are long; in some years more than a dozen initiatives can be up for a vote alongside national, state, and local candidates, maxing out the number of questions that fit on the paper ballots.

IDEO studied voter behavior and found that, given California’s supersize ballots, people often arrive on Election Day with marked-up sample ballots. For those people, “voting is an exercise in transcription,” says Matt Adams, who’s leading the L.A. project. That prompted IDEO to create an interactive sample ballot voters can fill out on a computer or using a mobile app. When they go to vote, they can scan their code, like an airline boarding pass, from a paper printout or phone to automatically select their votes.

That’s the kind of insight that Logan, who started working in the election business as a temp the summer after high school, was hoping for when he hired IDEO. Logan set out a few basic parameters for the designers. Everyone had to be able to use the same device, whether they spoke Spanish, sat in a wheelchair, didn’t know how to Google, or were busy swiping right on Tinder. The system also had to produce paper ballots for an auditable trail. “You have competing interests,” Logan says. “Security and integrity don’t always parallel well with usability.”

In Texas, Travis County, which includes Austin, is also developing ▶

◀ a new voting system, though it's putting more emphasis on cryptography than design. The counties have gotten into hardware development because there simply isn't a viable commercial market for election technology. Just four companies dominate the business, which is tightly regulated by state and federal commissions that must certify election software before it can be used. Merle King, who runs the Center for Election Systems at Kennesaw State University in Georgia, says the market is also plagued by inconsistent demand. Plenty of cities and counties need new machines, but it's hard to predict when they'll get the money to buy them. "Voting systems are infrastructure, and they have to compete with bridges, roads, ports, etc., for public funding," he says. "There is a strong consensus that there will be no federal funding."

In 2002, Congress passed the Help America Vote Act. California voters simultaneously approved $200 million to buy advanced machines. Across the country, local officials who manage elections flooded manufacturers with orders for touchscreen machines. Problems immediately became apparent. For one thing, researchers repeatedly showed the machines were vulnerable to hacking, prompting a wave of voter concern about security, though no U.S. election is known to have been attacked. The technology quickly fell behind as partisan wrangling stalled the confirmation of appointees to the U.S. Election Assistance Commission, which sets standards. The last revision of testing criteria was in 2005, two years before the iPhone was introduced.

At the time, L.A. County decided not to buy into the new technologies. Instead, it adapted its old punch card Votamatic machines to let voters use special pens to mark ballots that get fed into scanners instead of punching out chads. The system, InkaVote Plus, is deployed to about 5,000 polling places each election. Logan hopes the 2016 election will be the last presidential ballot counted on InkaVote. By the end of next year, he plans to put contracts out to bid for the IDEO-designed systems, which must be certified by the state before they can be used on a trial basis in the 2018 gubernatorial election.

L.A. has roughly $60 million in federal and state funding that it never spent. That won't be enough to furnish thousands of polling places with the IDEO-designed systems, so Logan's plan depends on the state legislature reducing the number of sites. Lawmakers in Sacramento have been considering bills that would reduce reliance on voting machines altogether, by increasing access to voting by mail and consolidating in-person voting into a few large polling centers that are open longer. That would make it easier for Logan to put IDEO's system into production, since it would require the government to buy fewer machines.

IDEO's developers are finalizing the designs. In May they tested the systems at a veterans' center in L.A. When volunteer Debora Filter checked in at a desk, she said, "I've only voted once in my life, and that was for Obama." "Wow," the peppy poll worker replied. "Well, today you will get a chance to have your voice heard." Filter was ushered to the prototype and swiftly ticked off selections in almost two dozen races, though she didn't immediately see where to deposit the completed ballot, a stumble that IDEO's addressing. Afterward, Filter told an IDEO researcher that when she last voted, in a grocery store, the ballot was confusing. This time, she found the design to be "very friendly."
—*Karen Weise*

The bottom line Federal attempts to spur innovation in voting technology failed, so L.A. County is commissioning its own system.

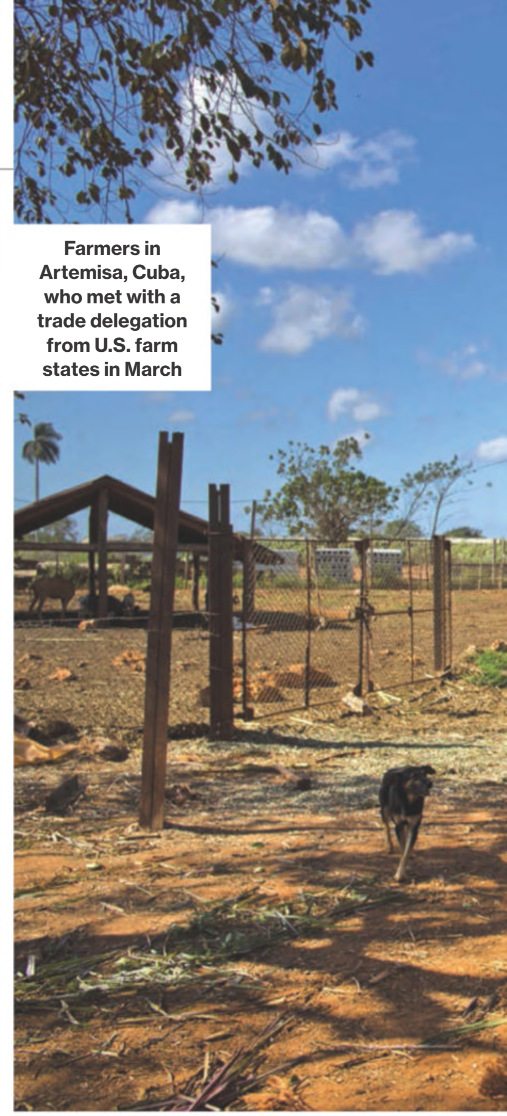
Lobbying

Planting Seeds Against The Cuban Embargo

▶ Long before Obama restored ties, U.S. farmers were fighting sanctions

▶ "It's a great market for us. We should be in it"

In the first quarter of 2015, the number of organizations lobbying the federal government about the Cuban embargo doubled from the previous three months. Senate records show that in the wake of President Obama announcing the normalization of diplomatic relations with Havana, dozens of organizations—ranging from **Marriott International** to **Royal Caribbean Cruises** to **Major League Baseball**—rushed to send representatives to talk



Farmers in Artemisa, Cuba, who met with a trade delegation from U.S. farm states in March

RAMON ESPINOSA/AP PHOTO

to members of Congress about repealing sanctions enacted against Fidel Castro's communist regime by President Kennedy in 1962.

They were late to the party. Farmers have actively lobbied against the embargo since before 2000, when Congress passed legislation allowing humanitarian exports of agriculture and medicine. U.S. farming accounted for nearly half of all entities lobbying on Cuba from 2003-05. When hostility from the George W. Bush administration dried up exports, farmers continued their quest to end the embargo.

The U.S. Department of Agriculture estimates Cuba could be worth $1.1 billion to American farmers. "We have a natural advantage with our proximity, and we have excellent products," says Justin Flaten, a wheat, pinto bean, and pea farmer and president of **JM Grain** in Great Falls, Mont., who started selling to Cuba 10 years ago. "It's a great market for us. We should be in it."

Flaten first sold pinto beans and peas to Cuba after his first business visit, in 2005. It wasn't easy. Financing had to be done through a French bank, and

shipping problems sometimes had his crops sitting for days in Port Everglades, Fla., waiting for payments to come through. The frustrations soured his taste for Cuba trade, he says. He last sold his lentils to Alimport, Cuba's state-owned agricultural purchaser, in 2010.

In June, Senator Jerry Moran (R-Kan.), who sponsored what became the 2000 legislation that let farmers sell to Cuba, introduced a bill with Maine Independent Angus King to lift the embargo. The legislation would preserve a ban on government funds being used to promote trade. "The embargo hasn't worked because it's unilateral," says Moran. "Cuba can still buy from our competitors."

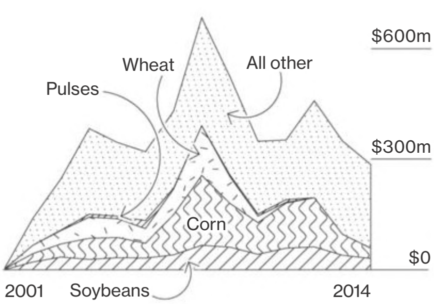
Not all farmers favor a quick rollback of sanctions. Janell Hendren, national affairs coordinator for the Gainesville-based Florida Farm Bureau Federation, says normalized trade would mean imports as well as exports. Farming in Cuba is highly subsidized, creating potentially unfair trade, she says. "We could be at a huge competitive disadvantage" on citrus fruit and vegetable crops. "We're not anxious to have these problems."

Florida's farm interests are up against major U.S. players. **Deere**, soybean processor **Bunge North America**, and several state farm bureaus are all in favor of opening Cuba trade, according to lobbying records. **Cargill**, the world's biggest agribusiness, is bankrolling the U.S. Agriculture Coalition for Cuba, a consortium of commodity growers, farm lenders, and exporters.

Farmers may provide the muscle Obama, or his successor, needs to push a final deal through. "When I saw him say it's time for a new approach, I thought, that's exactly what I thought when I went to Cuba," says Flaten. "There are droves of young people there who just want an opportunity. If you want to end the communist regime, you help give it to them."
—*Alan Bjerga and Bennett Roth*

The bottom line U.S. farm interests have long argued the advantages of trading with the communist-ruled island.

U.S. agricultural exports to Cuba



DATA: USDA FOREIGN AGRICULTURAL SERVICE

Environment

(Some) Republicans Get Religion on Climate

▶ The party's antiregulation wing finds ways to call for change

▶ "There is a great fear of becoming the next Bob Inglis"

Jerry Taylor talks with passion about how climate change should be a conservative issue. While environmentalists on the left focus on controlling carbon emissions, Taylor argues the right should be looking at climate change the way it looks at financial risk. Leading climate experts estimate there's a 10 percent chance of catastrophic warming because of climate change in this century. Speaking to an audience at the American Enterprise Institute in June, Taylor put the issue this way: If you knew there was a 10 percent chance that we'll have another Great Depression, would you keep investing in equities? "Heck no," Taylor said. "You would very well hedge."

Last year, Taylor left the libertarian Cato Institute after 23 years to found the Niskanen Center, a nonprofit that works to develop what it characterizes as practical and politically feasible policies on issues such as civil liberties, defense, and immigration. He's attracted prominent Republicans to his advisory board, including anti-tax campaigner Grover Norquist and George Shultz, Ronald Reagan's secretary of state.

His timing may be good. Two-thirds of Americans say they think the world would benefit from reducing carbon emissions, according to a March poll by Yale and George Mason University. "The first collapse is the tendency on the right to say that climate change is not a problem," says Eli Lehrer, president ▶

◀ and co-founder of R Street Institute, a think tank in Washington that promotes policies encouraging free enterprise. "The equally strong collapse is the tendency on the left to say that only our way of solving it is workable."

Democratic members of Congress have expressed interest in policies that move beyond strengthening the U.S. Environmental Protection Agency. At the AEI event, two Democratic senators, Sheldon Whitehouse of Rhode Island and Brian Schatz of Hawaii, unveiled a carbon tax plan, which would put a tax on greenhouse gas polluters, raising $2 trillion over 10 years and leading to emissions cuts to 40 percent below 2005 levels by 2025.

In June, Jay Faison, an electronics mogul from Charlotte, announced he was committing $165 million to start the ClearPath Foundation, a nonprofit that will provide climate research and develop business-friendly solutions. The foundation's advisory board includes Ronald Prinn, director of the MIT Center for Global Change Science, and Jeremy Oppenheim, a McKinsey sustainability executive who's also senior adviser at the New Climate Economy, an initiative run jointly by nine international research centers and chaired by former Mexican President Felipe Calderón. An additional $10 million will go to fund Republicans who endorse clean energy policies.

So far this year, Faison has given $800,000, including $500,000 to Republican Senator Kelly Ayotte of New Hampshire. He's also given $50,000 to Right to Rise, the super PAC supporting Jeb Bush's presidential campaign, and $100,000 to the super PAC backing Lindsey Graham, the South Carolina senator running for president. Faison describes his criteria for making "very meaningful" contributions this way: "We are looking for strong Republican leaders who are forward-thinking, recognize the risk of climate change, and who believe America can accelerate its inevitable transition to clean energy without harming the economy."

Yet Republican lawmakers remain cautious about embracing climate policy. "In these congressional districts on the House side, which are strongly red, there is a great fear of becoming the next Bob Inglis," Taylor says. Inglis, a Republican congressman from South Carolina, lost his 2010 reelection bid in part because he told an interviewer that he believed climate change was caused by human activity—a position that put him at odds with many of the deeply conservative Republicans in his base. He's since become an advocate for developing conservative policy proposals for managing climate change and heads the Energy and Enterprise Initiative at George Mason University. He says it's up to conservatives to push their fellow Republicans. It is, he argues, an issue where "a voice or two could turn the entire conference." —*Eric Roston*

The bottom line Libertarians inside the Republican Party are embracing policies to address climate change.

Campaigns

Using One Job's Perks To Run for Another

▶ **David Vitter is relying on his Senate gig to pump up his Louisiana image**

▶ **"It's very important to bring the committee to the real world"**

Since January, when Louisiana Republican David Vitter became chairman of the Senate's Small Business and Entrepreneurship Committee, he's held 10 hearings in his home state and only eight in Washington. Vitter, who also chairs a subcommittee on transportation, has hosted 12 of the 26 Senate field hearings held this year. No other state has had more than two.

The first hearing, in Bossier City, La., focused on Obamacare's effects on small business. Vitter spoke on education in Shreveport and Monroe, energy in Lake Charles, regulations in Baton Rouge, flood insurance in New Orleans, taxes in Livingston, and congestion in Lafayette.

2015 Senate Field Hearings

La.	12
Alaska, Colo.	2
Md., Mont., Neb., N.D., N.J., Okla., Pa., W.Va., Wis., Wyo.	1
Other states	0

Vitter's enthusiasm for getting out of the office is unusual but unsurprising: The two-term senator is running to succeed Bobby Jindal as governor. (Jindal, who faces term limits, is running for president.) Vitter leads in early polls, but several of his opponents hold Louisiana state offices, and the hearings give him a way to appear in front of his constituents in an official capacity, rather than just on campaign stops.

Under Senate rules, field hearings, which are paid for out of congressional budgets, can't be explicitly used for political gain. But Vitter is operating in the gray area between home-state cheerleading and self-promotion. In just six months he's held as many small-business committee events in Louisiana as former Democratic Senator Mary Landrieu did during more than five years when she led the same panel. Senate spending records show more than $6,700 for travel by committee staff to Louisiana through March 31. "That seems like an aggressive use," says Steve Ellis, vice president of Taxpayers for Common Sense, a budget watchdog group in Washington.

Vitter held committee events in Louisiana when Democrats controlled the Senate and does so regardless of whether he's on the ballot, says spokesman Luke Bolar. The senator also encouraged his committee colleagues to hold hearings in their states; three have. "He's always done this, because he thinks it's very important to bring the committee to the real world," Bolar says. "It's not a political thing. It's a 'way he wants to run the committee' thing."

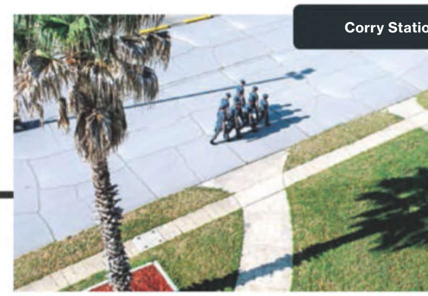
Vitter missed four Senate votes in Washington on days when he was holding hearings back home. The meetings proceed just as they would in Washington, though often with just the home-state senator presiding before a local audience. "It's clever, and it's self-serving," says Craig Holman, government affairs lobbyist at Public Citizen, a nonprofit that aims to counter corporate power in politics. He says he can't recall any other lawmaker doing with field hearings what Vitter has done. "It's the frequency that is very revealing." —*Richard Rubin*

The bottom line Vitter is spending a lot of his Senate time at home in Louisiana, where he's running for governor.

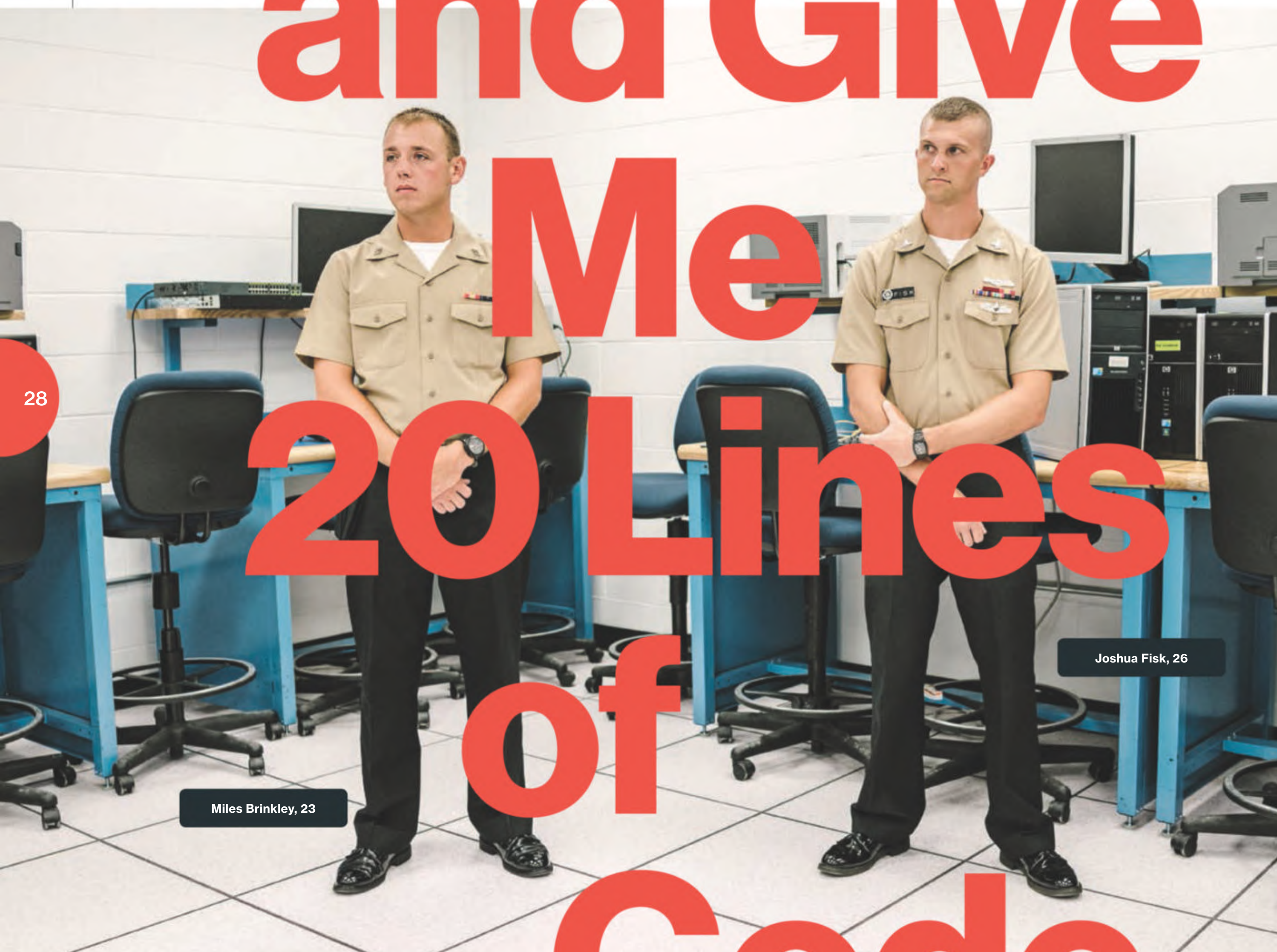
Edited by Allison Hoffman
Bloomberg.com

BILL CLARK/CQ ROLL CALL/GETTY IMAGES

Drop and Give Me 20 Lines of Code



Corry Station



Miles Brinkley, 23

Joshua Fisk, 26

▶ In Florida, the Pentagon is racing to train more cyberwarriors

▶ “There wasn’t a really great pipeline or feeder system to get these people”

Inside the U.S. Navy's Corry Station base in Pensacola, Fla., there's a school that wouldn't look out of place on any well-manicured college campus—except for a handful of buildings wreathed in barbed wire, with the windows bricked up. That's to keep electronic signals from getting in or out. The buildings make up the Center for Information Dominance (CID), the Pentagon's primary boot camp for personnel training in the art of cyberwar.

U.S. Defense Secretary Ashton Carter has said that cyber may one day become the sixth service branch, but the military doesn't yet have the staff for it. The Pentagon said in April that U.S. Cyber Command, the organization created in 2010 to coordinate military efforts online, won't reach its six-year goal of deploying 6,200 military and civilian personnel until 2018, two years late. The new force is to be responsible for defending the Pentagon's computer systems as well as, at the direction of the president or defense secretary, launching cyber attacks. Admiral Michael Rogers, who heads Cyber Command and the National Security Agency, told Congress the government has been "hard-pressed" to find and train qualified service members.

The Corry Station outpost is at the forefront of efforts to change that. CID's Joint Cyber Analysis Course, a six-month electronic warfare program that trains service members from each branch, has become required learning for many positions. The program is on track to train about 1,200 students in 2016, almost double the number in 2013, says CID Executive Director Mike Fair. It's a small part of the overall mission at the center, which trains about 22,000 students a year in cryptology, intelligence, and IT on a budget of $60 million to $70 million.

The first two-thirds of the cyber analysis course consist of mundane but essential subjects meant to help students understand the making and breaking of computer systems. These include math, basic programming, Windows and Unix operating systems, and the science behind networks and wireless technologies. Then students move on to the fundamentals of hacking: target research, signal analysis, network defense, and malware. They learn to hack a simulated network with open source software and tools such as Metasploit. The curriculum is adjusted to keep pace with advances in both offensive and defensive tactics, an unusual challenge for the military, says Maureen Fox, CID's commanding officer. "Missile technology changes, but it doesn't change in a day or an hour," she says. "The technology in the area we're in does."

CID recruits students based on the aptitude for math and critical thinking they show on military entrance exams. Tammi Sternberg, one of the heads of the hacker training program, says the learning curve in the classes is steep enough that even people with computer science degrees have flunked. "They think they know it all, and they have a hard time learning," she says. "That's why we like to have a blank slate."

Many students enroll right out of basic training. Estephani Bratschi, 22, joined the Navy earlier this year after graduating from the University of South Florida with degrees in international studies and political science. As for her computer expertise, the Tampa native says with a laugh, "I could press the power button, and I could type pretty well." She has a hard time picturing herself hacking a militant's cell phone to locate roadside bombs, but she's interested in learning marketable technical skills. Worldwide, there's a shortage of almost 1 million workers for cybersecurity positions, with average salaries topping $100,000.

Entrance-exam recruiting marks a major shift from the scattershot approach the military used to find talent for years, says Chase Cunningham, a onetime Navy diesel mechanic who became a cyberspecialist by accident. In 2003, Cunningham was sent to Corry Station for cryptology training after he managed to fix the faulty code in an engine room system. He went on to a career in cryptology for the Navy and the NSA before becoming the head of threat intelligence for cloud-hosting company FireHost. "It was a million times better than checking oil 100 times a day and cleaning out AC-unit filters," he says.

For several years after the Navy merged cryptology and IT in 2005 to create CID, an Army team traveled to military bases giving an odd, 20-question test to identify hackers-at-heart. Some questions were technical, such as finishing a Linux command line. Others were logic puzzles designed to tease out creative thinking. One asked students to figure out the words in a phrase based on the first letters of each word. Those who passed were retrained and redeployed as cyber operators. "There wasn't a really great pipeline or feeder system to get these people," says Bob Stasio, a former Army captain who helped administer the tests. "We had to find these diamonds in the rough."

Estephani Bratschi, 22

Stasio, who has also managed cyber intelligence for Bloomberg LP, the parent company of *Bloomberg Businessweek*, says he was surprised to learn which jobs tended to produce the most reliable specialists. People with electronics backgrounds, such as radar technicians and radio operators, naturally thrived, but so did people with highly specific but unrelated training, including mechanics and medics. "They had this intellectual curiosity to do this kind of thing," he says.

The military is creating formal career paths for cyberspecialists, and demand from the private sector has made it tougher to recruit and retain them. Tim Johnsen, 33, from Randolph, N.J., says he signed on for the cyberwarfare program earlier this year with an eye to getting a job after he leaves the military. "The people who are the best in that world are not linear. They don't like hierarchy," says Pat Ryan, a former Army captain who helped assemble the branch's first cyber unit in 2009 and now advises security startups on contracting for the federal government. "That makes the private sector a more hospitable place."

The hacker-training pipeline has ▶

PHOTOGRAPHS BY WILLIAM WIDMER FOR BLOOMBERG BUSINESSWEEK also attracted people such as Alex Robinson, who completed the CID program in 2010 and became an instructor last year. Before that, he spent eight years as a gunner's mate. "It's a huge change from weapons to computers," he says. "I didn't know I was a nerd." —*Jordan Robertson and Michael Riley*

The bottom line The Pentagon has revamped its cybersecurity recruitment and training process but remains years behind schedule.

Management

The Trouble With Twitter's CEO Search

▶ Three former chief executives are sitting on the board

▶ "Some CEOs will always be CEOs"

When Dick Costolo stepped down as **Twitter**'s chief executive officer in July, he joined the board, making it a lot harder to find his successor. That's because Costolo is going to slide in next to board seats occupied by Jack Dorsey and Evan Williams, two of the company's co-founders and its first two chiefs. The three men have notoriously complex and combustible relationships. Dorsey is also serving as Costolo's interim replacement.

Three ex-CEOs on a company's board, two of them founders, is "probably unheard of," says Jeremy Levine, a partner at Bessemer Venture Partners. Levine says Twitter's recruiting firm, **Spencer Stuart**, may have trouble finding someone willing to take over and attempt to juice the company's flagging user growth as long as all three remain on the board, especially if they try to boss around the newcomer. "Some CEOs will always be CEOs," he says.

As Twitter's head for almost five years, Costolo presided over the company's successful initial public offering in 2013 and its growth to about 302 million users. He's also watched that growth ebb, outpaced by **Facebook** subsidiaries Instagram (which reported topping 300 million users in December) and WhatsApp (800 million). Some leadership turmoil, for good measure: Twitter has a different chief financial officer, head of engineering, and head of product than it did early last year. It's had five product heads in five years.

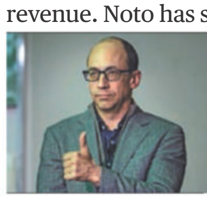
The current product chief is about to roll out major changes made under Costolo's direction that are meant to make Twitter easier for new users. These include grouping tweets about live events and removing login requirements from certain features. In a June speech at the Bloomberg Technology Conference in San Francisco, Costolo said that while he won't get in the new CEO's way, that person will have to be "resilient" and "self-aware."

Costolo has received his own share of input from Dorsey and Williams, who took Twitter's top job in 2008 and 2010, respectively. Dorsey eats dinner with Costolo most Tuesdays and successfully lobbied him to acquire the video services Vine and Periscope. Williams, like Dorsey, regularly calls prospective hires and has addressed the staff at a companywide meeting.

Twitter's CEO search committee says Dorsey isn't a viable choice for permanent chief as long as he's also running Square, the mobile payment processor.

Spencer Stuart, which helped bring Marissa Mayer from **Google** to **Yahoo!**, declined to comment for this story. Given the executive baggage, the headhunters may wind up back at Twitter's San Francisco headquarters anyway, says Nada Usina, head of technology executive searches at rival recruiter Russell Reynolds Associates. "With a multifounder, multi-CEO dynamic, it is likely that an internal candidate may end up as a solution," she says. At **Microsoft**, a lengthy CEO search ended up putting Satya Nadella, an in-house veteran of more than 20 years, in the big chair, with Bill Gates and Steve Ballmer looking over his shoulder. (Ballmer has since left the board.)

At Twitter, Costolo has publicly praised the leadership of Anthony Noto, the CFO, and Adam Bain, the head of revenue. Noto has said privately he's not campaigning to be CEO but is still in the running, according to a person familiar with the matter. Bain told CNBC in June that he's focused on his job and is happy with Dorsey at the helm.



Costolo says the new CEO will need to be "resilient" and "self-aware"

"It is likely that an internal candidate may end up as a solution."
—*Nada Usina, Russell Reynolds*

Neither man has CEO experience. Noto was a banker at Goldman Sachs before running Twitter's initial public offering; Bain ran Fox's online ad network before creating Twitter's ad business.

Whomever the board chooses ought to kick a few of the cooks out of the kitchen, says Jason Lemkin, a managing director at Storm Ventures. "Any aggressive, take-charge CEO will insist that at least two of them step down," he says. Former CEOs, he adds, ought to stay on as "an adviser, a mentor, as asked. Not the new CEO's boss." —*Sarah Frier*

The bottom line Twitter's hunt for Costolo's successor is complicated by a pileup of ex-CEO directors, including Costolo himself.

Apps

A Different Kind Of Ride-Sharing

▶ Carpooling marketplace BlaBlaCar is swallowing smaller rivals

▶ Unlike Uber, "You have no regulation issues, you have no tax issues"

The Ubers and Lyfts of the world are often described as ride-sharing services, but that's not quite what they are. When hailing a ride with those apps, you hop into a car with a more or less professional driver who picks up another fare after dropping you off. Functioning as a taxi service without the same accreditation continues to pose problems for such companies. **Uber** suspended its cheapest service in France on July 3 after the Paris prosecutor's office charged its top two executives there with "misleading commercial practices" and "complicity in the illegal exercise of the taxi profession." The company said in a statement that it wants to continue discussing regulations with the government.

Paris startup **BlaBlaCar** works differently. Its marketplace matches drivers who have empty seats for long-distance drives with passengers going the same way and makes them arrange how they'll divvy up fuel and tolls–in other words, a carpool. To avoid provoking regulators in the 19 countries where it operates, BlaBlaCar limits what drivers can charge, ostensibly keeping them from turning a profit. On a recent

FROM LEFT: BLOOMBERG (1); COURTESY HERE (3)

look, the site offered a seat in a Peugeot from Barcelona to Madrid for €25 ($27.65); and London to Manchester for £15 ($23.01) in a Mercedes. “You have no regulation issues, you have no tax issues, you have no insurance issues, because people are sharing a cost,” says Nicolas Brusson, co-founder and chief operating officer.

About 3 million people use BlaBlaCar monthly to arrange trips; the company makes its money from 10 percent service fees on passengers. It requires drivers and passengers to register as members—it has more than 20 million—and encourages reviews from both. The feedback “creates trust and a fair economic incentive,” says Philippe Botteri, a partner at BlaBlaCar investor **Accel Partners**, and has helped make BlaBlaCar the leading carpool business in Europe. The company has raised about $110 million since it was founded in Paris in 2006. Now it’s seeking new investment that would value it at more than $1 billion, according to three people with knowledge of the matter.

Brusson declined to comment on the company’s financing or valuation beyond saying he regularly meets with investors to discuss ideas for expansion. In April, BlaBlaCar announced it had acquired its main European rival, Munich-based Carpooling.com, as well as Budapest’s AutoHop. (Prices weren’t disclosed.) The same month, BlaBlaCar expanded to Latin America, starting in Mexico. The company has more than doubled its head count since 2014, to 340 employees, and Brusson says he’ll hire 100 more by yearend.

In Mexico and other new markets, including India, BlaBlaCar generally doesn’t take its cut for at least the first year. Government officials in France, India, and the U.K. have been encouraging, Brusson says, because they have a vested interest in reducing traffic. Early next year he plans to expand to Brazil, and he’s confident more countries in Latin America and Asia will follow. “Demand is growing like crazy,” he says.

The U.S., however, ranks low on BlaBlaCar’s to-do list. (Brusson says it’s “not the best market” for his model.) In the past year, Uber and **Lyft** have piloted short-distance services for more than one customer. Lyft says its multiple-pickup service, Line, accounts for more than half the rides it arranges in San Francisco, though it wouldn’t say how many. Uber says its similar service, Pool, has provided millions of trips. Even at a $1 billion valuation, the French service likely wouldn’t try to muscle in on the American heavyweights. Lighter regulatory burdens aren’t a match for a bigger network of drivers, says Amanda Burleigh, an analyst at researcher Euromonitor: “A competitor would have to offer a significantly better service.” —*Nick Leiber*

The bottom line Leading European carpool app BlaBlaCar is trying to join the $1 billion club but is avoiding the U.S. as it expands abroad.

Software

Everybody Wants Nokia’s Maps Division

▶ The leading alternative to Google racks up bids in the billions

▶ “This is infrastructure that goes beyond just getting you from A to B”

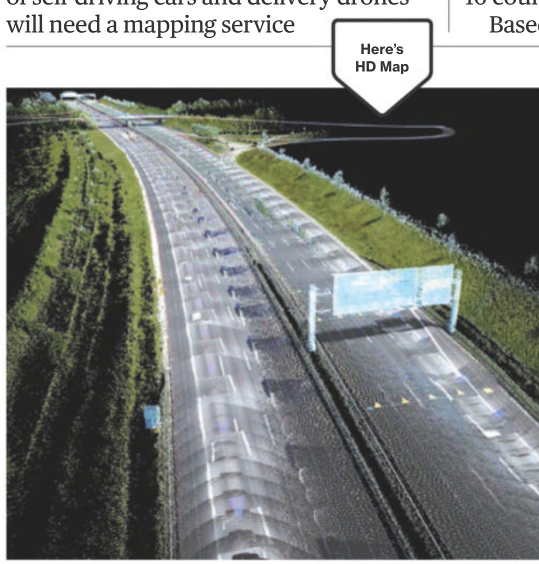
Driving around a city block in downtown Berkeley, Calif., a white Subaru with cameras and laser radar mounted on its roof is drawing gawkers. One pedestrian asks the driver if the car is part of **Google**’s Street View team. No, comes the response: The Subaru is with the other guys. It’s snapping photos and recording location data for Nokia Here, one of the largest competitors to Google’s decade-old effort to index every bend in the world’s roads and an asset that’s suddenly of immense value to parent company **Nokia**.

Every business betting on a future full of self-driving cars and delivery drones will need a mapping service that can navigate in three dimensions, and most would love an alternative to eternal dependence on Google Maps, especially if they compete with Google in other arenas. (Google sells ads against Maps and sometimes charges app makers who want to incorporate the service into their software.)

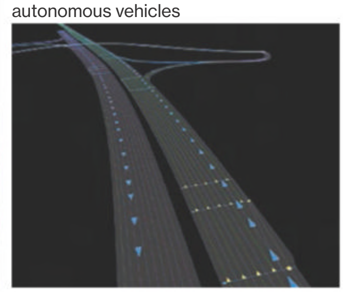
Nokia began soliciting buyers for the Here division in April, seeking as much as $4 billion, about half what it paid for the service, then called Navteq, in 2008. Bidders have included a group of German automakers led by **Volkswagen**’s Audi, say three people familiar with the matter. **Uber** and Chinese giants **Baidu** and **Tencent** are also among the interested parties. “The buzz is a good indication that what we thought was really valuable is really valuable,” says John Ristevski, Here’s head of 3D image processing. Ristevski declined to comment on the bidders, who haven’t discussed their offers publicly. Google declined to comment for this story.

Here’s 2014 revenue was about $1.1 billion. **Microsoft**, **Yahoo!**, **FedEx**, and **Amazon.com** pay Nokia for access to its 27 million miles’ worth of maps. Eighty percent of cars in the U.S. and Europe with built-in navigation systems have Here somewhere in their guts to provide turn-by-turn instructions, Nokia says. The company is racing Google to provide reliable 3D mapping showing stop signs, lane markings, crosswalks, and other up-to-date details. “This is infrastructure that goes beyond just getting you from A to B or finding a restaurant,” Ristevski says. On this day, his fleet of cars collected about 3,000 miles’ worth of 3D data across 16 countries on four continents.

Based in Espoo, Finland, Nokia was ▶



◀ Here captures billions of 3D points to model the surface of a road, which helps guide self-driving and autonomous vehicles



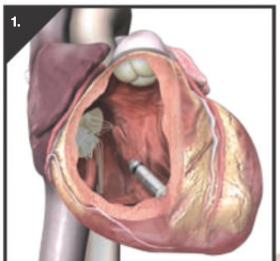
▲ The map acts as an extended sensor, seeing around corners

Innovation

Wireless Pacemaker

Form and function
Micra Transcatheter Pacing System, a pacemaker so small that it rests inside the heart, operates steadily and silently without the wires of a conventional design, which can break and cause infections or blood clots.

Innovator David Steinhaus
Age 63
Medical director for the cardiac rhythm and heart failure business at Medtronic, based in Dublin and Minneapolis

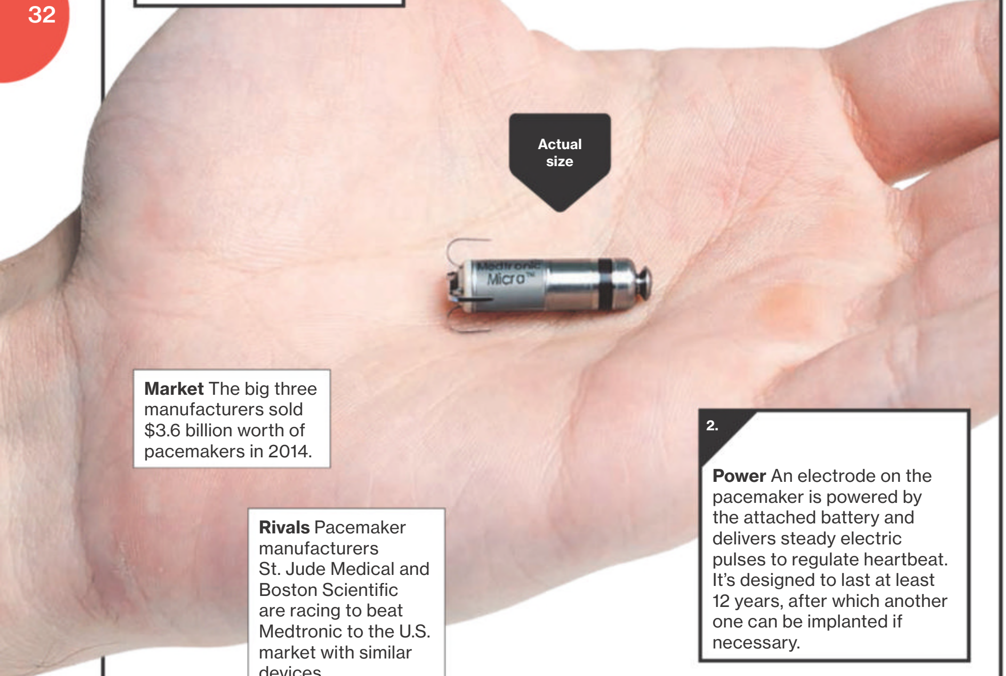


1.

Installation A surgeon implants the minipacemaker inside the heart's right ventricle by slipping it onto a catheter guided through the femoral vein.

Background In 2009, Medtronic began working to produce a pacemaker one-tenth the size of its standard models.

Testing The Micra won approval from European regulators in April after being tested in 60 patients. Medtronic says it will file for U.S. approval next year.



Market The big three manufacturers sold $3.6 billion worth of pacemakers in 2014.

Rivals Pacemaker manufacturers St. Jude Medical and Boston Scientific are racing to beat Medtronic to the U.S. market with similar devices.

2.

Power An electrode on the pacemaker is powered by the attached battery and delivers steady electric pulses to regulate heartbeat. It's designed to last at least 12 years, after which another one can be implanted if necessary.

Next Steps

Robert Schwartz, medical director for the Minnesota Cardiovascular Research Institute, says he's more excited about the wave of wireless pacemakers that will follow the first-generation models. Kathleen Buckholtz, a 67-year-old office worker from Minnesota who got Medtronic's experimental device in a 2014 trial, says the pacemaker works well enough for her. Most of the time, she says, "I don't even realize it's there." —*Michelle Fay Cortez*

◀ for a time the biggest maker of mobile phones, but last year it sold its struggling devices business to Microsoft. Nokia still has a market value of about €24 billion ($27 billion), but it mostly sells networking and telecommunications equipment while trying to win its way back into consumers' hearts with mini tablets.

Here, its other major asset, is a better consumer product, says Forrester Research analyst Julie Ask, if Nokia or a buyer can make more money from it. "The technology solution of Here is superior, but the commercialization of Google is superior," she says. "Nokia has always been about being a platform where you pay for services or you embed it in your phones, and that just hasn't gone well."

Fortunately for Nokia, Google's control of the mapping industry, combined with its prototype self-driving cars, has made a lot of powerful tech companies and automakers nervous, says Richard Wallace, director of transportation systems analysis at the nonprofit Center for Automotive Research. "If nobody is left to battle Google on map quality, maybe not this year but three years from now, then you can't fight it when they say the price is going up," he says. "That's why I think this bidding war is so severe."

It's tough to create a database of map info that's 100 percent reliable. (Ask **Apple**.) Factor in the 3D elements, public transport data, and regular addition of new cities, and Nokia probably spends about $2 billion a year on Here's R&D, estimates analyst Horace Dediu, a former Nokia business development manager who runs researcher Asymco.

If an Uber or Tencent snaps up Here, independent map data may become even more scarce, and Nokia's auction has put more attention on other sources. Shares of **TomTom**, which Apple uses for its Maps data, have risen more than 82 percent this year, to about €10. **Mapbox**, which culls data mostly from free public sources for clients such as Uber and **Foursquare**, raised $53 million in funding on June 17. Marc Prioleau, a director at Mapbox, says, "There is more stuff going on across the whole location sector now than I've ever seen in 20 years." —*Tim Higgins*

The bottom line Nokia is seeking offers of as much as $4 billion for its maps service, its last major product with a consumer bent.

Edited by Jeff Muskus
Bloomberg.com

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Who Blew Up

▶ The government urged people to buy stocks. Now it's begging them to stop selling

▶ "This is a real testing moment for the leadership"

In China, the invisible hand of the market sometimes needs help from the iron fist of the state. That's certainly true after a meltdown vaporized $3.5 trillion in the value of shares traded on the Shanghai and Shenzhen exchanges.

President Xi Jinping's government isn't being subtle in its campaign to reflate the bubble it had a big role in creating. The government has suspended initial public offerings and eased rules on margin loans, even allowing investors to use their homes as collateral to borrow money to buy stocks. On June 27, the People's Bank of China cut its benchmark interest rate and the amount of reserves certain banks are required to hold. Days later, it offered financial support to a group of 21 brokerages that have pledged to buy 120 billion yuan ($19.3 billion) worth of shares and hold them for a year. On July 8, China's securities regulator banned major company shareholders (those with stakes exceeding 5 percent), corporate executives, and directors from selling their shares for six months.

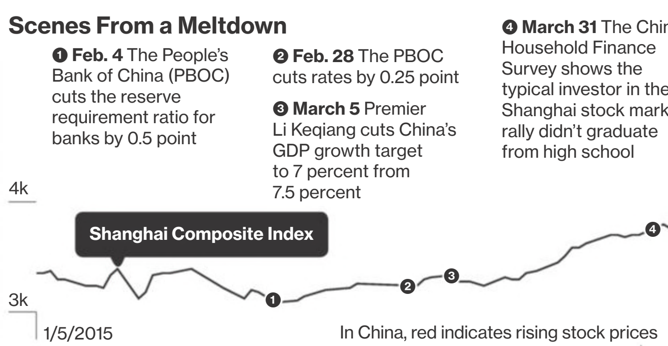
So far, the government's moves have had little impact. Since peaking on June 12, the Shanghai Composite Index has fallen almost 32 percent, dropping more than 5 percent on some days. The selling pressure in China has been so severe that on July 8, about 1,300 companies halted trading in their stocks on mainland exchanges, freezing $2.6 trillion worth of shares, or 40 percent of the stock market capitalization. On July 7, Hong Kong followed the mainland exchanges into bear market territory.

The stock market rout, the worst mainland market slump since 1992, has been an embarrassment to Xi and Premier Li Keqiang, who have vowed to push through more than 300 reforms aimed at reducing state intervention and letting market forces play a bigger role in China's $10 trillion economy.

As Chinese stocks made a 150 percent run from July 2014 through June 12, state-controlled media both urged individual investors to buy and characterized the stock boom as an affirmation of Xi's policies. "This is a real testing moment for the leadership," says Zhao Xijun, deputy dean of Renmin University's School of Finance. "The evaporation of fortunes of more than 80 million individual investors would pose unthinkable social problems for the country."

Then there's the risk that the stock market bust will complicate efforts to

Scenes From a Meltdown



In China, red indicates rising stock prices

Ellenbogen's mutual fund advantage: **Investing in startups** 37

China's Bubble?

bail out the country's heavily indebted property developers, corporations, and local governments. A credit binge and supercharged spending on infrastructure and housing delivered 10 percent annual economic growth from 1980 to 2012. Now the economy has decelerated to about 7 percent annual growth and is awash in debt. Government, corporate, and household borrowing totaled $28 trillion as of mid-2014, or about 282 percent of the country's gross domestic product, according to McKinsey.

A thriving stock market figured into Xi's bigger effort to steer China away from its reliance on bank lending and develop a diversified financial sector with vibrant equity and bond markets to fuel growth. There's been some progress. Most interest rates, except for the benchmark deposit rate, are now set by market forces, and Xi's drive to root out government corruption continues to roll ahead.

A trading link was established last year between the Shanghai and Hong Kong exchanges to allow foreigners greater access to Chinese stocks. In a country where Mao Zedong once derided market-leaning party members as "capitalist roaders," there are today more individual stock investors, 90 million, than Communist Party members.

Unleashing market forces is what Western economists and the International Monetary Fund have long prescribed, but Minxin Pei, a government professor at Claremont McKenna College, says another agenda may be at work. Beijing goosed the stock market to shore up public support in a slowing economy and give debt-burdened companies a lifeline to equity financing, he says. Chinese companies have raised $72 billion this year in initial and secondary stock offerings, data compiled by Bloomberg show. "Many companies that should go out of business have tapped the stock market for funds," Pei says.

At the mid-June high, shares on the Shanghai Composite Index were three times more expensive than any of the world's top 10 markets based on estimated earnings. Even after the recent plunge, the median valuation of stocks on the Shanghai and Shenzhen exchanges is almost triple that of the companies listed on the Standard & Poor's 500-stock index. Margin account balances, a measure of shares bought with borrowed money, are still sizable at 1.05 trillion yuan as of July 8, according to the Shanghai Stock Exchange.

So far the government-led rescue mission has mostly helped prop up the shares of mainly big state-owned enterprises such as **PetroChina**, **China Merchants Bank**, and **China Southern Airlines**. Selling in the broader market, particularly with small-cap stocks, remains relentless. The CSI Smallcap 500 index is down more than 40 percent since June 12.

The government's cheerleading as stocks rose—and heavy-handed response when they collapsed—has hurt its credibility with global investors. "This saga shows that the leadership has not dealt with financial reform and liberalization well so far," says Liu Li-Gang, chief China economist at Australia & New Zealand Banking Group. And even if the rescue mission works, Claremont McKenna's Pei says China will succeed only in postponing a necessary and painful corporate reckoning: "The cleanup bill will be much bigger," he says.

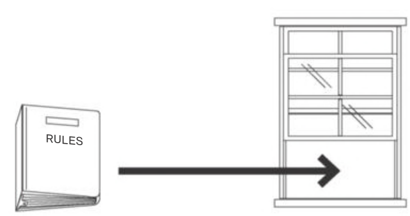
Ultimately, Xi's government may be making a common mistake among novice investors: doubling down on a losing trade. "The more resources authorities commit to propping up the stock market, the more they ratchet up the potential fallout risks should the market continue to collapse," says Andrew Wood, an analyst at BMI Research. The government-controlled media, ever optimistic, continues to make the case for buying shares. "Rainbows always appear after rains," said a recent editorial by the *People's Daily*, the voice of the Communist Party of China.

At least one Western investment bank agrees. Kinger Lau, China strategist at Goldman Sachs, predicts the large-cap CSI 300 index will rally 27 percent over the next 12 months. "China's government has a lot of tools to support the market," Lau says. "We are still positive." —*Brian Bremner and Enda Curran, with Jonathan Burgos*

The bottom line With Chinese stock prices down 32 percent since June 12, Beijing is scrambling to prop up the market.

Banking

HSBC Managers Battle The Cleanup Squad



▶ A sealed report shows investment bankers brushing off auditors

▶ "I am feeling more bullied than I ever have before in my career"

When **HSBC** settled claims by U.S. and state regulators that it violated banking rules by moving money for Mexican drug cartels and nations under U.S. sanctions, paying a $1.9 billion fine was only part of the deal. To avoid criminal charges, the bank also signed a deferred prosecution agreement (DPA) promising to improve anti-money-laundering controls and other compliance systems.

Within a year of that pact, HSBC's reform efforts met resistance from leaders of its U.S. investment banking unit, some of whom mounted a ▶

◀ campaign of bullying and foot-dragging aimed at discrediting the in-house auditors assigned to assess the bank's operations. That's among the conclusions of a confidential 1,000-page review that the bank's court-appointed monitor, Michael Cherkasky, submitted to the U.S. Department of Justice earlier this year. "Nearly two years after the entry of the DPA, the bank continues to struggle with a broad range of compliance and control deficiencies that pose an unnecessary level of financial-crime risk to the bank's continuing operations," Cherkasky wrote in the report, which was reviewed by Bloomberg.

Cherkasky is a former prosecutor and investigator who ran insurance broker Marsh & McLennan a decade ago. His company, **Exiger**, is paid by HSBC under the terms of the Justice Department deal. His report on HSBC's efforts to improve controls was produced by five dozen Exiger employees, who conducted interviews, scoured e-mails, and documented meetings. HSBC has more than doubled its compliance staff, to 7,200 people, since 2012, says spokesman Rob Sherman. Bank executives declined to comment on the report, which was meant to remain private under the DPA, Sherman says.

Although the report doesn't accuse the bank of wrongdoing, its contents raise questions about the efficacy of deferred prosecution agreements. The Justice Department cut several deferred prosecution deals with big banks from about 2009 to 2012. The department viewed the agreements as preferable to criminal indictments, which "could have a negative impact on the national economy," then-Attorney General Eric Holder said at a congressional hearing in early 2013.

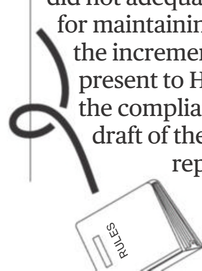
Senator Elizabeth Warren (D-Mass.) is among the lawmakers who have cited the HSBC agreement as an example of how soft the U.S. has been on wrongdoing by big financial institutions. In February of this year, responding to revelations that HSBC's Swiss unit helped people and companies evade taxes, Warren issued a statement urging the Justice Department to reconsider its deferred prosecution agreement. Justice Department spokesman Peter Carr declined to comment.

HSBC compliance officers began their audits of the bank's U.S. operation in September 2013, according to the Cherkasky report. The review of the U.S. investment banking operation got off to a rocky start. Unlike the heads of commercial banking and retail banking, the investment bank leader at the time, U.S. global banking and markets Chief Executive Officer Patrick Nolan, didn't attend the first meeting with HSBC's compliance officers, Cherkasky wrote. It wasn't until early February 2014, as the auditors were finalizing their report, that Nolan met with them. Rather than accept their view of his business, Nolan shouted at HSBC internal audit team leader Karen Fischer for wasting his time. Two months after the meeting, Fischer e-mailed a colleague: "I am feeling more bullied than I ever have before in my career."

Nolan's antagonism took a toll. "Although he later apologized to Fischer," Cherkasky wrote, "the message to his people was unmistakable and set the tone for months to come." One compliance officer characterized the investment banking unit's tactics for responding to the audit as discredit, deny, deflect, and delay, Cherkasky wrote in his report. HSBC declined to make Nolan or Fischer available for comment.

The HSBC auditors reviewed the bank's "know your client" files containing press clippings and other information on 35 foreign financial institutions that did business with the investment bank's broker-dealer unit. They identified six clients whose activities could put HSBC at risk. The files contained references that associated the clients with terrorist financing, money laundering, or embezzlement. One client was a Saudi bank whose former owner had helped finance Osama bin Laden, according to information in the file, and the bank had sent wires to a Sept. 11 hijacker's bank account, the auditors wrote.

There was also a Mexican bank that maintained offshore accounts for late Venezuelan President Hugo Chávez. Its file contained items asserting that the bank had been accused of money laundering by two countries and that its parent company was partially owned by an entity based in Cuba, which was under U.S. sanctions. "The client files did not adequately explain the rationale for maintaining the account and/or how the incremental risks these clients present to HSBC are being mitigated," the compliance officers wrote in a draft of their audit, Cherkasky's report says.



"The bank continues to struggle with a broad range of compliance and control deficiencies." —*Michael Cherkasky's report*

The draft cites Nolan's deputy as saying the links to the Sept. 11 attacks were dated and other allegations were unsubstantiated. An auditor asked why Nolan's unit had neither responded to suspicious-activity reports on the Saudi bank nor established that allegations about the bank were false. The deputy responded that his unit had referred the issue to a review committee. Nolan told Cherkasky's team that his primary concern was the auditors' "sensational" language about Sept. 11 links, according to Cherkasky's report.

HSBC's compliance officers' final audit, dated May 23, 2014, omitted specifics about the six banks, Cherkasky's report says. It gave Nolan's team a "needs improvement" grade, slightly higher than the "not satisfactory" mark considered in the draft audit. And the final audit didn't raise questions about whether HSBC should maintain the six clients, Cherkasky's report says.

After the compliance officers filed their final audit to their superiors, executives at the global banking and markets unit claimed victory, Cherkasky noted in his report. "FYI One for the management team this week," Gary McClure, global head of client on-boarding account maintenance, wrote in an e-mail to his team. McClure declined to comment.

Cherkasky filed his report with federal prosecutors on Jan. 20, concluding the bank "must redouble its efforts if it is to have any appreciable chance" of developing lasting compliance and anti-money-laundering programs.

Federal prosecutors took a rosier view in the summary of the Cherkasky report they filed to John Gleeson, the federal judge in Brooklyn, N.Y., who approved the 2012 settlement. "The monitor believes that HSBC Group has made progress in developing an effective AML [anti-money-laundering] and sanctions compliance program." Once senior HSBC executives learned about the problems, prosecutors wrote in their summary, they promised to reassign the regional head of the Americas for the global banking and markets unit and cut his bonus. The bank also trimmed the salary of another senior executive in the unit, they wrote.

In April, HSBC transferred Nolan to London, where he is vice chairman for the global investment banking unit, the bank says. As for the status of the six banks flagged by the internal auditors,

Five Private Investments That Paid Off

	Diplomat Pharmacy	GrubHub	Workday	Zulily	Twitter
First invested	Q1 '14 at **$16.74**	Q3 '13 at **$17.08**	Q3 '11 at **$13.26**	Q3 '11 at **$5.63**	Q3 '09 at **$2.66**
July 7 price	**$45.10**	**$30.98**	**$77.65**	**$12.61**	**$35.52**
Return	▲169%	▲81%	▲486%	▲124%	▲1,235%

spokesman Sherman says the bank doesn't comment on clients or confirm the existence of client relationships.

Now the judge will decide for himself whether HSBC is abiding by its agreement. Gleeson, who required quarterly updates from the Justice Department, asked in late April to review the full Cherkasky report. It was the first time the judge has asked for a direct look at any of the monitor's work. *—Greg Farrell*

The bottom line HSBC investment bankers sought to downplay dealings with questionable customers, according to a monitor's report.

Mutual Funds

Private Companies Give Ellenbogen an Edge

▶ The T. Rowe Price manager bets on startups before they go public

▶ "The private and public markets… are merging"

As manager of **T. Rowe Price New Horizons Fund** for the past five years, Henry Ellenbogen has outperformed 99 percent of small-company funds, according to data compiled by Bloomberg. Part of his outperformance comes from an unusual strategy for a mutual fund manager: putting money into startups before they go public. His success has led to imitators, though, and it's gotten a lot harder to find worthwhile private investments at attractive prices. "The asset class is scary," Ellenbogen says. "We're being highly selective and trying to invest in the best ones."

After investing in 14 nonpublic companies last year, Ellenbogen has disclosed investments in only two this year: eyeglass retailer **Warby Parker** and salad restaurant chain **Sweetgreen**. Returns from private investments, which make up about 5 percent of his fund, probably will be lower this year than in the past, he says. Mutual funds are allowed to have as much as 15 percent of their assets in illiquid investments.

Mutual funds run by companies such as T. Rowe, **BlackRock**, **Fidelity Investments**, and **Wellington Management** invested $5.5 billion in private companies from 2012 through 2014, according to Pacific Crest Securities. The flood of capital has set off alarms for some venture capitalists. "The very act of dumping hundreds of millions of dollars into an immature private company can also have perverse effects on a company's operating discipline," Bill Gurley, a general partner at venture capital firm Benchmark, wrote in a February blog post. "We are in a risk bubble."

It's a question Ellenbogen thinks about a lot. Investors provide "cheap capital," which encourages companies "to aggressively expand," he says. Companies that grow too fast are "basically like a huge organism that has no skeleton," he says. When growth slows, "you start to collapse."

Almost everyone in Silicon Valley knows who Ellenbogen is, bankers and entrepreneurs say, even though he's based in Baltimore, 3,000 miles away. Getting an introduction to Henry, as he's known, is a big deal, and bankers often use their connection to him to impress corporate clients. Companies seek his stamp of approval to reassure investors. "We hadn't taken outside money before T. Rowe," says Phil Hagerman, chief executive officer of **Diplomat Pharmacy**, which makes drugs for rare and complex diseases. "We weren't shopping Diplomat to raise capital. But the fact of having a partner of T. Rowe's stature and the confidence that T. Rowe would bring is a good solid step for us." Diplomat's shares have tripled since its initial public offering in October.

Ellenbogen takes a more active role in private companies he invests in than a typical fund manager would in, say, General Electric. While he never takes a board seat, he's not shy about giving advice. When he met Warby Parker co-founder Dave Gilboa at an Allen & Co. conference two years ago, Ellenbogen suggested that the company develop the brick-and-mortar side of its eyeglasses business.

Struggling companies get extra attention. Shares of **Zulily**, an e-commerce site for parents, are down 43 percent as of July 7 from their November 2013 IPO price. Ellenbogen has kept most of his stake in the company, purchased before the IPO, and says he's spending more time advising management on ways to turn the business around. "He has stuck with us through the ups and downs," says Zulily CEO Darrell Cavens. Ellenbogen agreed to speak with employees in early July to boost morale, he says.

As private companies find it easier to raise money from investors such as Ellenbogen, they have less incentive to go public. In 1999 the median age of companies having IPOs was five years, according to data compiled by the University of Florida. In 2014, it was 11. Investors who wait for fast-growing companies to go public may miss out on some of their best years. "The private and public markets are in a transitional period where they are merging," Ellenbogen says. "While there may be a shakeout coming, we're not going back to the world as it was." *—Leslie Picker*

The bottom line With valuations rising, Ellenbogen's disclosed two private purchases this year after investing in 14 last year.

Edited by Eric Gelman
Bloomberg.com

MICHAEL SHORT/BLOOMBERG; DATA: T. ROWE PRICE SHAREHOLDER REPORTS, BLOOMBERG

JARED ISN'T

By Susan Berfield

SUBWAY'S ONLY PROBLEM

Stagnating sales, frustrated franchisees, bored customers— these are troubled times for the world's biggest fast-food chain

Jared Fogle leaves his home on July 7

It was the fastest Subway had moved in years. On July 7, FBI agents raided the home of Jared Fogle, the long-serving frontman and healthy-eating ambassador for the world's largest restaurant chain. For much of the day, the authorities removed documents, electronics, and other items from his house in Zionsville, outside Indianapolis, possibly in connection with a child pornography investigation. In April the executive director of the Jared Foundation—Fogle's anti-childhood-obesity charity—was arrested and charged with producing and possessing child pornography. Fogle, 37, hasn't been arrested or charged, and it's unclear what specifically the FBI was looking for.

But within hours, Subway cut its ties to him. Jared-related content—such as an online game for kids called "Jared's Pants Dance"—was scrubbed from the company website. "Subway and Jared Fogle have mutually agreed to suspend their relationship due to the current investigation," the company said. Fogle's lawyer, Ronald Elberger, told Bloomberg News: "Jared has been and continues to cooperate with law enforcement and its investigation of unspecified charges and looks forward to the conclusion of that investigation." The FBI hasn't issued a public statement about the raid and declined to comment.

Whatever happens with the investigation, losing Fogle—or Jared, as everyone who's owned a television in the past 15 years knows him—is the last thing the company needs. One Subway executive told *USA Today* in 2013 that Jared may have accounted for as much as one-half of Subway's growth since his first commercial aired in 2000. Subway is preparing to celebrate its 50th anniversary this summer and had plans to relaunch Jared as its family-man (as opposed to weight-loss) face. Instead, the company's founder is fighting cancer, its franchisees are frustrated, its customers are bored, and its business is losing momentum.

DeLuca with his mother in 1985

Subway has about 44,000 shops globally, including 27,000 in the U.S., and opens five more a day on average. The company doesn't operate its restaurants; more than 21,000 franchisees do. It's part of Doctor's Associates, a private company formed by Fred DeLuca and Peter Buck back in the 1960s and led by DeLuca ever since. He and Buck still own the company, and they still call Subway a family business.

The family business doesn't share much financial information, and, like most companies, it prefers not to elaborate on bad news. According to research firm Technomic, in 2014 Subway's U.S. sales declined 3.3 percent from the previous year, to $11.9 billion. That drop was the worst among the big fast-food chains. Average annual sales per store fell from $490,000 in 2013 to $475,000 last year.

For almost two decades, Subway had essentially the same business plan: Open more locations while positioning itself as the healthier fast-food choice. But it hasn't kept up with the changing expectations of diners, especially younger ones, in the past couple of years. Subway's wholesome image—fresh vegetables and bread, custom-made sandwiches—is fading as newer, smaller competitors boast of being (or at least trying to be) organic, GMO-free, and transparently sourced. "We're not cool with the millennials. We seem tired and old, and it's hard to break out of that," says a longtime franchisee. He, like other owners critical of headquarters, didn't want to be identified for fear of retaliation. "There is no question millennial customers are important to us—and we are satisfying millions of them every day," Elizabeth Stewart, Subway's director for corporate social responsibility, said in a statement. "Consumers believe in our food."

Franchisees are also uneasy because DeLuca, who's 67, has leukemia. On June 1 he promoted his younger sister, Suzanne Greco, to president. She's responsible for day-to-day operations and reports to him. DeLuca didn't call Greco his successor, nor did he say anything about his condition, which isn't surprising but has contributed to the anxiety about the chain's future. When asked about DeLuca's health, Don Fertman, Subway's chief development officer, says: "He's not acknowledging a health issue. Not to say he doesn't have one. He's engaged and hands-on. He is still CEO."

Subway executives, including Greco, say their priority is to increase sales and profits in the U.S., not open more stores, but they decline to share plans for how they'll do it. "Headquarters is trying to figure out where to go," says Don Sniegowski, founder of Blue MauMau, a news site about the franchise business. "Because Fred is sick, there seems to be a lot of vacillation. Everyone is waiting for someone to lead."

"WHEN YOUR GOAL IS TO HAVE THE

Subways for Sale in the New York Tri-State Area

"I've got one backstage in my bathroom."
——Comedian Jim Gaffigan, 2012

Photographs by William Mebane

Newark, N.J.

Hempstead, N.Y.

Brooklyn

Commack, N.Y.

South Bound Brook, N.J.

New Brunswick, N.J.

Freeport, N.Y.

Subway was always so sure of itself—sure about its growth, its relevance, Jared—that its recent downturn in the U.S. would have been upsetting even if its CEO were in perfect health. Now it's in transition at a time when the competition has never been as fierce. Just as "better burger" chains Five Guys Burgers & Fries, Shake Shack, and Elevation Burger are luring customers away from McDonald's, Burger King, and Wendy's restaurants, Jersey Mike's Subs, Jimmy John's, and Firehouse Subs have emerged as high-quality, made-to-order submarine sandwich shops. Chipotle boasts of "food with integrity," and Panera Bread offers a "transparent menu."

"Subway's business has been selling franchises," says Darren Tristano, an executive vice president at Technomic. "When your goal is to have the most vs. the best, you'll eventually run into trouble."

DeLuca always wanted Subway to get bigger. In 1965, when he had one sandwich shop in a plaza in Bridgeport, Conn., he said he wanted 32. When he had 200, he said he wanted 5,000. When Subway finally reached 33,749 in 2010—and edged out McDonald's to become the biggest restaurant chain in the world—DeLuca said he could see 50,000. "A big fast-food company should be able to have 100,000 stores," he said on Bloomberg TV in March 2013. "Now, I don't know if we're going to be that company. But somebody should be able to get there, and we'll have as good a shot as anybody."

Three months later, DeLuca was overcome with chills while visiting Subways in Montreal and Toronto, and he was soon diagnosed with leukemia. In May 2014, after months of chemotherapy and a bone-marrow transplant, he returned to work, saying he was in remission, eager to resume leadership, and looking forward to the company's 50th anniversary celebrations.

When he promoted Greco in June, the company didn't publicize the move until Bloomberg News reported it. "My primary focus is to make our family business even better by making improvements wherever we can, especially at the store level," Greco said in a statement on June 25. "It's blood, and also the logical choice," Fertman says of her ascendancy.

Franchisees who know Greco seem to like her, though they say she hasn't been a strong leader in her previous roles. "She's no Fred. But then no one is," says John Gordon, a franchise consultant. Greco, 57, helped set up the Independent Purchasing Cooperative, the franchisee-run food supplier for Subway restaurants, after owners persuaded headquarters to hand over control. There are now five such organizations around the world, which help keep down the cost of food

MOST VS. THE BEST, YOU'LL EVENTUALLY RUN INTO TROUBLE"

PREVIOUS SPREAD, FOGLE: MICHAEL CONROY/AP PHOTO. DELUCA: COURTESY SUBWAY

Melville, N.Y.

New Brunswick

Merrick, N.Y.

Brooklyn

Watchung, N.J.

and return all rebates to the franchisees, and they've become an essential part of the Subway system. Greco has also overseen research and development—the sweet onion teriyaki sub was born under her watch. She introduced the breakfast menu, toasted bread, and Subway's line of seven sandwiches with 6 grams of fat or less. At a franchisee meeting in Miami in January, she acknowledged some of the problems with the chain—the need to improve the customer experience and the marketing—and promised that solutions were coming.

DeLuca was present, too, appearing onstage during another session. He shook a few hands, bumped a lot of fists. In May he attended a marketing meeting, though he looked frail. He still gets on the phone with colleagues, and franchisees still get e-mails from him, sometimes with very specific suggestions. One DeLuca note said cookies sell better when they're baked in small batches and displayed in a bowl near the cash register. "Suzanne is doing the day-to-day," Fertman says. "But Fred is watching over everything, front and center."

"WE CAN ONLY SELL THE SAME SANDWICHES FOR THE SAME PRICE

About 900 people work in fluorescent-lit cubicles in the five squat, red-brick buildings that comprise Franchise World Headquarters in Milford, Conn. The door to the co-founder and CEO's corner office is closed one afternoon in mid-June, signaling his absence. DeLuca, who lives in Boca Raton, Fla., with his wife, usually travels to Milford a couple of times a month. He declined to be interviewed for this article. Greco also declined. Both cited packed schedules.

A framed and autographed pair of Fogle's jeans, size 60, hangs on a wall in the lobby of the executive building. Fogle, who famously lost 245 pounds eating two Subway sandwiches a day for a year (he also exercised), helped the chain create its health-conscious image. In 2000 he became the face of the company. This summer, Subway has been airing an animated commercial with him and his wife, Katie McLaughlin, teaching their two young kids to eat well. "I'm not just a stagnant person like some of those other mascots," Fogle told *Bloomberg Businessweek* on June 17. "I hope to be a great parent and a great role model for kids anywhere. I hope to be with Subway for a long time to come." He was supposed to have a bit role, as himself, in the Syfy Channel movie *Sharknado 3*. That cameo has been cut, according to a spokesman for NBCUniversal, which owns Syfy.

For years, Subway has let others, especially Fogle, speak for it. Executives have mostly kept a low profile. Aside from Greco,

Fair Lawn, N.J.

Freeport

Holtsville, N.Y.

Happauge, N.Y.

Green Brook, N.J.

FOR SO LONG.... WE NEED NEW PRODUCTS”

who began as a “sandwich artist” 42 years ago, the other longest-serving executives include Fertman (34 years) and Dick Pilchen (50 years). Pilchen, DeLuca’s first employee, is a Subway owner in Amherst, Mass., and works at headquarters, where his title is “profit-building consultant.” Fertman wrote and performed the first jingle back in the late 1970s, *When You’re Hungry, Make Tracks for Subway*, and he’s still comfortable in front of an audience. (The more recent and infuriatingly catchy *Five Dollar Footlong* jingle came from an ad agency.) In 2010, Fertman was featured on the reality-TV show *Undercover Boss*. “Otherwise, nobody knows them,” says franchise consultant Malcolm Knapp.

DeLuca doesn’t have any hobbies. Last year he told *USA Today* that he didn’t have a bucket list, he just wanted to work. He doesn’t appear to have had any mentors. A business book he co-wrote in 2000, *Start Small Finish Big*—“I joined a fraternity, I dated Liz, and I had a good time in college”—has the emotional depth and resonance of a Wikipedia entry. It also serves as the script for all personal inquiries; if it’s not in the book, it’s not up for discussion.

Subway wouldn’t confirm that he still owns half the company, whether he sits on any corporate boards, or whether he’s given any commencement speeches. It did, however, provide a flattering 90-minute-long DVD about DeLuca and the company. Among its lessons: Owning a Subway franchise is so rewarding that second generations are getting into the business.

In early June, a dozen potential franchisees gather around a conference table in Paul Landino’s office in North Haven, Conn., to hear his pitch. Landino is warm and enthusiastic and well-rehearsed. He bought his first Subway franchise for an initial fee of $1,000 in 1976. His was restaurant No. 16, in nearby Hamden. Landino was just finishing college, and he regularly ate footlongs at store No. 5, often after leaving a bar late at night. DeLuca, who’d opened his first restaurant at 17, recruited graduates from local schools, friends, relatives, and sometimes even customers, to run the stores. “Fred would visit us every month and say, ‘Hey, you need another store,’” Landino says. In 1986 he became a development agent, someone contracted by Subway to develop a market. Agents recruit franchisees, advise them on operational issues, monitor compliance, and, when necessary, mete out discipline. Landino oversees 600 stores in New York and Connecticut. He still owns

Nutley, N.J.

Woodhaven, N.Y.

Verona, N.J.

Merrick, N.Y.

store No. 40, which is next to his office.

The group of would-be franchisees listening to him look to be in their 40s and 50s. They've already taken the Wonderlic test of basic skills—a variation of the psychological exam given to NFL draftees. Sample question: If John's deli puts ⅛ pound of ham in each ham sandwich, how many sandwiches can be made from 22 pounds of ham? "If someone doesn't know what ham is, we might wonder if Subway is the best fit for them," Landino says.

Subway operations are fairly simple: There's no grilling, frying, shaking, or flipping. A store needs a minimum of 350 square feet, about half of which is for sandwich-making and storage. Subways have opened in a car dealership in California and a Goodwill store in South Carolina, in a Brazilian appliance store and on a German riverboat, even in a high school in Detroit and a church in upstate New York. ("I've got one backstage in my bathroom," stand-up comedian Jim Gaffigan said in a 2012 routine.)

A Subway is inexpensive to get up and running. The franchise startup fee in the U.S. is about $15,000; it may cost as much as $250,000 to lease, build, or renovate a space and buy equipment and food. A Jimmy John's franchisee has to pay at least $320,000 to get started; at McDonald's it's anywhere from $1 million to $2 million. The royalties at Subway are high, though. Franchisees give Doctor's Associates 8 percent of sales. By comparison, at McDonald's, headquarters gets 4 percent; at Jimmy John's, 6 percent; and at Jersey Mike's, 6.5 percent. Even in the best years, the average sales per Subway store are among the lowest of the chains.

Subway serves breakfast and is open for dinner, but it's still primarily a lunch business. In *QSR*'s annual survey of the top 50 fast-food and fast-casual restaurants, coming out in August, the trade publication ranks Subway's average sales per store ($475,000) at the bottom for 2014—only Baskin-Robbins is lower. Jersey Mike's average store sales were $670,000, and Jimmy John's were $900,000. They offer more choices, charge higher prices, and together are about one-ninth the size of Subway.

"In some ways, Subway went dark," says Sam Oches, editor of *QSR*. "They had the opportunity to take a leadership role in health and nutrition last year. Instead, a lot of other brands are taking the initiative." One longtime franchisee laments that Subway did well during the recession with the $5 footlong, but then, as the recession ended, fell quickly behind.

Asked about declining sales, Landino says fast-food chains do well when people are pinched. "The economy is doing better, and so we're struggling." People are willing to spend a bit more now, and they expect more from even their everyday lunch. "We've done this for 50 years. I've seen a lot of ups and downs," he says. "I think we'll get our act together."

None of the potential franchisees ask about Subway sales, though, and Landino doesn't mention the current slowdown. Instead, he says, "We tell you we have a good business. Some people make a lot of money. Some people lose a lot. We want you to do well. If you do well, we do well." Most of them seem eager to proceed. Some already have locations in mind.

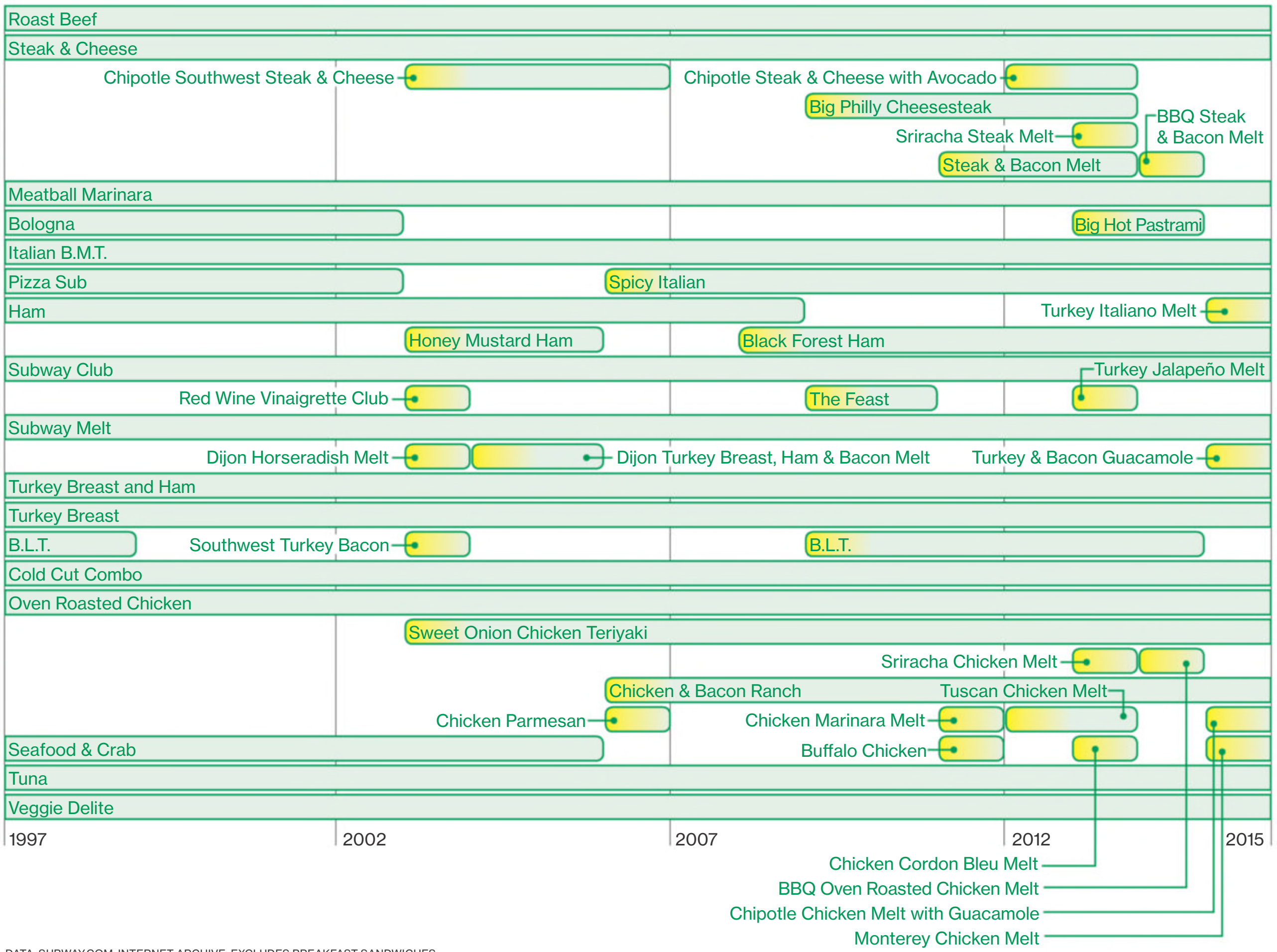
Fertman says Subway will open 1,800 restaurants around the world in 2015; only 360 will be in North America. Of those 360, about 80 percent will go to existing franchisees, which Subway regards as a testament to the system. More than half will be in "nontraditional" locations—by that he means schools, hospitals, military bases, zoos, anywhere there's a captive audience. In the past six months the rate of franchisees transferring ownership has risen, Fertman says, to about 4 percent a year. He doesn't see a problem with that: "It's good to bring in new blood." Subway's overall turnover rate, which includes transfers, terminations, and closures, was 8 percent last year, according to Franchise Grade, which analyzes the investment value of franchises. That's the highest it's been in the past five years but still lower than the industry average of 10 percent.

"It is a buyer's market out there for all franchises, not just Subway," says Paul Batra, a franchisee in Westchester County, N.Y., who sold three of his four stores because he didn't have the stamina to manage them all. "If I had sold in 2012, I would have gotten an amazing price. In 2013, I would have gotten a little less, and in 2014 and 2015, well, it's just not the same, but it was OK." Other franchisees in the Northeast estimate that the value of a franchise has decreased by half, while the number of stores for sale has doubled. Subway says it can't comment on such speculation. "We can only sell the same sandwiches for the same price for so long," Batra says. "Promotions work to some extent. But we need new products." Batra, it should be noted, describes himself as a happy franchisee and says he has confidence in headquarters.

Subway's executives won't get into specifics about the chain's future. The most recent significant additions to its menu were guacamole and a turkey sandwich with a new vinaigrette. Last year it improved the quality of its chicken and removed the "yoga mat" chemical bleaching agent from its bread. After almost all of its competitors pledged to remove artificial flavors and preservatives this year, Subway did, too. It said it was working with suppliers to provide antibiotic-free meat only after criticism from consumer and health advocates. McDonald's made the same pledge in March, saying it would complete the shift within two years. Subway said only, "It will take time."

The chain also faces consumer fatigue. "Eating is

Life Spans of Subway Sandwiches



DATA: SUBWAY.COM, INTERNET ARCHIVE. EXCLUDES BREAKFAST SANDWICHES

entertainment. People want new things," says Gordon, the franchise consultant. "Subway and McDonald's got into trouble right at the same time. Maybe when there is too much of something, people are turned off." Fertman has heard all this before and says Subway is "addressing the marketing, the product, the value, the in-store operations. We're working hard with franchisees and sandwich artists to up the game." He described a "rally training" regimen started in April called What Makes Subway Great. "We have to make sure customers get the perfect sandwich. There are other people trying to do that now. We started custom-made. We need to own that."

When asked how Subway is adjusting to the higher standards for transparency about ingredients, Stewart, the executive in charge of social responsibility, said in a statement that Subway has been a leader in food-quality initiatives going back to the late 1990s. "We will continue to evolve to meet consumers' changing tastes and expectations," she said. Justin Zandri, vice president for brand strategy, also sent a statement: "It's not one or two things to call out.…It all starts with keeping pace with the evolving needs of our customers. From there it includes staff training, providing new and improved products, developing great advertising, and focusing on more efficient operations." Later, the company spokesman, Kevin Kane, said profits and store traffic had risen in the past three months.

Restaurants are cyclical by nature. Starbucks was in a similar bind several years ago and recovered. In 2014, for the first time, the coffee chain's U.S. sales were greater than Subway's, according to Technomic. Not many chains manage that kind of comeback, though, and Subway stores are owned by franchisees, not headquarters. "The franchisees are deciding what they want," says Sniegowski of Blue MauMau. "Then they will be gently pushing the system."

Rumors that the company could be for sale have increased along with uncertainty about DeLuca's health; headquarters notes that DeLuca has said he's not interested in selling. "Fred is Subway, and Subway is Fred," Landino says. "He remains very focused on the success of Subway, that's all I can say." Speaking to Bloomberg News in May 2014, DeLuca said, "I don't think there's many sizable chains where the guy who worked there the first day and made the first sandwich is still running it. But somehow that was my path in life."

Subway will hold its 50th anniversary celebration at a convention in Las Vegas at the end of July. There will be music and awards and parties. DeLuca has been on calls to discuss the arrangements. The company says he'll give a "state of the business" talk. Greco will describe "product and operational initiatives." In August, Subway will open its 44,200th store, probably in a country with potential for growth, such as Brazil or China, or maybe Russia. It most likely won't be in the U.S. B

—With Leslie Patton and Jennifer Chaussee

The author's second novel, written before *To Kill a Mockingbird*, is the most preordered book in her publisher's history. It's also a book she vowed never to publish

What Does Harper Lee Want?

By
Claire Suddath

Lee in 2010

On the porch of the Meadows, a small, canary-yellow nursing home along the Highway 21 bypass in Monroeville, Ala., a security guard called Officer Matthews keeps watch. Sometimes he sits in a wooden rocking chair. Other times he leans against the porch's white posts. In the late afternoon, when the thermometer outside the nearby Trustmark Bank reads 108F and the summer air gets so humid it's like trying to breathe through a wet towel, he'll take off his company-issued black blazer and wipe his brow with a handkerchief. He tries not to go indoors. ¶ A security guard is at the nursing home 24 hours a day. It's an odd sight in this small, insular town of 6,300, the kind of place where houses are left unlocked and everyone waves to one another on the street. The other nursing homes in town certainly don't have such tight security. Then again, they don't house a Pulitzer Prize winner set to release a blockbuster novel on July 14 with an initial print run of more than 2 million copies. The Meadows is home to Harper Lee, author of *To Kill a Mockingbird*. ¶ At 89, Lee has lived there for several years. Before that, she had a small, rent-controlled apartment on New York's Upper East Side. She'd ride the city buses (taxis were too extravagant, she thought), dine with friends, attend the theater or symphony, play golf, and generally pass through the world unnoticed. Lee wasn't shy, but she didn't

A portrait of the novelist for *Life*, soon after she won the Pulitzer

want to be famous. "I never expected any sort of success with *Mockingbird*," she said in 1964 in her last published interview. The book had been her debut novel; she'd assumed that, like most debuts, no one would read it. Instead, it spent 98 weeks on the *New York Times* best-seller list and earned Lee a profile in *Life* magazine. "Public encouragement, I hoped for a little…but I got rather a whole lot, and in some ways this was just about as frightening," Lee said at the time. She stopped granting interviews and would sometimes skip town for a few days when she learned that a reporter was trying to track her down. For years she insisted she'd never publish again.

In 2007, Lee suffered a stroke and moved home to Monroeville so her older sister Alice Lee could look after her. She moved into the Meadows while Alice, still an active partner at their late father's law firm, Barnett, Bugg, Lee & Carter, took care of her financial affairs. Today, Harper is in a wheelchair, mostly deaf, and has such poor eyesight that she uses a text-enlarging machine to read. In 2011, Alice ended up in a different nursing home in town after a bad fall coupled with a bout of pneumonia. Alice died last year, at age 103. Her law partner, Tonja Carter, carried on with the firm.

Three months before Alice's death, in August, Carter says she was rummaging through the Lee sisters' joint safety deposit box when, bound up with the original copy of *To Kill a Mockingbird*, she found a manuscript of Harper Lee's other novel, *Go Set a Watchman*. "I was traveling, and I got this text from Tonja that said, 'Please call me urgently,'" says Andrew Nurnberg, Lee's literary agent. "I called, and Tonja told me, 'I found another manuscript.' I said, 'I beg your pardon?'" Carter explained where she'd found it; Nurnberg remembered that he had visited the safety deposit box with Carter before. "I'd held that manuscript a few years ago without realizing what it was," he says. He thought it was part of *To Kill a Mockingbird*. "I was just kicking myself."

That summer, Carter told Lee what she'd found. "Nelle was totally surprised," says Joy Williams Brown, 87, who's been a close friend of Lee's since 1950 and, as all her friends do, refers to the writer by her first name, Nelle, and not her middle one, Harper. In 1956 she and her late husband, Michael Brown, gave Lee enough money so she could quit her job and write *To Kill a Mockingbird*. Brown, who lives in New York, has traveled to Monroeville to see Lee several times this year. Both she and Nurnberg say Lee initially didn't want to have *Watchman* published, but later changed her mind. "She gave [*Watchman*] just to a few people to see what they thought of it," says Brown, who was one of those readers. "We told her: 'It's extraordinary.'"

It's also a draft: The manuscript is an early, alternate version of what would later become *To Kill a Mockingbird*, and there's a controversy brewing over its prior discovery more than three years ago. According to Sotheby's, its rare-books expert also visited the safety deposit box with Carter back in October 2011, along with Lee's then-literary agent, Samuel Pinkus. Carter insists she was out of the room when the two men read and discussed *Watchman*. Pinkus says he and Carter visited the safety deposit box at least one other time, and both knew about the second manuscript.

Carter has since released a statement denying his allegations. As she describes it, a discussion with Lee's friends reminded her that "at some earlier time, I had seen mention of a character who did not make it through the final edit of *Mockingbird*.…I decided to check to see if maybe that character was in a second book. That is when I went back to the safe deposit box for a more careful look and discovered *Go Set a Watchman*."

Watchman features the same characters (Atticus Finch, his daughter, Scout) at the center of *Mockingbird*, along with some others who were cut from the book. Lee hasn't reread it, and HarperCollins, her longtime publisher, is releasing it unedited. "It was made clear to us that Harper Lee wanted it published as it was," says Jonathan Burnham, senior vice president and publisher of Harper. "We gave the book a very light copy edit."

Already, the decision to leave it as is has made some anxious. For example, "there was some concern from Tonja's end about the word 'n-----.' It's in there quite a lot," says Nurnberg. "I said, 'This book was written in the 1950s. You can't call someone a n----- by any other anodyne title.'"

Unedited and, perhaps, dated, *Watchman* could've easily been marked a literary curiosity, something more aligned with, say, *True at First Light*, Ernest Hemingway's autobiographical novel about a trip to Africa written in the 1950s but published in 1999, long after his death, or *The Rum Diary*, Hunter S. Thompson's middling foray into fiction that was rejected

Alice Lee entrusted Carter to manage her sister's finances

PREVIOUS SPREAD: LEE: PENNY WEAVER. THIS SPREAD: LEE: DONALD UHRBROCK/THE LIFE IMAGES COLLECTION/GETTY IMAGES; ALICE LEE: BEN RAINES/THE PRESS-REGISTER/LANDOV; CARD: ANNIE LAURIE WILLIAMS PAPERS/RARE BOOK & MANUSCRIPT LIBRARY/COLUMBIA UNIVERSITY by multiple publishers in the '60s, then suddenly found worthy after he became famous. Instead, it's poised to become the best-selling literary novel of the year—if not the decade. "This launch is reminiscent of a book on the scale of Harry Potter," says Burnham.

Watchman is the most preordered book in HarperCollins's history. Its first print run is two-thirds larger than the final *Hunger Games* book and more than twice that of the last *Game of Thrones* installment. HarperCollins is selling the book for up to $20 to bookstores, which means a sold-out first printing could rake in close to $40 million. The novel's topped Amazon .com's best-seller list since its release was announced in February and is the website's most preordered book of any genre in the last four years. Monroeville's two-room bookstore has presold almost 7,000 copies and is trying to find a loading dock big enough to accept them the night before they go on sale.

"This *Watchman* publication is what physicists call a singularity. There has been nothing like it before now, and there never will be again," says Daniel Menaker, a former editor at Random House and, before that, the fiction editor at the *New Yorker*. "You couldn't plan for this if you tried."

But someone did plan for this, although it might not have been Harper Lee. Ever since *Watchman* was announced, rumors have persisted that a younger, more mindful Lee—the one who swore not to publish anything again—wouldn't abide any of this. At one point, the state of Alabama even got involved to assess a claim of possible "elder abuse." How aware is Lee, really, of this new book? Does she, as her publishers insist, approve of its publication? The answers lie with Lee's lawyer, friend, and confidante, Carter. So I traveled to Monroeville to talk with her.

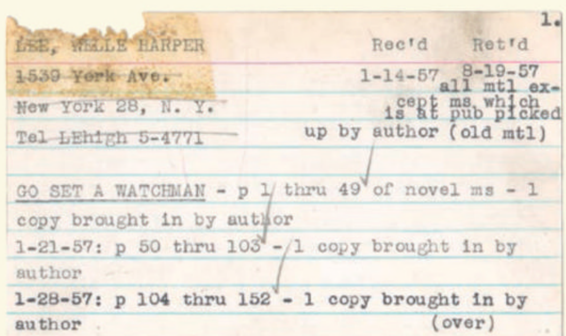
W*atchman* mania, of course, is an offshoot of *To Kill a Mockingbird* mania, which has been going on for 55 years and shows no sign of slowing. The book has sold more than 40 million copies. It outsells *The Catcher in the Rye* and *The Great Gatsby* and earns Lee about $3.2 million in royalties every year. But *Mockingbird* doesn't just sell well. It's adored. The story of a young child's realization that in the South a man could be convicted of a crime not because he's guilty but because he's black, and her clear-eyed conviction of how wrong that is, is as affecting now as in 1960, when it was first published.

Nowhere is this more evident than in Lee's hometown. Monroeville is 100 miles from Montgomery, 160 miles from Birmingham, and several bars short of good cell phone reception. And yet every year about 30,000 people travel from all over the world to walk its streets, climb its old courthouse steps, and experience the real-life version of the town called Maycomb in *To Kill a Mockingbird*. This literary legacy has allowed Monroeville to avoid the grim fate of other dusty towns where manufacturing jobs have vanished. Everything here panders to tourists: There's the Mockingbird Inn & Suites, Radley's Fountain Grille (named after the character Boo Radley), and Lee Motor Co., with a mockingbird painted on its white brick wall.

In 1991, Monroeville's residents started performing an annual *To Kill a Mockingbird* play in the town's domed courthouse, which was replicated on a Hollywood set for the 1962 film adaptation starring Gregory Peck. Today, play season generates more than $200,000 in ticket sales; the money funds the upkeep of the 111-year-old courthouse and several other historic sites around town collectively run by the Monroe County Heritage Museum. *Watchman* is already giving Monroeville a significant boost. "It made me a lot of money this year," says Janet Sawyer, who runs the Courthouse Cafe, where she serves up Boo Burgers and Finch Fries.

There are circles of intimacy surrounding Lee and Carter. The closer the circle, the less willing its members are to talk. The outer one, filled with Monroeville's shopkeepers and city council members, is pretty open. Sawyer concedes she doesn't know Lee well, but she does know many who do. "It's wrong, what she's doing," says Sawyer, referring to Carter. "Everyone saw Miss Lee at Miss Alice's funeral. She was sitting there talking to herself." The next circle, which includes those who used to see her on a weekly basis, has a bit more insight—and is reluctant to share it. Over the past few years, some of Lee's friends have witnessed behavior that, they say, lead them to believe she may not be in the best of health. Mary Tucker, 88, has known Lee since the 1960s and last saw her at the Meadows about six weeks ago. "Her long-term memory is fine," Tucker says. Lee can still talk about the past and quote long passages from *Twelfth Night*, her favorite Shakespeare play. But when Tucker asked her about a writer's symposium she'd recently attended, she didn't know what Tucker was talking about. "It also took her a few minutes to recognize me," she says. "I'm concerned. I really don't know if [the publication of *Watchman*] is her wish at all."

That's not something Tucker feels comfortable asking Lee, though, for fear that she might overstep her boundaries. "A lot of Nelle's friends don't see her anymore," she says. The owner of Radley's Fountain Grille, Sam Therrell, 81, says he used to bring Lee baked potato soup every Thursday



1.

~~LEE, NELLE HARPER~~ Rec'd Ret'd
~~1539 York Ave.~~ 1-14-57 8-19-57 all mtl except ms which is at pub picked
~~New York 28, N. Y.~~ up by author (old mtl)
~~Tel LEhigh 5-4771~~

GO SET A WATCHMAN - p 1 thru 49 of novel ms - 1 copy brought in by author
1-21-57: p 50 thru 103 - 1 copy brought in by author
1-28-57: p 104 thru 152 - 1 copy brought in by author (over)

An old record kept by Lee's agent and the cover for the new book

"This *Watchman* publication is what physicists call a singularity. There has been nothing like it before now, and there never will be again"

Lee has been a boon to local tourism …

until Carter wrote him a letter saying he'd no longer be able to see his friend. Carter doesn't recall sending the letter (which Therrell still has) and says Lee doesn't even like baked potato soup.

Soon after *Watchman*'s publication was announced, state authorities received an anonymous tip from someone close to Lee about potential elder abuse. An investigator from the Alabama Securities Commission, which mostly handles financial fraud, visited Lee at the Meadows. "We're not medically trained. We don't do mental capacity tests. But she knew she was publishing a book," says Joseph Borg, director of the commission. "I don't remember her exact words, but they were something like, 'Why the hell would I write a book and not want it published?' " The state closed its investigation in April.

Burnham also visited Lee in February, along with Michael Morrison, president and publisher of HarperCollins. They returned the first week of July to present her with an advance copy of *Watchman*. They won't share details of their visits, other than to say that Lee seems excited about her book and even picked out its cover. "I'm alive and kicking and happy as hell with the reactions to *Watchman*," Lee said in a February statement provided by Carter and released by HarperCollins. "It isn't secrecy," says Burnham. "It's out of respect for an author who wishes to remain private."

Lee's innermost circle is filled with her few remaining relatives and lifelong friends, many of whom have long-standing policies against talking publicly about their Nelle. Those who would talk to me said, yes, they had the same suspicions, but they'd only explain if I promised not to print what they said. When I asked one friend why she was so secretive, she told me to look up a specific line on a specific page in *The Mockingbird Next Door*, a book by former *Chicago Tribune* reporter Marja Mills about the time she spent living next to the Lees. It read: "Those who know don't speak and those who speak don't know." Then she asked me how much I knew about Carter.

Tonja Carter is 50 years old and tan, with a straight nose, narrow chin, and dark eyes that can sparkle with affection one second and flash fiercely the next. The day I met her, she greeted me in a jean skirt and pink cotton top that perfectly matched her pink nails. We spoke in the bistro she and her husband own, but that has been closed for almost a year.

Carter has refused nearly all interview requests related to *Go Set a Watchman*. When we met, she agreed to talk only if I didn't quote her directly. She wouldn't answer any questions about Lee.

Carter grew up in an Ohio steel mill town. When she was 14, her family moved to Excel, Ala., just outside of Monroeville, so her father could take a job at what was then the Alabama River Pulp mill. She graduated from the Excel high school, then married and divorced soon after. In 1985, when she was barely 20, John Barnett III hired her to be the secretary at the law firm he shared with Alice Lee. Barnett, 63, is still a partner at the firm, although he long ago switched to banking and is market president at the Trustmark Bank in Brewton, about 40 miles away. "I'm not in touch with her day in and day out, but we talk on occasion," he says. "Tonja seems very capable to me."

Barnett may have hired Carter, but Alice is the one who pushed her toward law. Alice started practicing real estate and tax law in 1943, a time when few women worked outside the home. Neither she nor Nelle ever married, and as they aged they began to mentor young women. "She and Nelle used to give people scholarships," says Brown, Lee's close friend, who knows of at least one secretary the sisters put through college. Carter paid her way through Faulkner University with the help of a United Methodist Church scholarship that she suspects may have been funded by Alice.

Carter had remarried by then, to a local boy named Patrick Carter. His family is related to Monroeville's other famous author, Truman Capote. The couple has four children. Carter worked off and on for Alice for the next 20 years—sometimes she'd take time off to go to school; at other times Patrick, a pilot, would get a flying job and they'd relocate to a different town in Alabama for a year or two. At Alice's suggestion, Carter went to the University of Alabama School of Law, graduating in 2006. She returned to Monroeville and, in January 2007, Alice made her a partner of the law firm, renamed Barnett, Bugg, Lee & Carter.

For the next few years, Carter handled local estates and served as a municipal judge in a nearby town, Frisco City. When Alice's health declined, Carter took over the firm—and Lee's affairs. "Tonja picked up where Alice was dropping out, and Nelle had absolute confidence in her," says Brown, who insists Carter is doing a great job. They talk on the phone regularly—when I met with Brown at her home in New York, Carter called three times to see how it was going—and Brown sees her when she travels to Monroeville to visit Lee. "Nelle trusts Tonja absolutely, which is one reason why I trust Tonja absolutely," she says.

With Carter's help, Lee seems to have taken a more active—and litigious—interest in *To Kill a Mockingbird*'s legacy. Carter was already handling Lee's estate when, in April 2011, she notarized an agreement in which the author signed away *To Kill a Mockingbird*'s copyright to a company run by Pinkus, Lee's literary agent at the time. In January 2012, Carter became Lee's durable power of attorney, which allows her to act as her legal stand-in even when her health declines or Lee becomes unable to make decisions for herself.

Lee sued Pinkus in 2013 to reacquire *To Kill a Mockingbird*'s copyright, ultimately settling out of court. Her lawsuit claimed that Lee was "duped" into signing documents because she trusted Pinkus and had "physical infirmities that

"Tonja says she's just doing what Miss Lee asks of her, but we know she runs the show"

FROM LEFT: CHARLIE VARLEY (2); ROSA IRENE BETANCOURT/ALAMY made it difficult for her to read and see." (Pinkus declined to comment on the case.) Gloria Phares, the copyright lawyer who filed the suit on Lee's behalf, says she never spoke directly with Lee because the author is too deaf to use a telephone. When important legal decisions needed to be made, she says, Carter would call from the Meadows and Phares could hear Lee in the background. "I could hear her authorize the complaint," she says. "I had every impression she was being consulted at every point." I asked Carter how someone could be duped into signing away her copyright and, four years later, be sharp enough to handle publication decisions for *Watchman*. Carter repeated that she wouldn't discuss anything to do with Lee.

Lee seems to have mistakenly signed something else, too. In April 2011 she released a statement, printed on Barnett, Bugg, Lee & Carter stationery, claiming that she hadn't approved Mills's book about her life. Alice, who was still practicing law at the time, said her sister was mistaken. "When I questioned Tonja, I learned that without my knowledge she had typed out the statement, carried it to the Meadows, and had Nelle Harper sign it," Alice wrote to Mills. "Poor Nelle Harper can't see and can't hear and will sign anything put before her by anyone in whom she has confidence. Now she has no memory of the incident." Lee released another statement in 2014 pointing out that Alice was over 100 and reiterating her disapproval.

When I got to Monroeville, I found the town embroiled in a new squabble. It started in 2012 when Lee applied for a trademark on *To Kill a Mockingbird* merchandise. The Monroe County Heritage Museum, which sells mockingbird ornaments, T-shirts, and tea towels in its gift shop, opposed the application. "We said it's a colloquial type of Southern thing, the phrase, 'It's a sin to kill a mockingbird,' and it should not be trademarked," says Tom Lomenick, president of the museum's board of directors. Lee sued the museum. They settled out of court. The mockingbird knickknacks are still for sale.

The museum thought its problems had been resolved. Then last year, Dramatic Publishing, which owns the rights to the *To Kill a Mockingbird* play, told the museum it couldn't perform its signature play anymore. "The reason the rights were not renewed to the museum in Monroeville is because Harper Lee has developed her own not-for-profit," says Christopher Sergel, president of Dramatic Publishing.

The nonprofit, the Mockingbird Co., was created in May. Lee is listed as its director and Carter as the vice president. According to its certificate of formation, its mission is "insuring the literary significance and historical contribution made by *To Kill a Mockingbird*," a contribution that will soon include *Go Set a Watchman*. Mockingbird Co. plans to donate the proceeds from Monroeville's play to Alabama communities but says nothing about any other money it may receive in the future. And unless its beneficiaries include the Monroe County Heritage Museum, the museum will run out of money early next year and may have to close.

… and merchandisers

"Tonja says she's just doing what Miss Lee asks of her, but we know she runs the show," says Tim McKenzie, who sits on the museum's board of directors. Meanwhile, Carter's husband, Patrick, has joined the board and pushed for its executive director, Stephanie Rogers, to step down. Rogers has refused.

In 2013 the Carters renovated an old furniture store across from the courthouse and opened a restaurant called the Prop & Gavel that served grouper tacos and organic Alabama-raised beef. A year later, it closed. People in town say they stopped eating at the Carters' restaurant, although the reasons they gave—high prices, rudeness, a change in chefs—are unrelated to Carter's involvement with Lee.

If *Watchman* continues to sell, Lee stands to make a lot of money. And since the book is a companion to *To Kill a Mockingbird*, Lee will have a book series under literary trademark law, which makes it easier to protect her titles. By applying for a trademark, suing to protect it, publishing the new book, and setting up Mockingbird Co., Lee seems to be slowly and methodically assembling a *To Kill a Mockingbird* business from the confines of her nursing home. But given her ever-shrinking circle of friends, there aren't many people left to run it when she's gone. Several longtime friends say they've been barred from visiting the Meadows.

Monroeville's courthouse serves as a set for reenactments of *Mockingbird*

"You know there's a list of people who can see Miss Lee in the nursing home, don't you?" McKenzie says. "There are about 12 names on there." (Carter says the number is limited, but she says that's at Lee's request.) "She very much has her wits about her," Brown says. "Tonja is not manipulating her." All the same, Carter seems to be present whenever anyone visits Lee. "Tonja walks people in. She walked me in when I was there," Brown says.

At some point, Carter may find it difficult to serve as power of attorney, manage her estate, and run her nonprofit. "If there is a situation in which, after her death, her entire estate or substantial assets pour into a foundation run by Tonja Carter, it would be highly problematic," says Jeffrey Schoenblum, professor at Vanderbilt University School of Law and an expert on estates and private wealth transfer. He points out that whether Carter will benefit financially from this isn't known, although Lee's heirs could sue to find out. Lee had two siblings, in addition to Alice, who died years ago; a nephew said he hadn't been told about the formation of a nonprofit.

With less than a week to go before *Watchman*'s release, Monroeville is still trying to figure out how to celebrate the book. The local bookstore announced, then canceled, then reannounced a Harry Potter-style midnight sale. The Chamber of Commerce is throwing together a last-minute festival that includes walking tours and a reading of *Watchman*. But Sawyer decided to close the Courthouse Cafe and go on vacation. "I'd just as rather not be here," she says. Instead, visitors can eat at the Prop & Gavel, which the Carters will reopen for the occasion. B

Jukebox Hero

By
Rob Walker

Photographs by
Peter Funch

Can SoundCloud Be the Facebook of Music?

In ripped white jeans and a midriff-baring SoundCloud T-shirt, 20-year-old Toni Romiti belts one of her modern R&B-flavored songs to a roomful of strangers. She hits the notes, bobs to the beat, flips her long, magenta-streaked hair. Still, as she finishes her opening number, there's a hint that she's not yet a polished live performer: "That was the first one," she says abruptly.

Her audience is all enthusiasm. Romiti is singing to the New York office of SoundCloud, the fast-growing Internet audio service that's attempting to turn the corner from popular app to viable business. SoundClouders, as the company refers to grass-roots music makers such as Romiti, are the soul of the enterprise. If her career takes off, she'll owe much to SoundCloud. She made her first recording on its app and has since attracted 70,000 followers and scored a handful of gigs she hopes will lead to a tour. When her first successful song took off, she recalls, she was getting 1,000 plays an hour. "I just sat at my computer and cried all day," she says. "SoundCloud changed my life."

She closes her short set with a song called *PBB*, noting that it has a million plays and counting. Almost as an afterthought, Romiti then alludes to her participation in the company's new revenue-sharing program. "And money is great."

Musicians drop by the New York office all the time. On this April afternoon, the co-founders are in town, and the 33-year-old chief executive officer, Alexander Ljung, glides over to offer kind words and a smile. He and the chief technical officer, Eric Wahlforss, 35, built SoundCloud as a tool for the Romitis of the world to share their work across the increasingly social Web.

While their creation has become a familiar feature of the digital landscape, it's barely registered in most coverage of the Grand Streaming Wars of 2015, in which Apple Music, Spotify, Pandora Media, and others scrap for earshare. Then again, 8-year-old SoundCloud has a different mission. Its content is a creator-driven free-for-all: Anybody can upload a song (or other audio) and use SoundCloud's tools to get it out there. Aspiring musicians, mainstream artists, DJs, podcasters, and others have uploaded 100-million-plus tracks and clips, creating a YouTube-like sprawl of unpredictable content.

For listeners, SoundCloud is less like a music collection or radio station than an audio-based social network. To navigate it, you might sort what's trending by descriptive tags (which get as specific as "melodic house," "deep house," and "tropical house"). Maybe you start with the latest from electronica act Major Lazer, then see what else is trending under "dance" or "EDM" or "Diplo." Perhaps you end up on producer/musician Diplo's official SoundCloud account. You can "follow" him or any creator. Possibly you'll find like-minded listeners who assemble cool playlists, or simply repost tracks you like. Leave comments, like, share, and gather your own followers. Everything shared by everyone you follow flows into a constantly updated "stream" of new sounds: SoundClouders collectively upload about 12 hours of audio every minute.

That may sound like a hassle if all you want is a predictably enjoyable soundtrack to your workday or workout. But SoundCloud has 40 million registered users, up from 10 million in 2011, and claims 175 million total listeners a month. According to ComScore, its traffic across desktop and mobile rose 14 percent in May from a year earlier, and 142 percent from two years ago. The audience skews younger than Spotify's and Pandora's.

It's an environment where novelty-obsessed music fans can be the first to discover and support the promising rapper GoldLink, or the independent singer-songwriter Cyra Morgan, or the producer/musician duo Daytrip. Established artists from Snoop Dogg to Beyoncé to Drake have taken to the platform, posting special tracks, remixes, live versions, and promotional experiments. Lorde used SoundCloud to release *Royals*; Prince used it to release a new track, *Baltimore*, before his recent "Rally 4 Peace" concert. And that's only music: SoundCloud is a home for audio of any kind, from amateur field recordings to edgy comedy podcasts. For an adventurous listener, it's an aural creativity bonanza.

Like Romiti, SoundCloud dreams of a bigger breakthrough. The company recently trumpeted an agreement with the largest of the three major music labels, Warner Music Group, making some of Warner's content a sanctioned component of the service. The deal closely followed SoundCloud's announcement of a scheme for generating revenue and sharing it with grass-roots creators and multinational music giants alike.

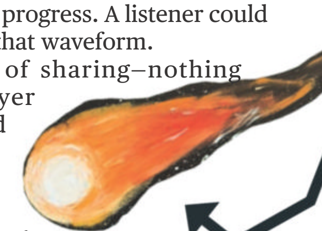
Still, crossing over is never easy. Another big label, Sony, recently pulled several of its major artists off the platform. And other digital music players keep moving. The debut of Apple Music includes an element called iTunes Connect that seems calculated to appeal to up-and-coming music makers. Spotify has opened up to podcasts. And YouTube, arguably the most popular on-demand music source in the world already, has a more overtly music-oriented offering in the works.

And yet, SoundCloud's potential is fascinating, and perhaps unique. The founders have ambitious goals that respond to changes in the way music and sound are created and consumed. It's a beautiful dream. So long as all the crucial participants—labels, publishers, artists, SoundCloud itself—can agree on how to share it.

Ljung and Wahlforss are Swedish, live in Berlin, and fit right in at a trendy locavore-cosmopolitan bistro in Lower Manhattan. The fresh-faced Ljung, maintaining a Zen demeanor, sports a stylishly layered haircut and a hoodie with a zipper in the back. Wahlforss is tall and rangy, more affable but also more demonstratively driven. Each punctuates the other's soliloquies with a patter of "yep," "that's right," and "exactly." They look like two guys whose late-night plans include practicing for a joint DJ set. Which is, in fact, the case.

They met in 2006 in the computer lab of the KTH Royal Institute of Technology in Stockholm. The first version of SoundCloud evolved directly out of their desire for a better music collaboration tool. Instead of a ho-hum progress bar, the player used a waveform visual to display a track's progress. A listener could leave comments at specific spots on that waveform.

They put a priority on ease of sharing—nothing that required a standalone player or even a visit to SoundCloud.com. At the time, Flickr was popular, YouTube was growing fast, Twitter was starting, and "the Web was sort of switching from becoming just big to becoming social," Ljung says. A photo, video, or status update functioned like "a social object, almost like a campfire that people gather around. For us the social object would be the piece of audio."



The duo moved to Berlin, where SoundCloud has since become a hometown hero of the local tech scene—a source, rather than an exploiter, of local creative-cool pride. Its 2008 public launch was conducted from a nightclub dance floor, and one of its early employees, David Noël, recalls a recruiting process involving lengthy discussions of social media in discos at 3 a.m.

Raising capital took a while. "It was less than 10 people in this rickety office doing this because it was fun to do," Noël says. "You know, we didn't have a strategy, we didn't have a team."

They did have an enthusiastic core of users and 2,000 unanswered customer service e-mails, which it was Noël's job to address as the first SoundCloud community manager. He was surprised to discover that even then users went well beyond electronic-dance types. SoundClouders, from musicians to people making recordings of whales, were sharing sounds with diverse microcommunities. The number of registered users passed 1 million by 2010 and rose to 5 million the following year. SoundCloud now has dozens of people working with its user community, nurturing the idea of the platform as a tool for amateurs and pros alike. To anybody familiar with YouTube comments, SoundCloud's are notably supportive and upbeat: Registered users have embraced the time-specific comment function, chiming in with a lot of "awesome!" and "love it!"

The Grammy-winning electronic artist Skrillex is a longtime and highly active user and says he sees SoundCloud as a vital way of reaching the audience he wants. "There are kids on SoundCloud who only hang out on SoundCloud," he says. Instead of worrying about whether people will buy his music, he'd rather "evolve with the world," make sure he's where his fans are, and figure out how to adjust. "I'm constantly discovering new music on SoundCloud," he adds. "I use it just like any normal kid."

Podcasters and media outlets pulled the company in new directions. An experimental sound effort called Disquiet Junto issued music-making challenges that have drawn hundreds of musicians. The Berlin Symphony Orchestra uploaded two dozen samples of Dvorak performances and held a remix contest. The White House set up an account, and so did the European Space Agency, which had a viral audio hit last year, weirdly racking up more than 5.8 million plays with a clip from the Rosetta comet probe.

Along the way, SoundCloud layered in standard social media features geared to nonmusicians, such as reposting, so a superfan can function like a curator. But ultimately it wasn't the company that made SoundCloud an online fixture. It was those users. Romiti is a good example: A social media savant, she had a huge following on Vine and used that to draw tens of thousands of fans onto SoundCloud. "That's the secret sauce of growth for us," Wahlforss says. "People who create something, they want to reach an audience with it, and so they will do everything they can to get out there and promote it. So the platform has been promoted by literally millions of creators."

By the end of 2013, SoundCloud had raised about $120 million in four rounds of financing, including investments from Union Square Ventures, Kleiner Perkins Caufield & Byers, and Institutional Venture Partners. The most recent round pegged its value at about $700 million. That same year, however, it lost $29 million, on revenue of about $14 million, according to numerous press reports in the U.K. The money it took in came from enhanced accounts for creators, with extras such as more storage space and more precise data about a track's performance, with listens broken down by city, for example. Not surprisingly, the company's focus has shifted to additional revenue sources such as advertising and, at some point, a paid listening tier.

The ad strategy includes commercials that crop up in a listener's stream and visual ads on the site or app. But because SoundCloud functions more like an anyone-can-contribute social network, it can offer unconventional options such as "custom sponsorships" and "native" ads that involve willing SoundClouders.

100m+
Total tracks and clips

Jaguar, for example, commissioned a track by London producer SizzleBird, which has since gotten 1.7 million plays. Mountain Dew ran a remix contest; Taco Bell commissioned SoundClouders Viceroy and Big Data to team up on a track. According to head of sales Dan Gerber, a Pandora veteran, this ability to associate with exclusive content that exists in a format built to spread easily across social media is what's really "resonated with brands." Other early advertisers include Starbucks, Scion, Squarespace, Axe, and Netflix's *Sense8*.

Key to this strategy is On SoundCloud, a program roughly comparable to YouTube's splitting ad revenue with its creator community. On a recent listen, Romiti's *PBB* was preceded by a brief spot for Jeep Renegade. "Every time you see or hear an ad," went the company's official pitch to users, "an artist gets paid."

In May, SoundCloud said it had "over 100" participants in the program, to whom it has paid about $2 million. The list of partners isn't public but includes labels, podcast networks, and entities such as Maker Studios that represent large numbers of individual creators, so it's hard to gauge what that number means on a per-artist basis. (Romiti didn't want to get too specific, but said that in her case it should soon add up to a down payment on a new car.) The goal is to open the program up to every SoundClouder who wants in. Gerber predicts "a big scaling year" for ad revenue in 2016.

A big part of that plan also involves getting the major labels on board, but that process hasn't been particularly harmonious.


Alissa Bourne
@alissabourne
user

The wildly hyped debut of Apple Music underscored a broader trend: In 2014 the number of digitally downloaded tracks in the U.S. fell for the second straight year; the number of active monthly Spotify users spiked. In May, Warner said quarterly revenue from streaming surpassed its download revenue. Music consumption is evidently moving away from owning (downloads or CDs) to streaming businesses supported by advertising, subscriptions, or both. SoundCloud argues that its approach to this shift is unique because it doesn't require the all-encompassing, full-catalog arrangement with the music industry that a Spotify or Apple prefers. Instead it's given Warner and a variety of smaller labels choice and control over which content to make available and how it can be monetized.

At first this sounds like such a sensible deal for the labels that it's hard to imagine why Sony and Universal Music haven't signed on, too. Stephen Bryan, a Warner veteran and SoundCloud's senior vice president for business development and strategy, says the industry is undergoing "a strategic

European Space Agency's comet recording has
5.8m
plays

"I just sat at my computer and cried all day. SoundCloud changed my life. And money is great"

rethink" as it researches and analyzes the rise of streaming. "Those kind of moments take time."

Or possibly never. Two weeks after Bryan offered his theory about the holdup, Sony announced it was yanking Adele, Kelly Clarkson, Hozier, Leon Bridges, and other major artists off SoundCloud. Neither side said much for the record about it. Nor did Warner or the third major, Universal. *Billboard* cited an unnamed Sony source complaining of "a lack of monetization opportunities"; SoundCloud's boilerplate response pointed to its ad revenue-sharing payouts.

This sour note matters, because a significant amount of the "grass-roots" material on SoundCloud is so-called derivative content: remixes, mashups, and sample-based music built from existing songs without permission. The company won't discuss how much of what SoundClouders upload makes unauthorized use of others' intellectual property, but it's not trivial. If SoundCloud can convince the labels it has a solution to that dilemma that will make money for everybody, it would be a breakthrough.

If it can't, this musical ecosystem will shrink, alienating a chunk of creators and their fans and undercutting SoundCloud's business plans. In addition to blocking users from uploading the latest Taylor Swift single or the Eagles catalog, SoundCloud honors legitimate takedown requests from rights holders whose material is used in unsanctioned mashups and the like, and does so despite some users' loud complaints. (Even some artists complain about the takedowns: Madeon, who records for a Sony label, took to Twitter to take a swipe at the music giant's "disconnected-from-reality strategy.") Still, given how it easy it remains to find supposedly verboten music on SoundCloud—remixes of Adele's *Rolling in the Deep*, for example—many rights holders don't seem to be as aggressive about such requests as they could be. The attitude, for the moment, seems to be: Let's see if SoundCloud can figure out how to make money—and give us our share.

A percentage of potential ad revenue may not cut it. Sony Music chairman and CEO Doug Morris argued in June that ad-supported streaming schemes are "not so good" for the bottom line, unless they lure listeners into signing up for subscription-style services. (Some artists have taken a similar line, noting that, for instance, royalties from streams on Spotify's free tier are set much lower than those on its $9.99-a-month plan.) And it's not just the big labels that are watching: The head of PRS for Music, a British copyright collective representing a slew of songwriters and publishers, recently complained that SoundCloud and YouTube unfairly exploit copyrighted material.

SoundCloud's premium-listening offering may help it clear all this up, but while the company had previously said that was coming in the first half of 2015, it remains a mystery. A leaked and unsigned SoundCloud licensing contract suggested it might include two additional tiers offering different levels of access to ad-free content. The company wouldn't comment on this. In early July, a spokesperson would confirm only that the offering "will be rolled out later this year."

Over the locavore dinner in Lower Manhattan, Ljung and Wahlforss don't seem worried about SoundCloud coming to terms with music industry rights holders. As the conversation stretches, Ljung seems increasingly more concerned about that DJ practice session he and Wahlforss had planned.

12
hours of audio uploaded every minute

While major-label music is important to SoundCloud, the founders say the audio-as-social-object idea is bigger than that. "The breadth of the content will be as broad as human creativity, basically," Ljung says. "So that's straightforward." Both talk about a billion-user future.

They also argue that it's specifically because they've designed their service from a creator's perspective that they will ultimately win over Big Music: They want to give rights holders, small and large, control over their work. (In June, SoundCloud struck a licensing agreement with an organization that represents 20,000 smaller labels, boosting the participation in On SoundCloud.) But, they add, they want to do so in a way that recognizes what music consumption has become and where it's headed. "Remix culture, derivative culture, is already, today, a huge part of society," Ljung says. And starting with On SoundCloud, their plan is to create a way to make money on such content that will be fair to everyone. "It's something that we're unlocking," Ljung says, declining to be more precise.

In their view, what's happening in the audio technology world goes well beyond a transition to streaming. "It's easier to create music, to collaborate on music, and to share it instantly across the world," Ljung says. "It's much easier now to create a new genre." Maybe that means music that gets big fast, fades fast—or morphs. A hit song will still matter, but perhaps less for its canonical self than for the versions and variants it spawns. Access to a catalog of past music or a momentous album-like release every year or two would become less important than a steady supply of material that keeps fans' attention.

Deep into the second decade of the digital music revolution, some of this may seem familiar. But even now, most modern listening options essentially replicate ideas—the record collection, the radio—that younger listeners don't relate to. Their reference point is the Web itself: open, participatory, nonstop, and ever-changing.

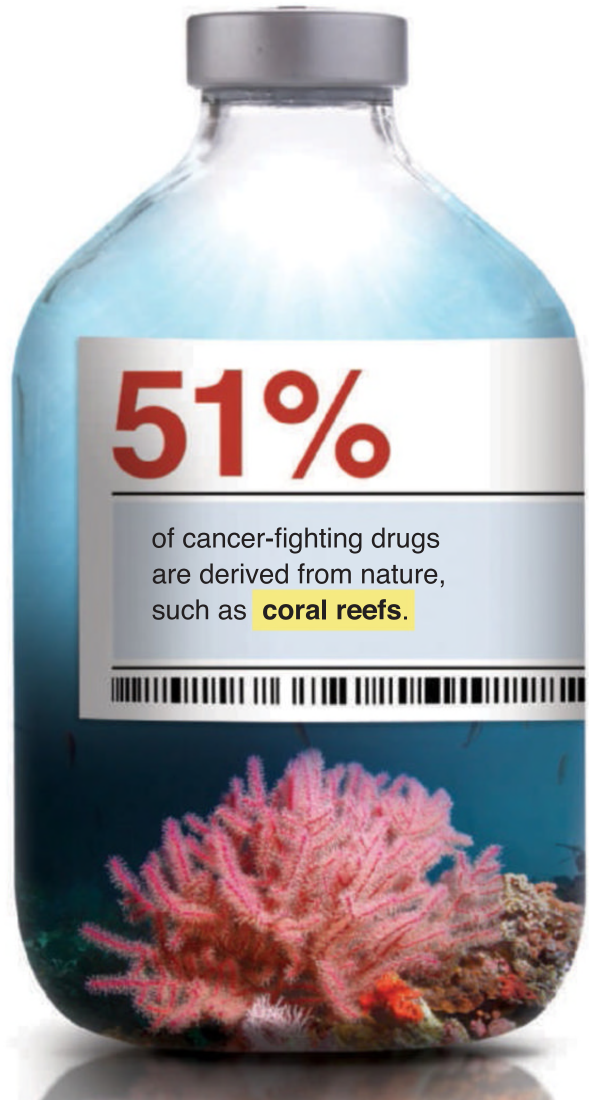
From the early days of SoundCloud, Wahlforss says, he and Ljung had a thesis about the implications of a new audio production cycle, the end of the old constraints around distribution, the democratization of music-making, and a revision of the fan-artist relationship. "We're the one platform that is really leading that shift," he says. The old model is "slowly dissolving," and he sees more evidence of the new every day. But, like many an aspiring creator who's certain that stardom is coming, Wahlforss punctuates this with one caveat: "It's taking longer than we maybe thought." B

—*With Adam Satariano*

The industry is undergoing "a strategic rethink" as it figures out streaming. "Those kind of moments take time"

SET DESIGN: DAVE BRYANT; STYLING: SHIBON KENNEDY; HAIR AND MAKEUP: SILVIA CINCOTTA

NATURE
SAVES LIVES



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Selfie Publishing

What a highly personalized, best-selling storybook means for the future of kids' entertainment. By Felix Gillette

Illustrations by Golden Cosmos

A few years ago, Asi Sharabi was thumbing through a children's book his 3-year-old daughter received as a gift, trying to assess whether it was worthy of her bedtime rotation. This particular story had a trick to it, something Sharabi had never seen before. Prior to printing, it was personalized to include his daughter's name on some pages. "I got the warm and fuzzy feeling of seeing my daughter's name," Sharabi says. "But it lasted exactly two seconds. The book was total garbage."

It was 2012, and Sharabi was running a small ad-consulting firm in London. Around the same time, he'd read *The Lean Startup* by the American entrepreneur Eric Ries, who advocates that new companies adhere to a strict methodology, emphasizing things such as data-driven experimentation and iterative product releases. As Sharabi pondered his daughter's book—powerful concept, shoddy execution—he thought Ries's ideas might apply. Sharabi did some online research and learned that personalized children's books had been around for decades, at least since the 1970s. But much of the technology, if you could even call it that, had remained static. The genre lacked any seminal texts. So he convened a small team of partners, consisting of writer David Cadji-Newby, illustrator Pedro Serapicos, and technologist Tal Oron. They set out to create a uniquely customizable—and, ideally, awe-inspiring—children's book.

The result, alternatively called *The Little Boy/Girl Who Lost His/Her Name*, is now selling like gangbusters internationally. The four partners have quit their jobs to work full time on Lost My Name, their company. In two years, the book, which costs about $30, has sold more than 600,000 copies. Last year, according to the company's sales figures, it was the top-selling picture book in the U.K. It's also popular in Australia and Canada and has sold almost 125,000 copies in the U.S. The marketing has largely been through word-of-mouth; sales got a boost in 2014, when the founders appeared on *Dragon's Den*, a top BBC tech program. Sharabi believes his title is on track to join the canon of children's classics, including *The Very Hungry Caterpillar* and *Where the Wild Things Are*, which remain popular year after year, particularly as gifts to new parents. "We're building it as an evergreen proposition," he says. "Every book-loving family will have this."

"This was about picking

Last year the children's and young-adult book and e-book market grew in the U.S. by 20.9 percent, topping $4.3 billion, according to the Association of American Publishers. The expanding market has attracted many entrants. Giants such as Walt Disney and independent publishers like Sourcebooks and KD Novelties are selling personalized children's books while also experimenting with personalized digital formats. Lost My Name is "facing a tremendous amount of competition," says Thad McIlroy, a book industry analyst who runs the Future of Publishing website.

What makes Lost My Name different is its "full stack" business model, like that of eyewear company Warby Parker, which aims to control every aspect of a buyer's experience. The product isn't available in bookstores or on Amazon.com. To buy a copy, you have to visit Lost My Name's website, which ships for free anywhere in the world.

Parents start by typing in the name and gender of their child. The site's code uses the letters of the child's name to determine which of about 300 set story elements—a pirate searching for lost treasure, say—to compile, along with connective transitions, into a narrative. The plot follows a small

The second book, coming this fall, will incorporate a child's home address and images from outer space

ILLUSTRATIONS BY GOLDEN COSMOS

child, suffering from an identity crisis of sorts, who proceeds on a journey of self-discovery. Along the way, she encounters a series of struggling creatures (aardvarks, mermaids, tarantulas, and so on), each of whom she helps. In return for her kindness, she receives a particular letter of the alphabet. By the end of the adventure, the child winds up in possession of her own name. “People send us videos of their kids getting to the last page and going completely bananas,” Sharabi says. “ ‘How did they do it, Mommy? How did they know my name?’ ” (It’s geared toward kids age 2 to 6.)

This being 2015, the four partners see traditional children’s books not only as entertainment but also as a narrative-delivery platform in need of disrupting. In June, Lost My Name closed on a $9 million round of Series A funding from a handful of well-known venture capital firms in the U.S.—where Lost My Name would like to increase sales—including Google Ventures, Greycroft Partners, the Chernin Group, and Allen & Co.

The backers believe Lost My Name can turn personalized mass media into the next thing in children’s entertainment. Dana Settle, co-founder of Greycroft Partners, says she frequently hears uninspiring funding pitches from media startups run by talented technologists who treat content like a common, easily sourced commodity or from gifted creative types with little appreciation for the technical and marketing challenges of the modern entertainment business. What made Lost My Name appealing, she says, is that its founders are simultaneously coming at it from the technical, creative, and business sides. “This is exactly the way to build a modern-day publishing platform,” Settle says.

up the best partners who can help us make this company as big as Pixar”

SHARABI AND BOOKS: COURTESY LOST MY NAME

Before skeptics can cough-cough-shout “tech bubble,” Sharabi, 41, points out that, unlike many of the world’s hot startups, Lost My Name is profitable. “We have zero inventory,” he says. “We get paid for every book before we make it.” The company has millions in the bank. “We didn’t need to raise money,” Sharabi adds. “This was about picking up the best partners who can help us make this company as big as Pixar.”

The founders describe the company, somewhat predictably, as “platform agnostic.” Moving forward, they plan to expand from books into personalized animated movies. The technology to create and deliver a customized video, Sharabi concedes, is more challenging than that for print. How it will work remains unclear, though the company has created several prototypes.

Sharabi, who grew up in Rehovot, Israel, is adjusting to his nascent role as a startup visionary. He first moved to England 15 years ago to study at the London School of Economics and Political Science, where he earned a Ph.D. Eventually, he soured on academia and turned to advertising. Now he spends much of his time thinking about how to shape Lost My Name’s corporate culture. The company prides itself on being nonhierarchical, parent-friendly, and driven by engineering. “We are a technology company that happens to sell physical books,” Sharabi says. “I credit some of our success to the fact that none of us came from publishing backgrounds.”

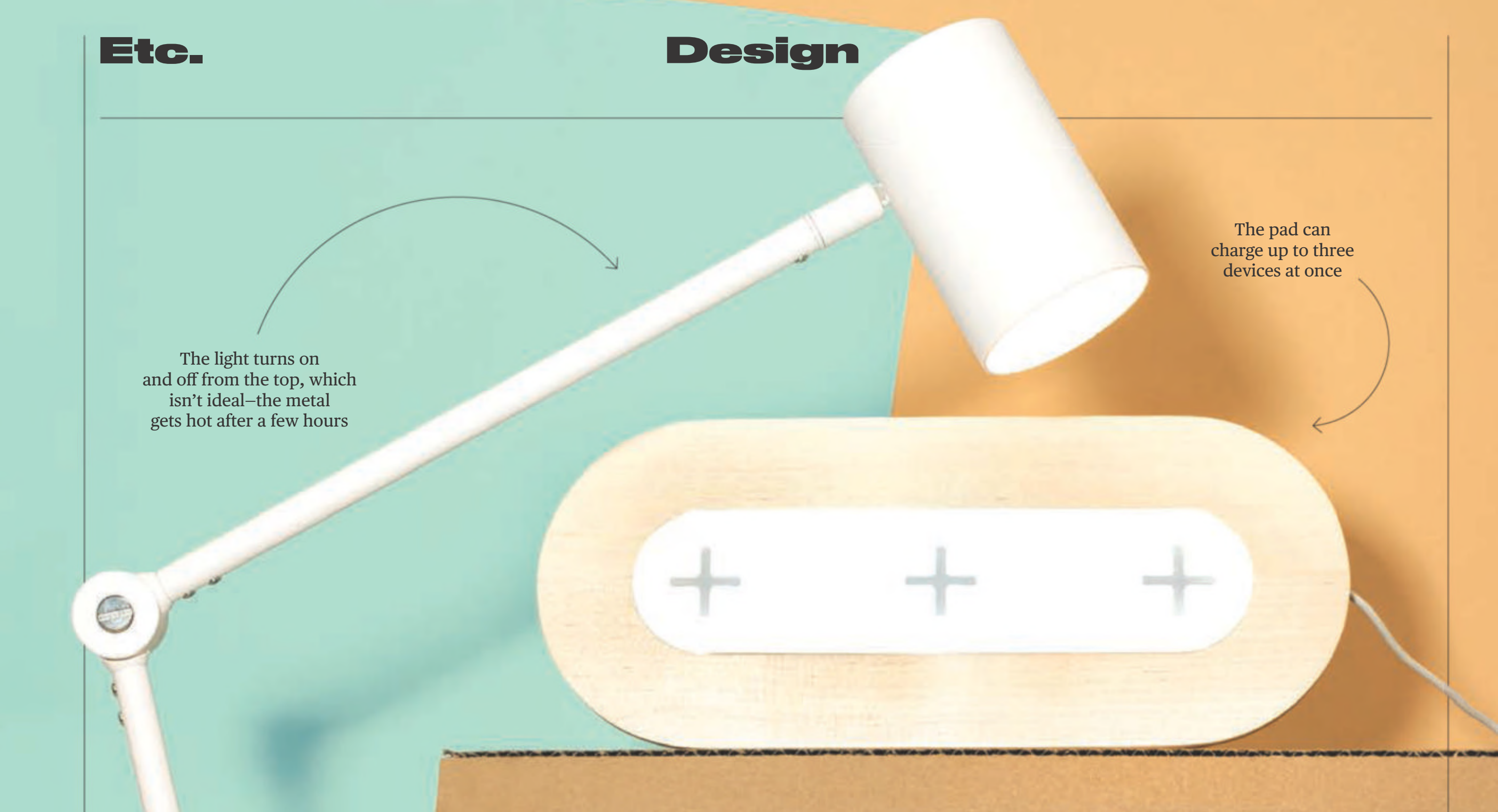
Even so, says McIlroy, the industry analyst, the direct-to-consumer business model is likely to hamper the company’s quest for growth. A recent study by Nielsen found that 71 percent of all purchases of children’s books are driven by in-store displays. “You look at surveys of why kids’ books are purchased, and you see that a lot of it depends on retail exposure,” he says.

Avoiding traditional retailers, Lost My Name is already building strong ties to its customers. There are 400,000 or so; many are repeat buyers, and lots of them have been pestering Lost My Name to sell them new products.

In an age of rampant social media and worries about children’s screen time, it’s easy to balk at the prospect of even more self-referential kids’ media. The company is aware of this problem. It’s vigilant against turning personalization into another form of self-infatuation, Sharabi says. “We don’t want to create narcissistic entertainment for the selfie generation.”

This fall, Lost My Name plans to publish its second personalized book. To create it, customers will enter into the website a child’s address—there are no plans to sell this information—and the company will build a book that begins in outer space and ends at the kid’s doorstep. Along the way, the story will incorporate unique spatial elements from various data sources, including real NASA images. It will be more technically complex than the first book, which was done on a shoestring budget by a bunch of sleep-deprived fathers with full-time jobs.

Many of the 40 employees at the company’s new headquarters in London are working on the release. Seventeen are programmers. “We like the idea of quiet technology,” Sharabi says. “There’s tons of complexity behind a product that ultimately facilitates a very quiet, old-fashioned bonding moment.” Most parents don’t understand how many thousands of lines of code are behind every personalized book the company produces, he says. Nor do they care. Ⓑ



UNPLUG YOUR PHONE

Testing Ikea's battery-charging décor
By Joshua Petri

For being wireless, our phones spend a lot of time attached to wires. And while cordless charging exists—you can get unbranded pads for $6.99 or pay $33,000 for a Cadillac with the tech—it hasn't gone mainstream. Now Ikea, the Swedish furniture giant, wants to make wireless juicing "more accessible, yet less obvious," says Holly Harraway, an Ikea spokeswoman.

To use the products in the line, including the minimalist Riggad lamp ($79.99), Nordmärke charging pad ($64.99), and others, you simply drop your device on the item's garish plus sign. The energy transfers using a system called Qi, prebuilt into the Samsung Galaxy and LG Nexus, though notably lacking from the iPhone. To pair that, you'll need Ikea's Vitahult case ($25), which feels as if it's made of the company's standard cheap plastic.

The charging works, though imperfectly. One issue is that it stalls the moment you pick up your device—at least you can check e-mail while your phone's tethered to a cord. Wireless physics also generate heat that can damage hardware. But the real problem isn't the way you charge your phone; it's how much you have to charge it. Batteries in mobile devices are "5 to 10 years behind the other components," says William Stofega, an analyst at International Data. Manufacturers get away with subpar capacity by packing large batteries into ever-larger devices, but this approach can't go on forever. Ikea seems to know its solution is temporary, too: There's a USB port on each "wireless" item, just in case you miss all those wires. Ⓑ

If Ikea's not your aesthetic, the company also makes pads you can discreetly drill into your own stuff

PHOTOGRAPH BY BREA SOUDERS FOR BLOOMBERG BUSINESSWEEK

THE FUTURE IS BOSSLESS

Skeptical professionals adopt a guru's convoluted management system

By Rebecca Greenfield

For the last year and a half, Zappos has been experimenting with Holacracy, an avant-garde management strategy that eliminates bosses and hierarchy. By all accounts, the transition has been rocky. Not everyone at the Amazon.com-owned shoe retailer shares Chief Executive Officer Tony Hsieh's enthusiasm for giving up hard-earned positions on the corporate ladder. Many employees left, urged along by the three months' severance pay available to anyone who didn't want to join up. (Fourteen percent of the Zappos workforce took the deal.) In late June, Hsieh extended a more attractive buyout to a smaller cohort. They have until the end of the year to decide.

Holacracy replaces the traditional top-down structure with an alternative org chart of circles within circles. Employees no longer take job titles; they inhabit roles that create autonomy. It's not anarchy: A series of highly structured "governance" and "tactical" meetings help define who does what. More than 300 organizations have dabbled in Holacracy over the past decade, including the Washington state government and David Allen Co., a productivity company owned by its namesake expert. In early June, Brian Robertson, the guru behind Holacracy, released a hardcover book heralding it as "the new management system for a rapidly changing world."

"Holacracy is like a sport or a new language," says Jake McCrea, who trains new employees at Zappos, the largest business to embrace the philosophy. "You can read about it, you can hear people tell you about it. You won't understand it until you start using it." A full transition can take a company years. HolacracyOne, a group run by Robertson, offers private sessions, starting at $50,000, in which a consultant leads a launch week, mixing lectures and workshops for your entire staff.

Medium, an online-publishing startup led by Twitter co-founder Evan Williams, relied heavily on HolacracyOne in 2012. Even so, the company has struggled with introducing new employees to the complex system. At one point, each rookie had to spend an hour with Jason Stirman, Medium's in-house Holacracy guide, to learn how to work autonomously.

STAFF SPENT AN HOUR LEARNING HOW TO WORK AUTONOMOUSLY

In June, after Zappos realized its new hires were perplexed, the company added a three-day Holacracy session to its orientation, already a time-consuming affair. (Nine years ago, the company designed a two-week indoctrination into its "fun" culture; that's since grown to four weeks.) Anyone who shows up late for the daily 7 a.m. start is fired on the spot. New hires take a final exam—and must score 90 percent, or they're let go.

Holacracy first comes up in a three-hour lecture, though that will certainly not be the first time a new hire will have heard the H word. Relevant terms—"tension," "circle," and so on—are mentioned as early as the first interview. Hayden Balow learned about the system while applying for his role in human resources. "I heard mixed reactions," he says. People often come in with misconceptions that cause confusion, adds McCrea, the trainer.

His class highlights Holacracy's benefits—less emphasis on authority and a focus on giving everyone the power to make changes. "Our unique way of doing things will empower you in ways you've never dreamed possible," reads a handout. Doubters can leave the company, though the point of extra sessions is to reduce shrinkage. "I've worked enough jobs where it was the corporate structure—you follow this person's ideas and goals. I hated that," says DeVonTae Browne, a Zappos customer-service employee. "I'm pretty much buying whatever someone is selling, as far as Holacracy goes."

Tactical meetings, Holacracy's version of the weekly team gathering we all hate, tend to win over employees with their brevity—they move impressively fast. But that doesn't mean learning how to run them is an efficient process: Over the course of Zappos training, each person has to practice acting as a meeting facilitator two or three times. For June's class of 67 new employees, that added up to about 200 extra meetings.

So Holacracy's boss-free world sounds great, until you've got to spend the weeks learning how to do it properly. "I'm curious to see how it all works in practice," says Balow, the new HR employee, before adding politely: "It does seem a little bit long." Ⓑ

ALAMY (2), ISTOCK (10), GETTY IMAGES (1)

RIDE TO THE OFFICE. REALLY

Bike shares have made cities, car drivers, and corporate culture friendlier for urban cyclists. Here's how to graduate into your own gear. By Maura Kutner Walters

1

Get double storage with **Wald's twin basket,** which straddles the back wheel *($45.60; amazon.com)*

Lights are a must: **Knog's blinder** has four LEDs, visible from 2,600 feet *($44; papillionaire.com)*

Don't Sweat Through Your Suit

"I wear my **Nike Dri Fit T-shirt** *($22; nike.com)*. And always a **Musette army-style messenger bag** *($16; unclesams.com)*. It's extremely light, so your back won't get sweaty. **Norse Project chinos** *($165; needsupply.com)* hold up better than suit pants: The bike's seat wears away at wool trousers. I leave my blazers at the office and change in our building's gym. A bathroom works, too."

Evan Campisi, art director

2

3

TWO WHEELS, SIX WAYS

Coming from the city? The suburbs? Somewhere farther? The best options for any commute.

For Busy Streets

1. Fairdale Daybird
$590; kingkog.com

This classic commuter relies on age-old steel construction inspired by a 50-year-old Schwinn. Creator Taj Mihelich—a former BMX champion—discovered the bike in the trash, and it rode as good as new. Responsive gear-shifting components and ultra-sturdy brakes keep you safe in heavy traffic. It's made for all genders, though the step-through frame helps women in skirts or dresses dismount discreetly.

For Miles and Miles

2. Cannondale Synapse Hi-Mod Ultegra Disc
$5,420; cannondale.com

An endurance-oriented road bike that's built out of incredibly light carbon—it weighs only 17 pounds. Micro-suspension technology reduces road shock by pairing precise tube shapes with sophisticated joints. Vibration-absorbing material near the seat and the rear chainstays remains rigid to help support you. Test it on a state-to-state route.

For Rough Terrain

3. All-City Macho Man
$1,599; allcitycycles.com

Developed for Cyclocross, a hybrid between mountain biking and road cycling, this one works well on dirt paths and back roads. Don't let that stop you from riding it in the city: A steel frame offers a smoother ride than standard aluminum; disc brakes stop the wheels on a dime in wet conditions; and the large tires and fenders reduce the impact of potholes and speed bumps.

For the Hesitant

4. Brilliant Bicycle Mayfair
$299; brilliant.co

Brilliant, a Los Angeles-based upstart, mails a box of parts with three different-size wrenches, so you can build the whole thing using easy online tutorials. (It takes an hour, and a Web chat is available if you get tripped up.) This makes it cheaper, of course. The two smart styles—a classic, seen here, and a step-through—come in punchy colors like tangerine, mint, and neon blue.

For World Travel

5. Dahon Speed D8
$749; dahon.com

Thirty years ago, foldable-bike pioneer Dahon patented a single-hinge system that makes it easy to store and tote your cycle to work—even if you want to stuff it in your carry-on for a business trip. Folding competitors have entered the fray, but Dahon is still tops. Eight speeds accommodate flat roads and bumpy slopes. The racks, lighting, seats, and fenders can all be customized.

For Pro Snobs

6. Kinfolk Custom Track Frame *From $8,000; kinfolklife.com*

These rare, beautiful rigs are made-to-order by hand in Japan by 73-year-old master builder Shuichi Kusaka, who's dedicated his life to the craft. There's a massive spectrum of customizations, all made to your precise body measurements. Unlike other bespoke bikes, Kinfolk's can be built in a variety of styles, including commuter, mountain, and city cruiser.

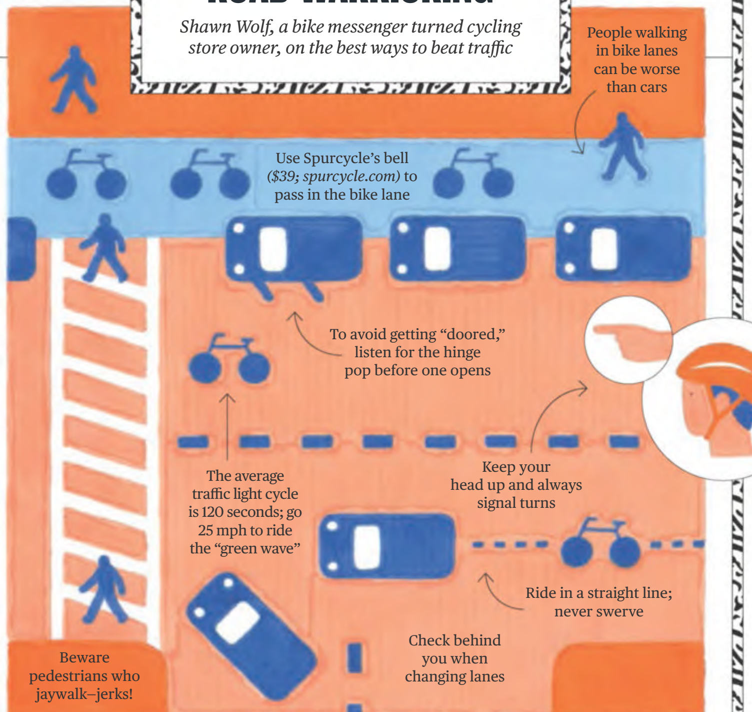
PHOTOGRAPHS BY KATHY LO FOR BLOOMBERG BUSINESSWEEK. ILLUSTRATIONS BY HISASHI OKAWA

HOW TO NOT GET JACKED

Start by buying a **Kryptonite U Lock** *($70.95; rei.com)*, the strongest one out there, with a vinyl coating that prevents saws from cutting it. It should go through a wheel, securing the bike to a metal rail. The less space between bike and lock, the less room there is for a crowbar to pry it apart. In the event you do get robbed, you should have a record that includes a serial number and proof of purchase. Even if you buy a used bike, get a receipt. Police will ask for evidence of ownership before investigating.

ROAD-WARRIORING

Shawn Wolf, a bike messenger turned cycling store owner, on the best ways to beat traffic



ISN'T A BIKE-SHARE GOOD ENOUGH?

About 100,000 people have bought an annual pass for New York's Citi Bike since 2013. It was dead simple: You paid $95 to get an unlimited number of 45-minute rides. Late last year, the price jumped to $149—not absurd, but enough to have some riders thinking it's time to get a real bike. Early this month, I spent a week testing **Papillionaire's Classic** *($699; papillionaire.com)*, a middle-range cruiser with eight gears and really touchy brakes. It put the loaner to shame: It's almost half the weight and much better for climbing hills and bridges. Unlike Citi Bike's Monster Truck tires, the treads felt smooth. It's also not as low-slung, so you ride more comfortably. Of course, you'll need a place to leave it near the office. But for anyone who's ridden in circles trying to find an open Citi Bike dock during rush hour, that's a minor pain worth figuring out. —*Kurt Soller*

"I ride in **Levi's Commuter skinny jeans** *($88; levis.com)*, made of durable denim. **Rapha's merino wool shirts** *($85; rapha.cc)* are paper-thin, wick sweat, and resist odor. There's a **Hold Fast strap** *($56.95; statebicycle.com)* on one pedal, so I can bike in platforms. I carry my stuff in a **Phillip Lim 3.1 hour backpack** *($1,095; saks.com)*, and I tie a cotton scarf to it to blot my forehead. **Oscar Blandi dry shampoo** *($23; nordstrom.com)* fixes most helmet-head disasters."

Anna Maria Diaz-Balart, fashion stylist and bike blogger, prettydamnedfast.com

4

The **Bookman cup holder** firmly grips your bike frame with springy steel, so your morning coffee won't spill *($35; bookman.se)*

A **Lazer light wood helmet** is stylish, with vents to help ward off hat hair *($49.97; campmor.com)*

5

6

AREN'T BANKERS THE WORST?

The tired stereotypes of a finance memoirist
By Matt Levine

John LeFevre never worked at Goldman Sachs. It says so on the carefully argued jacket flap of his memoir, *Straight to Hell: True Tales of Deviance, Debauchery, and Billion-Dollar Deals*. He almost worked at Goldman but was derailed by a "contractual issue." Yet he had the bright idea of using the Twitter handle @GSElevator to broadcast comments supposedly overheard in the bank's elevators. Most were snobby, racist, sexist, or otherwise unpleasant: "If my wife offers me a blow job, I know it's time to check my Amex statement," or "Hermès ties are like Air Jordans for white people." Cool, cool.

I used to work at Goldman. I never heard anything like this in the elevators. My colleagues were nice people, but also, an elevator is a dumb place to say vile things. These comments came from LeFevre or fans who submitted them; *Gawker* reported last year that some of the jokes suspiciously resembled ones from another comedic Twitter feed. Whatever their source, the tweets became wildly popular, and it's obvious why: Since the financial crisis, people have been searching investment banks, and especially Goldman, for villains. LeFevre and his elevator made great villains.

Now there's a book. It's not as relentlessly villainous as @GSElevator, though each chapter starts with a selection of tweets to remind the reader of its provenance. Mostly, it's a memoir of LeFevre's seven years at Citigroup in New York, London, and Hong Kong. It owes a lot to *Liar's Poker*, the Michael Lewis classic that spawned so many Wall Street careers and memoirs. LeFevre himself confesses that he wanted to work on Wall Street after reading *Liar's Poker* in boarding school (Choate), and he proudly went to work for Lewis's old firm, Salomon Brothers. By the time LeFevre got there in 2001 it was called Citigroup, but that doesn't stop him from referring to it as Salomon. There's a carefully argued footnote about that, too.

LeFevre alternates stories about the bond markets with self-contained vignettes of trader deviance. The writing is strenuously bro-y, and there's a certain amount of jargon ("jumbo US$ benchmark") and vacant corporate-speak ("proactively throw my competitors under the bus"). Still, he is a considerably more engaging memoirist than he is a pseudonymous embodiment of banker evil.

The bond market stories are pretty good. LeFevre was "one of the most prolific syndicate managers in Asia," the book says. He worked on the bond-syndicate desk, the part of the bank that coordinates deals between corporate issuers and investors who lend money. The desks in Asia are where banks cooperate with and undermine their competitors on joint deals and adjust their ethics to foreign-market demands. These issues are the parts of Wall Street culture that affect clients and the economy, and LeFevre's stories are eye-opening. Also I'm pretty sure he confesses to several felonies, and there's a price-fixing conference in a Hong Kong hotel room that I hope he ran by his lawyer.

But you don't want to read about bond deals. You want drugs and hookers. LeFevre delivers them with overwhelming force. He and his buddies are drunk seemingly every night and most afternoons. They blow a year's bonus on a week in Saint Tropez. They make PowerPoint presentations to rank the hotness of their female colleagues. They have hotel staff kick prostitutes—sorry, "love monkeys"—out of bed for them. They scream at maids for throwing out cocaine. Genitals touch things genitals shouldn't touch. LeFevre pays a hooker in hotel minibar bottles, crashes a Maserati, and poops on a small plane. It gets a little tedious.

In his book and on Twitter, LeFevre paints this experience as representative of a broader culture. He's not the racist misogynist; he's just writing down what he heard. "These are a few of my stories," he says at the end of his book. "All bankers have stories just like them." I don't! Good Lord.

But the ones who do are the loudest, and they replicate themselves. LeFevre feeds the public's hunger for proof that Wall Street is full of degenerate sociopaths, while also glamorizing that degeneracy. Those inclined to hate bankers will have their suspicions confirmed. Those inclined to whoring and cocaine will see a career opportunity. The rest of us—including many bankers—might worry that the worst bits of Wall Street's culture are being passed down to the next generation. Teenage boys at Choate will want to be investment bankers after reading *Straight to Hell*. Which is probably the point. B

ILLUSTRATION BY DAN STAFFORD

MICHAEL CHERNOW

34, owner, Seamore's; co-founder, the Meatball Shop, New York

Tell me about your restaurants.
Seamore's is a new, fun, accessibly priced seafood restaurant. The Meatball Shop is a place to come and enjoy meatballs any way you can imagine.

How did you choose your shirt?
It fits perfectly. I have broad shoulders and a small waist, so shirts are tough.

Why those pants?
I've had them for seven years, and they're still humming. Mickey Drexler, chief executive officer of J.Crew, is a buddy.

What's your role?
For Seamore's, basically everything. For the Meatball Shops—there are six—I design the restaurants, do real estate and branding, and smile a lot. It's my job to make people excited to be there.

And the watch?
When we opened our fifth Meatball Shop, I treated myself to it. It's a 1980 Rolex GMT, the year I was born.

Do you have a uniform?
T-shirts, jeans, and boots, and sometimes a button-up. I ride a motorcycle, so I always have a jacket with me.

Why so casual?
Our concept screams comfort, and it's just the person I am.

Those boots look old.
They're from the '60s. I got them at a flea market. I hope they last forever, because I wear them four days a week.

How often do you get tattoos?
When there's an occasion in my life, a turning point, or a white-light experience, I'll put it on my body to commemorate it.

Do you work out?
Every day I have a calisthenics routine I do in the morning: 150 pushups and 450 crunches. Three days I weight lift with a trainer at 9 a.m., and another three I do Muay Thai in the evening. On weekends I run upstate. It's a lot, but it keeps me sane.

PHOTOGRAPH BY CHRISTOPHER LEAMAN FOR BLOOMBERG BUSINESSWEEK

Interview by Arianne Cohen

How Did I Get Here?

DEBORAH LLOYD

Chief creative officer, Kate Spade

"My first job, at 16, was selling jeans at Jean Genie. I was terrible—if I didn't have a customer's size, I'd hide in the back."

First day of high school, 1978

Education

Coombe Dean School, Plymouth, England, class of 1982

Ravensbourne College of Design and Communication, London, class of 1986

Royal College of Art, London, class of 1988

Won "best student"

"I worked out how to win competitions. There was a running joke among tutors that I made more money than they did. I won a Karl Lagerfeld Scholarship to go to RCA."

On a trip to Amsterdam while studying at the Royal College of Art, 1987

Work Experience

1988–90
First assistant, Byblos

"I arrived in Milan and walked into the menswear show, and they'd completely lifted my entire college collection—there it was on the catwalk. Note to self: Read the small print."

1990–94
Head of design studio, Daniel Hechter

"I moved to Paris. I had strategically decided to be a menswear designer, because there were so few and I could stand out. Then Daniel gave me the womenswear studio."

In Paris, 1991

1994–96
Responsable du style, Kenzo Jungle, Kenzo

With Penelope Pitstop, her vintage Jaguar, in the 2000s

1996–97
Head of women's design, Aquascutum London

1997–2001
Vice president for women's design, Burberry

"It was a dusty English brand. When Rose Marie Bravo started as chief executive officer, I showed her a collection of 12 pieces I'd done, and she said, 'You're the first person I've met who knows what they're doing.'"

2001–07
Executive vice president for product development and design, Banana Republic

"America came calling. I learned the people piece—how to lead and inspire a big team."

2007–Present
Chief creative officer, Kate Spade

"I oversee design, store design, and creative marketing. We've grown into a lifestyle brand, and I've done it my way."

The company says net sales will be up 10 percent this year, to $1.2 billion

With Kate Spade CEO Craig Leavitt, 2014

With stylist Brad Goreski and Anna Kendrick at a fashion show, 2014

Life Lessons

1. "You have to trust yourself as the guardian of a brand to have the right instinct." **2.** "In the age of e-mail and texts, a handwritten note always stands out." **3.** "The hat doesn't always fit, and you must recognize it and move on."

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