

THE WALL STREET JOURNAL

What's News

Business & Finance

Toys "R" Us, hobbled by the debt heaped on it when the retailer was taken private, was left without a fighting chance as it struggled against competitors. **A1**

◆ **Guggenheim's CEO** is considering ceding the post as the investment firm contends with internal unrest and scrutiny from regulators. **B1**

◆ **A slump in bond prices** reflects investors' unease as markets brace for the Fed to start unwinding its easy-money policies. **B1**

◆ **Stocks set records** in quiet trading ahead of Wednesday's Fed statement. The Dow rose 39.45 points to 22370.80. **B16**

◆ **Harvard's endowment** delivered an 8.1% return in fiscal 2017, trailing results from other universities. **B1**

◆ **Annual premiums** for employer health plans rose 3% this year to nearly \$19,000 as the share of firms insuring workers edged down. **B3**

◆ **Walgreens received** FTC approval to acquire nearly 2,000 drugstores from Rite Aid after more stores were dropped from the deal. **B3**

◆ **Activist investors** threatened to vote against the proposed merger between Clariant and Huntsman. **B15**

◆ **Housing starts** slipped in August on steep declines in multifamily building. **A2**

◆ **Ford said** it will temporarily idle production lines at five North American plants to whittle unsold inventory. **B8**

◆ **Hedge-fund manager** David Stemerma is shutting his firm to run for governor of Connecticut. **B1**

World-Wide

◆ **Trump threatened** to destroy North Korea if the U.S. has to defend itself or its allies against the Pyongyang regime and excoriated Iran in his first U.N. address. **A1**

◆ **Central Mexico** was hit by an earthquake that collapsed buildings in Mexico City and killed at least 149 people, all that was expected to rise. **B8**

◆ **Hurricane Maria** battered the eastern Caribbean islands of Guadeloupe and Dominica as headed for Puerto Rico. **B3**

◆ **The latest GOP push** to repeal the ACA gained momentum, but key senators wavered in their support. **A4**

◆ **Senate Republicans** reached a budget deal that would allow tax cuts over the next decade. **A4**

◆ **Mueller's office** has interviewed Deputy Attorney General Rosenstein about Trump's firing of Comey. **A4**

◆ **Trump is using** campaign funds to help pay his attorneys in the Russian election probe. **A4**

◆ **Suu Kyi defended** Myanmar's treatment of Rohingya Muslims and said government would investigate all alleged abuses. **A9**

◆ **Russia's war games** with Belarus have exposed a rift between Moscow and its closest military ally. **A9**

◆ **A senator is pressing** for public disclosure of hospital inspections amid complaints over safety standards. **A2**

◆ **A group of states** has stepped up a probe of the opioid painkiller industry. **B6**

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Trump Takes Aim at North Korea

By ELI STOKOLS AND FARNAZ FASSIHI

UNITED NATIONS—President Donald Trump threatened to annihilate North Korea if the U.S. has to defend itself or its allies against the Pyongyang regime, delivering the dire warning Tuesday during his first address to the United Nations General Assembly.

Mr. Trump began his speech by espousing a form of international cooperation based on the nationalism that propelled his 2016 presidential campaign before using unusually blunt language for a U.N. address to

'The United States has great strength and patience, but if it is forced to defend itself or its allies, we will have no choice but to totally destroy North Korea.'

President Donald Trump

weigh in on some of the world's most intractable problems—first among them North Korea.

"No nation on Earth has an interest in seeing this band of criminals arm itself with nuclear weapons and missiles," the president said, adding that denuclearization is the "only acceptable future" for Kim Jong Un's regime.

"Rocket Man" is on a suicide mission, not only for himself but for his regime," he said, using a nickname for Mr. Kim he first applied in a Twitter message over the weekend.

The GOP president also excoriated Iran, calling it an authoritarian regime and denouncing the 2015 nuclear disarmament agreement be-

tween Iran and six world powers, including the U.S.

That deal, negotiated by Mr. Trump's Democratic predecessor, Barack Obama, was "one of the worst and most one-sided transactions the United States has ever entered into," he said. "Frankly, that deal is an embarrassment to the United States and I don't think you've heard

the last of it, believe me."

As his speech went on, the president ratcheted up his rhetoric and left behind the more-unifying tone of his opening remarks, promising to crush "the loser terrorists" and asserting that some parts of the world "are going to hell."

Mr. Trump's speech drew a mixed reaction from delegates. He received applause early in his speech for defining his "America first" outlook as a way for independent, sovereign

Please see TRUMP page A10
◆ Gerald F. Seib: Trump signals U.S. return to realpolitik... A10

Powerful Earthquake Shakes Central Mexico, Killing Scores



SEARCH FOR SURVIVORS: Rescuers display a sign asking for silence as they try to locate possible victims under the rubble of a building in Mexico City on Tuesday. The dead included at least 20 children at a school that collapsed. **A8.** Go to [WSJ.com](#) for the latest news.

Mountain Of Debt Felled Toys 'R' Us

By MIRIAM GOTTFRIED AND LILLIAN RIZZO

Competition may have brought down Toys "R" Us Inc. But the debt that three Wall Street firms heaped on the company when they took it private—and the way the ownership group was constructed—left the retailer without a fighting chance.

When a consortium comprised of Vornado Realty Trust and private-equity firms KKR & Co. and Bain Capital bought the toy retailer for \$6.6 billion in 2005, it was already struggling against competition from discounters including Wal-Mart Stores Inc. and Target Corp., and the threat of online competition from the rapidly growing Amazon.com Inc. loomed. Still, Toys "R" Us had valuable real estate and the investors planned to boost the company's sales and financial performance, banking in part on the strength of its name.

A dozen years later, Toys "R" Us has filed for bankruptcy protection, seeking relief from creditors in a Virginia court late Monday in a move that will all but wipe out the owners' \$1.4 billion of equity. The company has \$5.3 billion in debt, unchanged from when it went private.

Vornado has marked down the value of its stake in Toys "R" Us to zero, according to the real estate firm's annual securities filing. KKR and Bain have similarly marked down their investments, according to people familiar with the matter. The owners didn't pay themselves any dividends and though they have been drawing advisory fees, the amounts represent a small fraction of their overall losses.

As in virtually all private-equity deals, the amounts represent a small fraction of their overall losses.

Please see TOYS page A6
◆ Toy manufacturers make do in wake of Toys 'R' Us filing.... B2

Industrial Espionage Cases Soar In U.S.

By PETER LOFTUS

Samuel Straface thought he was the last one out the door one recent evening at the medical-technology startup he leads in suburban Boston.

But as he passed a glass-walled conference room on the second floor, Dr. Straface says he saw a man he didn't recognize, sitting by himself in front of two open laptops and a tablet device. He continued walking a few steps toward the exit, but then, feeling uneasy, he turned back.

The man was later identified as Dong Liu, a dual citizen of China and Canada. And his after-hours computing at Medrobotics Corp. is at the center of an economic-espionage case brought by U.S. prosecutors.

Mr. Liu is in federal custody, charged with attempting to steal trade secrets and trying to gain unauthorized access to the company's computer system, prosecutors said. If convicted of both charges, he could face a maximum sentence of 15 years in prison.

"Mr. Liu adamantly asserts his innocence and we fully expect he'll be exonerated after a careful review of the evidence," said Robert Goldstein, Mr. Liu's defense attorney. The U.S. attorney's office for the District of Massachusetts declined to comment on the case beyond details in court records.

Just before his arrest, police said Mr. Liu told them he was there to discuss doing business with the company—but Dr. Straface says no one had scheduled a meeting with Mr. Liu.

The case against Mr. Liu is part of a boom in federal prosecutions alleging theft or attempted theft of trade secrets from U.S. companies or firms with American operations. Many of the cases involve a

ANTIFA VIOLENCE SPLITS THE LEFT

Liberals' bind: whether to denounce radicals whose aims they often share

By Ian Lovett, Jennifer Levitz and Cameron McWhirter

BERKELEY, Calif.—Thousands of protesters converged on Martin Luther King Jr. Civic Center Park one Sunday late last month to confront far-right activists.

Among them were dozens dressed in black with faces masked.

Organizers on bullhorns called for the crowd to be "defensive," but matters didn't stay nonviolent for long. Using clubs and wooden shields emblazoned with "no hate," groups of around half a dozen of the masked protesters beat and chased some of the small number of far-right activists who showed up at the "No to Marxism" rally, even though it had been canceled.

Protesters labeled antifa, for "antifascist," such protesters are part of a loose affiliation of far-left groups and individuals who unite around a willingness to confront, sometimes

violently, anyone they perceive to be an agent of racism, anti-Semitism or fascism—whether white nationalists, far-right extremists, or in some cases members of the media or the police they claim protect those groups. At times, antifa activists have been credited with defending peaceful protesters; they have also been criticized as instigators.

Last month, demonstrators wearing black and promising violence in self-defense showed up at major rallies in Charlottesville, Va., Boston and Berkeley and at President Donald Trump's Phoenix campaign rally. Berkeley is bracing for more clashes starting this weekend, when conservative activists have said they are planning a series of "free speech week" events.

The antifa tactics are testing the liberal

Please see ANTIFA page A12

Obviously, the Key to Culling Pigeons Is a €12,000 Birdhouse

Lisbon's new plan involves spoiling birds with gourmet food, snatching their eggs

By PATRICIA KOWSMANN

The pigeon, a ubiquitous and irritatingly whose garbanzo-sized brain make it a byword for stupidity, finally has something worth bragging about.

In Lisbon, the city of €12,000, the city of Lisbon has restored a towering birdhouse replete with fresh water and gourmet bird food and a wood-paneled interior designed, city officials say, to promote pigeon wellness.

The two-story room, known as a "co-receptive pigeon house," is part of a growing European effort to control pigeon populations by means that are gentler than gassing them to death or feeding them to crows at the zoo.

The scheme involves plying the birds with ground corn until they settle in luxuriant nests. When the unsuspecting birds lay eggs there, caretakers sneak in when they're not looking to replace them with fake ones.

To ensure mother pigeons don't get suspicious, at least one real egg is left in place.

Since the birdhouse opened, however, its mission has crept beyond mere population control. Caretakers have equipped the facility, which costs €250 per month to maintain, with a pigeon first-aid station, and there's talk of offering services such as deworming and, paradoxically, a nursery.

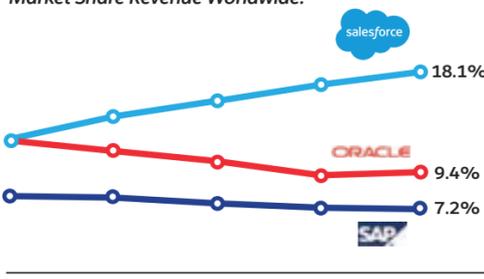
"We want to give the pigeons security and a space that is only



A pigeon

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Source: IDC Worldwide Semiannual Software Tracker, May 2017



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U.S. NEWS

Home Construction a Mixed Bag

By LAURA KUSISTO AND BEN LEUBSDORF

WASHINGTON—U.S. single-family housing starts continued to edge higher in August, in what could be the last snapshot of the market's health before the cleanup from major hurricanes begins to skew construction activity.

Overall housing starts, however, slipped 0.8% in August from the prior month to a seasonally adjusted annual rate of 1.18 million, driven by continued steep declines in multifamily building, the Commerce Department said Tuesday.

Single-family starts rose 1.6% in August, while starts for buildings with two or more units fell 6.5%.

The report offers a mixed picture of a market in which single-family construction is gradually improving while multifamily construction is declining significantly due to an oversupply of apartments in many urban markets.

Starts were up 2.7% in the first eight months of 2017 compared with the same period a year earlier. Permits rose 7.5% from the first eight months of 2016. The three-month moving average for single-family home starts was the highest since the recession.

U.S. median household in-



A home under construction in Sacramento, Calif., in August. Single-family housing starts rose 1.6%

come, adjusted for inflation, set a record in 2016, surpassing the previous peak in 1999, the Census Bureau reported last week, as Americans enjoy a period of sustained income growth and economic prosperity. Despite those gains, new construction remains weak due to a shortage of labor, lack of available land and other factors.

"Almost every other item of investment, everything is up and recovered, but housing

construction has not recovered," said Chris Rupkey, chief financial economist at MUFU Union Bank.

Monthly data on housing starts tend to be volatile and imprecise; August's 0.8% loss came with a margin of error of 9.6 percentage points. The 5.7% rise for permits had a 2-point margin of error.

Residential building permits, which provide a less volatile read on the market, rebounded in August. Permits,

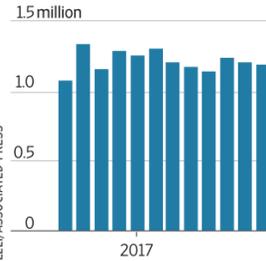
which typically lead starts by a month or two, rose 5.7% to a 1.3 million annual rate last month.

Permits fell 1.5% for single-family houses but jumped 19.6% last month for apartment buildings and other multifamily buildings.

Limited supply and fast-rising prices have squeezed many would-be home buyers this year, despite mortgage rates that moved lower during the spring and summer. In July,

Start and Stop

Overall U.S. housing starts have softened in recent months as multifamily construction weakened following several strong years.



Note: Figures are seasonally adjusted annual rates. Source: Commerce Department via Federal Reserve Bank of St. Louis THE WALL STREET JOURNAL.

Senator Presses for Disclosure Of Hospital Inspections

By STEPHANIE ARMOUR

WASHINGTON—The chairman of the Senate Judiciary Committee is pressing for the public disclosure of hospital inspection reports, amid complaints that the nation's largest hospital accreditation group doesn't rigorously enforce health and safety standards.

Sen. Chuck Grassley (R., Iowa) asked federal regulators in a letter Monday to outline specific statutory changes that would be needed to end the confidentiality of inspection reports done by accreditors, including the Joint Commission, a nonprofit organization.

Mr. Grassley's request follows a Wall Street Journal investigative report that found the Joint Commission typically doesn't revoke or otherwise modify the accreditation of hospitals even when serious safety violations are found.

"Recent news reports have provided additional examples of the Joint Commission's failure to adequately hold accountable facilities that have not properly cared for patients," Mr. Grassley wrote in his letter to Seema Verma, administrator of the Centers for Medicare and Medicaid Services, which oversees health-accrediting organizations.

A commission spokeswoman didn't respond to requests for comment. In the past, commission officials said the organization provides comprehensive, effective inspections, and works closely with hospitals when necessary to improve their performance. It said the confidentiality of the process encourages hospitals to be candid with the commission.

The commission, which accredits almost 80% of the nation's hospitals, is allowed to keep its inspection reports confidential under federal law. That has prompted complaints by consumers groups, some physicians and others that serious problems with some hospitals are kept from patients.

CMS in August withdrew a draft regulation that would have required health-accrediting organizations, including the commission, to make their inspections available to the public. The agency said it did so because the proposal may appear as if CMS was attempting to circumvent the law. Hospitals and health organizations pay accrediting organizations such as the Joint Commission to be inspected, which critics argue creates a conflict of interest.

The Journal found that less than 1% of commission-accredited hospitals that had federal safety violations lost accreditation in 2014. In over 30 instances, hospitals retained full accreditation even though CMS deemed their violations so significant that they caused, or were likely to cause, a risk of serious injury or death to patients.

Rates, Bond-Reduction Plan Top Fed Agenda

By DAVID HARRISON

The Federal Reserve on Wednesday likely will announce the beginning of a yearslong program to shrink its bond portfolio and could offer clues about the prospects for another rate increase this year.

Officials will release a statement and their updated quarterly economic projections after the end of their two-day policy meeting and Chairwoman Janet Yellen will hold a news conference.

Here's what to look for:

Watch the dots

The big question for many central bank observers is what

the Fed will signal about the likely path of interest rates this year and beyond.

In June, officials penciled in one more interest rate increase in 2017. But a series of weak inflation reports gave several of them second thoughts.

Did those doubts dissipate following Thursday's relatively strong inflation report? Are we back on track for a December move? Officials' latest economic projections—particularly their so-called dot plot that reveals where they expect interest rates to go—could give a hint.

Also important will be whether officials lower the number of rate increases they envision in coming years, and how high they expect borrow-

ing costs to go before they stop.

Figuring out inflation

Inflation has stopped behaving the way policy makers expect it to. The growing economy and strong labor market should be pushing it up. Instead, it has been sluggish for most of the year, although it showed signs of picking up recently.

The models that Fed officials rely on anticipate inflation will rise toward their 2% target over the next couple of years. Watch their new economic projections for signs of whether officials have changed their views on when they expect to reach their goal.

The labor market

The labor market continues to improve. Employers keep adding jobs, pushing down the unemployment rate.

Right now, the unemployment rate is lower than the point the Fed considers full employment, which means the economy could start overheating, causing inflation to rise too much.

But since there are few signs of that happening, officials could lower their estimate of the jobless rate that indicates full employment.

That would reflect another way that central bankers are questioning their understanding of how the economy works.

Balance sheet

The Fed has already provided details of how it plans to reduce its hoard of Treasuries and mortgage-backed securities.

And it appears poised to announce Wednesday it will start the process in October.

But we still don't know how big the central bank's balance sheet will be at the end, a matter that could have implications for the bond market.

Ms. Yellen at her news conference could provide a sense of her thinking on the topic and the factors that will go into the decision.

◆ Markets uneasy as Fed turns off easy money..... B1

SPY

Continued from Page One China connection.

FBI investigations and arrests for industrial espionage and violations of export-control laws, predominantly linked to the Chinese government, rose to an all-time high in 2015, according to a report last year for the U.S.-China Economic and Security Review Commission.

In May, the Justice Department charged two Chinese citizens, four Americans and one Canadian with conspiring to steal trade secrets from an engineering firm on behalf of a Chinese company that makes a marine product for military and civilian use. All seven have pleaded not guilty.

In another case, last year, federal prosecutors charged two Chinese citizens and three Americans with conspiring to steal trade secrets from drugmaker GlaxoSmithKline PLC and to provide them to companies doing business in China. Four of the five people pleaded not guilty; the fifth was never arrested and is considered a fugitive.

In August, at the request of President Donald Trump, the U.S. Trade Representative launched an investigation into Chinese efforts to secure U.S. technology. The probe will examine whether the Chinese government is backing unauthorized intrusions into U.S. corporate computer networks or cyber-enabled theft of trade secrets, the trade agency said.

Foreign theft of U.S. trade secrets costs the American economy at least \$180 billion a year, according to a report this year from the Commission on the Theft of American Intellectual Property, an independent, bipartisan group co-chaired by Jon Huntsman Jr., a former ambassador to China. "Cyber theft is a cheap way to avoid costly and time-intensive R&D that may simply be beyond the thieves' capacity," the report said, singling out China as a big culprit.

The Chinese government's main information office in Bei-



Samuel Straface, CEO of Medrobotics in Raynham, Mass.

jing declined to comment, and its intellectual-property administration didn't respond to a request for comment. Government officials in the past have denied allegations Beijing takes part in or encourages the theft of trade secrets.

Medrobotics, of Raynham, Mass., makes a snake-like robot designed to get to hard-to-reach places in the body during minimally invasive surgeries. Each machine costs \$1 million,

The FBI confiscated 'an unusual amount of computer equipment' from Mr. Liu.

said Dr. Straface, who is a neurophysiologist. He declined to disclose annual revenue of the privately held firm, but he said gaining access to the design of the product—plus versions under development—would be valuable to a third party.

"I was angry that someone would be so brazen to come into the facility and try to, potentially, allegedly steal from us something I've worked my heart and soul out for," he said in an interview, his first public re-

marks on the case.

On that evening in late August, Dr. Straface said he introduced himself to Mr. Liu as the company's CEO and asked who Mr. Liu was and what he was doing in the office.

Mr. Liu mumbled at first, then said he was there to visit the company's head of intellectual property and also the sales director for the European division, according to Dr. Straface. "At one point he mentioned that he was here to do business with the CEO, not seeming to realize he was looking at the CEO," Dr. Straface said.

Dr. Straface stepped outside the conference room and called the police, who arrested Mr. Liu on trespassing charges and also summoned the Federal Bureau of Investigation, which sent agents that night, according to a police report. A bureau special agent assigned to a squad specializing in counterintelligence matters has investigated the Aug. 28 incident, according to an affidavit filed with the U.S. District Court in Boston.

Mr. Liu, 44 years old, told investigators he was a patent attorney for a Chinese firm called Boss & Young Patent & Trademark Law Office, according to court records. Boss & Young, based in Beijing, didn't respond to an email, and a receptionist

for the firm in Beijing said no one by Mr. Liu's name worked at the firm.

Mr. Liu made two initial appearances at hearings in federal court following his arrest but hasn't entered a formal plea. He is being held in Boston, and a trial date hasn't been set.

The entrance to Medrobotics has an outer set of doors that are unlocked during business hours, and a second set of locked doors that require buzzing in by an employee who monitors the door or an access card, according to Dr. Straface. Mr. Liu later told police someone had let him through the second set of doors around 5 p.m. on Aug. 28, according to a police report.

Dr. Straface said it didn't appear that Mr. Liu had gotten into sensitive areas of the building that require access cards. It isn't known where he was at all times; Dr. Straface spotted him

about 7:30 p.m.

The FBI confiscated "an unusual amount of computer equipment" that Mr. Liu had brought with him, including the laptops and tablet and also two smartphones, a smartwatch, a computer thumb drive, two digital video cameras, several SIM cards and high-capacity storage drives, according to the affidavit.

Two Medrobotics employees later said they saw Mr. Liu recording video of a monitor displaying public information about the company in the lobby, according to the affidavit.

Someone seeking confidential information could have used a computer to try to connect with a WiFi or other network, the FBI affidavit said. The Aug. 30 affidavit said it was "too early to tell whether Liu succeeded in obtaining any trade secrets or other corporate information."

—Xiao Xiao contributed to this article.

CORRECTIONS & AMPLIFICATIONS

In some editions Tuesday, Bottie Nell Hughes's middle name was misspelled as Neil in Business News article about her lawsuit against Fox News and several of its employees.

Patent holders have exclusive rights on an invention for 20 years after the filing date. A Business & Finance article Tuesday about auto-industry patents incorrectly said the exclusive rights period starts from the grant date.

In some editions Tuesday, toy retailer FAO Schwarz was misspelled as FAO Schwartz in Page One article about Toys R Us filing for chapter 11 bankruptcy protection.

For the week ended Sept. 15, Treasury yields at constant maturities were as follows: three-month, 1.04%; six-month, 1.16%; one-year, 1.27%; two-year, 1.35%; three-year, 1.48%; five-year,

1.77%; seven-year, 2.00%; 10-year, 2.18%; and 20-year, 2.52%. The Key Interest Rates table published Tuesday in Business & Finance incorrectly gave the yields as 1.05%, 1.17%, 1.30%, 1.39%, 1.53%, 1.81%, 2.04%, 2.20%, and 2.52%, respectively.

Sanjay Goel is a professor in the information-technology management department at the University at Albany, State University of New York. An article about two-factor authentication in Monday's Journal Report on Cybersecurity incorrectly said he is an associate professor, and it used the university's informal name, SUNY Albany.

Bordeaux, France, produced about 770 million bottles of wine last year. A Mansion article on Friday about homes in southwestern France incorrectly said Bordeaux produces almost one million bottles of wine a year.

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

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