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What's News

Business & Finance

Uber's board approved Expedia Chief Executive Dara Khosrowshahi as its new CEO, capping a tumultuous nine-week search. **A1, A10**

◆ Borrowers are getting comfortable again with the idea of tapping their homes for cash, due to a strong housing market. **B1**

◆ A group of large companies is warning against one option as Republicans try to write rules for taxing foreign profits of U.S. firms. **B1**

◆ U.S. producers are now shipping more coal abroad than at any time in the past two years as China emerges as an importer. **B3**

◆ OSHA is reducing its reporting of fatalities, cutting back on what is made public about workplace accidents. **B6**

◆ The minimum wage in St. Louis is set to decline Monday, bucking the trend of municipal pay floors rising above federal and state levels. **B6**

◆ Shares of energy companies are on track for their biggest monthly decline since the end of 2015. **B12**

◆ China's financial markets are sending conflicting signals about the health of the nation's economy. **B7**

◆ Perfumania is seeking bankruptcy protection with plans to reorganize around better-performing stores. **B3**

◆ Facebook drew a rebuke from a U.N. agency for allowing an objectionable video on its website. **B4**

◆ The weekend's box-office results were one of the most dismal in 16 years. **B5**

World-Wide

◆ Houston and surrounding areas faced epic flooding and more days of heavy rain from Tropical Storm Harvey, which required rescues for thousands. **A1, A4-A5**

◆ Harvey knocked almost 15% of U.S. refinery capacity out of commission, which threatens to boost fuel prices across the country. **A1**

◆ The storm poses new hazards to the National Flood Insurance Program. **A5**

◆ As Trump drew criticism from several top Republicans for his pardon of Arpaio, the ex-sheriff said GOP lawmakers should rally around the president. **A1**

◆ The administration is considering major reductions in cultural-exchange programs, including those for au pairs and summer workers. **A3**

◆ Iraqi forces have driven Islamic State from Tal Afar, the Iraqi military said, clearing one of the extremist group's remaining strongholds. **A6**

◆ Congress is set to confront the government-debt limit and spending legislation required to prevent a federal-government shutdown. **A3**

◆ A German woman died from injuries suffered from the Barcelona attack, elevating the death toll to 16. **A9**

◆ A Guatemalan constitutional court temporarily barred the president from expelling a U.N.-backed anticorruption prosecutor. **A7**

◆ The Navy recovered the remains of all 10 sailors who went missing when the USS John S. McCain collided with a tanker a week ago. **A10**

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Rain, Floods Deluge Texas

First responders rushed to make 3,000 rescues across sprawling Houston **A4**

In Rockport, those who rode out the hurricane face shattered landscape **A4**

Storm poses new hazards to giant U.S. flood insurer burdened with debt **A5**

DAVID J. PHILLIP/ASSOCIATED PRESS; THOMAS B. SHEA/AGENCE FRANCE PRESSE/GT/GETTY IMAGES (BELOW)



RISING WATERS: Houston Police SWAT officer Daryl Hudeck rescued Connie Pham and her 13-month-old son, Aiden, from their flooded home in Houston on Sunday. Below, residents made their way along the inundated Telephone Road in the southeast of the city, as thousands of people around the region were forced to seek higher ground.

Remnants Of Harvey Devastate Houston



Energy Firms Brace for Fallout

By DAN MOLINSKI AND ALISON SIDER

Harvey knocked almost 15% of U.S. refinery capacity out of commission, which threatens to boost fuel prices across the country.

Energy markets could be in for a bumpy ride when they open Monday as investors try to gauge the impact of the disruption. After slamming into Texas on Friday and causing massive flooding in Houston over the weekend, the storm was moving east Sunday toward a refining hub near the Louisiana border. That could shut down even more of the U.S. energy infrastructure.

Gasoline futures jumped in electronic trading Sunday evening, rising 10.25 cents, or 6.15%, to \$1.7691 a gallon on the New York Mercantile Exchange. U.S. crude futures slid from gains to slight losses, trading down 10 cents, or 0.21%, at \$47.77 a barrel.

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in 24 hours onto areas that had been soaked the previous day.

More rain was forecast in the coming days; the city could receive a total of as much as 50 inches of rain—about equal to its annual average total. The disaster swamped businesses, including patches of the energy industry, and will disrupt travel this week.

The White House said President Donald Trump plans to travel to Texas on Tuesday to survey the damage.

Houston Mayor Sylvester Turner on Sunday said only one death in the city was confirmed

so far as storm-related. He said a woman drove into high water in southwest Houston and drowned while trying to escape.

Even in a city accustomed to flooding and bracing for the impact of the storm, the rapidly rising waters caught many off-guard, raising questions about whether the city should have been evacuated.

"No one thought it would be this bad," said Aeisha Brimzy, a stay-at-home mom plucked from the rising waters around her apartment building by constables, who also rescued her six daughters,

mother and sister. The family went to the George R. Brown Convention Center downtown, which the city had turned into a giant evacuation center.

Rescued families sat on folding chairs or laid on the floor, many still clutching white towels they had been given with which to dry off as they received assistance from the Red Cross.

Mr. Turner said the city was also opening libraries, community centers and other locations as "lily pads" to provide safe harbor from the water.

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Uber Picks CEO From Expedia

By GREG BENINGER

Uber Technologies Inc.'s board has voted to appoint Expedia Inc. Chief Executive Dara Khosrowshahi as its new CEO, capping a tumultuous nine-week search after Travis Kalanick resigned in late June, according to people familiar with the matter.

Uber's board was deciding on Sunday between Mr. Khosrowshahi and Meg Whitman, chief executive of Hewlett-Packard Enterprise Co., ultimately electing the lesser-known executive who has been at the helm of Expedia since 2005.

Representatives for Uber didn't return requests for comment and an Expedia spokeswoman declined to comment.

The decision caps a remarkably chaotic leadership search for the world's most valuable

venture-funded startup, one that has been shaken by an internecine war on the Uber board. Benchmark Capital, one of Uber's biggest and earliest investors, first led the ouster in June of co-founder Mr. Kalanick, then sued him to try to force him off the board. Other investors chose sides, exchanging accusations and counter-claims that remain unresolved.

If he accepts the job, Mr. Khosrowshahi, 48 years old, will have the task of repairing Uber's image after months of scandal at the ride-hailing firm. The company is grappling with the fallout from allegations of sexism and sexual harassment, depleted executive ranks and a lawsuit by Google parent Alphabet Inc. alleging that Uber used design secrets for its self-

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CEO honed skills as deal maker with Diller **A15**

INSIDE



AMAZON IS HUNGRY FOR PRICE CUTS

BUSINESS & FINANCE, B1



THE BITCOIN VALUATION BUBBLE

OPINION, A15

Arpaio's Pardon Widens GOP Split

By PETER NICHOLAS AND SHANE HARRIS

As President Donald Trump drew criticism from several top Republicans for his pardon of former Sheriff Joseph Arpaio, the Arizona lawman said Republican lawmakers should rally behind a president who he said would be counted among the greatest in history.

"They're trying to go after the president. He's a great guy and I'm with him and will always be with him," said Mr. Arpaio, a longtime sheriff in Maricopa County, Arizona, in an interview Sunday. "I'm sad what they're doing to him. It's sad."

Several prominent Republican lawmakers objected to the pardon over the weekend, saying it short-circuited the legal system and undermined the rule of law. Among the critics of Mr. Trump's move were Arizona's two GOP senators, John

Mccain and Jeff Flake, and House Speaker Paul Ryan of Wisconsin.

Mr. Arpaio voiced disappointment in Mr. McCain's position, saying, "It's probably payback time" because Mr. Arpaio had campaigned for the senator's Republican opponents in both of Mr. McCain's presidential bids. As for Mr. Ryan, Mr. Arpaio said, "He ought to get on board and support our president." Sen. McCain's staff didn't respond to a request for comment.

If lawmakers are upset about the pardon, Mr. Arpaio said, they should hold hearings into his legal case and look into the "bias" that he said he was shown.

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◆ Pressure mounts for Senate Republicans.....A3

◆ Tillerson says U.S. pledged to equality.....A3

U.S. NEWS

THE OUTLOOK | By David Harrison

Jobless Rate's Decline Hints at Shift

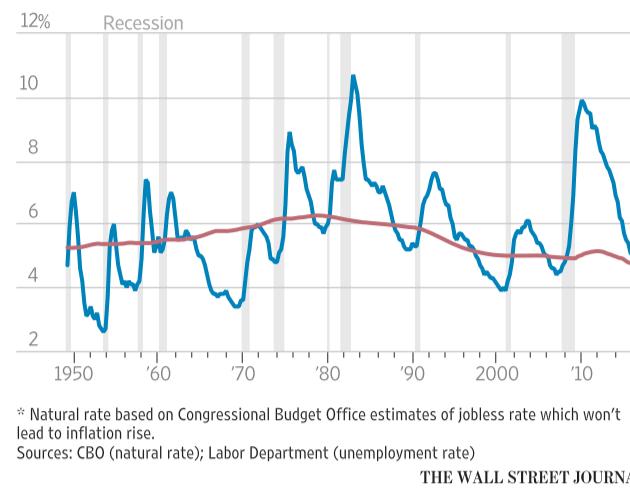
The unemployment rate has fallen to a 16-year low of 4.3% and may not be done falling. The question is whether that is good news because it means the economy is still operating below capacity and has plenty of room to run, or bad news because it means the economy is close to overheating and heading for trouble.

A study by the Federal Reserve Bank of San Francisco finds that over the past century, the jobless rate's "natural" level—meaning the level that signals an evenly balanced economic expansion—has fluctuated in a relatively narrow band between 4.5% and 5.5%. If it goes much above that range it means recession, and much below it could signal inflation or other economic excesses building. It's now been below that level for four straight months, without obvious evidence of overheating.

Structural changes in the economy could alter this theoretical natural rate, meaning the jobless rate might have room to go lower without throwing the economy off balance. One reason is the aging workforce. Jobless rates tend to be lower for older

How Low Can Unemployment Go?

When the jobless rate falls below the natural rate of unemployment, it can be a sign of an imminent recession.



* Natural rate based on Congressional Budget Office estimates of jobless rate which won't lead to inflation rise.

Sources: CBO (natural rate); Labor Department (unemployment rate)

"Digital technology was finding its way on the factory work floor and offices in a big, big way in a very positive, broad fashion," Charles Evans, president of the Federal Reserve Bank of Chicago, said in an interview.

This is a hot topic at the Federal Reserve because inflation isn't behaving the way officials expect it to behave with such a low jobless rate. In the past 12 months, the jobless rate has dropped from 4.9% to 4.3%. That decline suggests inflation should be picking up. Instead, a measure of underlying inflation—the personal consumption expenditure price index excluding food and energy—has dropped over that period from 1.7% to 1.5%.

When the jobless rate is higher than the natural rate, Fed officials tend to keep borrowing costs low to drive down unemployment. But when the jobless rate drops below the natural rate, it might signal inflation—and officials push up interest rates. The current low rate underpins the Fed's plan to keep raising rates. But the fact that inflation is so low is making some officials wonder if they can afford to let the jobless rate continue to drop and slow the pace of rate increases. The Fed has raised

interest rates four times since 2015 and penciled in another rate increase this year and three more next year.

Robert Kaplan, president of the Federal Reserve Bank of Dallas, said the natural rate is probably lower than it has historically been and the wage and price pressures typically associated with low unemployment are muted due to technological change and globalization. He sees the jobless rate continuing to fall.

"We're living an experiment now [where] the unemployment rate is falling and it's fallen below the point that people were where would have predicted an inflation pickup," said Laurence Ball, a Johns Hopkins University economist. "You can imagine the experiment continuing: unemployment going even lower and inflation still not picking up."

That might be the case, but history offers some warnings. The jobless rate bottomed out at 3.8% in April 2000. It spent nine months at 3.4% in 1968 and 1969. But in both cases, recessions weren't far behind, one driven by a technology bubble in the 1990s and rising inflation in the 1970s.

—Ben Leubsdorf contributed to this article.

workers, who are better trained than younger workers and tend to be more settled in their jobs. With a large portion of the workforce in older age groups, it might be the case that the economy can handle a lower jobless rate.

Other factors could be at play. Globalization might help drive unemployment down at home without affecting broader inflation trends. U.S. workers

now compete with workers from around the world. An abundance of low-wage workers in China and other developing economies could hold down wages and prices in the U.S. in ways that didn't happen a decade or two ago. Likewise, technology could be reshaping the interplay of unemployment and inflation: Amazon.com Inc., the internet retailing giant, plans price cuts at Whole Foods Markets Inc., which it recently purchased.

Protesters Clash in Bay Area Rallies

BY IAN LOVETT AND PATIENCE HAGGIN

BERKELEY, Calif.—A mass protest opposing a right-wing rally that had been planned here turned violent on Sunday, as black-clad activists clashed with a handful of rally-goers. The protest in Berkeley on Sunday, which drew thousands of people who were chanting antifascist slogans and denouncing white supremacists, was the second major action in the Bay Area by left-wing groups this weekend.

Several thousand protesters also gathered in San Francisco on Saturday, in response to a right-wing group's plans to hold a rally there. Both of those rallies were ultimately canceled, with organizers citing fears of violence against their supporters.

While Saturday's events were mostly peaceful, they turned violent Sunday, leading to several arrests in Berkeley. The Berkeley police said 13 people were arrested on Sunday afternoon, but the department couldn't confirm the names of those arrested.

Central Bankers Can't Savor Their Success

BY KATE DAVIDSON AND BEN LEUBSDORF

JACKSON HOLE, Wyo.—Central bankers have been looking forward for years to a moment when the world economy is growing steadily again, allowing them to unwind extraordinary monetary stimulus from global markets.

They are now in such a moment, but at the Federal Reserve's annual retreat here over the weekend they found their attention turned to other challenges, including a possible leadership transition at the Fed next year and the risk of a government shutdown or debt-ceiling crisis in Washington next month.

Congress returns to Washington in September with a few short weeks in which to raise the federal borrowing limit and authorize new funding to keep the government operating beyond Oct. 1. Signs of angst over the debt limit are beginning to rise in financial markets amid worries lawmakers won't be able to close a deal on time.

Treasury officials have urged Congress to raise the borrowing limit by Sept. 29.

"What's being discussed regarding the shutdown and the debt ceiling, we have to moni-



Bank of Japan's Haruhiko Kuroda and Janet Yellen in Wyoming

tend for another term as Fed chair, Mr. Trump has said. He has praised her stance on interest rates and said he liked her. But Ms. Yellen's remarks Friday highlighted a difference in their views on regulation, which could lead Mr. Trump in another direction.

Mr. Trump has said his top economic adviser, National Economic Council Director Gary Cohn, along with "two or three" other candidates he declined to name, are also being considered, leaving markets and Fed watchers guessing about where policy might be headed beyond early next year.

Rather than focusing on near-term monetary policy issues, most of the conference dealt with long-term challenges, such as rising protectionism, growing inequality and the ability of fiscal policy makers to respond to the next recession—issues over which central bankers may have limited influence.

On the sidelines of the meeting, participants buzzed about the potential for a leadership shake-up at the Fed next year, as Ms. Yellen closes in on the final months of her four-year term as the leader of the U.S. central bank.

Ms. Yellen is a top con-

tender for another term as Fed chair, Mr. Trump has said. He has praised her stance on interest rates and said he liked her. But Ms. Yellen's remarks Friday highlighted a difference in their views on regulation, which could lead Mr. Trump in another direction.

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Analysts have theorized about a handful of dark horse candidates who may be in the mix, several of whom attended this year's Jackson Hole gathering, including former Fed governor Kevin Warsh.

Among her peers, Ms. Yellen earned high marks for her steady approach and clear communication as the Fed unwinds its crisis-era stimulus program.

"President Trump has to take his own decision, and that's his prerogative," Bank of Mexico Gov. Agustín Carstens said. "But I can speak for myself, and I can say that she has done an outstanding job."

forward what the president did," Mr. Bossert said on ABC News "This Week." Mr. Bossert is the most senior administration official to comment on the pardon.

Through a spokesman, Mr. Ryan said Saturday he "does not agree with the decision."

"Law-enforcement officials have a special responsibility to respect the rights of everyone in the United States. We should not allow anyone to believe that responsibility is diminished by this pardon," said Mr. Ryan's spokesman, Doug Andres.

Mr. McCain, an Arizona Republican, said Friday that the president "undermines his claim for the respect of rule of law as Mr. Arpaio has shown no remorse for his actions."

The state's junior senator, Mr. Flake, whom Mr. Trump has publicly attacked as weak on border security, said in a Twitter message Friday that he would have "preferred that the president honor the judicial process and let it take its course."

Mr. Bossert rebuffed those critics. "I certainly don't think it's fair to characterize [Mr. Trump] as not caring about the rule of law," he said.

He didn't say whether he personally supported the president's decision.

Mr. Arpaio became one of the most celebrated figures among immigration hard-liners for his tough and unapologetic treatment of inmates in his

Pardon Lies Within Presidential Powers

Article II of the Constitution empowers the president to issue "pardons for offenses against the United States, except in cases of Impeachment." The Supreme Court has held that the president's clemency powers "cannot be modified, abridged, or diminished by Congress," and that he can pardon criminal contempt of court, a crime determined by the

state. Some were held outdoors during sweltering conditions. Others were forced to wear pink underwear or were subjected to other treatment that critics said was humiliating.

Mr. Arpaio was also one of the leading proponents of the false claim that President Barack Obama wasn't born in the U.S., an assertion Mr. Trump embraced and tried to prove for years before becoming president.

But it was Mr. Arpaio's use of racial-profiling tactics that landed him in a federal court. U.S. District Judge Susan Bolton ruled last month that he had "willfully violated" a 2011 court order that barred his deputies from stopping and detaining Latinos without reasonable suspicion that they had committed a crime.

Mr. Trump pardoned Mr. Ar-

paio before he was sentenced for his crime, and the former sheriff has shown no public remorse for his actions.

Justice Department policy states that "in general, a pardon is granted on the basis of the petitioner's demonstrated good conduct for a substantial period of time after conviction and service of sentence."

That period is at least five years after a conviction or release from confinement.

The Constitution gives presidents broad authority to grant pardons, and it doesn't require them to follow the Justice Department guidelines.

Other Republicans have applauded Mr. Trump's actions and said opponents are inconsistent in their criticism.

"What's on display here is frankly the hypocrisy from the left," Arizona state Sen. Steve

Montenegro, a Republican, said on CNN's "State of the Union."

"We had President Obama pardoning hundreds of thugs... Where was the outrage from the left when he was pardoning thugs and murderers and unrepentant terrorists like that?" Mr. Montenegro said.

Mr. Obama, in his final days in office, commuted the sentences of more than 1,700 non-violent drug offenders as part of his administration's efforts to address criminal justice reform.

The offenders weren't granted a pardon, which is forgiveness for a crime.

Mr. Obama pardoned 212 people out of approximately 3,400 applications, which is a relatively low percentage for presidents in recent decades.

—Alexa Corse and Yuka Hayashi contributed to this article.

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U.S. NEWS

Cultural Exchange Visas Under Review

Trump administration is considering cuts to summer work-travel and au pair programs

BY LAURA MECKLER

WASHINGTON—The Trump administration is considering major reductions in cultural exchange programs, including those for au pairs and summer workers, that allow young people from foreign countries to work in the U.S., people familiar with the administration's planning said.

President Donald Trump's "Buy American and Hire American" executive order, issued in April, calls for a review of U.S. immigration rules to ensure that the interests of

domestic workers are protected. No decisions have been made, but supporters of the program worry changes will be made without a full public debate.

A White House-led interagency working group is particularly focused on five employment-based programs that are part of the J-1 visa exchange visitor program, according to people familiar with the discussion.

The review includes the summer work-travel program, which brings more than 100,000 students to the U.S. each summer, often stationed in tourist destinations. It also includes the smaller au pair program, through which foreigners live in American homes and provide child care as well as take classes and

participate in intercultural exchanges with their host families. Other programs under discussion include those for camp counselors, interns and trainees.

The J-1 visa program includes 10 other categories that don't involve work, such as those for college students, which aren't under review, people familiar with the talks said.

The visa was instituted by statute, but the individual categories were created by past administrations and could be changed or eliminated by executive action. Some changes might need to go through the regulatory process, which provides an opportunity for public comment.

Options on the table include eliminating these visa classes, as well as imposing new re-

quirements on participants. For instance, employers could be required to show that they couldn't find Americans for these jobs, as is required for other visa programs, according to the people who are tracking the internal debate.

A recent directive to the agency at the State Department responsible for these programs instructs officials to rewrite regulations in a way that would effectively end these five categories of the J-1 visa program, according to an administration official. It was unclear whether the intent was to move forward with such a regulation or if the request was aimed at facilitating internal discussion.

A State Department official declined to comment on the debate and referred questions

to the White House. "Presently, we continue to implement the J-1 visa programs at the same levels we have for the past few years, and we appreciate the support that American businesses have shown for the program and its value to their local communities," the official said.

White House press secretary Sarah Huckabee Sanders said she had "nothing to announce at this time."

Supporters view these programs as facilitating cross-cultural exchanges while filling gaps in the U.S. labor market. They give young people from foreign countries the opportunity to come to the U.S. and gain exposure to American culture and values before returning home.

The program also fills the

need for summer workers, said Denise Beckson, director of human resources at Morey's Piers, which operates amusement park rides and restaurants in Wildwood, N.J.

"They allow us to have the types of hours and provide the offerings that guests coming for their summer vacation expect to have," she said.

Critics of the program include conservatives who want to restrict immigration but also some liberals who worry about the impact on U.S. workers. Sen. Bernie Sanders (I., Vt.) singled out the J-1 program during a 2013 Senate debate over immigration, saying at the time it had "morphed...into a low-wage jobs program to allow corporations...to replace young American workers with cheaper labor from overseas."

Pressure Mounts for Senate Republicans

BY SIOBHAN HUGHES
AND KRISTINA PETERSON

SHELBYVILLE, Ky.—Tensions between President Donald Trump and Senate Republicans are rising, as lawmakers are being blamed by the president, House colleagues and many voters for the party's failure to pass a major legislative initiative.

"I'm sick of them," said Matthew Walters, a 58-year-old construction worker who lives in Shelbyville, Ky., and has been eager for the GOP to repeal the Affordable Care Act as his wife's insurance premiums jump. "They've said for six years if we get a Republican in the White House we're going to get this repealed. What is the problem? What are the excuses? I'm sick of it. We elected Donald Trump for change."

Similar sentiment is being expressed in town hall meetings and street-corner conversations, ratcheting up the pressure on GOP lawmakers as they face a difficult September.

Next month, the Republican-led Congress must pass a measure to keep the government funded beyond Sept. 30, when a current law expires, and raise the borrowing limit to guard against the risk of failing to pay its bills on time, including payments to Social Security beneficiaries, government employees, troops and U.S. debtholders.

Mr. Trump is complicating that work by threatening to reject any funding bill that doesn't include \$1.6 billion toward construction of a wall on the nation's southern border, a move that likely would result in a partial government shutdown.

"We're going to get our wall," Mr. Trump said at a rally in Phoenix last week. "If we have to close down our government, we're building that wall."

Some House Republicans say that the GOP-led Senate



Protesters at an event in Graves County, Ky., earlier this month where Senate Majority Leader Mitch McConnell was one of the speakers

needs to scrap its procedural traditions, which require 60 votes to pass most legislation, and allow for bills to pass on a simple majority—even though the Senate wasn't able to find a majority for its health plan.

"The rules fundamentally paralyze the U.S. Senate, and Mr. McConnell should be ashamed of allowing that to occur," said Rep. Trent Franks (R., Ariz.), in a reference to Senate Majority Leader Mitch McConnell (R., Ky.). Mr. McConnell has said he won't change the Senate rules.

Debbie Thomas, an educator who attended Nebraska Republican Rep. Don Bacon's town hall this weekend in Omaha, said she supported Mr. Trump's willingness to shutter the government to extract funding for the border wall.

"If that's what it takes to get somebody to listen," said Ms. Thomas, a conservative. Mr. Bacon told reporters Saturday he didn't want to shut down the government.

Republican senators have defended each other from Mr. Trump's criticisms, and over the recess have responded the way many did when they were up for re-election last year, focusing on local issues.

Sen. John Cornyn (R., Texas) spent the weekend helping Texans who were hit by the hurricane, and Sen. Rob Portman (R., Ohio) went fishing in Lake Erie to argue against Mr. Trump's proposed cut to a federal program to restore the Great Lakes.

Some voters take their side over Mr. Trump's.

"I don't see [the president]

coming to the table and working with people," said Melanie Roll, a Millard, Neb., resident who runs a small business and voted for Mr. Bacon in last year's election. "I see him stirring the pot over and over."

At the center of the GOP infighting is Mr. McConnell, who failed by a single vote to pass a measure aimed at repealing the ACA.

"The only problem I have with Mitch McConnell is that, after hearing Repeal & Replace for seven years, he failed! That should NEVER have happened!" Mr. Trump said in a tweet last week.

On Saturday, Mr. McConnell said that voter frustration over congressional inaction had been fanned by the media and obscured the fact that legislative change has come

slowly all across history.

"When you've been given the responsibility of governing, people expect an outcome, but the process along the way is oftentimes pretty challenging," Mr. McConnell said at a Kentucky Republican dinner.

"A lot of people look at all that and find it frustrating, messy. Well, welcome to the democratic process," he said. "The only reason people are so focused on it now is 24-hour cable news and the internet."

The president has also lashed out at Arizona's two Republican senators, Jeff Flake and John McCain, and Sen. Bob Corker of Tennessee. In addition, Sen. Dean Heller of Nevada, one of the most vulnerable Republicans, has been target of Mr. Trump's frustrations.

Tillerson Says U.S. Pledged to Equality

BY FELICIA SCHWARTZ

WASHINGTON—Secretary of State Rex Tillerson, in an interview Sunday on Fox News, said the U.S. maintains its commitment to freedom and equal treatment of people around the world after receiving international criticism for the White House's various responses to a white-supremacist rally in Charlottesville, Va., earlier this month.

"I don't believe anyone doubts the American people's values, or the commitment of the American government, or the government's agencies to advancing those values and defending those values," Mr. Tillerson said.

Asked about the values of President Donald Trump, Mr. Tillerson said "the president speaks for himself."

Mr. Trump has delivered several responses to the rally and subsequent violence that led to the death of one woman. He initially blamed both the white supremacists and counterprotesters for the violence. He subsequently has made statements rejecting racism and bigotry and denouncing some of the groups that participated in the protest of the removal of a Confederate monument.

Pressed on whether he was separating himself from Mr. Trump, Mr. Tillerson referred to remarks he made about racism and diversity at the State Department after the violence in Charlottesville.

A United Nations panel last week criticized the Trump administration for its Charlottesville response, saying the U.S. failed "at the highest political level...to unequivocally reject and condemn" racist violence.

Congress Faces Deadlines on Debt Ceiling, Shutdown

BY SIOBHAN HUGHES
AND RICHARD RUBIN

When Congress returns after Labor Day, it will immediately confront a pair of critical fiscal issues: the U.S. government debt limit and spending legislation required to prevent the shutdown of the federal government on Oct. 1.

In addition, GOP congressional leaders and the Trump administration hope this fall to begin work in earnest on tax-overhaul legislation.

Congress is deeply divided, and President Donald Trump has repeatedly criticized the Republican leadership of the House and Senate in recent weeks, adding uncertainty ahead of lawmakers' deadlines.

Lawmakers return from August recess on Sept. 5, but both chambers of Congress have breaks later in the month.

The government is funded through Sept. 30, the end of the 2017 fiscal year. On the debt ceiling, Treasury Secretary Steven Mnuchin has warned the federal government will reach the limit of its authorized borrowing by Sept. 29.

That leaves just 12 days when both chambers will be in session to pass the two critical pieces of legislation.



with this issue was October 2015, when it suspended the debt limit, then at \$18.1 trillion, until March 2017. Since March, the Treasury has been using emergency cash-management techniques to avoid breaching the limit.

Such maneuvers only work for so long, and Mr. Mnuchin has said the debt ceiling needs to be raised by Sept. 29 to guard against the risk the government will be unable to pay its bills.

The Congressional Budget Office and the Bipartisan Policy Center have said that the Treasury could run out of maneuvering room in early to mid-October.

Federal Reserve and Treasury Department officials in August 2011 had privately formalized a plan to make on-time payments on Treasury debt and delay paying other government bills if Congress and the White House failed to reach an agreement on raising the borrowing limit, according to a transcript of a Fed meeting at the time.

Mr. Mnuchin has said prioritization would be neither practical nor desirable.

What are Congress's options on the debt ceiling?

Republicans could seek spending cuts as part of any measure to raise the debt ceiling.

Another option is to tuck the debt measure into other legislation, perhaps must-pass legislation like a spending bill.

Will Congress also turn its attention to taxes next month?

The Republican congressional leadership badly wants a major legislative victory during Mr. Trump's first year in office, before lawmakers turn to the 2018 midterm elections.

After the failed effort to pass a health-care law over the summer, their goal now is to pass tax legislation. Senate Majority Leader Mitch McConnell has said he doesn't expect to pass a bipartisan tax bill.

In order to pass a tax bill with a simple 51-vote majority instead of the usual 60 votes, Congress must first pass a budget resolution that unlocks procedures known as reconciliation.

Under reconciliation procedures, Congress can pass a tax bill in the Senate with only 51 votes. But Republicans are beset by infighting over their budget, and may not be able to agree on a spending blueprint.

Senate Majority Leader Mitch McConnell (R., Ky.) has said he doesn't expect to pass a bipartisan tax bill.

What is happening with basic government funding?

The government is funded through the end of the fiscal year under a temporary measure passed in May that gave Mr. Trump some of his priorities—like higher military spending and more money for border security—but that didn't pay for the wall he wants to build along the Mexican border.

Mr. Trump recently insisted on the wall funding as a condition for keeping the government

open.

If Congress fails to pass a new spending bill by Sept. 30, most nonemergency functions of the U.S. government would halt, furloughing workers, closing office buildings and public facilities, delaying paperwork, and more.

The Republicans who control both chambers of Congress have no appetite for a shutdown. They are planning to advance an interim spending bill that would delay a fight over money for Mr. Trump's border wall.

Such temporary spending measures are despised in Washington because they extend current spending without giving federal agencies flexibility in how they spend their budgets.

But Republicans see such a measure, known as a continuing resolution, as better than a politically and economically damaging shutdown.

What about raising the borrowing limit?

The last time Congress dealt

STORM BATTERS TEXAS

Rescue Efforts Tax Houston Resources

County official urges residents to help rescue their neighbors; 'we need your help'

HOUSTON—As the waters rose around them this weekend, families headed to attics and rooftops, where they called for help, overwhelming emergency call centers.

By Arian Campo-Flores, Dan Frosch and Erin Ailworth

Frantic friends and relatives worried about stranded loved ones took to social media to plead for aid. The city of Houston's Twitter feed grew into a litany of urgent appeals Sunday. "Please help! Parents and 4 children in danger of drowning," read one post.

As first responders rushed to perform 3,000 rescues across the sprawling city—which covers an area larger than Manhattan, Chicago, Philadelphia and San Francisco combined—a chaotic picture was emerging from the floodwaters of Harvey as the region faces days of more rain while the disaster continues to unfold.

For a city that is prone to flooding, the severity and pace of the rainfall from Harvey caught even longtime residents off guard and raised questions about whether Houston should have been evacuated.

As of Sunday afternoon, the city had received nearly 6,000 calls for help, said Houston Mayor Sylvester Turner. Since Saturday night, 911 operators had received more than 56,000 calls, compared with a typical 24-hour volume of 8,000, he said.

Some personnel as well as



Neighbors in Friendswood, Texas, used their own boats to rescue Jane Rhodes on Sunday, as Harvey, downgraded to a tropical storm on Saturday, battered the state.

boats and rescue vehicles that Houston officials had hoped to receive from the state didn't arrive as a result of roads being blocked by flooding, Harris County Judge Ed Emmett, the county's chief executive, said. He urged Houstonians to help rescue their neighbors. "Those of you who have boats and high-water vehicles that can be used to help people out of harm's way, we need your help," he said.

In a Houston neighborhood near Buffalo Bayou, Tim Dodson, who runs a disaster and recovery service, drove through water 3- to 4-feet deep in his large truck Sunday afternoon. He was preparing to rescue seven elderly Catholic nuns who were stuck in the Cenacle Retreat House.

A while later, Ryan Oakley arrived in the area carrying a yellow kayak. He said he was heading to a friend's house to

rescue a family, including 6- and 9-year-old children, trapped on their roof. As he prepared to paddle away, he gathered a yellow rope.

"We can tie it up and support it on the roof and have the kids climb down," Mr. Oakley said. "Because there's no way to get a ladder out there."

The 911 system was overwhelmed by the volume of calls on Sunday, said Chief Darryl Coleman of the Harris

County Sheriff's Office at a news briefing. Some calls were dropped and unable to connect, he said. Officials were bringing in additional operators and trying to return all dropped calls.

Sharon O'Neal struggled to get through to a 911 operator to seek help for her brother, who lives in a northern Houston neighborhood. The water in his first-floor apartment had reached his knees

by Sunday morning, and he had spent the night sleeping on his dining table, she said.

Ms. O'Neal took to social media, posting on Twitter, Facebook and Snapchat that he needed help.

"My brother is very nonchalant," she said. But "my mom and sister and I are going crazy."

—Bradley Olson, Russell Gold and Miguel Bustillo contributed to this article.

STEVE GONZALES/HOUSTON CHRONICLE/ASSOCIATED PRESS

Those Who Stayed Behind Face Damage With Grit

BY DAN FROSCH
AND ERIN AILWORTH

ROCKPORT, Texas—As lashing rains and 130-mile-an-hour winds battered the concrete and steel home Max Rinche helped build, he frantically hammered nails into plywood planks that other men struggled to hold over a broken window.

While the Category 4-rated Hurricane Harvey raged outside, Mr. Rinche's worried wife scribbled his Social Security number on his arm—just as the mayor of this coastal city had urged residents to do if they defied evacuation orders. If they were killed Friday night, at least someone would be able to identify them.

On Saturday, Mr. Rinche, his tool belt dangling from his hip like a holster, walked through the torn-up streets, eyeing mangled homes, and chatting with other locals to get the latest updates on which house got hit and how bad.

"There's going to be a lot of chain saw work," the 32-year-old said. "If you got tools, use 'em. If you're breathing, you can work. This is Rockport. We'll be fine."

Up and down the central coast of Texas, a string of small cities and beach towns remained unnervingly populated as Hurricane Harvey bore down. Many thousands had obeyed evacuation orders and fled inland to hotels and shelters; meanwhile, some had

stayed—out of necessity, fear of looters or sheer stubbornness.

Others who chose to ride out the storm were older residents, their memories hardened by past storms they had endured.

So far, local officials said they knew of one person killed in the storm in Rockport, the small fishing and resort community devastated by Hurricane Harvey. There, the storm tangled power lines and felled hulking oaks that now cluttered the streets. Roofs, garage doors and even entire homes were crumpled by Harvey's power.

As the storm pressed north, those who remained on the coast emerged to take stock of the damage, count their blessings and face the next challenge: the aftermath.

"We lost what we had," said Juan Hernandez, who stayed in his Aransas Pass, Texas, home with his family. They sat

in the dark, watching as the storm took their fence line. Then they noticed the leaks in their roof.

"That's when everything started caving in," said Mr. Hernandez, a 65-year-old pipe fitter. "We've got one room good: that's the kitchen."

Mr. Hernandez said his family has food, but he was hoping help would arrive soon.

"We survived," he said, searching for a cellphone signal in the parking lot of a damaged Wal-Mart. "At least nobody got hurt."

The flashing red "Open" sign paired with the handwritten message posted on a boarded window—"HOT COFFEE"—was a beacon in the dark, broken disaster zone of this Rockport neighborhood.

Matthew Otero posted the message Saturday morning when he opened Rockport Donuts, the business he and his wife have run for nearly six years.

"My first thing was, 'thank God the building survived,'" he said as he served the occasional customer the promised hot coffee as well as kolache pastries hand-rolled by his wife and mother-in-law.

Outside, in areas where water hadn't pooled, debris had: downed poles and power lines, pieces of buildings and broken trees.

Inside the shop, a generator whirred, keeping it powered. Amid the tables and chairs, a small orange inflatable boat caught dripping water from a leak in the roof caused by the storm.

"What can you do, you gotta wipe off your knees and keep going," Mr. Otero said.



Water from Buffalo Bayou flooded this Houston highway Sunday.

Measuring the Downpour

Highest rainfall totals for hurricanes and tropical storms in the U.S.

Hiki (Hawaii 1950)	52 inches
Harvey (forecast)	50
Amelia (Texas 1978)	48
Easy (Florida 1950)	45
Claudette (Texas 1979)	45
Allison (Texas 2001)	41
Paul (Hawaii 2000)	39
Georges (Florida 1998)	38
Danny (Alabama 1997)	37
Unnamed (Texas 1960)	30
Debby (Florida 2012)	29

Sources: NOAA National Centers for Environmental Prediction; National Hurricane Center (Harvey)

THE WALL STREET JOURNAL.

By the Numbers

50

Average annual rainfall in Houston, in inches

50

Maximum rain amount forecast for the region from Harvey

6.5

How many millions of people are threatened with flooding in the Houston area

3,000+

Number of people rescued from cars and homes over the weekend due to the storm

that the worst of the flooding might not be over, with more days of heavy rain forecast.

Mr. Abbott and other state officials have disagreed over the past few days with local Houston officials about whether the region should be evacuated. On Friday, Mr. Abbott urged coastal residents, including residents of Houston, to "strongly consider evacuating." But city officials said that wasn't necessary.

He also said Ben Taub Hospital, Houston's main public hospital, was being evacuated because of flooding. Later, Bayshore Medical Center in Pasadena, Tex., on the outskirts of Houston, said it was receiving nearly 200 patients because of rising water.

Mr. Emmett, a Republican, bristled at criticism that the city should have evacuated.

"To suggest we should have evacuated two million people is an outrageous statement. What we're facing now is an effort to respond to a tragedy...We've never seen water like this before," he said.

Forecasters said the storm might drop even more rain than initially expected over Texas.

Harris County Judge Ed Em-

mett, the area's top emergency official, asked citizens with boats to help rescue people trapped by rising water in their neighborhoods. Boats and other vehicles the city hoped to receive from the state couldn't arrive because roads were blocked by flooding, he said.

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Mr. Turner defended the decision not to order a mandatory evacuation, saying it would have been more dangerous for so many residents to try to travel through the heavy rains. Harvey was also pummeling San Antonio and Austin, the logical locations for fleeing Houstonians.

"You cannot put, in the city of Houston, 2.3 million people on the road," said Mr. Turner, a Democrat. "You give an order to evacuate, you are creating a nightmare."

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STORM BATTERS TEXAS

New Dangers For Flood Insurance

BY RACHEL WITKOWSKI
AND LESLIE SCISM

Hurricane Harvey poses new hazards to a giant U.S. flood insurer already facing mounting debt and a reauthorization fight in Congress.

The National Flood Insurance Program, created about 50 years ago because private insurers were unwilling to risk catastrophic flood losses, could be inundated with billions of new claims following Harvey's initial Category 4 winds and colossal rainfall.

Yet the U.S. program is scheduled to expire on Sept. 30 and has just \$5.8 billion left it can borrow from the Treasury to meet new claims, according to January figures reported to Congress. Many people buy the government policies through private-sector insurers, which are compensated for that service.

Members of Congress are discussing a number of options, ranging from a temporary renewal of the program to a more-comprehensive fix designed to return the program to solvency. Congress returns from recess on Sept. 5.

"From a public-policy perspective, Hurricane Harvey reinforces the narrative of why the national flood-insurance program is so important and needs to be addressed," said Christopher Gillott, legislative director for Sen. Bill Cassidy (R., La.).

What makes the debate in Washington so challenging is that the program already has a debt of roughly \$25 billion from earlier weather disasters. Much of that is from Hur-

cane Katrina in 2005 and superstorm Sandy in 2012. Sandy alone cost \$8.4 billion initially, according to the Federal Emergency Management Agency, which manages the program.

The program had to borrow another \$1.6 billion from the Treasury in January just to pay interest on its debt and storm claims, according to FEMA.

It will take days, if not weeks or longer, for claims to emerge from Hurricane Harvey. More than 200,000 homes along the Texas coast could be at risk, according to information and analytics firm CoreLogic. In 30 Texas counties labeled disaster areas by the state's governor there are nearly 450,000 NFIP policies covering \$125.7 billion in insured value, according to the program's website. More than half that value is in heavily populated Harris County, which includes Houston.

Previous interruptions of the flood-insurance program have triggered delays in thousands of home sales during the lapses.

Sticking points in Congress include whether lawmakers will address the federal program's finances in part by increasing rates gradually for homeowners who currently pay well below the actuarial risk of flooding.

Program critics have said many policyholders are getting bargain rates compared with what private-sector insurers would require and that taxpayers in drier parts of the country are subsidizing those in flood-prone states.



Emily Zurawski cried while inspecting her home in Port Aransas, Texas, on Sunday. Wind and rain hit the coastal city hard.

Strong Capital Cushions Industry

The damage from Hurricane Harvey, which hit the Texas coast on Friday, is far from being tallied. But the insurance and reinsurance industry has a fatter-than-ever cushion to absorb losses from the Category 4 storm, executives and analysts say.

Harvey's timing is good for insurers and insurance customers from one perspective: Personal and commercial insurers

have record levels of capital, the money they have on hand that isn't required to back obligations. With insurers' overall strong position, Harvey is unlikely to cause extensive damage to the industry's financial strength, though it could hurt quarterly earnings for those carriers with blocks of business in hard-hit areas.

Most residential flooding isn't covered by private-sector insurers, but is the responsibility of the U.S. government's National Flood Insurance Program. Many carriers, however, do sell flood insurance to businesses.

Analysts estimate it would take \$100 billion or more of losses in a 12-month period to cause distress within the insurance industry. Hurricane Katrina in 2005, the costliest hurricane in U.S. history, caused nearly \$50 billion in insured losses in 2016 dollars, according to Wells Fargo Securities LLC.

"You would need to see a significant level of insured losses to have an impact on the excess capital of the industry [and] have a material impact on the pricing environment," said Elyse Greenspan, an analyst at Wells Fargo Securities, last week.

Years of moderate damage from natural disasters have bolstered insurers' capital bases.

U.S. property-and-casualty insurers had \$709 billion in surplus in the first quarter of the year, a record high, according to the Insurance Information Institute, a trade group.

While the industry is strong overall, there could be some hit to insurers with large Texas operations. Insurers are preparing for hundreds of thousands of claims from homeowners, car owners and businesses.

—Nicole Friedman
and Leslie Scism

FUEL

Continued from Page One

Exxon Mobil Corp. closed its Baytown refinery, located on the Houston Ship Channel, when floodwaters from Harvey paralyzed large portions of the area after Harvey was downgraded to a tropical storm from a hurricane.

The plant is the second-largest refinery in the country, processing as much as 560,000 barrels of oil a day and feeding fuel into pipelines and barges that move it across the southeastern U.S. and up the East Coast.

Harvey's projected path as of Sunday night included an even bigger refinery in Port Arthur, Texas, that is owned by Saudi Arabian Oil Co. and produces 600,000 barrels of fuel a day.

Several other companies confirmed that they stopped making fuel at plants in areas hit by Harvey, including Royal Dutch Shell PLC in Deer Park, Texas, and Brazil's state-controlled oil company, Petróleo Brasileiro SA, in Pasadena, Texas. Those plants produce a total of 435,000 barrels a day.

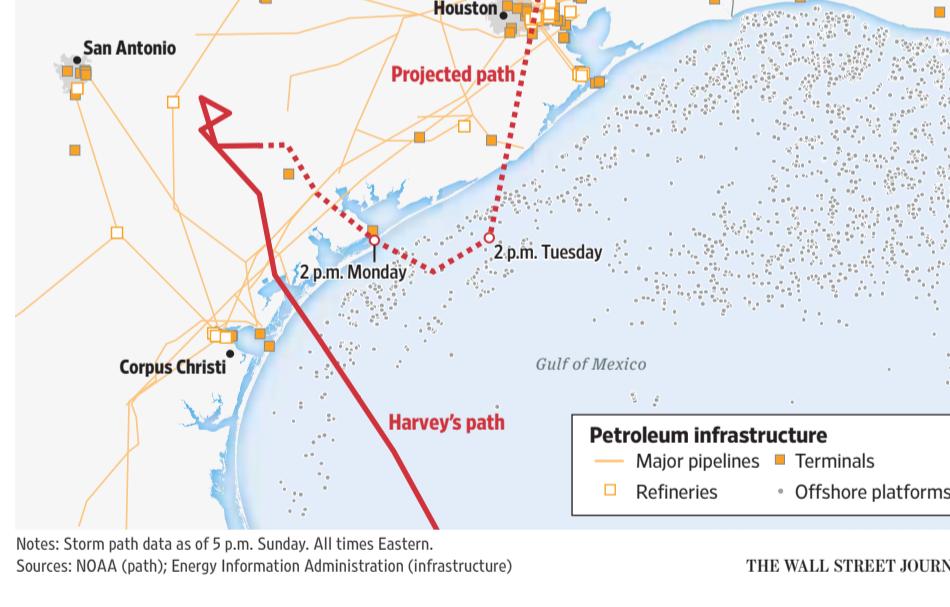
Some plants are still running but at reduced output. LyondellBasell said its refinery in Houston wasn't damaged by Harvey but is making less fuel than normal because of logistical constraints in the Houston Ship Channel.

It isn't clear how long affected refineries could stay closed. When plants flood, as they did in Louisiana during Hurricane Katrina in 2005, it can take weeks or months to get new electrical equipment and other parts installed.

Some plants that are capable of reopening could stay shut as

Into the Oil Patch

Harvey is making its way through one of the busiest areas of the petroleum industry.



Notes: Storm path data as of 5 p.m. Sunday. All times Eastern.
Sources: NOAA (path); Energy Information Administration (infrastructure)

they wait for ports to rebuild and reopen so ships bringing oil deliveries in and taking deliveries out can resume operations.

Phillips 66, which shut down its refinery in Old Ocean, Texas, said it would provide as much fuel as possible from other plants and storage tanks. It urged stations not to unfairly hike prices.

Energy companies said they are still assessing the damage. Even if their plants don't sustain much damage, they count on the Houston Ship Channel, a vital waterway for the U.S. energy industry, to move imported crude oil into the state and refined fuels out. It has been shut since Friday.

All the refineries in the hard-hit Corpus Christi, Texas, area are closed, so the additional shutdowns in the Houston area are likely to deepen concerns about the possibility of fuel shortages. Harvey's overall toll on fuel-making capacity is estimated to be at least 2.2 million barrels a day.

Valero Energy Corp. said its two refineries in the Corpus Christi area that were shut before Harvey came ashore Friday didn't sustain much damage, so the company was looking for a way to restart operations. Bringing them back also requires the port to be functional. Valero didn't estimate when the two plants would go back into service.

Harvey's path cuts right through the heart of the U.S. oil infrastructure. The Texas coast is home to nearly 30% of the country's refining capacity. Half of that is produced by plants in the Houston area.

Houston is also the starting point of the Colonial Pipeline, a massive fuel-moving artery that takes gasoline, diesel and jet fuel as far north as New York. As of Sunday afternoon, there was no impact to the pipeline's operations.

Magellan Midstream Partners, which runs several oil and fuel pipelines in and out of Houston, suspended many of its operations. Midstream's refined petroleum pipelines carry gasoline and other fuels to 12 Mid-

western states.

The worst impact might be still to come. Four big fuel-making plants are located in the Port Arthur area. Harvey is expected to linger over Texas until Thursday.

Analysts said fuel prices could climb if flooding and high winds prompt more refinery shutdowns and prevent fuel from flowing to other parts of the U.S. Harvey's damage to the energy infrastructure could exceed the damage caused by Katrina and Rita more than a decade ago, the analysts said.

"The market next week is going to be quite awful," said Philip Verleger, an energy economist.

Harvey's impact might be cushioned by a relatively large stockpile. U.S. refiners churned out record amounts of fuel during the summer, and there is enough gas in storage to cover 23.7 days of demand, compared with 20.5 days in the weeks before Katrina, according to the U.S. Energy Information Administration.

East Coast storage tanks hold more than 63 million barrels of gasoline, a supply of more than two weeks, compared with about 52 million before Katrina.

The global impact of Harvey could be more dramatic. Gulf Coast refineries have become more important suppliers of fuel around the world, with 17% of the gasoline and 39% of the diesel generated in the region sold to overseas buyers, according to consulting firm Turner, Mason & Co.

Harvey also shut down several offshore oil and gas platforms in the Gulf of Mexico, where roughly 22% of offshore oil production has stopped.

—Christopher M. Matthews
contributed to this article.

Airports Stay Shut, Flights Are Canceled

BY SUSAN CAREY

Hurricane Harvey is expected to disrupt U.S. air travel this week as Houston's two airports remain closed and heavy rain continues to fall across Texas.

United Continental Holdings Inc. canceled all flights to and from its hub at Houston's George Bush Intercontinental Airport through Monday at noon. The Federal Aviation Administration said the smaller William P. Hobby Airport closer to downtown Houston would stay closed until Wednesday as historic rainfall drenches the fourth-largest U.S. city continues.

Southwest Airlines Co. said its flights at Hobby are canceled until Monday. The discount airline said it recommends that passengers "shelter in place" at Hobby.

Flight-tracking website FlightAware.com said 1,664 flights were canceled as of midday Sunday as a result of the storm.

About 817 flights were delayed, an uncharacteristically small number for such a weather event, kept in check by the large number of flights airlines canceled pre-emptively.

According to FlightAware, 89% of the flights scheduled to leave Bush Intercontinental were scrubbed Sunday, or 547 flights, and 539 planes scheduled to leave, or 88%, also were canceled. At Hobby, 96% of scheduled outbound and incoming flights, 160 each, were scratched, according to FlightAware.

American Airlines Group Inc. said it canceled 110 flights Sunday, mostly to and from Houston. The nation's largest airline by traffic has a hub in Dallas/Fort Worth International Airport, which wasn't affected.

Airlines continued to give fliers the chance to change their travel dates without incurring change fees, and in some cases to rebook without encountering higher fares.

Evacuation Disaster Influenced Decision to Stay

BY CHRISTOPHER M. MATTHEWS

HOUSTON—A split between Texas Gov. Greg Abbott and Houston Mayor Sylvester Turner over whether the metropolis should have been evacuated is raising questions about officials' response to damaging floodwaters as a catastrophe continues to engulf the region.

Mr. Turner, a Democrat, and other local officials urged residents to stay in their homes as Hurricane Harvey, which has

since been downgraded to a tropical storm, approached.

But at a Friday news conference, Gov. Abbott, a Republican, suggested otherwise. "Even if an evacuation order hasn't been issued by your local official, if you're in an area between Corpus Christi and Houston, you need to strongly consider evacuating."

The offices of Messrs. Turner and Abbott didn't respond to requests for comment.

Families were stranded on

rooftops, and parts of the city that residents say hadn't flooded before were submerged.

Looming over the decision not to evacuate was Houston's experience with Hurricane Rita. More than 100 people died while evacuating as 2.5 million people fled that storm in 2005. Some of the stories were horrific—23 nursing home patients were killed as a bus evacuating them caught fire and exploded near Dallas. Houston hasn't ordered evacuations ahead of

hurricanes since then.

Retired Army Lt. Gen. Russell Honoré, who led the Department of Defense response to hurricanes Katrina and Rita, said that experience has made officials wary of ordering an evacuation. But, he said, officials should have evacuated flood-prone neighborhoods as well as vulnerable populations like the elderly and homeless.

He also said Gov. Abbott should immediately mobilize the entire National Guard. So

far, 3,000 guardsmen have been activated. Mr. Honoré said the state would need closer to 15,000.

Mr. Turner defended his decision on Sunday, saying it would have been foolish to evacuate 6.5 million people from Houston and surrounding areas without knowing the course of the storm. Gov. Abbott said at a press conference that there was good communication between state and local officials.

WORLD NEWS

Iraq Forces Take Islamic State Stronghold

Militants are cleared from Tal Afar, once a way station between Mosul and Raqqa

ERBIL, Iraq—Iraqi forces have driven Islamic State from the town of Tal Afar, the Iraqi military said Sunday, clearing one of the extremist group's few remaining strongholds in the country.

By Ali A. Nabhan in Erbil, Iraq and Maria Abi-Habib in Beirut

Operations continued against the militants in a handful of surrounding villages, a military statement said. Army officials had said Saturday night they were nearly in full control of Tal Afar's historic center, moving toward the northern neighborhoods still held by Islamic State.

The surprisingly swift conclusion on Sunday came just one week into the battle for Tal Afar, which once served as a way station between the group's de facto capitals Mosul in Iraq and Raqqa in Syria.

As U.S.-backed Iraqi forces penetrated Tal Afar, it became clear Islamic State fighters either had abandoned the city ahead of the battle to seek refuge elsewhere, or had laid down their weapons to blend in with the local population, according to Iraqi military officials. While the militants fought back, their challenge was weaker than expected, the officials said.

"It looks like Iraq isn't [any longer] a priority [for Islamic State]," said Rasha al-Aqeedi, a researcher at Al Mesbar Studies and Research Center, a Dubai think tank focused on Islamic movements. "They're losing and have lost their veteran networks. The fighters probably won't stay in Iraq to defend their remaining networks, they're not strong enough to fight for. They'll opt to stay underground instead."



Fighters of the Hashid al-Shaabi, or Popular Mobilization Forces, which unite several of Iraq's powerful Shiite militias, advanced through Tal Afar on Saturday.

Al Qaeda in Iraq resurfaced in 2013, morphing into Islamic State. The Sunni Muslim militant group seized about one-third of Iraq's territory in a summer 2014 blitz, establishing its caliphate across Iraq and Syria. It since has carried out attacks across the Middle East and Europe.

Despite being uprooted from most of the territory it controlled over the past two years, Islamic State has been able to rely on a mix of operatives and supporters with no connection to the group, in-

spired to carry out attacks.

One of the last large, strategic Iraqi towns under Islamic State control is Hawijah, in the oil-rich province of Kirkuk. It is likely to be the next offensive for the Iraqi military and the U.S.-led coalition that is providing support, according to Iraqi military statements.

The group's remaining resources in Iraq are concentrated heavily along the border with Syria.

Military spokesman Brig. Gen. Yahya Rasool credited the experience of the battle-hard-

ened Iraqi military in retaking Mosul—a nine-month-long operation that ended in July—for the victory in Tal Afar. The strategy of surrounding and cutting off Tal Afar for nearly a year also contributed to the swift victory by severing Islamic State supply routes while U.S.-led coalition airstrikes helped destroy important targets, he added. Some 200,000 people were living in Tal Afar as of June 2014.

Meanwhile, in Lebanon, a separate battle against the extremist group, also launched a week ago, was coming to a

surprisingly quick conclusion as well, marking the likely end of the terror network's hold in that country. The army, which is fighting to expel Islamic State from its foothold there, on Sunday announced a cease-fire with the extremist group.

The military is using the cease-fire to negotiate an end to its fight against Islamic State by expelling the remaining militants to the eastern Syrian province of Deir Ezzour, which is still largely in control of Islamic State. Their removal was expected to come

in exchange for the retrieval of the bodies of eight Lebanese soldiers kidnapped and killed by the extremists in 2014.

Deir Ezzour is quickly becoming Islamic State's last stronghold in its self-styled caliphate, as its fighters and leadership converge there from Iraq and other parts of Syria—and now, Lebanon. The Syrian Democratic Forces, a U.S.-backed group led by Kurdish militants, on Friday announced they would begin an offensive on Deir Ezzour "very soon," according to local media reports.



A boy found in the rubble after the liberation of Mosul was rescued by Iraqi army soldiers.

For ISIS, a Trail Of Lost Ground

The group has been driven from its urban redoubts over the past several years

A timeline of major urban victories against Islamic State in Iraq, including Sunday's in Tal Afar.

Mar. 31, 2015: Tikrit falls to Iraqi forces, Islamic State's first major loss in Iraq and biggest setback since seizing swaths of territory across Iraq and Syria in 2014. Fighting for the city, symbolic as the birthplace of former dictator Saddam Hussein, takes three months.

Nov. 13: Iraqi Kurdish fighters stream into Sinjar after announcing its retaking from the extremist group. The battle for the northern city is a then-rare victory against Islamic State in Iraq and involves some 7,500 Kurdish forces backed by the U.S.

Dec. 28: Iraqi forces declare victory in Ramadi, the capital of Anbar province. Fleeing residents describe near-starvation and use as human shields.

June 26, 2016: Fallujah is declared liberated by Prime Minister Haider al-Abadi. The city, once used as a staging ground by Islamic State, is widely seen as a test of the army's preparedness for a coming battle to re-

take the much larger city of Mosul.

July 11, 2017: Islamic State's Iraqi stronghold Mosul, the country's largest city, is declared liberated by Mr. Abadi. The more than nine-month battle triggers an epic humanitarian crisis, as hundreds of thousands of residents are displaced.

Aug. 27: Tal Afar, the militants' last key Iraqi redoubt and a former transit point between Mosul and Raqqa, falls after just one week of fighting. Iraqi military officials cite for the swift victory factors including Islamic State's depleted resources.

—Karen Leigh

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Businesses Flee Brazil Rules for Paraguay

By JEFFREY T. LEWIS

CIUDAD DEL ESTE, Paraguay—This remote country, long known for contraband traffickers and a 35-year dictatorship, is now becoming something else: a manufacturing hub.

Paraguay has attracted scores of foreign factories since 2013, as predominantly Brazilian companies respond to new incentives by flocking to this gritty border city.

Koumei SA, a family-run Brazilian light-fixtures company, is typical. Its owners moved the plant and about 150 jobs here last year, saying they were fed up with Brazil's high taxes and complicated labor rules. "It's just easier here," said Seiji Abe, who directs the company with his father.

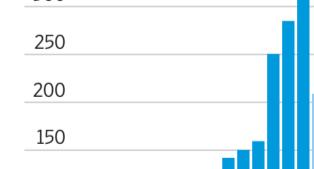
The shift from Brazil comes as Latin America's biggest country is trying to stabilize an economy that has contracted 7.2% in the past three years. A series of corruption scandals has also roiled the political class, leaving Brazilian President Michel Temer in a tenuous position as he tries to revamp the economy.

Brazil ranked 123rd out of 190 in the World Bank's 2017 survey on ease of doing business. Companies there say they are bedeviled by rules that smother entrepreneurial impetus.

"The regulations are absurd," said João Carlos Komuchena, owner of Kompar SA, a company that makes small

On the March

Exports by foreign companies operating under Paraguay's maquila program have soared since President Horacio Cartes came to power in 2013 and added new incentives.



*Through the end of June.

Source: Paraguay Ministry of Industry and Trade

THE WALL STREET JOURNAL.

plastic bottles used for packing soy sauce and other products that moved to Paraguay from Brazil last year. "We need to wake up in Brazil; there is a lot of prejudice against business."

Enter Paraguay. Ruled until 1989 by dictator Alfredo Stroessner, it was long known for corruption, violent crime and drugs, tobacco and armaments smuggling, as well as its commodity agricultural exports. Paraguay began trying to attract manufacturers in 2000 with a series of incentives. President Horacio



Maida Soto at the Koumei plant in Ciudad del Este in July

Cartes has hawked enthusiastically since he took office in 2013.

Paraguay's sales pitch to manufacturers: cheap electricity, less onerous labor rules, zero import taxes and only a 1% levy on the value of finished exported products.

To be sure, Brazil, with thousands of factories and 65 times the economic power of Paraguay, still dwarfs its neighbor. But for a small, landlocked country of nearly seven million people the shift is significant, not least for the 13,000 employed directly by the factories.

Maida Soto is among those benefiting from a Paraguayan factory job in a Brazilian-owned plant, allowing her to continue her nursing studies while providing her with enough of a salary to buy a motor scooter. Her work conditions here are better" than in the hospital where she previously worked, she said, taking a break from drilling holes in a lighting fixture at the Koumei plant.

Brazil acknowledges the flow of manufacturing investment into Paraguay and agrees it is a result of the red tape, bureaucracy and taxes Mr. Temer's administration is trying to overhaul.

Finance Minister Henrique Meirelles said the administration wants to change bankruptcy law, simplify the tax system and reduce the cost of credit. But the government doesn't have broad backing for its efforts and has put in place only 12 of 213 proposed business reforms since taking office last year, Mr. Temer's office said.

WORLD NEWS

Guatemala Faces Political Crisis Over U.N. Probe

BY DUDLEY ALTHAUS

MEXICO CITY—Guatemala's political crisis deepened on Sunday when a constitutional court temporarily barred President Jimmy Morales from expelling a United Nations-backed anticorruption prosecutor probing allegations of illegal financing in the president's 2015 election campaign.

Several cabinet members resigned to protest the president's expulsion order, and hundreds of protesters in Guatemala City gathered outside the presidential palace and the foreign ministry as Mr. Morales held an emergency meeting with remaining members of his government.

Earlier in the day, Mr. Mo-

ralles said he was acting "in the interests of the Guatemalan people, the rule of law and institutionality" by ordering Ivan Velásquez, the Colombian prosecutor who heads the U.N.'s anticorruption agency in Guatemala, to leave the country and declaring him "persona non grata."

The attempt to expel Mr. Velásquez, who has received strong support from across Guatemalan society and from the U.S. and other foreign governments, has sharpened the country's constitutional crisis over the corruption probe, analysts say.

Besides Sunday's court injunction against his expulsion order, Mr. Morales has also faced resistance from within his own government. The president said he had fired Foreign Minister Juan Carlos Morales, who isn't related to him, and the deputy prime minister, after they refused to implement the order, according to local media reports. The ministers couldn't immediately be reached for comment.

"[Morales] has completely isolated himself," Eric Olson, a Central America expert at the Woodrow Wilson Center in Washington, said of the Guate-

malan president. "The international community is completely united and it looks like they are going to take a very hard line on this."

Mr. Velásquez and Attorney General Thelma Aldana announced Friday that investigators have identified at least \$825,000 in anonymous contributions to the president's election campaign that went unreported to regulators. As secretary-general of his political party, Mr. Morales is le-



Demonstrators protesting President Morales on Saturday, above; U.N. workers outside Cicig headquarters Sunday, in Guatemala City.



The president ordered an expulsion two days after a request to lift his immunity.

ralles said he was acting "in the interests of the Guatemalan people, the rule of law and institutionality" by ordering Ivan Velásquez, the Colombian prosecutor who heads the U.N.'s anticorruption agency in Guatemala, to leave the country and declaring him "persona non grata."

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gally liable for the alleged transgression, they say.

If the high court approves the request, Mr. Morales's immunity could subsequently be revoked by a two-thirds vote in Congress.

The gathering crisis echoes a scandal two years ago that led to the resignation of then-President Otto Pérez Molina, his vice president and other officials. Mr. Velásquez at that time was investigating a customs-fraud ring.

Commission Has Powers, Popularity

The United Nations-affiliated commission at the center of Guatemala's latest political crisis was created 10 years ago to help the country's fragile public institutions take on criminal networks that had their origin in the country's decadeslong military dictatorship and civil war. The International Commission Against Impunity in Guatemala, or Cicig, was the first commission of its kind ever created by the U.N.

Under the 1996 peace pact that ended the conflict, which killed some 200,000 people, the government agreed to dismantle shadowy counterinsurgency groups tied to the army.

But in the ensuing years, the networks morphed into criminal gangs, using their ties to the intelligence agencies and military to penetrate the government and carry out crimes.

from fraud to murder and drug trafficking. Human-rights activists and Guatemalan officials—backed by the U.S. and other governments—requested help from the U.N., which created Cicig in 2007 to take on groups that "threaten human rights as a result of their criminal activities and capacity to act with impunity."

The agreement gave Cicig unprecedented power within a sovereign state, including the right to launch probes and act as a plaintiff in criminal cases.

Cicig's two-year terms have been renewed five times to date. While opinion polls have indicated that Cicig is among Guatemala's most trusted institutions, it has faced pushback by some in the government and in corrupt business circles.

"Cicig showed them that all people can be judged under the law, and that's significant," said Adriana Beltrán at the Washington Office on Latin America.

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WORLD NEWS

Ex-Premier's Flight Lifts Thai Military

Yingluck's departure before verdict in negligence trial eases threat of mass protests

BY JAMES HOOKWAY

BANGKOK—Thailand's military junta might have got the result it wanted when former leader Yingluck Shinawatra fled the country before a court could hand down a verdict in her negligence trial last week.

Her flight freed the generals from the risk that she could be viewed as a martyr if she were convicted and jailed for allegedly mismanaging a botched multibillion-dollar rice subsidy. Ms. Yingluck, 50 years old and the mother of a young son, was facing up to 10 years in prison for a crime she says she didn't commit. Thousands of supporters, many of whom benefited from the subsidy before her government was ousted in 2014, converged on Bangkok to hear the verdict last Friday, matched by as many if not more police.

While the prospect of mass disturbances appears to have been averted, many people here say the political forces Ms. Yingluck and her older brother Thaksin Shinawatra unleashed with their policies favoring the poor will continue to pose a threat to Thailand's militarist old guard. And the turmoil that has hamstrung what was once one of Asia's fastest-growing economies will likely continue.



Former Prime Minister Yingluck Shinawatra greeted supporters as she left the Supreme Court in Bangkok earlier this month.

appeal to the poorer segments of Thai society who had largely been ignored. A one-time telecommunications billionaire, Mr. Thaksin introduced cheap credit and health-care programs to help boost living standards and remains the only Thai premier to have been re-elected.

After Mr. Thaksin fled the country following the 2006 coup, Ms. Yingluck was elected in a landslide and put in place a rice subsidy that involved paying farmers up to double the market price for their crops.

The program was wildly popular among farmers, who enjoyed a surge in living standards. It helped the economy, too, for a time. Around 40% of Thailand's workforce depends on agriculture and Ms. Yingluck repeatedly defended the policy in court as a way of redistributing wealth for the benefit of all Thais. Her government intended to pay for the program by withholding its new stocks of rice from the global market, steering prices higher.

Instead, India entered the market after a long absence and Vietnam expanded production. Thailand fell from its position as the top rice exporter, and the government was left with vast stockpiles it had to sell at loss. Officials estimate the program cost Thailand at least \$15 billion, and the army and its allies in Bangkok's royalist establishment used the shortfall as an argument for removing Ms. Yingluck as a political force.

In October, the junta ordered Ms. Yingluck to pay nearly \$1 billion in civil damages.

"The Shinawatras left a crucial imprint upon Thailand of waking up the political aspirations of Thailand's rural majority with the implementation of welfare policies. Rural voters are not likely to forget this," said Paul Chambers, an expert on the country's politics and lecturer at the College of ASEAN Studies at Naresuan University.

The government didn't respond to requests for comment. People familiar with the mili-

tary's thinking said the junta had grown wary of mass protests erupting if Ms. Yingluck were jailed. They feared a repeat of the rioting in Bangkok after a 2006 coup ousted Mr. Thaksin, who fled the country to evade a corruption conviction.

It isn't yet clear where Ms. Yingluck has gone. Her brother Mr. Thaksin spends much of his time in Dubai. She couldn't be reached for comment.

A person close to the Shina-

watra camp suggested that Ms. Yingluck's decision to leave was left to almost the last minute after it became clear there was a very real risk of her being jailed. Previously she had said in interviews that she intended to pursue the case to the end. "It's better for all sides if she just disappeared," this person said.

In the short term, the country's junta will gain from Ms. Yingluck's exit from the politi-

cal stage, Mr. Chambers said. Prime Minister Prayuth Chan-o-cha, the former army chief who ousted Ms. Yingluck's government three years ago, is making the most of the situation. "If she's not guilty she should stay and fight," Gen. Prayuth said.

The Shinawatras' political machine isn't finished. The family has dominated politics since the turn of the century after tailoring economic policies to

U.K.'s Labour Advocates Prolonging Some Europe Ties

BY JENNY GROSS

LONDON—Britain's opposition Labour Party is coming off the fence over Brexit, putting pressure on Prime Minister Theresa May to pursue a closer relationship with the bloc than many supporters of her ruling party want.

Emboldened by the surprise results of a June election that delivered a rebuke to Mrs. May, Labour is showing signs it is prepared to more directly challenge her, taking a stronger stand on several pivotal issues. The party on Sunday said it would support Britain's continued membership in the EU's single market and customs union during a transition period out of the bloc, and possibly permanently, marking a clear divide from the Conservatives' stance.

The government can usually rely on its own members of Parliament to toe the party line. But after Mrs. May's party lost its majority she has less room if a handful of pro-EU Conservatives choose to side with Labour lawmakers.

Labour has been in a difficult situation because its supporters are divided, with many traditional working-class voters in the heartland backing Brexit and cosmopolitan city dwellers and trade unions hoping to retain strong ties with Europe. More than a third of Labour Party supporters voted for Brexit, according to an estimate by pollster YouGov PLC, though the party supported staying in the EU.

Labour leader Jeremy Corbyn—who expressed only tepid opposition to Brexit before last year's referendum—has been largely quiet in recent weeks. But other top party figures are speaking out postelection, sending significant signals.

Mrs. May's government wants Britain to leave the tariff-free single market and customs union to take control over immigration, including during a planned "interim" period meant to enable an orderly transition to a new economic relationship. Brexit Secretary David Davis will meet with the EU's chief negotiator Michel Barnier on Monday and will call on both sides to use "imagination" as they hash out solutions to difficult issues like how Brexit will affect the Irish border.

Mr. Corbyn last month took a similar line to the Conserva-

tives on Brexit, saying Labour wanted the U.K. to leave the single market. But senior party figures, including its No. 2 and its point man on Brexit, in recent weeks shifted that stance, keeping open the possibility of staying during the

transition. On Sunday, the party went further.

"No mixed messages," Labour's Brexit spokesman wrote in an article in the *Observer* newspaper. "Labour would seek a transitional deal that maintains the same basic

terms that we currently enjoy with the EU."

Labour has also demanded Mrs. May allow the European Court of Justice to continue to have a role in disputes between the U.K. and the bloc, which businesses say will ease trade barriers. The party's platform issued ahead of the election didn't mention the court, which has been a central concern of Mrs. May.

The party has called on Mrs. May to retain membership in a handful of EU agencies that regulate or coordinate policing, medicine and nuclear energy.

Brexit secretary Keir Starmer has increasingly spoken out, saying last month he would work with lawmakers across the political spectrum to pressure Mrs. May to stick to the EU treaty that governs nuclear energy.

A U.K. government spokesman declined to comment on Labour's stance. A spokesman for the Conservatives said Labour's plan is "a weak attempt to kick the can down the road."



JEFF ODESSY/BBC/REUTERS

Labour's Brexit spokesman Kier Starmer has been more vocal.

Woman Succumbs to Injuries, Bringing Barcelona Toll to 16

BY JEANNETTE NEUMANN

MADRID—A 51-year-old German woman died from injuries suffered when a man plowed a van through pedestrians in Barcelona, elevating to 16 the number of people killed in Spain's deadliest terrorist attack in more than a decade.

Health officials announced the death on Sunday but didn't provide additional information on the woman.

Two dozen people remain hospitalized following the Aug. 17 attack in Barcelona and another, hours later, in the seaside town of Cambrils.

Five of those hospitalized remain in critical condition, according to the health de-

partment of Catalonia, the Spanish region where the attacks unfolded. Government officials had previously said they thought the death toll could rise given the severe injuries of many of the wounded.

Thirteen people were killed Aug. 17 when a white van jumped the curb of Las Ramblas, Barcelona's most famous street, and the driver picked up speed as he drove about 2,200 feet along a pedestrian promenade.

The driver fled the van and then killed another man by stabbing him. He stole the man's vehicle and used it as a getaway car. After a four-day manhunt, the driver, 22-year-old Younes Abouyaaqoub, was

shot and killed by police.

Hours later, in the seaside town of Cambrils, alleged terrorists also hit people with a vehicle, killing one woman. Five suspects were then killed in a shootout with police.

It was the worst terrorist incident in Spain since 2004, when terrorists blew up four commuter trains in Madrid, killing 191.

Ten people suspected of being involved in plotting and executing the attacks are either in jail or dead. Prosecutors and police are now focusing on piecing together the plot and on the international connections the suspects had.

On Saturday, hundreds of thousands of people gathered in Barcelona for a peace march.

About 500,000 people demonstrated Saturday afternoon close to Las Ramblas.

The marchers chanted "I'm not afraid" in Catalan, one of the languages of the region, as they walked through Spain's second-largest city.

Prime Minister Mariano Rajoy and King Felipe VI were present. They were greeted by some whistles in protest from the crowd, reflecting existing tensions between the city and Madrid that have increased during the inquiry into those responsible for the attack.



MATTHIAS OESTERLE/ZUMA PRESS

A demonstration Saturday in Barcelona in support of the victims.

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SAN DIEGO, CA	31 Aug., 01 Sept.	Doubletree Hilton Hotel San Diego Downtown	484 542 2632
SEATTLE, WA	02, 03 Sept.	Seattle Marriott Waterfront	484 542 2632
DENVER, CO	04, 05 Sept.	The Westin Denver Downtown Hotel	484 542 2632
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NASHVILLE, TN	12, 13 Sept.	Nashville City Club	484 542 2632
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IN DEPTH

Ask Not for Whom the Bell Tolls. They Won't Answer.

Smartphone-savvy millennials and Gen Zers are so used to texting upon arrival that the sound of a ringing doorbell freaks them out.

By CHRISTOPHER MIMS

Chanhan Walia, a sophomore at University of California, Berkeley, can't remember the last time he used a doorbell or even knocked on a door.

It's not as if they aren't there. At home, his father installed a fancy, Wi-Fi-connected doorbell. Mr. Walia, 19 years old and a computer science major, says he just isn't comfortable ringing them. He and his friends have become so accustomed to texting one another upon arrival, he says, that the sound of a doorbell feels like an unexpected jolt.

"Doorbells are just so sudden. It's terrifying," says Tiffany Zhong, 20, the founder of Zebra Intelligence, which helps companies conduct custom research and gather insights on people born in the past two decades.

There's no published research about doorbell phobia, but it's a real thing. In a poll by a Twitter user earlier this month that got more than 11,000 votes, 54% of respondents said "doorbells are scary weird." Some millennials and Gen Zers say they won't even consider answering a ring at the door until they've checked the security camera.

The doorbell freak-out reflects the ascendance of mediated communication, which means people interacting through technological devices rather than directly. It's not so much about screen time versus face time as it is a merger of the two.

Smartphones provide extra information thought by users to be vital to day-to-day interactions. Without smartphones to help, encounters can feel fraught.

"Typically, doorbells are for outsiders," says Ms. Zhong, whose LinkedIn profile describes her as a "teen whis-



A Wi-Fi-linked doorbell and camera made by Ring, above, allows communication without eye contact. UPS drivers still ring the bell.

perer." A text signifies it's a friend."

An entire smartphone-wielding generation has begun communicating primarily via mobile device, even when other means are available.

According to Pew Research Center, 92% of Americans between the ages of 18 and 29 own a smartphone, the highest percentage of any age group. Just 42% of Americans who are at least 65 own a smartphone.

Many of the latest apps and services are tethered to mediated communication, from hailing a ride through Uber Technologies Inc. to ordering food on GrubHub Inc. to swiping left or right on Match Group Inc.'s Tinder. There are companies where the desk phone is optional but Slack Technologies Inc.'s Slack chat app isn't.

People in general are making fewer phone calls to one another, but the trend is mov-



ing especially quickly in customer service. The number of customer-service calls declined 17% from 2015 to this year at 1,351 businesses in 80 countries surveyed by consulting firm Digital Data.

Those calls are being supplanted by chat, bots and self-service options. Phone calls with actual humans are now just 54% of all customer-ser-

vice interactions with businesses, says Digital Data.

The communication shift has affected the company that rings more doorbells than any other in the U.S.: United Parcel Service Inc. UPS still trains its drivers to ring any doorbell available when making deliveries, but drivers don't wait for a live human unless a signature is required.

UPS also offers customers the ability to receive an email or text when a package is on its way. Customers can even track the location of the delivery truck. UPS says it built the technology because customers demanded it.

Since it launched its online service in 2009, GrubHub has given customers the option to specify that delivery persons text instead of ringing the doorbell, says a GrubHub spokeswoman.

Some young people say they shun the doorbell simply because they see no need for it. "It's like antiquated, knocking on doors is so far back that it predates any experience people my age have ever had," says Drake Rehfeld, a junior at the University of Southern California.

The doorbell isn't about to disappear. The National Association of Home Builders says there is no sign that new houses are being built without

doorbells, and they often are required by local building codes.

Like supermarket checkout lines and bank tellers, though, doorbells are being forced to change with the technologically disruptive times.

"When we call a car [using Uber], we watch it come to us," says James Siminoff, founder and chief executive of Ring, which makes a Wi-Fi-connected doorbell with an embedded camera.

He says Ring is primarily about giving people a way to have two-way communication with someone at their front door without ever actually having to make eye contact with the person.

Jean Twenge, a psychology professor at San Diego State University, says such innovations could further the decline in face-to-face interaction by teenagers and young adults.

"Electronic communication supplies some feelings of connection, but studies find it does not equal face-to-face interaction for emotional closeness or mental health," says Ms. Twenge, whose book "iGen" is about how smartphones may contribute to an epidemic of anxiety and unhappiness in young people.

Mr. Walia, the UC Berkeley sophomore, says he and his friends also don't ring doorbells because they'd rather not run into each other's parents. Other young people say the doorbell is a loser when it comes to efficiency. Why not just text to say you're about to get to the door?

"You carry your phone with you everywhere," says Adriane Kaylor, a freelance writer who lives in a New York City suburb. "It's basically the teddy bear for adults. I personally sleep with my phone under my pillow. It just makes sense to get the most out of it."

UBER

Continued from Page One
driving program.

He will also have to contend with a deeply divided board and shareholder base over the future of the company, as well as his predecessor, Mr. Kalanick, who sits on Uber's board and wishes to have strong input into the company's direction.

Mr. Khosrowshahi, an Iranian-American who has run Expedia for more than a decade, stands to potentially make a fortune at Uber if he can steer the company to a successful public offering. It isn't clear when Uber, valued last year by investors at around \$68 billion, may file for an IPO—but it is first working to shore up its finances to appeal to potential investors.

In 2015, Mr. Khosrowshahi was one of the most highly compensated chief executives in the S&P 500, receiving a pay package valued as much as \$94.6 million in mostly long-term stock options designed to get him to stay for several years.

In Mr. Khosrowshahi, Uber would get a longtime internet executive with deal-making experience and a track record of steady growth. He started his career at investment bank Allen & Co., impressing media mogul Barry Diller, chief executive of



Uber's board approved Dara Khosrowshahi as the firm's new CEO.

IAC, with his financial acumen.

He joined Mr. Diller's company in 1998, became financial chief of IAC, then called USA Networks, in 2002 and took over the CEO job of Expedia when it was spun off in 2005.

Mr. Khosrowshahi would inherit a 15,000-employee global concern that is still deeply unprofitable. It had losses of more than \$3 billion last year and nearly \$1.4 billion in this year's first half. It is still increasing sales, including reporting last week \$1.75 billion in revenue for the second quarter, up 17% from the first quarter. Full-year sales last year were \$6.5 bil-

lion.

Expedia, by comparison, had sales of \$8.77 billion last year, up 31% from the year before, with net income of \$281.8 million, which was down by 63% from a year earlier.

The choice of Mr. Khosrowshahi was a surprise given other, bigger candidate names that surfaced in the media. Over the weekend, directors met with Ms. Whitman and General Electric Co. Chairman Jeff Immelt for final presentations detailing their visions for the company in the top job.

Mr. Immelt removed himself from consideration on Sunday

morning after observing disorder and divisions among different factions of Uber's board, according to a person familiar with the matter.

Others said it was a face-saving move after he was advised he would not get the votes necessary to be elected to Uber's top job.

Ms. Whitman's candidacy was a source of bitter fighting among directors after she stated publicly in July on Twitter and last week in The Wall Street Journal that she wasn't interested in the position. Some directors felt Ms. Whitman's re-emergence was being pushed by Benchmark Capital, which has had a close relationship with her since her time as eBay Inc. CEO.

Benchmark has denied it advocated for Ms. Whitman. The firm earlier this month sued Mr. Kalanick, claiming he knew about misbehavior at the company when he persuaded the venture-capital firm and other shareholders to add three board seats under his control.

Mr. Kalanick and Matt Cohler, a partner at Benchmark, are both on the board and five-member CEO search committee. Mr. Kalanick has said the lawsuit is without merit.

The lawsuit, and competing claims and accusations among Uber's biggest shareholders, served as a distraction as the board aimed to complete the CEO search by early September.

CEO Honed Skills as Deal Maker With Diller

By DREW FITZGERALD

Uber Technologies Inc.'s next chief executive, Dara Khosrowshahi, isn't usually counted among the A-list of Silicon Valley chiefs, but the longtime internet executive brings a history of deal making and a track record of steady growth to the job.

Mr. Khosrowshahi, 48 years old, is closely tied to the media mogul Barry Diller, who hired the merger expert in 1998 when he was a young analyst at investment bank Allen & Co. He took over as CEO of **Expedia** Inc. in 2005 shortly after Mr. Diller spun out his travel properties.

Expedia has been a voracious acquirer ever since, especially over the past three years. It has swallowed Orbitz and Travelocity and bought vacation-rental service HomeAway to stave off Airbnb, another multibillion dollar startup. Expedia's market capitalization swelled to \$23 billion, second in the U.S. only to archrival **Priceline Group** Inc., though it is dwarfed by Uber's latest private valuation.

Mr. Khosrowshahi forfeits a generous pay package to work for Uber. The travel company

in 2015 awarded him compensation valued at nearly \$95 million over five years, though he would have needed to meet several aggressive performance targets each year to collect it all.

Born in Tehran, Mr. Khosrowshahi moved to New York state after the Iranian Revolution made it unsafe for his family, which ran several manufacturing businesses, to return from a vacation that happened to coincide with the coup. "We understood that we were incredibly lucky to be in the U.S.," he told The Wall Street Journal.

Mr. Khosrowshahi studied engineering at Brown University but switched to finance when he moved to New York. His big break came when he was a junior executive at Allen. Mr. Diller's QVC shopping network launched a hostile tender offer for Paramount Communications Inc. The bid ultimately failed, but the young adviser's number-crunching impressed Mr. Diller, whose company he joined in 1998.

He couldn't immediately be reached for comment on Sunday. Expedia didn't immediately respond to a request for comment.

WORLD WATCH

SINGAPORE

U.S. Navy Recovers Sailors' Remains

The U.S. Navy says it has recovered the remains of all 10 sailors who went missing when the USS John S. McCain collided with a tanker near Singapore a week ago.

The Navy said its divers had recovered all of the bodies. Diving teams had been painstakingly combing through flooded compartments inside the destroyer, after a multinational search at sea for the missing sailors turned up empty-handed.

The Navy identified the dead sailors as junior ranking servicemen mostly working as electronics and communications technicians, ranging in age from 20 to 29.

The McCain, a destroyer in

the Navy's Japan-based Seventh Fleet, had been steaming to Singapore from an operation to challenge Chinese and other claims in the disputed waters of the South China Sea in the early hours of Aug. 21 when it collided with the Alnic MC, a civilian tanker also on its way to the city-state.

The Alnic emerged lightly damaged, while the destroyer suffered a blow to its rear left side that crushed and flooded crew berthing and other areas. The bodies of the missing sailors were found by divers inside the ship.

It was the latest in at least three collisions of Seventh Fleet ships in the past year.

In June, the USS Fitzgerald hit a merchant ship, the ACX Crystal. Seven American sailors died in that accident.

—Jake Maxwell Watts

UNITED KINGDOM

Attacker Near Palace Questioned in Probe

Police said they had launched a counterterrorism investigation after three officers were injured arresting a man with a 4-foot sword outside London's Buckingham Palace.

Counterterror police are questioning the 26-year-old suspect, who drove a car in front of a police van in a restricted area near Queen Elizabeth's official residence late Friday, police said on Saturday.

The man reached for the sword after the unarmed officers approached the car and challenged him, police said, adding that the man repeatedly shouted "Allahu akbar"—Arabic for "God is great." During a struggle, the officers sustained minor injuries.

—Jason Douglas



GRIEF AND RAGE: Mourners turned the funeral of 17-year-old Kian Loyd Delos Santos—shot and killed by police—into a protest against Philippine President Rodrigo Duterte's bloody crackdown on drugs.

RICHARD JAMES M. MENDOZA/PACIFIC PRESS/ZUMA PRESS

GREATER NEW YORK

Taxi Drivers Get New Lease on Their Work Life

BY PAUL BERGER

If you have ever had trouble hailing a yellow cab in Midtown Manhattan during the evening rush hour, blame a decades-old rule requiring drivers to lease a car for 12 hours.

Many leases begin or end at 5 p.m., leading to a dearth of cabs during the evening rush as drivers head to and from garages in the outer boroughs.

That could start easing a bit on Monday as the city's Taxi and Limousine Commission begins testing a pilot program allowing drivers to lease a cab for shorter periods. They can do so for a prorated fee or for a 35% commission on fares.

12

Number of hours drivers were required to take out a yellow cab.

NYC Taxi Group, based in Brooklyn, will be the first to implement the program, which would expand if others sign up.

The commission announced the pilot program in October 2015, but this is the first time a fleet operator has signed up. "There was a lot of industry reluctance to change," said Taxi and Limousine Commission Chairwoman Meera Joshi.

Industry skepticism remains.

Michael Woloz, a spokesman for the Metropolitan Taxicab Board of Trade, which represents thousands of taxicab owners, warned that commission-based leasing, which favors driving during the most lucrative hours, "could result in less service during certain times and may have other implications on a fleet's overall ability to adequately serve the riding public."

The first company to enter

the program is doing more than offering drivers leasing flexibility.

Aleksey Medvedovskiy, the chief executive of NYC Taxi Group, has spent two years developing an app that unchains drivers from the garage model altogether. Mr. Medvedovskiy, who is 35 years old, is outfitting his fleet of more than 260 cars with technology that allows drivers to locate and unlock vehicles wherever they are parked.

Instead of a cab being based at Mr. Medvedovskiy's garage in Brooklyn, drivers can park a cab close to home.

A driver who wants a car can use the app, called Locus Driver, to see all vehicles that aren't in use on a map. He can book that car, unlock it with his phone and begin driving straight away.

Aziz Nizomov, a taxi driver who has beta tested the app for two months, said it has improved his working life.

It has cut hours of commuting to and from the garage and waiting in line for an available car. And it has reduced pressure because, working on commission, he no longer begins his day in the red having paid between \$100 and \$150 in fees and taxes.

"I want all the drivers to experience what I experienced," he said.

The yellow cab industry is struggling amid the rising popularity of ride-sharing apps such as Uber and Lyft. Yellow taxi farebox revenue declined 7.5% in 2015 and 8.8% in 2016, according to an analysis by Matthew Daus, a former NYC Taxi and Limousine Commissioner.

Mr. Daus said that unlocking drivers from a 12-hour shift should lead to better distribution of cabs during peak demand hours. He noted that it was safer for passengers too, because drivers wouldn't feel compelled to work a full shift even when they were tired.

The first company to enter



Marlon Peterson practiced last week with the D'Radoes Steel Orchestra in Brooklyn in preparation for their J'Ouvert performance.

STEVE REMICH FOR THE WALL STREET JOURNAL (2)

Parade Sparks Fear, Hope

The NYPD is boosting security for J'Ouvert, an event that has been marred by violence

BY ZOLAN KANNO-YOUNGS

Marlon Peterson tapped out melodies on old steel drums in a yard near a Brooklyn garage on a recent weeknight as he prepared for J'Ouvert, a 33-year-old parade that signals the start of Carnival for New York City's Caribbean community.

For Mr. Peterson, playing steelpan in the annual predawn event, which draws about 250,000 people each Labor Day weekend, is a way to celebrate Caribbean history and culture.

"People who were impoverished, people who people thought nothing of or were considered criminal created this instrument," said Mr. Peterson, 37 years old. "They literally made music out of garbage."

Less than 10 feet away, Lester Nicholson was preparing the tenor section of the D'Radoes Steel Orchestra for the Sept. 4 procession, held just before the city's West Indian Day Parade. But when the band marches, Mr. Nicholson won't be there. "Part of the reason is the violence that has happened over the years," he said.

Those dueling views mirror a long-simmering debate about the predawn celebration in Brooklyn's Crown Heights neighborhood.

J'Ouvert celebrations traditionally commemorate the end of slavery in Trinidad. The Brooklyn festivities began in 1984, when a group of performers broke off from the West Indian Day Parade to perform strictly steelpan music without DJs, said Yvette Rennie, president of J'Ouvert City International, the event's organizer. The party draws



Mother Mourns the Loss of Daughter

A 17-year-old man and 22-year-old woman died during last year's J'Ouvert celebration in Brooklyn, even as police doubled their presence at the festival.

Vertina Brown, the mother of the slain woman, Tiarah Poyau, initially called for the annual event to be shut down. She later changed her mind and decided to get involved with community meet-

ings to improve security at the celebration.

Ms. Brown, who is 42 years old, said she thinks security will be better this year, but added that "no one can really say this festival will be 100% safe."

"Every mother out there feels my pain, and I'm pretty sure they're not going to want their child to even go to J'Ouvert in fear that people have been dying for years," Ms. Brown said. "And to be honest, I don't blame them."

—Zolan Kanno-Youngs

large crowds, including gang members aware their rivals are likely to attend, and in recent years, the revelries have been marred by a series of shootings and stabbings.

In response to the violence, city officials have said they plan to use security tactics similar to those employed during the New Year's Eve celebration in Times Square. But for many participants, those precautions detract from the event and its traditions.

"People have been doing

this for years to replicate something that they loved about home," said Angela Howard, 52 years old, who has played in a steel band at J'Ouvert for 15 years. "We're seeing it constantly shoved into a smaller and smaller box."

In the past, steel bands gathered at Grand Army Plaza near Prospect Park at about 2 a.m. Donning flamboyant costumes, bands would blast music and splash paint as they marched along the parade's two-mile route between 4 a.m.

and 10 a.m.

This year, the event start time has been pushed to 6 a.m., and the route will be closed to the public the night before. Participants and spectators will be screened at 12 entry points with metal detectors along the parade route. The New York Police Department said it would add 10% more uniformed officers and 30% more light towers to streets.

"We have a sacred responsibility to keep everyone safe," said Mayor Bill de Blasio. "We believe this plan, developed with community leaders and community members, strikes the right balance."

Since 2006, 20 people have been shot during the celebration in the precinct where J'Ouvert takes place, according to the NYPD. Four of those died from their wounds, including Carey Gabay, a 43-year-old lawyer in New York Gov. Andrew Cuomo's administration who was caught in the crossfire of a gang shootout in 2015.

Past violence has caused city officials to consider the future of the festival before. When asked recently about the potential cancellation of J'Ouvert, Mr. de Blasio said he wouldn't "deal in hypotheticals."

Kernel Simon, 34, has been practicing daily with the Desperados U.S.A. steel band, but is unsure he'll join them for J'Ouvert. Mr. Simon isn't as worried about safety as he is about the later start time, which he says takes away from the parade's cultural significance. "As far as I see it, I think I'm seeing the end of J'Ouvert," he added.

Ms. Howard, the longtime participant, said she's approaching this year's festival with an attitude that is embodied by the lyrics of "Full Extreme," a song her steel band will play at J'Ouvert. "The lyrics say, 'The city will burn down, we're jamming still,'" she said.



GETTY IMAGES
Pilot program could make it easier to catch an evening rush-hour cab.

Heiress Believes in Manhattan GOP

BY MIKE VILENSKY

Andrea Catsimatidis has a bold idea for Manhattan Republicans: win elections.

"In 1993, (former Mayor Rudolph) Giuliani proved a Republican can be competitive in an overwhelmingly Democratic city," Ms. Catsimatidis told donors and activists last week. "We can be victorious again."

Ms. Catsimatidis, an executive at her father John Catsimatidis' multibillion-dollar company Red Apple Group, is the front-runner to become the new chair of the Manhattan Republican Committee, offering a fresh perspective to a club that has struggled locally despite the party's national gains.

While the national GOP has never counted on liberal Manhattan to help it gain power, the island holds a symbolic significance and serves as a fundraising stop for both parties.

"It's the most important county in the country, no matter if you're a Democrat or a Republican," said Mr. Catsimatidis, a donor to the Manhattan

ter-of-the-road."

Local Republicans are hoping Ms. Catsimatidis can help them expand the party as they face off with energized Democrats out of power in Washington. "She appeals to a broader constituency that we need to win seats," said Queens Councilman Eric Ulrich.

If elected chair by a few hundred committee members, Ms. Catsimatidis has her work cut out for her. Of Manhattan's 1.6 million people, Republicans hold 112,000 registrants to the Democrats' 780,400, according to the elections board.

In an interview, Ms. Catsimatidis touted growing the NYU GOP by bringing in out-of-the-box speakers and networking. "At NYU I learned the animosity we face as Manhattan Republicans," she said, "but that makes us work harder."

Winning elections would be her priority as chair. She said she would recruit "pro-business" candidates tailored to local issues such as public transit.

There are no Republican politicians currently repre-

senting Manhattan on the council, in the New York state Legislature, in U.S. Congress, or in any New York citywide or statewide elected offices.

The landscape isn't poised to get easier for Manhattan's GOP under Republican President Donald Trump, who is opposed by Manhattan liberals such as Democratic Mayor Bill de Blasio and some local moderate Republicans.

The outgoing chairwoman, Adele Malpass, is moving to Washington as her husband takes a job in the Trump administration.

Ms. Catsimatidis said she supports the president but "any political figure you're going to disagree with part of the time."

The election for chair is expected to be held in September. Another candidate may emerge, but Ms. Catsimatidis

is backed by a powerful group, including Mr. Giuliani, former Gov. George Pataki, New York state GOP Chairman Ed Cox, and Ms. Malpass.

Democrats say they are not intimidated. "Our party has successfully aligned itself with the interests and values of Manhattan voters," said Barry Weinberg, the executive director of the Manhattan Democratic Committee.



Andrea Catsimatidis, second from right, with her family. She hopes to become Manhattan GOP chair.

BESS ADLER FOR THE WALL STREET JOURNAL

GREATER NEW YORK

Think Outside the Cubicle

By KEIKO MORRIS

Businesses are beginning to design office spaces that increase the amount of square footage per employee when shared work settings are taken into account.

That is one of the conclusions of a new report by Ted Moudis Associates, which analyzed 2.4 million square feet of the architecture and design firm's office projects.

Many companies are expanding the selection of alternative places to get work done such as cafe and kitchen areas, informal living-room spaces and quiet zones, according to a 2017 Workplace Report.

"Five to 10 years ago it was all about how many people can I get in this space," said Jamie Feuerborn, associate director of workplace at Ted Moudis. "Now some of that efficiency is a given, and everyone from the top level executive down is focused on the employee experience."

The amount of space at av-

erage assigned workstations hasn't increased. But the study says the average "seat" has increased from 142 square feet in 2016 to 165 square feet in this most recent study.

Seats include workstations and other office spaces such as conference rooms and living room-style seating areas.

Seating in these shared work settings has overtaken the number of traditional, assigned workstations. In the offices analyzed, 52% of the seats were devoted to these alternative work settings and 48% to assigned workspaces.

More companies are designing offices with communal spaces for workers.

Office-space designers and planners say they are seeing this shift across a wide range of industries.

The Boston Consulting Group, an international management-consulting firm, has

outfitted its new Manhattan office at 10 Hudson Yards with comfortable conversation nooks, living-room settings, huddle rooms and a large cafe offering free food where some employees often spend the entire day working, said Amy Kotulski, director of hospitality, operation and marketing excellence at Boston Consulting.

Workers at the Midtown Manhattan office of media agency Orion Worldwide LLC are able to change their work setting to suit their mood and the work they happen to be doing. Some employees hold meetings as they walk around the four-lane indoor track that is among the options of work settings offered.

The company rule: Don't sit in the same spot every day.

"If your employees feel 10% happier with the workplace, that could have a bigger impact on the bottom line than a 5% reduction in square footage," said Johnathan Sandler, director of workplace strategy at Gensler, which designed Boston Consulting's new offices.

In recent years, many busi-



A cafe at the Boston Consulting's new Manhattan office is used as workspace by some employees.

nesses have moved to more efficient workspaces. But a growing number of companies are realizing that the cost savings of such a design often had diminishing returns in worker productivity, designers said.

Now, an increasing number have opted to make offices more attractive by adding communal spaces.

"People are saying we tried

the open plan, and there is a lot of virtue in having people connect," said Lenny Beaudoin, senior managing director of workplace strategy at real estate services firm CBRE Group Inc.

"But if you can't get work done, that is problematic."

Office workers on average sit at their desks 60% to 65% of the time, so employers can still find savings with shared

spaces that are used much more frequently, according to workplace consultants and designers.

Many companies invest these savings in technology to create a more mobile office worker, as well as amenities such as free meals, barista service and healthy office tools such as stand-up and treadmill desks.

Chocolate Giant Seeks Innovation at Cornell

By KEIKO MORRIS

An Italian manufacturer of sweets and chocolates is setting up an innovation outpost at Cornell University's technology campus on Roosevelt Island in New York City.

Global chocolate giant Ferrero International SA plans to bring its open innovation science division to the Bridge at Cornell Tech, according to Forest City New York, which developed and manages the commercial building.

Ferrero will join investment firm Two Sigma Investments LP and Citigroup Inc. at the building, which is set to open in September as part of the first phase of the \$2 billion campus.

At first glance, Ferrero may not seem to fit the mold of a typical technology firm, but the company and its technolo-



The facade of the Bridge at Cornell Tech on Roosevelt Island.

logical pursuits are compatible with the broader mission of the Bridge, said Ali Esmaeilzadeh, head of Forest City New York's commercial leasing.

The building was designed to foster connections among Cornell Tech faculty and students, established companies, startups, government agencies

and nonprofits. The goal is to attract companies from a wide range of sectors looking to tap into entrepreneurial ideas and new technologies generated by Cornell Tech, as well as to recruit graduates.

Ferrero will take 4,200 square feet of space at the Bridge. Cornell Tech will oc-

cupy about 39% of the 230,000 square-foot building, which features a grand staircase in the lobby, an entrance area with plenty of spots to socialize and a rooftop common area with 360-degree views of New York City.

Ferrero's team plans to explore improvements of products and operations, as well as ways to enhance farming methods and sustainable food production, Mr. Esmaeilzadeh said.

Ferrero hopes to expand its innovation team on the campus in part by hiring Cornell Tech graduates, he said.

"We will develop cutting-edge research and technologies that will have transformational effects on our products and business," Giovanni Battistini, Ferrero vice president of open innovation science, said in a statement.

school district's 10 buildings.

—Associated Press

NEW JERSEY

Convicted Murderer Will Get New Trial

A New Jersey appellate court ordered a new trial for a man convicted of murder because witnesses who testified on his behalf wore prison attire and were handcuffed.

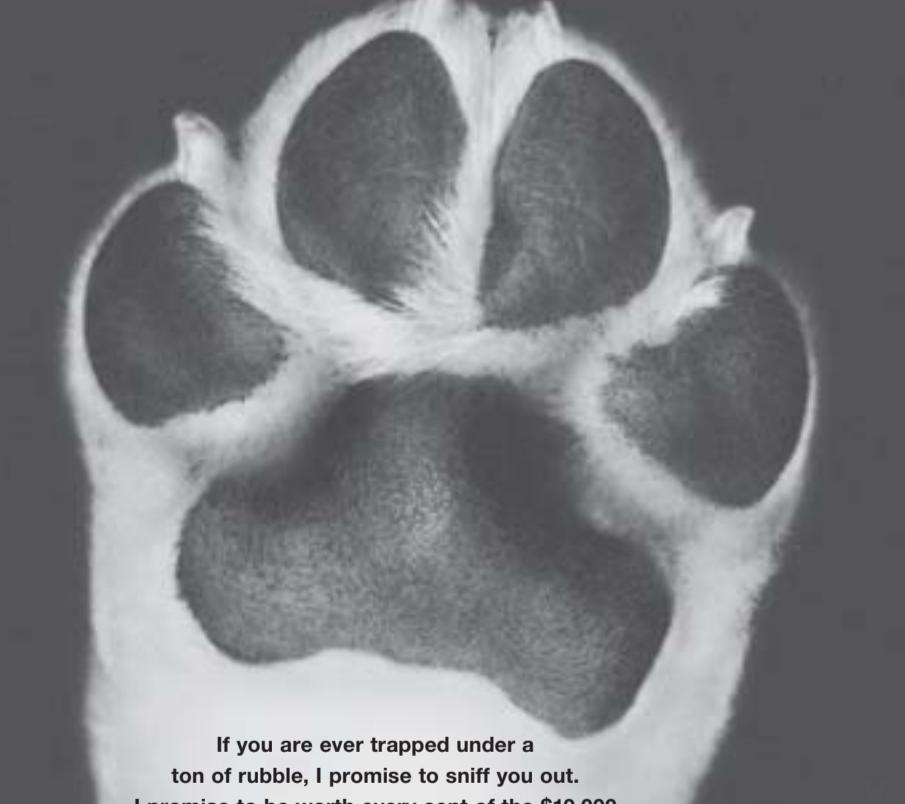
Kevin David was convicted in the January 2011 shooting death of Tyrell Coleman in Orange, N.J. Mr. David is serving a 55-year-sentence.

His attorneys argued that the jail uniforms and handcuffs undermined the witnesses' credibility and prejudiced the jury.

Prosecutors said they won't appeal but will retry the case.

—Associated Press

THE PLEDGE



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AUG 28 - SEPT 10

LIFE & ARTS



KAGAN MCLEOD

THERE ARE TWO TYPES of people in this country, and their differences have nothing to do with politics.

"There are those who love fall and those who hate it," says Harvard psychiatrist John Sharp, who wrote "The Emotional Calendar," which explores how we feel about the seasons and why.

Fall marks the end of the relaxed summer, which some people mourn, and the return to routine and order, which others relish. Kim Petrolo doesn't like fall because it means shorter days. "I enjoy coming home from work while it is still light and having time to take a leisurely walk with the dogs, or at least not feel like I need to eat dinner and go straight to bed in preparation for the next day," says Ms. Petrolo, of Pittsburgh.

A street away, Laura McGaha, who grew up in Texas and worked summers for her father's home-building business, can't wait for fall: "I hate the summer months, because in Texas the low was 85 degrees at 5 a.m. [I] longingly wait for the first day of fall."

Even those who live near the season-less equator or where temperatures are more constant have layers of memories and traditions associated with different times of the year that influence their emotions. In the Jewish faith, whether you live in Arizona or upper Minnesota, fall marks Rosh Hashana, the new year and a time of reflection and fresh starts. Personal experience, too, affects how we feel. If someone close died in the fall, the season may always carry some sadness.

The most common fall memory

TURNING POINTS | By Clare Ansberry

Feelings of Fall: Love It or Leaf It?

Autumn marks the end of the carefree summer, which some people mourn, while others relish the return to routine and order

is going back to school, a pattern for years of our early lives. "I think it makes a lot of people feel industrious and energized about possibilities. Things become more linear, and some people find that really works for them," Dr. Sharp says. "Others don't." Thirty years after graduating, some adults still get a bad feeling in the pit in their stomach because it reminds them of leaving for college or struggling to get good grades.

When September approaches, Lana Shami, also from Pittsburgh, feels uneasy. "It used to be because it meant another dreadful, challenging school year and the end of carefree summers," she says. She's been out of school for years, and her own children are eager to return to classes. But the vexing feeling remains. Now she dreads the back-to-school preparation, mothers' PTA-related responsibilities and regimented schedules.

Dr. Sharp likes fall, something he traces to being one of those ea-

ger and prepared children who sharpened all their pencils before school started. He finds himself getting anxious when summer drags on too long.

A few years ago, a cousin visited him at a Nantucket summer cottage the last week of August.

"I have the opportunity to be more indulgent" during autumn months, chef Joshua McFadden says of his ingredients.

She was ready to barbecue and eat ice cream and he was over that. "I was so ready for the fall that I was a little bit of a grump," Dr. Sharp says. He recognized his grouchiness and realized he should enjoy his remaining vacation rather than worry about tasks ahead.

Managing emotions when seasons change is a lesson he offers his patients. One, a retired professor, loved teaching and felt lost when fall approached. To fill the void, the professor scheduled fall trips and language classes. "There is usually some accommodation you can make," he says. If you don't like fall because your loved one spends every Sunday watching football, treat yourself to something you like. Hit the bike trail. Go shopping.

Joshua McFadden, an executive chef and restauranteur in Portland, Ore., recently completed his first cookbook, "Six Seasons: A New Way With Vegetables." His aim was to encourage people to eat what is in season and avoid buying things like tomatoes in the winter.

Fall is bittersweet, he writes, with leaves and temperatures dropping and plants shriveling. But it's also much more relaxing after the chaos of summer, when new vegetables peak every few weeks. To that end, his cookbook

allofts summer three seasons—early, mid and late.

In the fall, "I have the opportunity to be more indulgent," he says. He is now thinking about what he will do with the coming bounty—Brussels sprouts, mushrooms, chard. Good summer tomatoes need little preparation. Beets need to be roasted and artichokes braised. "It's labor-intensive, but in a really fun way," he says.

For some, fall boils down to "almost winter." Alice Barrett, a poet who taught English as a second language, lives in western Massachusetts, where "it's stunningly beautiful" when the leaves change, she says. But after a few weeks, the pretty leaves fall, and it's a slow descent to dark and dreary winter. "I don't ski. I don't skate. I stay in the house," Ms. Barrett says. She has written many poems, but devoted only one to the seasons. It's called "I Hate Autumn," which describes why. "Hard earth, rotten crab apples, smacked pumpkins. Cold floor in the morning."

Children can be slightly more ambivalent about the season, balancing the pluses of getting back together with classmates and trick-or-treating with the minuses of school demands.

"Overall, I fall somewhere between love and hate," says Dom Deniziuk, who is entering fifth grade in a Pittsburgh suburb. He doesn't like September.

"The first month back to school is really the worst one," he says. New teachers, homework and the strict bedtime. "It just dawned on me that I will have to start going to bed at 9:30 again." But the rest of fall is good, because it means playing soccer.

MUSIC

GREGG ALLMAN'S STUBBORN FAREWELL

BY ALAN PAUL

GREGG ALLMAN had been working on "My Only True Friend" with guitarist Scott Sharrard for a few months when they met for a songwriting session in Mr. Allman's New York hotel room in March 2014. The Allman Brothers Band was in the midst of its final year of performances, after which Mr. Allman would dedicate himself to performances with his solo band, for which Mr. Sharrard was the musical director.

As they settled down with acoustic guitars, Mr. Allman dropped some heavy news: He had terminal liver cancer. Though he wished to keep the news secret, it seemed to shift his songwriting ideas.

"He scratched out a line of the song and added a new one: 'I hope you're haunted by

the music of my soul when I'm gone,'" Mr. Sharrard recalls.

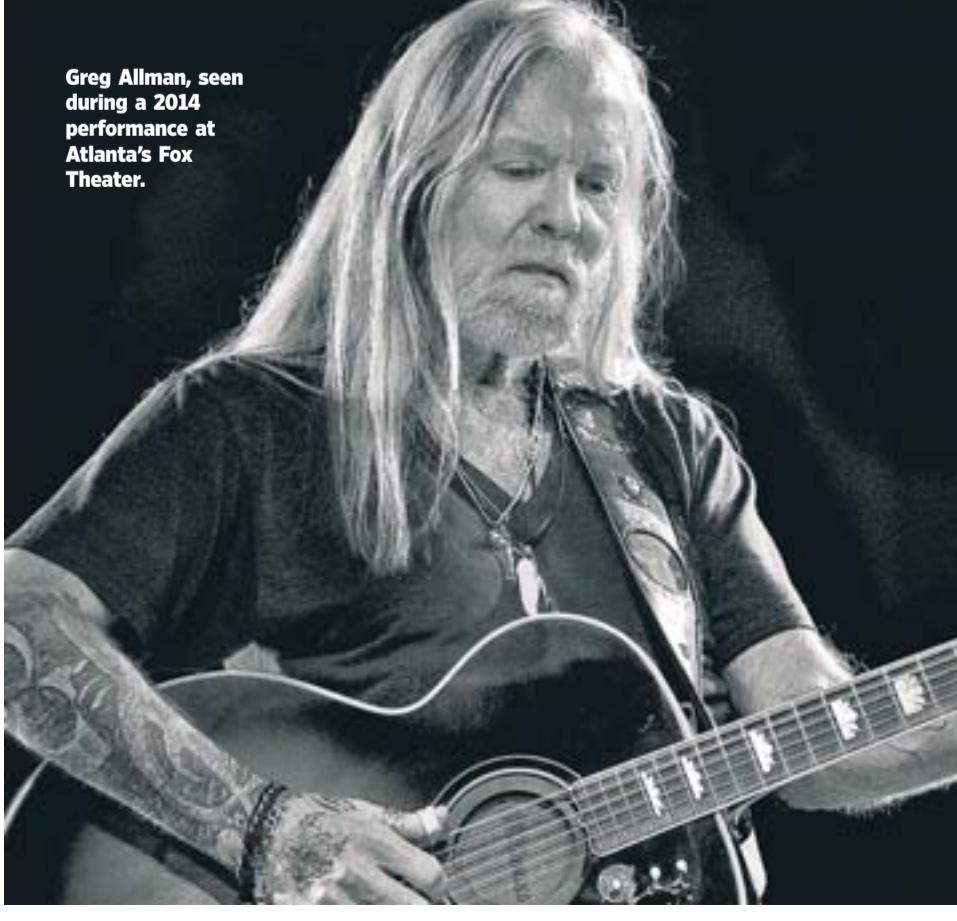
With the new lyric, "My Only True Friend" transformed from a classic road song to an aching farewell to his fans. It is now the lead single and emotional centerpiece of "Southern Blood," the final solo album by Mr. Allman, who died on May 27 at age 69. The album is set for release Sept. 8.

"As soon as I heard 'My Only True Friend,' I thought the song was a shockingly honest confessional, that he was laying himself out and standing naked," producer Don Was says. "He was telling you the key to his life, because he wanted to tie up the loose ends for the people who had stuck with him for decades and also for himself. He was making sense of the totality of his life."

"Gregg was fully realized when he was on

Please see ALLMAN page A13

Greg Allman, seen during a 2014 performance at Atlanta's Fox Theater.



LIFE & ARTS



RAMIN RAHMANI FOR THE WALL STREET JOURNAL

WHAT'S YOUR WORKOUT? | By Jen Murphy

Table Tennis for One

A winemaker calls the sport central to his fitness routine for its help with agility and core strength

BOB BLUE'S table tennis opponent never gets offended by his trash talking. That's one of the many upsides of playing against a robot.

Mr. Blue, 61, grew up in a family of table tennis fanatics and played avidly with friends through high school. It wasn't until 2007, when his wife died, that he thought to dust off his paddle again. "I turned to exercise as a way of coping," he says.

As the founding winemaker of Bonterra Organic Vineyards in Ukiah, Calif., Mr. Blue oversees all aspects of the winemaking process, from harvest to bottling. Long, unpredictable hours, particularly during harvest season, made it nearly impossible to find a table tennis partner. "Hitting balls off the wall isn't very satisfying," he says. He nearly gave up on the game, turning to swimming and spinning for fitness. In 2014 he saw an online video of a table tennis-playing robot called the Newgy Robo-Pong.

"As soon as it went on sale, I bought one," he says. The device is a robotic cousin of a baseball-pitching machine, with controls for ball speed, placement and frequency. A net captures the returns from its human partner and recycles balls for continuous play that simulates a high-intensity rally. "It doesn't replicate the spin of playing another person, but without an evenly-matched opponent, the robot is the next best thing," Mr.

Blue says. "Plus, I don't have to chase balls all over the yard."

Mr. Blue says he was shocked to discover how much his reflexes had eroded since his teenage years. "As I get older, it's important to train my fast-twitch muscles," he says. He credits the game not only with improving his hand-eye coordination, agility and attention. He even says it helps keep his core engaged while moving back and forth behind the table.

Unlike swimming or spinning, activities where the mind can wander, he says table tennis forces him to stay focused. He has also learned to play ambidextrously.

He occasionally takes on his children, ages 29 and 26, when they come home to visit, and recently signed up for an upcoming local tournament.

The Workout

Mr. Blue moved his table tennis setup to the winery so he can pop in for games throughout the workday. He usually faces his robot three times a week for 30 minutes a session. The workout consists of random drills of 100 balls at varying speeds and intervals, alternating backhand and forehand with both his left and right hands. He'll also simulate games.

(As to the question of whether to call his favorite sport table tennis or ping pong, he says, "As a kid it was the game ping pong, but today I view it more as a sport and use



When Bob Blue of Bonterra Organic Vineyards in Ukiah, Calif., couldn't find a regular tennis table partner, he bought a robotic one.

the term table tennis.)

Mr. Blue also takes a 50-minute spin class at 5:45 a.m. two to three times a week at the Redwood Health Club of Ukiah. "I feel like the speed work helps reverse the clock a bit," he says. "And spinning takes me to an intensity I normally wouldn't get to on my own."

Three to four nights a week he returns to the club after work, around 9 p.m., to swim. He spends 10 to 15 minutes in the hot tub to warm up and then performs calis-

thenics in the pool to loosen his hips and lower back. He does 15 minutes of freestyle swimming, starting with a gentle pace, then increasing the intensity for eight minutes and ending with sprints of 25 yards, with a break of 15 breaths between sets, for about five minutes.

"It's a relaxing way to end the day," he says.

Three to four times a week he walks the vineyards for lunch, between 30 and 50 minutes.

Wait, So Is it Ping Pong or Table Tennis?

Don't even think of calling table tennis ping pong in front of serious players.

While the game is virtually the same, table tennis is an Olympic sport. Ping pong is more what you might see in a hipster bar (played with a beer in hand) and offices of trendy tech startups, those close to the sport say.

"The real difference is that table tennis refers to a professional, competitive sport and the term 'ping pong' is a term associated with the social game," says Matt Hetherington, communications director of USA Table Tennis in Colorado Springs, Colo., and a coach. He is also a former member of New Zealand's national table tennis team.

When table tennis is played with intensity, it delivers a serious physical and mental workout, Mr. Hetherington says. Professional matches can last as long as an hour and involve not just quick hand-eye coordination, but also fast footwork.

"It's an intense cardio workout, and you need strong legs and core muscles, because you are constantly transferring your body weight through the legs and core to attack the ball," he says.

"When you play casually, your feet may barely move. In a pro match, you're lunging and sprinting."

Mr. Hetherington says core exercises, squats and lunges, and explosive footwork drills can all improve play.

The Diet

Mr. Blue has a soft-boiled egg for breakfast and takes an apple or orange for lunch. Sometimes he'll grab tacos from a nearby truck. He keeps carbs out of the house. "Too much temptation," he says. Mr. Blue enjoys cooking from scratch. "The creativity of cooking is like blending wine," he says. He grows tomatoes in his garden to make homemade pasta sauce and often grills chicken breast with Italian or Mexican spices. Sometimes he and his girlfriend splurge on dry-aged steak for the grill, which he pairs with asparagus.

He always has one glass of white wine and one glass of red wine with dinner.

The Gear & Cost

Mr. Blue purchased his Newgy Robo-Pong 2050 digital table tennis robot on sale for \$550. It retails for \$950. His Cornilleau 300S Crossover table cost \$1,200. He bought his BaBo Ball Boy Tube, which picks up ping-pong balls, on Amazon for \$24 and he buys sets of 12 Newgy Robo-Balls on Amazon for \$65 a set. He has four Donic Persson Powerplay paddles, which cost \$43 each.

He wears Adidas Barricade tennis shoes (retail \$140) though admits that in the summer he often plays in Birkenstock sandals. He swims with Aqua Sphere Kayenne goggles (retail \$28). His health club membership is \$67 a month.

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LIFE & ARTS



BY LEE LAWRENCE

Cleveland

FOR SOME 200 years, Korean kings broadcast their heavenly mandate by sitting before a painted screen showing five mountains flanked by a red sun and a white moon. But King Jeongjo, who reigned from 1776 to 1800, invoked another source of authority: books. Besides amassing a large library and overseeing the publication of more than 4,000 books, he commissioned screens depicting bookcases brimming with tomes. Rising behind the throne, they reinforced an oft-expressed concern: People, he believed, should read Confucian and other classics; avoid romance novels, Catholic writings, and other corrupting texts flowing in from China; and eschew using "Chinese objects to show off their highbrow culture."

None of Jeongjo's screens survive, but they spurred a vibrant genre that evolved in ways the king could never have imagined nor, for that matter, condoned. "Chaekgeori: Pleasure of Possessions in Korean Painted Screens," at the Cleveland Museum of Art, illustrates styles artists developed as their patronage expanded from court officials to rich merchants in the 19th and early 20th centuries. Eight- and 10-paneled screens range from trompe l'oeil paintings of filled bookcases to idiosyncratic still-life compositions that defy the laws of physics and optics.

They all share the same subject: Chaekgeori, which means "books and things." The former are shown lying flat, enclosed in box-like covers and often stacked, with perhaps one volume askew or

EXHIBITION REVIEW

A Cerebral Art Form That Went Delightfully Astray



A six-panel Chaekgeori from the late 1800s, above, and an eight-panel Chaekgeori from the late 1800s, top

open, as though the reader has just set it down. Although the books in Jeongjo's screens reportedly bore titles, these do not (scholars have found only one exception). People would have nevertheless immediately recognized the large-format books with abstract patterns as Korean and the smaller ones enveloped in brocade as Chinese. They would also know that most of the "things" were imported from China: the bronzes and incense burners, calligraphy brushes and ink stones, ceramic bowls and vases, lacquer boxes and carved jade seals, paintings rolled up and partially unfurled.

The CMA is the show's last venue—previously it was at the Charles B. Wang Center of Stony Brook University in New York and the Spencer Museum of Art at the University of Kansas. It was co-curated by scholars in all three institutions, and only the catalog has the full complement of works. Still,

the nine large screens and two paintings in Cleveland's iteration effectively convey the galvanizing variety of a quirky off-shoot whose origins owe much to China.

Every year, some 200 to 300 Korean officials and technocrats (painters among them) accompanied court envoys to Beijing's Forbidden City, where they saw "cabinets of many treasures," including Western innovations such as the reading glasses we see in a number of screens. Visiting Koreans also marveled at European perspective and trompe l'oeil techniques in paintings by Jesuit missionaries. What Koreans saw in China didn't stay in China. Back home, artists got busy.

Since people would have viewed screens while sitting on cushions or low platforms, it behooves you to crouch. The perspective, for one, will snap into place. Look straight on, and you might spy a painting, a frog, or slippers tucked beneath

low tables. Glance up at a bookshelf painting, and you see the underside of upper shelves. You also get a better feel for the painting's overall impact. As in much of East Asia, screens served as portable décor to imbue a space with mood or message. Some act as symbolic portraits—in one, a woman's perfume and cosmetic containers jostle with glasses, ink brushes, books and other signs of erudition—

while others set a celebratory tone with bright colors, flashy patterns, and symbols of good fortune.

More appealing even than their meaning is their inventiveness. In one style, exemplified by an embroidered screen, books and precious items float against a plain background, filling the air around us like thoughts. In the "stacked" or "table" style, artists created still lifes, sometimes reversing

the principles of linear perspective so that books appear to be zooming toward us. And in the "bookcase" style, some artists found a way to sign their work while preserving the fiction. As two pieces in the show illustrate, they depicted a stone or jade seal, turned on its side, revealing the painter's moniker carved on its base. Even today, some artists harken back to the chaekgeori—witness the books without titles and the amassed collectibles in Kyoung-tack Hong's "Library 3" (1995-2001) and "Library—Mt. Everest" (2014).

King Jeongjo would have bemoaned how far from his ideals the genre would stray. Had he known, he might never have required that top-tier court painters excel in this genre (a practice that lasted until 1879). And Korea's

elite and wealthy might never have commissioned such works.

Chaekgeori: Pleasure of Possessions in Korean Painted Screens

The Cleveland Museum of Art, through Nov. 5

Ms. Lawrence writes about Asian and Islamic art for the Journal.

ALLMAN

Continued from page All
stage playing for his fans. What you saw on stage was the real guy, and all the troubles he encountered had to do with not knowing what to do with himself the rest of the time," Mr. Was says.

"Southern Blood" was recorded with Mr. Allman's touring band at Fame Studios in Muscle Shoals, Ala. The band played live with Gregg Allman singing along, and most of the performances on the album were captured in the first or second takes.

A noted perfectionist, Mr. Allman planned to do vocal overdubs, to add his voice to two more completed musical tracks and to finish some tunes he was working on with Mr. Sharrard and keyboardist Peter Levin. Mr. Sharrard says there were also plans to write with Bonnie Raitt, Jason Isbell and others.

All of this was rendered impossible by Mr. Allman's health struggles, so aside from "My Only True Friend" and one other Allman/Sharrard song, "Southern Blood" leans heavily on covers. Most of the material has an autumnal feel and underlying theme of mortality, notably Bob Dylan's "Going, Going, Gone," the Grateful Dead's "Black Muddy River" and "Once I Was" by Tim Buckley, the California folkie who had a large influence on Mr. Allman's songwriting. The album closes with a duet with Mr. Allman's old friend Jackson

Browne on Mr. Browne's elegiac "Song for Adam."

"The sessions were powerful because we all knew what he was singing about and why we were there," Mr. Was says. The producer, who has worked with the Rolling Stones, Van Morrison, Ms. Raitt and many others, grew emotional discussing the monumental task of helping Mr. Allman achieve his dying vision.



'He did not like confrontation, but he faced death like a strong soldier.'

"Even in such a heavy atmosphere, we had a lot of fun, and the mood was effusive because we knew we were getting it," Mr. Was says. "Gregg was digging in deep and he was oozing heart and soul, even in spots where he might not have had the lung power that he once had. He wanted to do vocal overdubs, but honestly if he had been able to, maybe we would have cleansed away some of the soul."

By the time of the recording sessions, in March 2016, Mr. Allman had already outlived his diagnosis by several years. In 2012, two years after undergoing a liver transplant, he learned that he had a recurrence of liver cancer and was given 12 to 18 months to live, according to manager Michael Lehman.

"The doctors said the cancer could not be cured, but treatment could extend his life. But radiation treatment would have risked damaging his vocal cords and he refused, because he wanted to play music as long as he could," Mr. Lehman says. "He wanted to enjoy his life and to perform until he simply could not."

Mr. Allman played his final show in Atlanta on Oct. 29, 2016. As he rested and eventually received hospice care in his Georgia home, Mr. Was worked to finish the album, adding minimal overdubs. Until the end, Mr. Allman discussed his illness with just a handful of people. Chank Middleton, a friend of almost 50 years who was a near constant companion and was with him in his final weeks, says that Mr. Allman remained upbeat until almost the very end.

"I knew for a few years and it was hard for me to accept, but he was the one with strong words," Mr. Middleton says. "I never saw him stand up to anything or anyone as he stood up to death. He did not like confrontation, but he faced death like a strong soldier."

"He looked it in the eyes and said, 'Death, I'm not scared of you and I'm not ready for you.'



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SPORTS

BOXING | By Jason Gay

When Boxing Goes Low, I Go High

Our columnist makes a (legally!) altered visit to the absurd Floyd Mayweather-Conor McGregor tangle in Nevada

Las Vegas
I was somewhere outside of the T-Mobile Arena when the drugs began to take hold.

My proposal had been simple and innocent: travel to Las Vegas for the ridiculous Floyd Mayweather-Conor McGregor match on Saturday.

And before the fight, partake in a little of Sin City's latest indulgence: legalized marijuana.

I'd keep it low-key. No fear. No loathing. I asked my Journal boss if it'd be OK.

"I've assumed you were smoking something whenever I've read pretty well anything you've written," he said. "Fine with me."

Friday night, upon arrival, I made the buy. Vegas stinks of weed dispensaries now; Nevada went recreational-legal on July 1 and they're popping up everywhere, like Taco Bells. I chose one called Reef, not far from the Strip. The world's happiest line curled out of the door, like a nightclub's.

Inside: It was crazy. Or rather: It was crazy because it wasn't crazy at all. The showroom resembled an Apple store...actually, you know that store at the airport where you can buy an iPhone charger, or a pair of headphones? It looked like that. Clean lines, well-lit, friendly store associates, samples of the merchandise in jars to smell (no smoking inside!) and...menus.

I knew I wanted edibles, i.e. candy or a snack infused with THC. Edibles would be simple, easy to carry, no smoke, no mess.

I tried to be cool talking to the store associate: *Yeah I want something, you know, chill, like to go to the...um...movies.*

Of course, I look like a Dad taking other Dads to a Dad Convention in a Dad Car.

"Gummies," she recommended sweetly.

I went with two gummy packets, to have options: mango edible chews and grape hybrid sour gummies. The whole shopping experience was blisternormal; it's more intimidating to go to the butcher. My purchase was sealed in a white 8x11 packet, like a set of wedding photos.

The total was \$44.38. I believe I can expense this.

Fight night, I was ready. Now I know what you're thinking, my Journal gang: *You got to take it easy with edibles, man.* I knew that. I didn't want to have a bad trip like Maureen Dowd; I worry she's still curled up on that hotel bed in Denver. Popping special gummies like regular gummies would be a terrible idea.

Especially in Vegas. "This is not a good town for psychedelic



Floyd Mayweather Jr., left, lands a hit against Conor McGregor during Saturday's bout in Las Vegas.

"He's a lot better than I thought he was," Mayweather said when it was over. "He's a tough competitor."

"I've been here before," McGregor said, referring to a UFC loss a couple of years ago. "I've been strangled on live TV and came back."

Both men seemed chipper, and why not? Reportedly, they'll collect nine-figure paydays for the half-hour or so of trouble. Mayweather, now 50-0, said he's "done," retired for good, and McGregor said he'll wind his way back to the UFC, but we've seen this movie too many times to rule anything out, especially with the fight's charitable afterglow of *that wasn't as terrible as I thought it would be*.

That's what the world has come to, folks. From sports, to air travel, to reading the world news headlines in the morning, *"That wasn't as terrible as I thought it would be"* is the new "This is great!"

Gummy haze still kicking, I headed out of the arena with the end of the crowd. In the plaza in front of the entrance, a cluster of McGregor fans wrapped in Irish flags merrily danced. A pair of men passed by in matching Versace bathrobes. Fight T-shirts were on sale for a price-slashed \$10.

As I got around the corner, outside of the New York-New York Hotel and Casino, I saw it: a ghastly replica of the Brooklyn Bridge, the actual magnificent version of which is just a few blocks from my home. It did not soar like the real thing; it merely stood there, as if embarrassed for itself. It had a sign for Bud Light at its top, and nearby, a store called Stupidiotic.

Why did anyone think this fight didn't make sense? It made perfect sense, especially here, another brilliantly inane proposition in a city that is itself an inane proposition. Stupidiotic is what people love about this town—from gambling away the rent, to 36 oz. margaritas, to legal and candidly fantastic grape hybrid sour gummies, Las Vegas has always been a comical representation of our national id. Loud, shameless and driven by money, Floyd Mayweather boxing Conor McGregor was exactly the sporting event America deserved in 2017.

Buy the ticket, take the ride, Thompson had written all those years before.

That's what I thought about as the desert night wound down on the madness.

I also stared for a long time at a water fountain, and ate a whole bag of potato chips back at the hotel.

drugs," Hunter S. Thompson had written in his 1971 masterpiece. "Reality itself is too twisted."

I would be on approximately 1/100,000th of what the good doctor had been on, but I was careful. I had half a gummy after dinner. Another half closer to fight time. Then word began to spread that the Mayweather-McGregor fight might be delayed because of pay-per-view TV issues. *Oh man, this is going to ruin everything*, I worried.

In the meantime, I texted with friends. I chatted with a nice guy from Sports Illustrated. I watched the NBA superstar James Harden walk in. I saw the hip-hop star Quavo. I also saw the hairy Sasquatch from those beef jerky commercials. That messed with my brain a little.

I want to be clear: just like the woman at the store promised, this buzz was mild. I hate "Reefer Madness"-style hysteria about drugs and this was absolutely nothing like that. It felt warm and mellow, like a good drink by a fireplace.

There was nothing jarring or worrisome. I may have enjoyed staring

at colorful lights a little bit more than normal.

Basically, the gummies amplified everything: the lights, the noise, the ridiculousness. Which was perfect for this fight, which was loud from its genesis, its social media call-outs and promises of history and its press tour via dueling private jets. The fight of offended purists, the news conferences were crude, it was wildly overpriced and the arena didn't sell out. Nothing about this fight was quiet or neutral. Being stoned was definitely the way to go.

The room darkened suddenly and the crowd roared. Pay-per-view crisis apparently averted, McGregor and then Mayweather wound their way to the ring. I couldn't believe this cuckoo stunt was actually happening.

By now you know McGregor lost via technical knockout in the 10th round, but acquitted himself rather well. That's the verdict, and I guess that's true. Or true-ish. I don't believe this is the gummies talking when I say Mayweather appeared utterly in control the whole

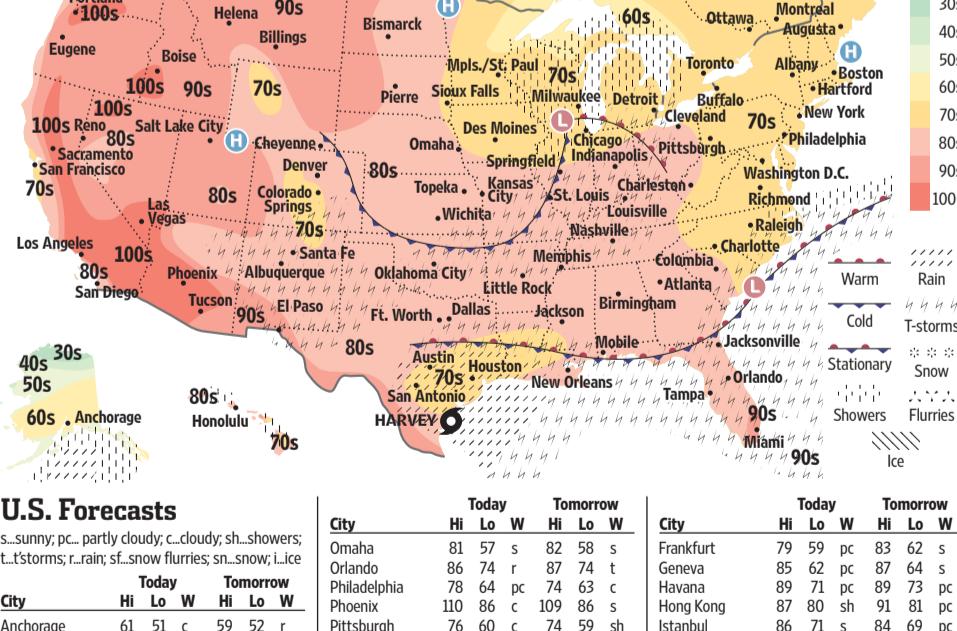
night, even in the early rounds, when a handful of McGregor's awkward swings landed and got the crowd buzzing. By the middle of the battle, the Irish fighter was gassed. For the patient Mayweather, now uncharacteristically on the offensive, it was matter of When, not If.

The When came in the 10th, after a flurry of Mayweather punches. McGregor thinks the referee stopped the fight too early, but that's absurd. The referee did him a favor, letting him finish on his feet.

Shocker: The experienced boxing professional beat the guy who'd never boxed professionally. What most of the "experts" and talking heads predicted would happen, actually happened. It was like America in 2015.

And everyone won, really—Mayweather, McGregor, boxing, the UFC, Las Vegas. The people who thought we were idiots for watching still get to think we're idiots. The people who watched don't feel as foolish as they worried they might.

Weather



U.S. Forecasts

S=sunny; pc=partly cloudy; c=cloudy; sh=showers;

t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

Atlanta 80 67 pc 83 70 c

Baltimore 77 62 pc 72 60 sh

Boise 100 69 s 100 71 s

Boston 70 57 s 68 60 pc

Burlington 78 54 s 78 54 pc

Charlotte 78 66 c 77 65 c

Chicago 77 63 t 77 60 pc

Cleveland 80 62 sh 77 62 t

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Denver 89 60 s 92 59 s

Detroit 73 63 t 74 61 c

Honolulu 88 74 sh 89 76 pc

Houston 76 72 r 80 73 r

Indianapolis 81 64 sh 80 63 sh

Kansas City 80 57 s 81 58 s

Las Vegas 109 84 pc 107 84 s

Little Rock 86 69 c 85 70 c

Los Angeles 102 76 s 102 75 s

Miami 91 79 sh 90 78 sh

Milwaukee 75 64 sh 74 61 pc

Minneapolis 73 60 pc 75 60 s

Nashville 75 68 t 75 68 sh

New Orleans 83 74 r 82 76 r

New York City 75 61 pc 76 62 c

Oklahoma City 83 61 t 85 61 s

International

Today Tomorrow

City Hi Lo W Hi Lo W

Amsterdam 78 59 pc 81 59 pc

Athens 97 77 s 93 73 pc

Bahrain 114 80 s 115 83 s

Bangkok 88 78 sh 88 78 t

Beijing 80 57 pc 74 57 sh

Berlin 71 53 s 76 58 s

Brussels 82 62 pc 85 65 pc

Buenos Aires 75 65 t 73 47 r

Dubai 110 90 s 107 88 s

Dublin 70 49 sh 62 48 pc

Edinburgh 67 49 sh 60 47 sh

AccuWeather.com

The WSJ Daily Crossword | Edited by Mike Shenk



CONTAIN YOURSELF! | By Celia Smith

Across

1 Plays with the band

5 Removes rinds

10 Endure

14 Country on the Arabian Peninsula

15 Former Detroit Pistons Thomas

16 "It's ___" ("My treat!")

17 Memorable prop in "Forrest Gump"

20 Downhill course

21 Some sweatshirts

22 Stumbles

25 Course final, for one

46 Helper: Abbr.

47 City of Oklahoma

48 Biscuits topping in Southern diners

50 Long, for short

53 Practical, as a plan

57 Really funny time

60 Fencer's weapon

61 Cheering loudly

62 Grandson of Adam and Eve

63 Ready for driving, as a golf ball

64 Calls for

65 City near Lake Tahoe

66 Meek, inane

67 Diesel in the movies

68 Help in mischief

69 Back of the neck

70 Additional amount

71 Nota

72 Third-largest city in France

73 "Serpico" star

74 Following a twisty path

75 Mushroom cloud maker

76 Opponent

77 Wife of Augustus

78 Grove growth

79 First game in a series

80 Sites for gold diggers

81 Incline

82 "Blowin' in the Wind" songwriter

83 Apiece

84 Paid respect to

85 User of a double-bladed paddle

86 Hunky-dory

87 Doesn't wolf down, perhaps

88 Diesel in the movies

OPINION

The Bitcoin Valuation Bubble

By Andy Kessler

The price of a Bitcoin broke \$4,000 this month. It's up 400% in 2017, and only two years ago it stood at around \$230. With 16.5 million Bitcoins in "circulation," and the potential for 4.5 million more, the market value of Bitcoin is now a whopping \$72 billion. Sister currency Ethereum is worth another \$32 billion.

Early Snapchat investor Jeremy Liew thinks Bitcoin will reach \$500,000 by 2030. Tech eccentric John McAfee believes it'll take only three years. That's \$1 trillion of digital coins. Now companies with an idea for applications built on top of these currencies are raising hundreds of millions through initial coin offerings. Is Bitcoin the greatest rocket ship ever or will it end up a giant smoking hole in the ground?

In its simplest form, Bitcoin enables financial-transaction services on a peer-to-peer network that no one controls. Decentralized and anonymous, it uses an innovative software structure known as the blockchain to store a public ledger across an ever-growing network of servers. Unlike Visa or Mastercard, no single company buys computers. Instead, an ingenious incentive system pays entrepreneurs fees and rewards in a made-up currency to add servers to run the intense math of cryptography algorithms. Many sit in

places where electricity is cheap, like Iceland, to minimize operating costs. This blockchain is the future and the path for decentralized innovation to roll out on the cheap.

And how does one value Bitcoins? Those who own them believe they are a currency or

Faithful techies think in coming decades one digital coin will be worth \$500,000.

an asset like gold, valued for its scarcity. Others like the Securities and Exchange Commission and the Internal Revenue Service view them as a security to be regulated and taxed.

But Bitcoin is actually a business. It's software as a service—transactions for a price, like credit cards. To record a transaction on the blockchain, a customer pays an average recommended fee of 450 satoshi per byte. (A satoshi is one hundred millionth of a bitcoin.) Miners also get bitcoin rewards for adding blocks to expand capacity.

Around 1,700 bitcoins are paid daily in rewards. But business-wise, this is more like being paid in equity. Each day sees about \$1 million in fees and \$7 million in rewards.

Visa and Mastercard, who

have a combined 75% of the credit-card market, get paid close to a 3% fee when you buy gas or stuff on Amazon. That is a ridiculously high fee in this day and age, and it is precisely what Bitcoin hopes to destroy. Visa and Mastercard have a combined \$377 billion market capitalization. Bitcoin can go up five times just stealing their market share, right?

Wait a second: Visa's value is based on those high 300-basis-point fees. I've been elbow deep into Bitcoin accounting, studying transaction fees, rewards and \$1 billion in daily transaction volumes. Bitcoin fees come to less than one 10th of a basis point—some 3,000 times less than Visa—and I'm rounding up. Let's generously assume these fees will rise to one basis point. That means even if Bitcoin and other cryptocurrencies take the entire credit card market, this business is probably worth no more than a few billion. That pegs one Bitcoin's value at around \$100, assuming everything goes right.

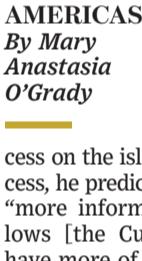
Or looked at another way, Bitcoin is a \$400 million a year software-as-a-service business like Salesforce, which sells for around eight times its sales. That implies a \$3 billion value. Potential profits might be 30% net and even at 50 times earnings you get at most \$6 billion or \$300 for each bitcoin in enterprise value.

I've spoken to developers who tell me they aren't seeing much traction with merchants accepting Bitcoin. Most transactions on the blockchain are still mining and trading. Silk Road used Bitcoin to transact illegal drug sales. Bitcoin is a favorite of money launderers and those evading capital controls and I think much of the rise in price is from Chinese and other foreign buyers trying to move capital out of their economies. Sixty percent of Ethereum was bought with Korean won. That's scary.

I'm not here to burst anyone's bubble. The blockchain will radically alter financial services, much as Napster changed the music business. But at some point the market will wake up and apply rational valuation techniques. That price—\$4,361—implies a lot of belief in Bitcoin as a long-term store of value well beyond the economic value of the transaction platform. Solid currencies are based on the growth and productivity of their countries. You can't simply declare a currency value—not at \$72 billion, much less a trillion. Sure, Bitcoin could trade to \$10,000, \$100,000, who knows? I just can't get there. Maybe coin owners should appeal for tax-exempt status if the IRS would consider Bitcoin a faith-based organization.

Mr. Kessler writes on technology and markets for the Journal.

Google's Broken Promise to Cubans



During his March 2016 visit to Cuba, Barack Obama raved about an impending Google-Cuba deal "to start setting up more Wi-Fi access and broadband access on the island." Greater access, he predicted, would mean "more information [that] allows [the Cuban people] to have more of a voice."

Eighteen months later Mr. Obama's forecast looks worse than a hollow platitude. Google has become a supplier of resources to the regime so that Raúl Castro can run internet at faster speeds for his own purposes. Meanwhile the company appears to be wholly uninterested in the Cuban struggle for free speech, as the island democracy project "Cuba Decide" learned last month.

Google started out making big promises to Cubans. In a March 2016 blog post, Brett Perlmutter, "Cuba Lead" for Google Access, boasted that the company was "thrilled to partner" with a regime-owned museum, featuring a Castro-approved artist. "New technologies and improved internet access can . . . help harness a country's creativity and ingenuity," Mr. Perlmutter wrote without the slightest irony.

By then Google must have understood that the dictatorship had no interest in mass

internet access. In July 2015 the Miami Herald reported that Mr. Perlmutter had visited Cuba and pitched a proposal to build an island-wide digital infrastructure. The government reportedly rejected the proposal and warned of internet imperialists seeking to "destroy the Revolution."

In December 2016 Google sealed a deal with Castro's monopoly telecom company (and internet service provider) Etecsa to put Google servers in Cuba. Google fired up those servers in April, emphasizing the improvement they bring to viewing video because they allow Google to store content locally. A fiber-optic cable from Venezuela has also increased internet speeds.

Access is another matter. The internet in Cuba remains tightly controlled and, according to the 2017 "Freedom in the World" report, the regime has "cracked down" on "diverse independent digital media" and often blocks "critical blogs and websites."

The report noted some of the creative ways that Cubans get around Etecsa's blocking, including the use of virtual private networks. But that doesn't work when Google is blocking access.

Rosa María Payá is the daughter of the late award-winning Cuban dissident Oswaldo Payá. He was killed, most likely by the regime, in a suspicious 2012 car crash. In 2015 Ms. Payá launched Cuba Decide, a project calling for a

national plebiscite to ask Cubans if they want free elections and free speech. In the Miami Herald in March, Cuban-exile writer Jose Azel called the project "a strategic tool" to "spotlight . . . the people's prerogative . . . to decide their form of government."

Yet Cubans cannot access the Cuba Decide website, and Google is to blame.

The company denies access to a pro-democracy website, blames the embargo.

On July 22 Ms. Payá tweeted "google joins censorship in Cuba," along with the screenshot of the Google error message that Cubans get when they try to go to her website. I retweeted Ms. Payá's tweet, noting "Google bows to Cuban censorship."

Mr. Perlmutter's response was not only condescending and arrogant. It was lazy. "Id [sic] do more research," he tweeted, accusing me of trafficking in "fake news," and by extension slapping down Ms. Payá. "Definitely nothing to do w Google," he wrote in a follow up tweet. "This type of error is generated by Chrome often when sites are blocked bc of US embargo."

Mr. Perlmutter did not cite any provision of the U.S. embargo that requires the blocking of a nonprofit citizens'

initiative—because there is no such provision. On Wednesday a Google spokesperson told me "we can't say for sure what's causing the issue with that site but it isn't something we're doing on our end . . . If you want more details, I recommend you check with the ISP."

By Friday the company was no longer blaming the ISP. Instead, Google told me—in a paradox that must be delicious for Castro—that it is Cuba Decide's use of Google's Project Shield that is causing the problem. The shield is offered at no charge for "news sites and free expression" against "distributed denial-of-service" attacks. When it is used, it triggers the use of Google's App Engine even if Google is not the website's host—which it isn't in this case—and Cubans cannot access the site.

The company claims this is because of sanction restrictions, i.e., the embargo. But there is no reason to block a website that exists purely to promote freedom and civic participation. If Google wanted to advance the cause of free speech it could have reached out to Ms. Payá to find a solution rather than fire off a snotty tweet.

Google told me that Mr. Perlmutter's Twitter comments "do not represent an official Google position." It said they were made "before all the facts of the specific situation were known." Talk about fake news.

Write to O'Grady@wsj.com.

By Donald Altschiller

Finding a rare item unexpectedly is every collector's fantasy. While philatelists (who save stamps) and numismatists (who amass coins and other currency) spend hours patrolling hobby stores and auction houses, a lucky few stumble onto something special through sheer serendipity.

In 2012, Karl Kissner and his cousin Karla Hench were cleaning out their grandfather's house in Defiance, Ohio, and came across a box of rare baseball cards known as the E98 series. They had been printed in 1910 and were in pristine condition. The cards were worth an estimated \$3 million.

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one of the rarest and most expensive stamps in philatelic history.

In 2013, David Gonzalez was renovating a fixer-upper home he had bought in Elbow Lake, Minn., and found, ensconced in the wall insulation, a copy of Superman's 1938 debut in Action Comics No. 1. It sold for \$175,000.

And have you heard about the newsletter for deaf atheists?

My lucky finds aren't quite so remunerative. I collect magazines, quirky and arcane journals and newsletters. Some years ago, while browsing the exhibit booths at the national convention of the American Library Association in Chicago, I stopped by the table of an atheist organization. There I found, hidden in the large display, a remarkable publication, DAMN: Deaf Atheist Material News, a

newsletter for deaf atheists. It featured a page-one article detailing the two main problems with silent prayer: It is a profanity of silence and, even more troubling, it involves prayer. Unbelievable! I'm from Cambridge, Mass., a bastion of cultural sensitivity, and even I never thought about this double offense to deaf atheists. But, thank Whomever, I now have this deliciously obscure newsletter in my collection.

Over the years, I have also owned: Falling Leaf, a magazine for collectors of aerial propaganda; Elevator World, aimed at professionals in the building transportation industry; Llamas magazine, read by lovers of this camelid species; the Highway Evangelist, aimed at Christians who drive big rigs; and the newsletter of the International Association of Black Yoga Teachers.

Though I have no price guide to assess the value of my collection, I know it wouldn't draw much on the open market. Nonetheless these offbeat

publications make me happy. "O bliss of the collector, bliss of the man of leisure!" Walter Benjamin once wrote. "Ownership is the most intimate relationship that one can have to objects. Not that they come alive in him; it is he who lives in them."

The serendipity of chancing upon oddball journals and newsletters is half of what I enjoy. Alas, the internet has diminished this pleasure. I suspect that many publications, ripe for my collection, have been digitized and are awaiting hits on the electronic screen. But I have no desire to check. The joy of thumbing through a print copy, often acquired through happenstance, is my special quest.

Some time ago, I noticed an announcement about an organization of lesbians and gay men who speak Esperanto. I wonder if they have a newsletter.

Mr. Altschiller is a librarian at Boston University.

BOOKSHELF | By Melanie Kirkpatrick

Business in a Common Tongue

The Language of Global Success

By Tsedal Neeley

(Princeton, 188 pages, \$26.95)

On March 1, 2010, Hiroshi Mikitani, the chief executive of Japanese e-commerce giant Rakuten, used a video link to address a meeting of the company's 10,000 employees world-wide. Speaking in English, he announced that Rakuten henceforth would be an English-only organization. In two years' time, he said, every interaction, spoken and written, would be conducted in English—even among the 7,100 workers whose first and often only language was Japanese.

"Our goal is to catch up with the global market," Mr. Mikitani said. He explained that a common language was the only way to share business knowledge quickly and effectively across Rakuten's international operations. "Englishization"—a term he coined—was an essential

aspect of the company's growth strategy, he said. The CEO further announced a draconian measure to enforce his new mandate: Employees who did not, within two years, score above 650 on the 990-point Test of English for International Communication would face demotion or dismissal.

After the passage of those two years, it was clear that Mr. Mikitani's radical move was working. Some 90% of Rakuten's

Japanese workforce met the language requirement, and those who didn't were given a six-month grace period to improve their scores. The company was globalizing at a fast pace, expanding its operations in the U.S. and entering other countries.

How did Rakuten do it—and was it worth it? Tsedal Neeley, a professor at Harvard Business School, provides a detailed account in "The Language of Global Success." Ms. Neeley spent five years interviewing Rakuten managers and workers around the globe—in Japan, the U.S., Europe, South America and Asia. Her book is an interesting read, despite frequent lapses into HBS case-study-ese.

One of her most intriguing findings has to do with the effect of the English mandate on Rakuten's corporate culture. Mr. Mikitani believed in "changing perspectives by changing language," Ms. Neeley writes. By forcing employees to speak English, the CEO wanted to move his company "away from its traditional Japanese hierarchical system, one characterized by rules, deference to authority, and perceptions of status, toward a perspective that would enable openness and assertion." He saw English not just as a tool to advance Rakuten's global expansion by facilitating communication around the globe but also as a way to create a more outspoken, egalitarian mind-set among Japanese employees.

The CEO of a Japan-based company declared that, henceforth, every interaction, spoken and written, would be conducted in English.

A year or so into the English mandate, Mr. Mikitani also began to emphasize Japanese practices and cultural concepts that were essential to Rakuten's way of doing business. These ranged from something as mundane as the company's requirement that every employee wear a name-badge—a policy loathed by Rakuten's American employees in the U.S.—to the more elusive concept of *omotenashi*, which translates roughly as "hospitality." Now English-speaking Japanese workers were able to communicate the importance of wearing badges, practicing *omotenashi* and following other Japanese customs to non-Japanese colleagues, who were encouraged to accept them.

The Rakuten example, Ms. Neeley concludes, shows that Western culture doesn't have to dominate in an English-speaking global company. At Rakuten, English became a "decoupling force between language and culture," she writes, allowing the Japanese company to "forcefully assert its cultural identity."

The English mandate was most difficult for Japanese-speaking employees, who had to work hard to reach the required level of fluency in just two years. They succeeded, Ms. Neeley says, for two reasons: Management stayed on message, explaining repeatedly why English was essential for the company's success; and Rakuten provided intensive language classes, which employees attended during their workday. Mr. Mikitani had learned English as a child in the U.S. when his father was a visiting scholar at Yale, and he believed that immersive learning was the best way to learn a language.

From the outset, Mr. Mikitani had envisioned his plan for Englishization at Rakuten as a kind of test bed for other Japanese companies. He saw English as a way to help insular Japanese firms become globally competitive, thereby assisting in the revival of the Japanese economy. The jury is out on that goal, as it is on another of his objectives—improving the English skills of the wider Japanese population.

For a long time, Japanese schools haven't taught English very well, as I discovered when I was living in Tokyo in the mid-1970s. I became a minor celebrity among the junior-high-school set due to my appearance on a national TV show that taught English. Wherever I traveled in the country, I'd run into kids who would run up to me and shout, "This is a pen!"—the first line in our textbook. Few youngsters were able to say much else in English. More recently, Ms. Neeley notes a 2009 study of English proficiency in 30 Asian nations in which Japan ranked second from the bottom.

Mr. Mikitani has advised Prime Minister Shinzo Abe on improving English-language education in Japan. Mr. Abe—whose own English is good—wants more of his countrymen to speak fluent English by the time of the 2020 Tokyo Olympics. If the prime minister takes his cue from the Rakuten example, there's a decent chance he'll succeed. As I learned to say during my time in Tokyo: "ganbatte," or "good luck."

Ms. Kirkpatrick is a senior fellow at the Hudson Institute and a former deputy editor of the Journal's editorial page. She is the author of "Thanksgiving: The Holiday at the Heart of the American Experience."

Llamas Magazine Is a Great Collector's Item

By Donald Altschiller

Finding a rare item unexpectedly is every collector's fantasy. While philatelists (who save stamps) and numismatists (who amass coins and other currency) spend hours patrolling hobby stores and auction houses, a lucky few stumble onto something special through sheer serendipity.

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OPINION

REVIEW & OUTLOOK

The Arpaio Pardon

Candidate Donald Trump promised to abide by the rule of law that took a beating under the Obama Administration, and that theme may have helped him win the election. President Trump's pardon late Friday of deposed Maricopa County Sheriff Joe Arpaio undermines that promise and further politicizes the law.

The 85-year-old Mr. Arpaio became a hero of many conservatives with his brazen style and tactics targeting illegal immigrants. His aggressive enforcement drew a lawsuit and court injunction, culminating in a contempt conviction last month. While Mr. Trump praised Mr. Arpaio's long career of public service, that hardly justifies the sheriff's defiance of the law he swore to uphold.

In 2008 the American Civil Liberties Union sued the sheriff's office for racially profiling Latinos during traffic and saturation patrols. After several years of litigation, federal Judge Murray Snow ordered the sheriff's office to stop detaining individuals who had not committed a state crime merely based on the suspicion that they are in the country illegally.

Two years later the judge found officers had violated his preliminary injunction and ordered anti-bias training, a court-appointed monitor and patrol cameras, among other remedies. In 2016 Mr. Arpaio was held in civil contempt for flouting the judge's orders. He was also reprimanded for withholding video evidence.

Then last August Judge Snow referred Mr. Arpaio to the Justice Department for criminal contempt proceedings. In his defense, Mr. Arpaio argued that the court orders were unclear to him or officers. Because his violations were supposedly unintentional, he said criminal charges were unwarranted.

It's true there was some confusion as to what officers were allowed to do under state and federal law. A 2010 state law required officers to check the immigration status of individuals during a "lawful stop, detention or arrest" when there's probable cause they're in the country illegally. Federal judge Susan Bolton blocked the state law in 2010, but the Supreme Court in 2012 upheld a central provision obligating officers to check individuals' immigration status.

In any case, the legal uncertainty doesn't gainsay Judge Snow's charge that Mr. Arpaio

lied to him and judicially appointed monitors. Hence the criminal contempt citation, which Judge Snow said was needed "to vindicate the Court's authority by punishing the intentional disregard for that authority." Criminal contempt is the only way to hold government officials personally responsible for violating court orders.

Mr. Arpaio may be right that the Obama Justice Department relished his prosecution, and some evidence presented at the trial was irrelevant to the case. But Judge Bolton considered the merits and, based on the evidence, determined that Mr. Arpaio had demonstrated a "flagrant disregard" for the law.

Mr. Trump's power to pardon is undeniable, but pardoning Mr. Arpaio sends a message that law enforcers can ignore court orders and get away with it. All you need is a political ally in the White House or Governor's mansion. Down that road lies anarchy. Attorney General Jeff Sessions understands this, which is why he reportedly urged the President to let the judicial process play out. Mr. Trump short-circuited the courts by pardoning Mr. Arpaio before he was sentenced or granted an appeal.

Some of our friends on the right say Mr. Trump's liberal critics had no problem dismissing Congress's contempt citations against former Attorney General Eric Holder and IRS official Lois Lerner as political. The left also supported the commutation of Bradley Manning, who leaked military intelligence.

All true and deplorable, but since when does liberal hypocrisy justify conservative disdain for the law? Mr. Trump should be setting a better standard than imitating Barack Obama, but polarized politics is leading America to a bad place where policy agreement or political support makes right. You pardon your lawbreakers and we'll pardon ours.

Mr. Trump may hope the pardon will energize supporters, but it is also dividing the GOP. Even before the contempt citation, Sheriff Arpaio's aggressive tactics were becoming unpopular, and in November he was defeated by 13 points. Mr. Trump's disdain for federal judges also isn't making friends in the federal judiciary that will have to rule on his decisions in the coming years. The Arpaio pardon is a depressing sign of our hyper-politicized times.

Disaster and the Wealth of Nations

Americans watched in shock and sympathy on the weekend as Hurricane Harvey poured record amounts of rainfall on south Texas and especially Houston, America's fourth-largest city.

The aerial scenes of flooding in the sprawling city are astonishing, as highways became rivers and whole neighborhoods were submerged amid 24 inches of rain in 24 hours with as much as 50 inches or more expected by the National Weather Service.

By Sunday experts were calling the flooding the worst disaster in Texas history, with days of possible rain ahead.

The government—federal, state and local—seemed to be responding well under the conditions, at least to the extent one can tell from afar. The blame-shifting between state and federal officials that sometimes attends disasters wasn't apparent. Officials were rightly focusing first on search and rescue for those threatened by floodwaters, but in the days ahead the

attention will focus on clean up and rebuilding. Red Cross and private companies are also doing what they can and will be doing more as people need food and temporary shelter.

The costs will be enormous in losses to property as the region dries out, but the good news is that a rich country like the United States has the resources to respond. The means to cope with disaster, natural or man-made, is one reason that we put so much focus in these pages on policies that promote sustained economic growth and the wealth that flows from it.

Immunity from nature's fury is an illusion that humans cultivate until we are forced to confront that fury again. We forget the damage that storms and earthquakes can do. Complex societies can better cope with the damage if they have a reservoir of accumulated wealth that governments and private sources can devote to alleviating the suffering and helping communities rebuild.

The End of the Chaebol Era

Friday's conviction of the head of Samsung symbolizes a turning point in South Korea's political economy. A court sentenced Lee Jae-yong, grandson of the company's founder, to five years in prison for paying \$7.9 million in bribes to an associate of former President Park Geun-hye. The Park government allowed a merger that facilitated Lee family control over Samsung, an example of what the court called "corrupt ties" between businesses and politicians.

The chaebols, as the conglomerates are known, drove South Korea's postwar development, but they are also notorious for abusing power. That is starting to change as voters insist that their leaders enforce the laws equally and investors demand that companies pass along higher returns to shareholders.

President Moon Jae-in, elected in May after Ms. Park's impeachment, has pledged not to pardon Mr. Lee and other chaebol leaders. He has also appointed Kim Sang-jo, a former economics professor and shareholder-rights activist, as head of the Korea Fair Trade Commission.

The new President is decidedly left-wing, and Mr. Kim is known as "the chaebol sniper." But so far at least their program of chaebol reform is measured. As Mr. Kim said when he took office, "I will pursue chaebol reforms through a positive campaign where companies voluntarily create exemplary cases."

This reflects that the chaebols still have plenty of defenders in the National Assembly. President Moon's Democratic Party controls 40% of the legislature, far short of the three-fifths needed to pass contentious legislation. So the President must use regulatory powers, buttressed by the public's demand for reform. South Korea's laws provide the leverage to stop cha-

bol abuses, but the problem has been lax enforcement.

The founding families own a small percentage of the overall equity of their groups and typically exercise control through a web of cross-shareholdings. Inheritance taxes further dilute family holdings, so the chaebols have relied on regulatory forbearance to reconstitute their hold on key subsidiaries after a generational transition.

In Samsung's case, the notorious 2015 merger between its construction arm and a holding company cost minority shareholders an estimated \$7 billion. That deal would have failed without the support of the government-controlled National Pension Service, which holds \$500 billion in assets. The former head of the pension service and a senior executive were convicted in June for abuse of power.

Samsung has since begun to clean up its corporate governance, canceling "treasury shares" held in reserve to defeat shareholder initiatives. Investors have bid up Samsung shares and those of other chaebols taking similar measures. The "Korea discount," the low share prices of Korean companies relative to international peers, is shrinking.

The chaebols will continue to exist in some form and even thrive, as Samsung Electronics showed by reporting record quarterly profits last month. And they will try to slow the pace of change. Samsung is resisting a holding-company structure demanded by investors such as American hedge fund Elliott Associates.

But the fact that the leader of South Korea's most valuable business group is now in prison shows that the tide has turned. Political and economic pressure is bringing the era of chaebol impunity to a close.

Liberal hypocrisy doesn't justify disdain for the rule of law.

LETTERS TO THE EDITOR

Short-Term Health Insurance: Not Right Rx

Your Aug. 15 editorial "A Short-Term ObamaCare Fix" correctly notes that additional steps must be taken to help Americans facing higher health-insurance premiums and too few choices. But the solution you offer—expanding the use of short-term, limited policies for up to a full year—would have an opposite, harmful effect.

Short-term policies sold for up to a year would allow healthy individuals, whose health status would be strictly screened, to purchase these plans and then, if they develop an illness, switch to a more comprehensive policy that meets the requirements of current law. This would cause rates to skyrocket, making coverage unaffordable for everyone who needs broad coverage. And because these plans screen out people with existing health conditions who need coverage the most, they would not offer a reasonable choice for those in areas served by few, if any, insurers. Even healthy people would soon discover that coverage is minimal, often excluding prescription drugs and setting strict caps on payment for common procedures.

A better way to protect consumers and stabilize the current individual marketplace is for lawmakers to work toward solutions that create a competitive and affordable market for everyone. This requires sustained funding to help pay for the care of those with significant medical needs, financial support to help lower-income individuals with their out-of-pocket

costs and ensuring there are strong incentives for everyone to maintain coverage year-round.

SANDY PRAEGER

Lawrence, Kan.

Mr. Praeger is a former president of the National Association of Insurance Commissioners.

Short-term and other limited policies are quite often bad deals for the people who buy them, with long lists of exclusions and limitations that aren't always clear at the time of purchase. More important, research we have supported suggests they may have negative consequences for the broader market. A quick look around the country reveals that states with adverse market outcomes such as poor carrier participation and large premium increases tend to have a few things in common: They have permitted the sale of short-term policies and other limited coverage, and have retained pre-ACA "grandmothered" products. As a rule, states with better-functioning markets permit neither.

You observe that the ACA's "central conceit" is that the healthy must subsidize the sick, but pooling risk is the central feature of any well-functioning insurance market. This point is quite evident when comparing outcomes in states which permit the fragmentation of their risk pool with those that do not.

KATHERINE HEMPSTEAD

Robert Wood Johnson Foundation

Princeton, N.J.

There Are No Political Prisoners in Hong Kong

Regarding your editorial "Hong Kong's Political Prisoners" (WSJ.com, Aug. 17; Asia, Aug. 18; U.S. Aug. 19):

The three defendants were imprisoned by the Court of Appeal (not the government) after a fair, open and transparent judicial process. They were convicted and sentenced not because they exercised their right to demonstrate, but for their unlawful conduct during the protest. They are not "political prisoners."

Freedom of speech and assembly are fundamental rights protected in Hong Kong. However, the court pointed out that one must also respect the law when exercising such rights, and should not overstep the boundary allowed under the law.

The prosecution's application to review the sentences of the defen-

dants was made on legal grounds set out in our laws and it was handled as soon as the defendants abandoned their appeal against convictions. When imposing the sentences, the court has taken into account that the defendants have served their community service orders in their original sentences.

The claim that the prosecutions were politically motivated is completely groundless. Any suggestion that our judges were under political influence and were forced to "send democratic activists to jail" is an insult to our judiciary, which is internationally recognized for its independence, quality and professionalism.

CLEMENT LEUNG

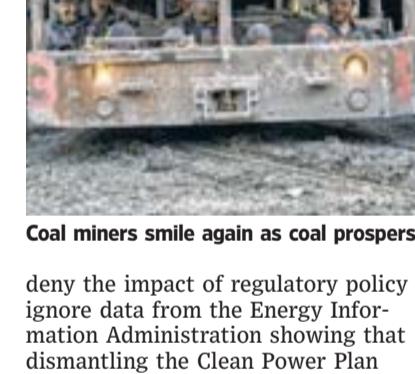
Hong Kong Commissioner to the U.S.

Washington

Old King Coal May Rightly Be Merry Again

It is refreshing to see an assessment ("Coal Makes a Comeback," Review & Outlook, Aug. 17) recognizing that policy matters greatly, especially when it distorts energy markets. The Obama administration rules on mercury emissions from power plants, for example, had little to do with mercury, and everything to do with shortening the economic life of reliable baseload coal power plants. Most of the costs—almost \$10 billion annually—related to emissions the Environmental Protection Agency admitted posed no harm to public health.

The Trump administration's prompt attention to reset the regulatory framework for coal has indeed instilled confidence that will allow the industry to perform to its true potential. Those who continue to



deny the impact of regulatory policy ignore data from the Energy Information Administration showing that dismantling the Clean Power Plan will preserve 240 million tons of annual coal production. This also means saving tens of thousands of high-wage jobs at coal mines and throughout the coal value supply chain.

Coal serves a major role in ensuring our nation's energy security through a lower cost, more diverse and reliable electricity supply. The prospects of achieving American energy security are dim without fully leveraging the nation's largest single energy resource—coal. They are nonexistent when politically motivated policies are used to obstruct energy supplies.

HAL QUINN

President and CEO

National Mining Association

Washington

Pepper ... And Salt

THE WALL STREET JOURNAL



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OPINION

Why the Left Can't Let Go of Racism

By Shelby Steele

Is America racist? It used to be that racism meant the actual enforcement of bigotry—the routine implementation of racial inequality everywhere in public and private life. Racism was a tyranny and an oppression that dehumanized—animalized—the “other.” It was a social malignancy, yet it carried the authority of natural law, as if God himself had dispassionately ordained it.

Today Americans know that active racism is no longer the greatest barrier to black and minority advancement. Since the 1960s other pathologies, even if originally generated by racism, have supplanted it. White racism did not shoot more than 4,000 people last year in Chicago. To the contrary, America for decades now—with much genuine remorse—has been recoiling from the practice of racism and has gained a firm intolerance for what it once indulged.

Liberals sell innocence from America's past. If bigotry is pronounced dead, the racket is over.

But Americans don't really trust the truth of this. It sounds too self-exonerating. Talk of “structural” and “systemic” racism conditions people to think of it as inexorable, predetermined. So even if bigotry and discrimination have lost much of their menace, Americans nevertheless yearn to know whether or not we are a racist people.

A staple on cable news these days is the “racial incident,” which stands as a referendum on this question. Today there is Charlottesville. Yesterday there were the deaths of Trayvon Martin, Michael Brown, Freddie Gray and others. Don't they reveal an irrepressible racism in American life? At the news conferences surrounding these events



At a protest in Lancaster, Pa., May 20.

there are always the Al Sharpton clones, if not the man himself, ready to spin the tale of black tragedy and white bigotry.

Such people—and the American left generally—have a hunger for racism that is almost craven. The writer Walker Percy once wrote of the “sweetness at the horrid core of bad news.” It's hard to witness the media's oddly exhilarated reaction to, say, the death of Trayvon Martin without applying Percy's insight. A black boy is dead. But not all is lost. It looks like racism.

What makes racism so sweet? Today it empowers. Racism was once just racism, a terrible bigotry that people nevertheless learned to live with, if not as a necessary evil then as an inevitable one. But the civil-rights movement, along with independence movements around the world, changed that. The '60s recast racism in the national consciousness as an incontrovertible sin, the very worst of all social evils.

Suddenly America was in moral trouble. The open acknowledgment of the nation's racist past had destroyed its moral authority, and affirming democratic principles and the rule of

law was not a sufficient response. Only a strict moral accounting could restore legitimacy.

Thus, redemption—paying off the nation's sins—became the moral imperative of a new political and cultural liberalism. President Lyndon Johnson turned redemption into a kind of activism: the Great Society, the War on Poverty, school busing, liberalized welfare policies, affirmative action, and so on.

This liberalism always projects moral idealisms (integration, social justice, diversity, inclusion, etc.) that have the ring of redemption. What is political correctness, if not essentially redemptive speech? Soon liberalism had become a cultural identity that offered Americans a way to think of themselves as decent people. To be liberal was to be good.

Here we see redemptive liberalism's great ingenuity: It seized proprietorship over innocence itself. It took on the power to grant or deny moral legitimacy across society. Liberals were free of the past while conservatives longed to resurrect it, bigotry and all. What else could “Make America Great Again” mean? In this

way redemptive liberalism reshaped the moral culture of the entire Western world with sweeping idealisms like “diversity,” which are as common today in Europe as in America.

So today there is sweetness at the news of racism because it sets off the hunt for innocence and power. Racism and bigotry generally are the great driving engines of modern American liberalism. Even a remote hint of racism can trigger a kind of moral entrepreneurship.

The “safe spaces” for minority students on university campuses are actually redemptive spaces for white students and administrators looking for innocence and empowerment. As minorities in these spaces languish in precious self-absorption, their white classmates, high on the idea of their own wonderful “tolerance,” whistle past the very segregated areas they are barred from.

America's moral fall in the '60s made innocence of the past an obsession. Thus liberalism invited people to internalize innocence, to become synonymous with it—even to fight for it as they would for an ideology. But to be innocent there must be an evil from which to be free. The liberal identity must have racism, lest it lose innocence and the power it conveys.

The great problem for conservatives is that they lack the moral glibness to compete with liberalism's “innocence.” But today there are signs of what I have called race fatigue. People are becoming openly cynical toward the left's moral muscling with racism. Add to this liberalism's monumental failure to come even close to realizing any of its beautiful idealisms, and the makings of a new conservative mandate become clearer. As idealism was the left's political edge, shouldn't realism now be the right's? Reality as the informing vision—and no more wrestling with innocence.

Mr. Steele, a senior fellow at Stanford University's Hoover Institution, is author of “Shame: How America's Past Sins Have Polarized Our Country” (Basic Books, 2015).

Powerbull: The Lottery Loves Poverty

By Arthur C. Brooks

What is America's national anti-poverty strategy? Apparently, the Powerball lottery. All across the country last week, millions of people lined up for hours to get their shot at a payout that would end their financial struggles. On Wednesday night, one ticketholder won a \$759 million jackpot. That sounds like a lot until you hear the government's take.

Powerball—the lottery shared by 44 states, the District of Columbia and two territories—is just one of the sweepstakes run by 47 jurisdictions in the U.S. These games produce nearly \$70 billion a year in government revenue and enjoy profits of about 33%—much higher than margins in the private gambling industry.

It's bizarre: States push lotto tickets on the poor, earn \$70 billion, and then put the buyers on welfare.

Who are these lotteries' most loyal customers? Poor people. Lots of folks buy the occasional ticket, but studies have long shown a steady association between poverty and lottery play. Many scholars report that the poorest third of Americans buy more than half of all lottery tickets, which is why states advertise so aggressively in poor neighborhoods.

Harmless entertainment, you may say, but poor people don't see it that way. They tend to view lottery tickets as an investment. Duke University social scientists Charles Clotfelter and Philip Cook reported in a 1990 study that people earning less than \$30,000 a year are 25% more likely to say they play the lottery for the money rather than the entertainment.

Hardly a surprise, since this is the idea that lottery advertising is selling. In California, the slogan is, “Imagine what a buck could do!” In New York? “Hey, you never know.” Scholars have dug up evidence that states intentionally direct such ads at vulnerable citizens. A marketing plan for Ohio's lottery some years back recommended scheduling campaigns to coincide with the distribution of “government benefits, payroll and Social Security payments.”

These kinds of ads seduce poor people with the illusion of riches. Even if someone feels compelled to throw a financial “Hail Mary,” the lottery is a terrible choice. The odds of winning last week's jackpot were about 1 in 292 million. And the average return from \$1 spent on lottery tickets is 52 cents, according to a 2002 paper by Melissa Kearney, an economist now at the University of Maryland.

But this isn't easy to see for those with low levels of education. My own analysis of survey data from the National Gambling Impact Study Commission suggests that someone who didn't attend college may think the return on lottery tickets is 40% higher than the estimate given by a person of similar demographics who holds a degree.

Another common mistake is the “hot-hand fallacy.” The lottery is totally random, yet players are attracted to stores that previously sold winning tickets, as if they were lucky. A 2008 study by Ms. Kearney and Northwestern's Jonathan Guryan showed that a winning ticket can boost a store's lotto sales by 38% in the week after the announcement. This is especially true among populations with high proportions of high-school dropouts and households on welfare.

What's the social cost of all this? Ms. Kearney says lottery players finance their tickets largely by cutting spending on necessities. After a state introduces the lotto, the bottom third of households shift about 3% of their food expenditures and 7% of their mortgage payments, rent and other bills. Effectively, the lottery works like a regressive tax.

It might strike you as bizarre that the government spends billions on nutrition and housing programs for the poor while simultaneously encouraging poor people to move their own money away from these necessities and toward the state's gambling monopoly. In fact, that \$70 billion in annual lottery revenues is strikingly close to what the government spends on food stamps. Is there any set of policies more contradictory than pushing lotto tickets on poor people, and then signing them up for welfare programs that make them financially dependent on the government?

Politicians who profess a desire to alleviate poverty often lament how few levers they have to pull. So here's a novel idea: Stop selling poor people a mirage of the American dream at the end of a convenience-store line.

Mr. Brooks is president of the American Enterprise Institute.

How Well Do We Know Kim Jong Un?

By Robert Scales and Steve Israel

For U.S. officials navigating the standoff with North Korea, Sun Tzu's know-your-enemy maxim might seem impossible. Kim Jong Un, hidden behind his regime's shroud of secrecy and isolation, is often described as too irrational and erratic to predict. But details of the North Korean leader's background and circumstances make it possible to discern his motives—and counteract his strategy.

Regime preservation and forcible reunification of the Korean Peninsula have been the Kim family's overarching goals since 1948. Those doctrines have been handed down from each generation to the next, and Kim Jong Un was weaned on them. They are as much a part of his worldview as democracy and freedom are in the West.

Mr. Kim's dream of a reunified nation is obstructed by the approximately 35,000 American troops, and advanced weaponry including B-1 bombers, based at Andersen Air Force Base in Guam. He believes that South Korea's front door can only be unlocked when the U.S. vacates the premises.

Mr. Kim doesn't need hyperbolic rhetoric to know that a nuclear strike on American soil—or on America's allies and interests—will provoke an annihilating response. But he may not believe he has to go that far. He may think that proving he has a bomb—and the wherewithal to deliver it—will be enough to force the U.S. to leave the neighborhood. In his view, no American president would ever risk a nuclear attack on Seattle to protect Seoul.

The oft-repeated claim that Mr. Kim is so deranged that he might

impulsively lob a missile at the U.S. doesn't add up. He may not actually be considering the costs and benefits of a nuclear confrontation. He may think all he needs to do is scare the Americans. Frightening the U.S., he may think, will force America's hand.

The North Korean's game of nuclear blackmail is potentially catastrophic—but it isn't unpredictable.

This regime has been in power for almost 70 years and understands the value of the long game. Mr. Kim wants to play nuclear blackmail. It's evil, it's dangerous, it's potentially catastrophic—but it isn't unpredictable.

The U.S. can neutralize the blackmail threat by rapidly ramping up its defensive ballistic-missile capabilities. Israel's three missile interceptor systems—Iron Dome, David's Sling and Arrow—arent yet able to bring down an intercontinental ballistic missile. Nevertheless, America should build on those technologies to supplement its already impressive capability to strike missiles at various phases of launch, trajectory and orbital penetration.

Congress and the president should expand the economic sanctions regime against North Korea and build out the alliance with China. Keep in mind that Mr. Kim doesn't care about the 25 million North Koreans he's starving. He maintains power by enriching the elite network around him.

One day, the U.S. military may have to attack Mr. Kim's military

infrastructure. But right now America has to attack his thinking. Mr. Kim is “rationally irrational.” He calculates his moves, assesses threats and leverages his strengths. He's not unpredictable. The more the U.S. understands and exploits his thinking, the more predictable the outcome may be.

Mr. Tzu's proverb about knowing the enemy was wise. It could prevent a catastrophe in North Korea.

Mr. Scales, a retired major general and author of “Scales of War” (Naval Institute Press), served as commandant of the U.S. Army War College and a field artillery battalion commander in South Korea. Mr. Israel, a Democrat, was a U.S. representative from New York, 2001-17, and now chairs the Global Institute at Long Island University.

Hemingway Needed a Jungle Gym

By Stephen Miller

After hitting the age of 76, I decided to reread Hemingway's “The Old Man and the Sea.” But I didn't like it any better than when I read it 40 years ago. It's a tedious novel full of self-pitying thoughts about growing old and banal sentiments about the human condition.

I spend no time at sea and a lot of time in playgrounds with my 3-year-old grandson. Recently I took him to Bennett Park, in the Washington Heights neighborhood of Manhattan, but on the way he fell asleep in his stroller. So I spent most an hour sitting on a bench and staring at the passing scene.

Playgrounds obviously are great for children, but it struck me that they are pretty good for adults, too.

A few feet back from the slide and the jungle gym, conversation flourished. “In the playgrounds

Playgrounds are built for kids, but there's a lot of life in them for parents and old guys, too.

with my kids,” Emily Raboteau wrote last year in the *New Yorker*, “I talk with people I would otherwise never have spoken to.”

Tommy Wilhelm, the distraught main character in Saul Bellow's “Seize the Day,” describes a therapeutic trip to Central Park: “My head was about to bust and I just had to have a little air, so I walked around the Reservoir, and I sat down for a while in a playground. It rests me to watch the kids play potty and skip rope.”

For me the activity and noise of playgrounds don't provide rest so much as rejuvenation. I'm always striking up a conversation with someone—a parent or grandparent. Bennett Park has a village feeling to it. So many people seem to know each other. One day I was there with my daughter—my grandson's mom—and a woman told her about a neighborhood website where one can buy and sell stuff, find babysitters, handymen, and so forth.

A few days later I took my grandson to Jacob Javits Playground, at the entrance to Fort Tryon Park.

Once again he fell asleep in the stroller. I didn't have a book with me, so again I sat and stared. In the distance I could see the Hudson River and the cliffs of the Palisades. Two or three helicopters whirred by, heading north. But the main show was the people: Little kids were yelling and laughing while coming down slides or climbing up slides, riding scooters or playing tag. A high-quality basketball game was going on.

That day I heard several languages: English, Spanish, Russian, and—I think—Korean. The park draws a multicultural crowd: whites, blacks, East Asians, South Asians. A group of Orthodox Jewish boys arrived, dressed in black pants and white shirts.

Three weeks later I took my grandson to a playground in J. Hood Wright Park, a few blocks south of the George Washington Bridge. This time he did not fall asleep in the stroller. He wanted to go on a swing first. After that he climbed on an elaborate jungle gym that looks like a replica of the nearby bridge. He slid down the same slide again and again. I told him to try another, but this was the only slide for him.

A few minutes later I too went down the slide—yelling all the way. My grandson squealed with laughter. Maybe Hemingway, who suffered from acute depression, should have spent less time at sea and more time on the monkey bars.

Mr. Miller's latest book is “Walking New York: Reflections of American Writers from Walt Whitman to Teju Cole.”

THE WALL STREET JOURNAL.

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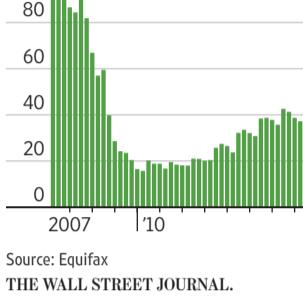
Tapping Homes for Cash Is Back

By CHRISTINA REXRODE

Borrowing Builds

Home-equity line of credit originations, quarterly

\$120 billion



Source: Equifax
THE WALL STREET JOURNAL.

Rising home prices are making borrowers comfortable again with the idea of tapping their homes for cash.

Home-equity lines of credit and cash-out mortgage refinances, two products that let consumers spend the windfall of home ownership, are back in vogue. That reflects growing confidence and is a potential benefit to the U.S. economy as homeowners have more money to spend.

"If customers feel like their home values are stable or increasing, and if they feel like their job prospects are good—

that they will have the ability to pay back a loan they take—then they will start to take out more home-equity lines," said Mike Kinane, head of U.S. consumer-lending products at TD Bank. "That is what we are starting to see."

Home-equity line originations rose 8% to nearly \$46 billion in the second quarter, their highest level since 2008, according to credit-reporting firm Equifax. Borrowing via cash-out mortgage refinances hit \$15 billion, up 6% from a year earlier, according to data from Freddie Mac.

The main engine driving demand: rising home prices.

The median sale price of an existing home rose to \$263,800 in June, the highest on record, up 40% from \$187,900 at the start of 2014, according to the National Association of Realtors.

Banks insist the increased borrowing doesn't herald a return to housing-bubble days when consumers came to view their homes as cash registers.

Banks say they are being more cautious in how they make such loans and some add they are encouraging borrowers to tackle renovations or consolidate debt—uses that are considered investments rather than luxuries.

"We continue to watch what's going on and the way it's being done, but it's much different from before the crisis," said Tom Wind, head of U.S. Bancorp's home-mortgage division. Mr. Wind added that the bank expects this type of borrowing to keep rebounding because the equity in people's homes is "meaningful and people want things like renovations."

A home-equity line is similar to a credit card, where a borrower can spend as much or as little of the available credit as they wish—but with the house as collateral. In a

Please see HELLOC page B2

Firms Try To Shape Debate on Profits Tax

By RICHARD RUBIN

WASHINGTON—Congressional Republicans are trying to write new rules for taxing foreign profits of U.S. corporations, and a group of large, influential companies is warning against one prominent option.

Under current law, companies owe the full 35% corporate-tax rate on their worldwide earnings and have to pay it on any profits they bring back to the U.S. That system encourages companies to book profits overseas and leave them there. The issue is often a flashpoint in debates over changing the tax code.

Republicans want to lower the corporate-tax rate and let companies bring future global profits home without paying U.S. taxes on top of foreign taxes. They are searching for a way to do that without giving companies an incentive to move more operations and profits to countries with far lower taxes.

One alternative Republicans are considering is a minimum tax on those profits. But such a tax would have "unintended and adverse consequences," the business group, which includes companies such as Eli Lilly & Co., United Technologies Corp. and United Parcel Service Inc., told top lawmakers this month in a previously undisclosed policy paper.

The comments by the Alliance for Competitive Taxation are an early sign of the competing pressures lawmakers will face as they seek to overhaul the U.S. tax code.

As part of that overhaul, Republicans want to exempt foreign corporate income from U.S. taxes to a large extent. Other countries, including the U.K., have shifted to similar systems in recent years and Republicans want to follow that trend. The 35% rate would come down and the minimum rate would be set below the new U.S. corporate tax rate. Republicans may also be considering other rules beyond a minimum tax, and they haven't made any final decisions.

A minimum tax would act as a "safety net" against companies trying to pay little or no tax on some foreign income, said Ed Kleinbard, a tax law professor at the University of Southern California. "The United States does not encourage competitiveness when it simply subsidizes imports."

Please see TAX page B2



The e-commerce giant's strategy for its newly acquired Whole Foods division will put pressure on traditional players in the extremely competitive business.

Amazon Rewrites Rule Book for Grocers

Price cuts on staples at Whole Foods are aimed at boosting traffic at rivals' expense

By HEATHER HADDON AND LAURA STEVENS

Amazon.com Inc. will bring lower prices to its new Whole Foods Market Inc. division Monday. It also will bring a new rule book.

While Amazon doesn't need to make money from its grocery division yet, food sales are crucial for traditional players like Kroger Co., Wal-Mart Stores Inc. and Target Corp. The ex-

tremely competitive food-retail business demands high capital investments for low margins. Supermarkets' success has mainly relied on getting customers into conveniently located stores with deals.

By cutting prices on high-volume staples like bananas, eggs and ground beef in 470 Whole Foods stores, Amazon is signaling it will compete for that traffic. Even if it loses money, it hopes it can bring shoppers into stores, win their loyalty to the whole company and prompt them to spend more money, say former Amazon executives.

"Amazon's using the same playbook they always have when competing with booksellers and other retailers," says Chris McCabe, a former Amazon performance evaluation and policy enforcement investigator who now works with sellers on the retailer's marketplace. "They take out their revenue stream by killing them slowly on price."

Amazon and Whole Foods declined to comment.

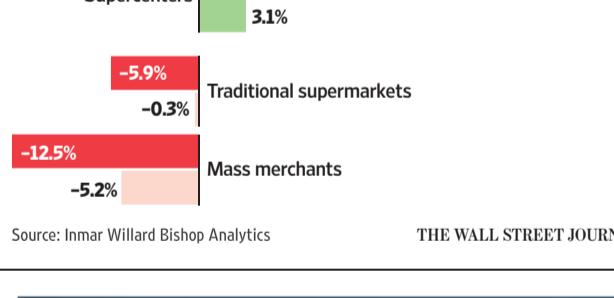
The Amazon-Whole Foods deal, sealed about 10 weeks after its announcement, has weighed on the grocery sector, pushing food-retail stocks down 20% this year. Consumer-packaged good shares have fallen about 7% as legacy

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Supermarket Sweep

E-commerce food sales are still small but growing rapidly, while those at most physical retailers are falling

Annual sales change of food and consumables



Source: Inmar Willard Bishop Analytics

THE WALL STREET JOURNAL.



Chicago Stock Exchange second-floor trading room, circa 1894.

Chicago Exchange's Chinese Deal Stalls

By DAVE MICHAELS AND ALEXANDER OSIPOVICH

The Chicago Stock Exchange is a relic of history, trading less than 0.5% of U.S. stocks and in such straits that it has been looking for a buyer.

That isn't how U.S. officials see it. After a group of buyers emerged last year to rescue the exchange—led by Chongqing Casin Enterprise Group, a Chinese conglomerate—lawmakers demanded that the deal be halted on national-security grounds. The Securities

and Exchange Commission issued a last-minute freeze that put the \$20 million transaction on indefinite hold.

The 135-year-old exchange's efforts to win approval for the sale highlight mounting U.S. resistance to Chinese deal making, especially when it involves firms inside the plumbing of the U.S. financial system.

"When you take into account the risk of cyber-market manipulation and the gamut of concerns we have with China...you certainly have to be wary of

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this acquisition," Rep. Robert Pittenger (R., N.C.), a leading congressional critic of the deal and other Chinese acquisitions, said in an interview.

Foes of the deal say granting a Chinese company a stake in a U.S. stock exchange would create a back door for state-sponsored theft of Americans' financial data or hacks of critical market infrastructure.

Casin—which is seeking to buy 20% of the exchange's parent company, **CHX Holdings** Inc., with other Chinese and U.S. investors buying the rest—says it is independent of the Chinese government. Based in the inland city of Chongqing, it is active in businesses ranging from banking to tourism to sewage treatment.

CHX denies the acquisition will endanger the security of U.S. markets and says its policies will prevent confidential data from being shared with the new Chinese owners. The current CHX management team will remain in place if the deal goes through, said William Ruben, a CHX spokesman.

The deal got approval in December from the Committee on Foreign Investment in the U.S., or CFIUS, a multiagency

panel that reviews acquisitions of U.S. companies for national-security concerns. Several Chinese takeover bids this year have failed to get timely CFIUS approval. These include a \$1.2 billion purchase of MoneyGram International Inc., of Dallas, by Ant Financial Services Group, which is controlled by Chinese billionaire Jack Ma, a co-founder of e-commerce giant Alibaba Group Holding Ltd.

SEC commissioners put the Chicago exchange deal on hold on Aug. 9, freezing a staff decision earlier that day to green-light the deal following a 240-day review period.

CHX Chief Executive John Kerin told the SEC in a letter Friday, "CFIUS conducted a thorough, deep, and wide-ranging investigation" of the deal and "concluded that there were no unresolved national security concerns."

The CHX deal's supporters, including members of the Chicago City Council, say it will revitalize the institution founded in 1882 as a place for Midwest manufacturers and railroads to sell their shares.

CHX has around 80 employees and 2015 revenue of \$19.5 million, according to financial statements reviewed by The Wall Street Journal.

Casin hopes to turn CHX into a listings venue where smaller Chinese and other overseas companies can sell shares to U.S. investors.

The deal "is an opportunity for investors from the two largest economies to work together," Jackson Xiao, chief executive of Casin's North American subsidiary, said in emailed comments forwarded by a U.S.-based lawyer for the company.

CHX executives spoke by phone on Aug. 21 with aides to SEC Chairman Jay Clayton, people familiar with the matter said. The SEC officials told CHX they couldn't give any feedback on why commissioners halted the staff's decision or when the full commission would vote on the proposal, the people said.

By imposing strong listing standards, the rules that govern which firms can offer shares. Such rules would need SEC approval.

"CHX firmly believes that the safest way for U.S. investors to get exposure to foreign emerging growth companies is through a U.S. listing that is regulated by the SEC," a spokesman for CHX said.

Market veterans point to the wave of accounting scandals that hit U.S.-listed Chinese companies half a decade ago, which cost investors billions of dollars. Many of the companies in the debacle listed on Nasdaq Inc. or the New York Stock Exchange through a reverse merger, in which a firm buys a publicly traded shell company to take its spot on an exchange.

"Historically, exchanges have been very poor gatekeepers," said Soren Aandahl, director of research at Glaucus Research, a short seller that has targeted Chinese companies. "Why should the Chicago Stock Exchange be any different?"

Bit Player

The Chicago exchange's share of U.S. stock trading has shrunk.



*Through July 31
Source: Tabb Group

THE WALL STREET JOURNAL.

Range of Concerns Cloud CHX Proposal

President Donald Trump criticized the Chicago exchange deal during last year's presidential campaign, tying it to U.S. factory jobs fleeing the country. Since taking office, he has pressured Beijing on trade and criticized China for failing to rein in North Korea's nuclear program.

Listing in Chicago could give Chinese companies an alternative to going public in their home country, where the government tightly controls the offering process.

Rep. Robert Pittenger (R., N.C.) and other critics fear such companies could seek to defraud U.S. investors. "There are many concerns that a Chinese-controlled exchange would be able to list companies that would otherwise not have access to our markets," Mr. Pittenger said.

Both Casin and CHX said they would protect investors

BUSINESS & FINANCE

Slowing U.S. SUV Sales Signal Turn

BY MIKE COLIAS
AND CHRISTINA ROGERS

As auto-industry growth stalls and family sedans go the way of the flip phone, one silver lining had been the trusty "crossover" SUV.

THE WEEK AHEAD Sales in the category boomed amid lower gasoline prices and higher demand for spacious wagons with all-wheel drive.

But more clouds seem to be gathering as the summer car-selling season comes to an end. Incentives on SUVs are skyrocketing amid rising inventories, a trend that promises to dent the fat profits the segment has long returned.

Auto makers report sales on Friday, and August volume is expected to rise 2% compared with the same month in 2016, but only because dealers have an extra selling day this year. On an adjusted basis, the rate of

retail sales—stripping out deliveries to fleet buyers—will hit the lowest point of 2017, according to J.D. Power, despite hefty sales incentives and new model offerings.

The U.S. auto market's slowdown isn't a new story, as analysts widely expected a seven-year growth streak to end and for sales to plateau at roughly 17 million a year for the foreseeable future. Red flags for the crossover market, however, represent a whole new set of headaches, particularly for companies like General Motors Co.

The company's GMC Terrain hit dealerships this summer amid high expectations. One of four crossover SUVs the auto giant is launching, the Terrain's muscular design, slick touch screen and advanced safety gear are expected to help fetch higher prices.

The problem is nearly all auto makers are betting the

crossover can take the place of the sedans and coupes losing favor with American buyers, and the resulting traffic jam of options is sparking a price war. Crossovers are designed to look like a sport-utility vehicle and use all-wheel drive, but ride on the lighter and more efficient chassis designs that typically underpin cars.

"The industry is wildly overweight on crossovers," John Murphy, an auto analyst for **Bank of America** Merrill Lynch, said in a recent presentation. The number of crossover models sold in U.S. dealerships is expected to rise to 110 nameplates by late 2020, up from 78 today, he estimated.

Auto makers like GM—long dominant in the SUV market—have relied on bigger or heavier vehicles with higher price tags to drive profits, and offset the losses that result from sales of family sedans or compact cars. But in the first half of

2017, incentives for SUVs shot up 33%, according to research website Edmunds.com, with the average discount or rebate in the segment reaching \$3,200.

Ford Motor Co. is currently offering a \$3,500 cash rebate on the Ford Escape, along with 0% financing for 72 months. A Ford spokesman said the SUV market is "increasingly competitive," noting average transaction prices last month fell \$400 compared with a year earlier.

Sales for GMC, one of the few brands that sell only trucks and SUVs, have increased 1.6% through July, or slower than the growth in the wider light-truck market. The brand, which sells Sierra pickups and Yukon family-haulers, had 93 days' supply of unsold vehicles on dealer lots at the end of July.

"Everyone is either redoing [their crossovers] or has new ones coming," said Phil Brook, marketing chief from GM's GMC brand.



The 2018 GMC Terrain SUV. Auto makers report sales on Friday. Incentives on SUVs are skyrocketing amid rising inventories

HELOC

Continued from the prior page
cash-out refi, borrowers refinance an existing mortgage into a new one with a higher principal balance, putting cash in their pocket.

Marc Yu took out a home-equity line to buy an investment property, a house he now rents out at a profit. He has thought about paying off the line early, but instead decided to keep it open as long as interest rates stay relatively low.

"I wanted to use the equity" in the first house, rather than "it just sitting there," said Mr. Yu, who works in digital forensics in the Atlanta area.

Low interest rates are another draw. For example, the average interest rate on a home-equity line is roughly 5.6%, according to Bank-

rate.com, a personal-finance website. Credit cards average 16.7%.

There are risks. A cash-out refi can extend the length of a mortgage and cost a borrower more in interest over the life of the loan. If home prices fall, a borrower who has tapped home equity can risk the mortgage being greater than the value of the home—a scenario that caught many in the financial crisis.

Those dangers aren't lost on borrowers. Some bankers say wariness about the products have made home-equity lines and cash-out refis a tougher sell than they had expected. "Would I like to see it pick up more? Absolutely," said TD's Mr. Kinane.

Further increases in interest rates also could make both products less appealing. Many home-equity lines have rates that rise and fall with shorter-term borrowing benchmarks.

Rob Cash used a home-equity line to pay for upgrades on his Maryland home. But he paid it off as quickly as he could. He didn't like having the debt hanging over his head, and didn't want to get used to having the extra cash.

"It's easy to...see it as more money," said Mr. Cash, who works in construction, "when it's just more debt."

For banks, increased originations aren't yet strong enough to stop continued declines in the overall level of outstanding home-equity-line debt. This is a hangover from the surge of such borrowing during the housing bubble.

Lenders originated a combined \$720 billion of home-equity-line credit in 2006 and 2007, according to Equifax data.

Borrowers typically only pay interest on these loans for the first 10 years. In subsequent years, both principal and interest are due.

Given that, borrowers often look to repay or refinance home-equity lines at or around the 10-year mark. Because of this, and the huge amount of such debt that was originated around a decade ago, new originations haven't been enough to offset repayments.

The result: U.S. banks' holdings of about \$387 billion in revolving home-equity loans as of early August are down more than 35% from a peak of around \$610 billion in early 2009, according to Federal Reserve data.

"Home-equity originations are up nicely, but continue to be outpaced by pay-downs" of old lines, **Bank of America** Corp. finance chief Paul Donofrio told analysts in July on the firm's second-quarter earnings call. That sentiment was echoed by other banks and means it could be another year or two before the drag from crisis-era loans fades.

They use a variety of rules to prevent companies from seeking to pay less tax by moving operations or profits abroad, but generally don't have minimum taxes on active foreign profits.

Minimum taxes have been floated in recent years by former president Barack Obama and former House Ways and Means Committee Chairman Dave Camp (R., Mich.).

Corporate executives say they want a system that doesn't put their companies at a disadvantage.

"It's got to be fair. It's got to be competitive. And it's got to recognize that you've got to protect the U.S. base," said Greg Hayes, the chief executive officer of United Technologies.

The basic architecture of the GOP plan calls for lowering tax rates and removing tax breaks, which would raise taxes on low-tax industries such as pharmaceuticals and lower them for higher-taxed retailers.

But that isn't the relevant comparison, said Mr. Lewis, who said he is trying to keep up with Novartis AG of Switzerland and U.K.-based GlaxoSmithKline PLC—not domestic retailers.

"The most important consideration is how you stack up against your foreign competition," he said.

TAX

Continued from the prior page
international tax avoidance," he said.

But the alliance argues that a minimum tax would focus too much on U.S.-based companies and that the rules wouldn't match how other major countries treat their home companies. A minimum tax, the alliance contends, would give foreign-based firms an advantage.

"We would continue to have a tax code that is out of step with the rest of the world," said David Lewis, vice president, global taxes, at drugmaker Eli Lilly. "Let's get it done right and not settle for anything less. And right means U.S. companies can compete, thrive and win in the global marketplace."

Under the current system, U.S. companies get tax credits for payments to foreign governments and only pay the difference between lower foreign tax rates and the U.S. rate if they repatriate profits.

The system encourages U.S. companies to book profits abroad and leave them there.

They can often pay the same tax rates outside the U.S. as their foreign competitors do, but they can't move

companies a bigger incentive to shift profits abroad because they could reap the benefits of lower foreign tax rates. Lower U.S. corporate-tax rates would reduce that incentive, but wouldn't remove it.

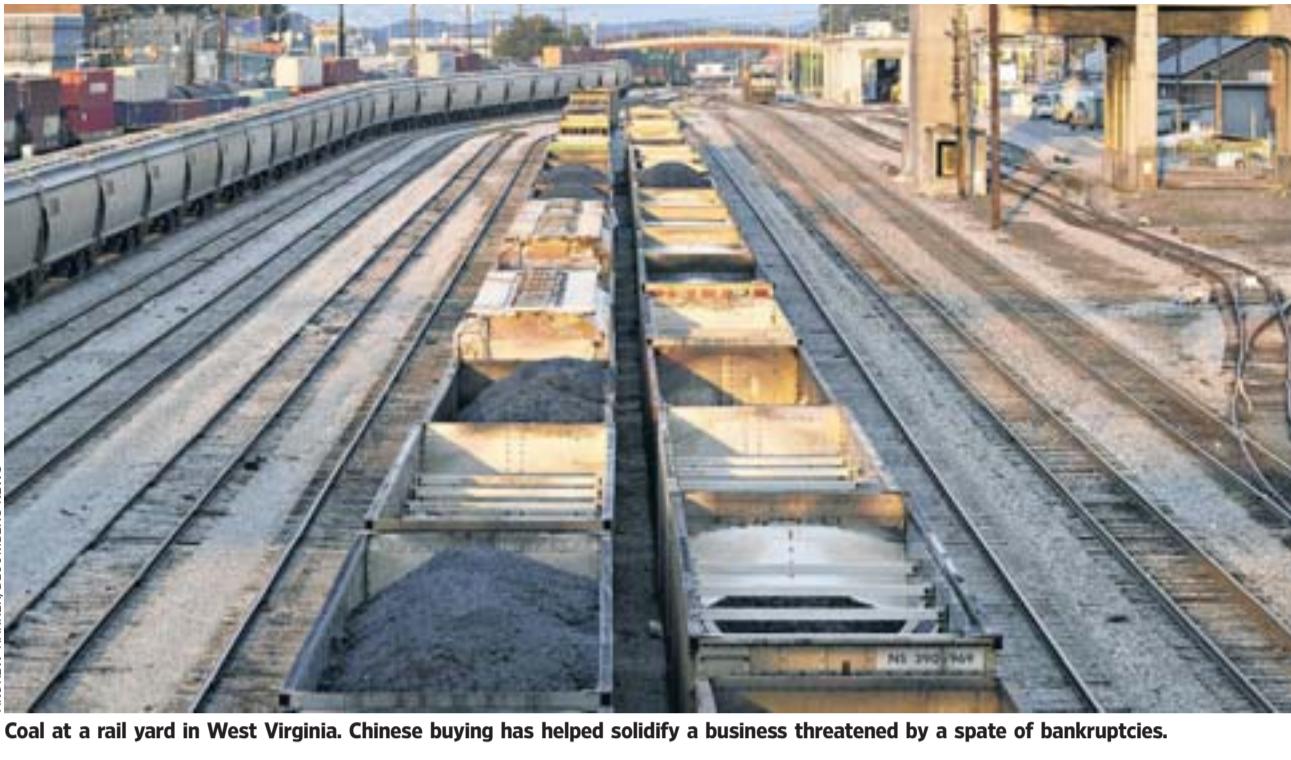
Lilly, for example, had an 18.9% tax rate in 2016 and a 13.7% rate in 2015, driven largely by lower foreign tax rates. The company now has \$28 billion in stockpiled profits that haven't faced U.S. taxes.

Eliminating the tax on foreign profits would allow U.S. companies to bring future foreign profits home without paying U.S. taxes. But that kind of system would give

companies a bigger incentive to shift profits abroad because they could reap the benefits of lower foreign tax rates. Lower U.S. corporate-tax rates would reduce that incentive, but wouldn't remove it.

Lilly, for example, had an 18.9% tax rate in 2016 and a 13.7% rate in 2015, driven largely by

BUSINESS NEWS



Coal at a rail yard in West Virginia. Chinese buying has helped solidify a business threatened by a spate of bankruptcies.

China Spurs Coal Rebound

Revenue at publicly traded companies that mine the fuel rose 19% in first half of year

By TIMOTHY PUZO

China's re-emergence as a coal importer has boosted the fortunes of U.S. producers who are now shipping more coal abroad than any time in the last two years.

The trend has helped solidify a business that at the beginning of last year was suffering through a spate of bankruptcies and threatened with more.

Revenue at publicly traded U.S. coal companies grew by 19% in the first half of this year compared with the same period a year ago, and the biggest gains came at companies helped the most by exports, according to data compiled by Doyle Trading Consultants, a coal-market-analysis firm.

That growth comes at a time when President Donald Trump has vowed to end a long decline in the U.S. coal business.

Hundreds of mines have closed in recent years largely because of increasing competition from other fuels, and the Trump administration has pushed to cut regulations that make coal even less competitive.

Market forces, especially China, have a much bigger influence than anything the Trump administration has done, analysts said. While that has worked in the administration's favor so far, it could also overwhelm its deregulation efforts and put the coal industry into retreat if those factors swing back the other way.

"China is 100% the key determinant," said Mark Levin, analyst at Seaport Global Securities LLC. "That's difficult for anyone in the United States to get a clear angle on."

China set the rebound in motion a year ago as global prices and U.S. exports were bottoming out. In the middle of a world-wide glut, China used new environmental rules to limit the number of days its domestic mines could work. And new price controls that increased intervention as prices

moved outside a "green" zone of \$70 to \$80 a ton also curtailed production. Sharp capacity cuts hit as industrial demand took off and global benchmark prices are up 50% to 100% from about a year ago.

As China imported more, it shifted trade and prices rose world-wide. Russian, African and South American coal that once went to Europe has been going to China, analysts said. Importers all over the world have to pay more to fill the gap left behind.

The chain reaction led to more U.S. exports going to every continent. U.S. exports to Europe hit 11 million tons in the first quarter, up 70% from the first quarter in 2016. Exports to Asia rose by about half to 6.4 million short tons, U.S. government data show.

A year ago Cloud Peak Energy Inc. was selling so little coal abroad that it had to take losses on its contracts with shippers and pay them for doing nothing in lieu of taking coal. Now the company is back to being one of the largest exporters in the western U.S.,

raising exports from almost nothing a year ago to an expected 4.5 million tons in 2017. That increased its revenue nearly 20% in the first half of the year even while domestic sales have fallen.

"We've had a good and stable year, which in our environment is a good year," said Heath Hill, the company's finance chief.

Industry leaders say that good fortune has been backed up by a change of sentiment led by Mr. Trump. Business would have been worse and future prospects would be lower under a Democratic administration that used new rules to move consumers further away from coal, they said.

But the rebound has been so dependent on exports that U.S. producers face a big risk if China undoes last year's policy changes. Chinese coal production is showing signs of picking up again and the government is starting to block some imports to support domestic miners, researchers at Italian ship broker Banca Costa said Wednesday.

Perfumania Files For Bankruptcy

By LILLIAN RIZZO

Mall-based retailer chain **Perfumania Holdings Inc.** has sought chapter 11 protection with plans to reorganize around its better-performing stores.

"Unlike many retailers who have filed for bankruptcy, Perfumania sees a viable path forward," Chief Executive Michael Katz said in court papers filed Saturday.

The company plans to close 64 of its 226 stores during the bankruptcy process, court papers show. Despite closing nearly 100 stores since 2015, the company still took losses each year, Mr. Katz said. Its stores will remain open while under bankruptcy protection.

Perfumania's Parlux and Five Star Fragrance subsidiaries aren't included in the bankruptcy filing.

Mr. Katz said in court papers the company has been affected by "many of the same macroeconomic challenges plaguing the retail industry as a whole," such as declining mall traffic, more consumers shifting to online shopping, changing trends and expensive leases.

Perfumania is known for selling brand-name and designer fragrances at dis-

counted prices up to 75% below the manufacturers' suggested retail prices. Each store is said to have about 2,000 different fragrances, under designer names like Burberry, Christian Dior, Dolce & Gabbana, among many others.

The public company plans to turn over control to a new undisclosed investor, which will provide a new roughly \$14.3 million equity infusion.

The Bellport, N.Y., company has about \$199 million in debt—including \$18.78 million owed under a \$175 million revolver with Wells Fargo N.A., Wells Fargo Capital Finance, Regions Bank and RBS Business Capital, and \$125.4 million in subordinated promissory notes plus \$54.8 million in unpaid interest.

In addition, Perfumania has received an \$83.75 million bankruptcy loan from Wells Fargo, which it plans to use to repay its prebankruptcy revolver, subject to court approval. Following its emergence from bankruptcy protection, the bankruptcy loan is slated to be replaced by a new \$100 million revolver, court papers show.

All unsecured creditors will either be reinstated or paid in full in cash."



Richard B. Levine/Zuma Press

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Nintendo Faces Switch Shortages

Production of game machine can't keep up with demand from Japanese, U.S. users

Nintendo Co.'s latest video-game machine, the Nintendo Switch, is winning fans for both its lineup of popular

By *Takashi Mochizuki*
in Tokyo and
Sarah E. Needleman
in New York

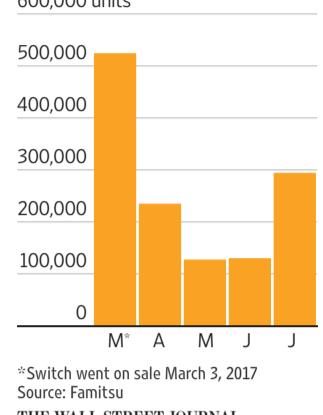
games and its flexibility—it works as both a living-room console and a hand-held device.

But the real challenge for gamers has been actually getting their hands on it. Production isn't keeping up with demand in Japan, resulting in blockbuster queues and lotteries there. Over weekends in July and early August, tens of thousands of fans lined up at stores for a one-in-10 chance to buy the \$300 console at events that have become a form of entertainment.

In the U.S. too, scarcity has only made the Switch more sought after. Some fans have spent months trying to find a Switch, and sellers on Amazon.com are getting \$380 or more for a unit. Wal-Mart Stores Inc., Target Corp. and GameStop Corp. said they

Game On

Nintendo Switch sales have lagged in Japan because of supply shortages but are picking up.



*Switch went on sale March 3, 2017

Source: Famitsu

THE WALL STREET JOURNAL.



Nintendo's stock price is up more than 50% since the Switch went on sale March 3.

have struggled to meet demand both in stores and online.

"We continue to see strong demand for the Switch and sell out our inventory in a matter of days of it being available in our stores and our websites," Tony Bartel, GameStop chief operating officer, said in a quarterly earnings call Thursday. "We believe that this will continue through the holiday."

Supply in Europe seems somewhat better, with electronics retailers' websites in France, Germany and Italy showing the console is available. In June, though, British videogame retailer Game Digital PLC issued a profit warning partly blaming lower-than-expected Switch supplies to the U.K.

Nintendo's official target is to ship 10 million Switch units in its current fiscal year ending in March 2018. People involved in the supply chain say they have been told to prepare for 18 million units. One executive in the supply chain said his company was ready to pick up the pace of production if asked.

"We're doing everything we can to make sure everyone who wants to buy a Nintendo

Switch system can do so," Nintendo said in a statement. "We will ramp up production for the holiday period, which has been factored into our forecast."

One delicate balance for Nintendo: The more it tries to boost output quickly, the more it has to bow to the terms of parts makers, some of whom are also busy with orders for Apple Inc.'s next iPhone.

Nintendo's stock price is up more than 50% since the Switch went on sale March 3, giving the company a market capitalization of more than \$45 billion. The scarcity of the

Switch—whether by design or not—adds to the hype.

Aki Natsume, a 26-year-old singer, was one of more than 2,000 people a few weeks ago standing in line at the large Bic Camera store in Tokyo's Akihabara district for a chance to buy the Switch.

Ms. Natsume got lucky—her number was one of 200 selected in the lottery. She bought a Switch, even though she said she wasn't particularly passionate about it. She already owns a rival console from Sony Corp. "I'm busy with playing a PlayStation 4 game."

Facebook Gets Heat From U.N. On Videos

BY DEEPA SEETHARAMAN

Facebook Inc. is again in hot water for allowing objectionable videos on its website, this time drawing a rare rebuke from a United Nations agency.

The U.N. migration agency hammered the social network for allowing what it said was a "horrifying" video showing gangs in Libya threatening to harm a group of terrified migrants, many from Somalia and Ethiopia. One migrant in the video is lying on his chest with a concrete block on his back, and the video shows the faces of some migrants without their consent in a way that they can be identified.

The smugglers also are issuing threats to the migrants' families over WhatsApp, a messaging app owned by Facebook, according to Leonard Doyle, spokesman for the International Organization for Migration.

Mr. Doyle said the video surfaced in June, after which his organization issued a press release condemning it. He said that should have prompted Facebook to take down the video.

"On what possible grounds can you show these poor, vulnerable people?" he said in an interview, adding that it was very rare that the U.N. agency would specifically criticize Facebook in this manner. Facebook officials reached out to his agency on Friday to discuss the issue after the Times of London published a story on the video, but the company as of Sunday hadn't removed the video.

Facebook said it allowed the video to stay up because the footage was shared by a

The incident revives questions about Facebook's handling of sensitive videos.

journalist to shed light on human rights violations around the world. The company said part of its role is to be a place where its more than 2 billion monthly users can raise awareness about important issues.

"This specific video was posted to condemn smuggling and raise awareness (awareness) of the issue, so we would not consider it a violation of our policies," a Facebook spokeswoman said in an email. "We realize the video is disturbing so we have added a warning screen and the video's distribution will be limited to those aged 18 and over."

The episode marks the latest in a string of examples of Facebook's video tools being used to promote and showcase violence and revives questions about Facebook's handling of sensitive videos.

Earlier this year, Facebook was widely criticized by users and civil rights groups for allowing violent videos to be broadcast live on its platform, including one showing a man in Cleveland committing murder and one of a man in Thailand murdering his baby daughter.

Amazon Battles for Firmer Grip in China

In launching its Prime membership program in China last fall, **Amazon.com** Inc. was betting that the lure of hard-to-find Western goods and free international deliveries

By *Liza Lin* in Shanghai and *Laura Stevens* in San Francisco

would be enough to get traction in the world's largest e-commerce market.

That hasn't happened, according to retail analysts, underscoring the difficulties faced by U.S. technology companies as they try to compete in a country with high hurdles for outsiders and increasingly sophisticated competitors.

Companies including **Facebook** Inc. and **Alphabet** Inc.'s **Google** have struggled with stringent government controls and censorship, while **Apple** Inc. has seen its iPhone market share decline as Chinese smartphone makers offer less-expensive, high-performing smartphones.

"Over time, companies from Apple to **Microsoft** are seeing Chinese rivals move up the value chain and narrow the gap between them and their products," said Mark Natkin, managing director of Marbridge Consulting in Beijing.

Retail analysts say it is largely Chinese competition, and not the ground rules of doing business, that has challenged Amazon's efforts here. Membership programs aren't popular in China, and consultants say Amazon's app for mobile phones—the shopping cart of choice in China—lags behind its competitors in ease of use and appeal.

What's more, the company's main pitch to Chinese consumers—authentic Western goods shipped free from abroad—is being weakened as Chinese rivals strengthen their offerings and dangle discounts.

Chinese competitors **Ali-**
babla Group Holding Ltd. and **JD.com** Inc. have invested

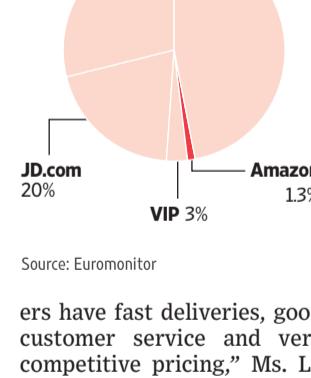


Amazon's relatively bare mobile platform can be a turnoff for Chinese consumers, an analyst says.

Tough Customers

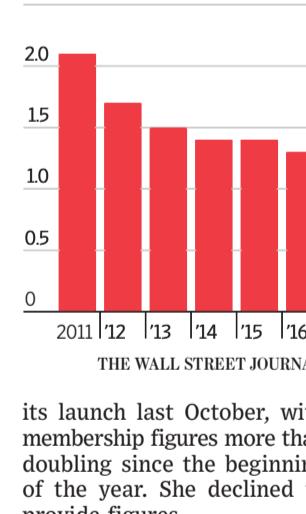
Amazon has struggled to win over Chinese consumers.

Market share for Chinese online retailers in 2016



Source: Euromonitor

Amazon's China market share



THE WALL STREET JOURNAL.

heavily to improve their selection of products and spent liberally on promotions and discounts this year, said Jason Yu, China general manager at Kantar Worldpanel, a consumer-research firm.

In its most recent analysis in June, Kantar estimated that Amazon had a 1% share of China's fast-moving consumable goods, such as diapers and food, unchanged from a year earlier.

Free delivery, even internationals, isn't much of a selling point in China either, because overseas shipping costs are free or generally low. An 800-gram can of Aptamil infant formula, for instance, is free to ship from Germany to Shanghai on Alibaba's Tmall and JD's platforms via bonded warehouses. A similar product is shipped free by Amazon.

In China, Amazon Prime's offerings don't stand out, said Shirley Lu, a Shanghai-based analyst focusing on retail at Euromonitor International.

"Local e-commerce provid-

ers have fast deliveries, good customer service and very competitive pricing," Ms. Lu said. "These are areas Amazon will find hard to beat."

A spokeswoman for Amazon said the company has had a "strong response" to Prime from Chinese customers since

ers have fast deliveries, good customer service and very competitive pricing," Ms. Lu said. "These are areas Amazon will find hard to beat."

A spokeswoman for Amazon said the company has had a "strong response" to Prime from Chinese customers since

its launch last October, with membership figures more than doubling since the beginning of the year. She declined to provide figures.

Amazon in October last year sweetened its offer by discounting its China Prime membership fee to \$30, or half

company wants to draw customers into stores with lower prices and more convenience, adding perks like Amazon pickup lockers and Prime membership benefits, according to former executives.

Online grocery sales remain small, but they are growing fast. Same-store sales for online ordering at supermarkets are growing 26% year-over-year, with an average online transaction size of \$148—much higher than the \$35 average for in-store purchases, according to internal market research by consultancy Brick Meets Click.

Whole Foods had one of the poorest price perceptions among 13 national food retailers, according to a Morgan Stanley survey of 2,900 U.S. grocery shoppers last month, which also found its customers were nearly twice as likely to earn upward of

\$125,000 a year than Kroger shoppers. Whole Foods began to lower its prices in 2015 as its sales slipped, but the promotions did little to woo back customers. Those cuts weren't as extensive as analysts expect to

20%

The decline in food-retail stocks so far this year

see this week.

Still, Americans increasingly want to eat better, and the Whole Foods name continues to symbolize quality. "The brand is incredibly aspirational. Amazon knows this," said Scott Moshkin, managing director at Wolfe Research, LLC.

Slashing prices is an easy first move, but more telling will be if Amazon can determine how to use data and algorithms for real-time price matching and better identifying what consumers are willing to pay in store, said Greg Portell, lead partner in the retail practice of A.T. Kearney.

If Amazon can figure out what Whole Foods shoppers are willing to spend for organic tomatoes and grass-fed beef, it could result in more regular visits from customers including Elizabeth Alderman, a 37-year-old senior product manager from Chicago.

"We don't buy their meat all the time, because it is really expensive and we have other options," she said, something she is willing to change if prices drop.

AMAZON

Continued from page B1
brands struggle with American consumers' increasing interest in the fresh and natural foods sold at stores such as Whole Foods, along with Kroger, Wal-Mart and a growing number of traditional supermarkets.

Wal-Mart, no stranger to Amazon's rivalry, is confident in its strategy and is spending billions of dollars to lower prices, spokesman Randy Hargrove said. The retailer is working to spruce up its stores and offer e-commerce pickup options at 1,100 of its roughly 4,600 stores by year-end. Wal-Mart in the past has moved quickly to meet challenges from Amazon, most recently acquiring a string of e-commerce startups—including a

\$3.3 billion deal for Jet.com—and testing same-day deliveries.

"Amazon is really good. We certainly have respect for them, and we have experience competing with Whole Foods," said Steve Schmitt, Wal-Mart's vice president of investor relations, when speaking to shareholders earlier this month.

Executives at Kroger, whose shares are among the hardest hit in recent weeks, say they haven't changed their strategy following Amazon's push into grocery, but now feel a heightened urgency to invest in technology to better tailor promotions to shoppers and expand online-grocery pickup.

The U.S.'s largest traditional supermarket chain is also sacrificing profits in select markets.

"If we have to sell a can of corn for 40 cents, we'll figure out a way to sell a can of

corn for 40 cents," said Mike Schlotman, Kroger's chief financial officer, during a recent interview.

Kroger, which reports earnings next month, has lost more than \$7 billion in market valuation since it reported a disappointing financial outlook in June. Its stock is down by 36% since the start of the year.

News of the Amazon deal

has also hurt Target's stock,

and the retailer is putting renewed focus on its grocery business.

Target has hired a number of food-retail executives and put more attention to its assortment this year after grocery had declined in sales.

Amazon has focused on the

long term when it enters a new business, with a pledge to make bold investments to gain market leadership. While Amazon's grocery plan is still unclear, the

BUSINESS NEWS

Boeing, Northrop Vie on Missiles

By DOUG CAMERON

The Pentagon is pitting two American contractors against each other as it looks to replace the nation's land-based intercontinental ballistic missiles.

But with Russia and China modernizing their nuclear forces and North Korea becoming a potential nuclear threat, some defense experts say a better plan would be to make **Boeing Co.**, **Northrop Grumman Corp.** and others work together to confront mounting challenges.

This past week, the Pentagon picked teams led by Boeing and Northrop to vie for the latest piece of its overhaul of the country's nuclear force, with almost \$700 million in contracts for design work to develop replacements for aging Minuteman 3 missiles deployed in silos across the Great Plains.

Lockheed Martin Corp. was eliminated from the contest for the Ground-Based Strategic Deterrent program, which is expected to eventually cost \$85 billion. Lockheed could lodge a protest, as it did unsuccessfully after Northrop bested its joint bid with Boeing to build a new long-range bomber in 2015, though it declined to comment ahead of a debrief from Air Force officials.

The Pentagon is due to decide in 2020 which team will build the intercontinental ballistic missiles and new communications infrastructure, as well as refresh the silos.

Richard Safran, an analyst at **Buckingham Research Group**, said the project could still draw Lockheed and other defense firms, including General Dynamics Corp. and Orbital ATK Inc., into the project under Boeing or Northrop leadership. **Aerojet Rocketdyne Inc.** recently said it would provide the rocket motors for the Northrop offering.

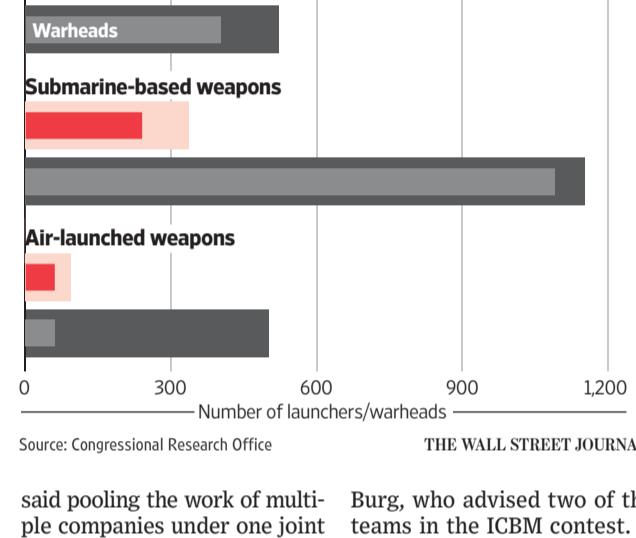
Maj. Gen. Roger Burg, who retired from the Air Force in 2010 after a career that included heading the ICBM units,



About \$700 million in contracts for design work are up for grabs in the missile-system overhaul.

Back in the Silo

The U.S. stockpile of nuclear warheads continues to shrink with successive arms reduction treaties.



siles and those on a fleet of submarines. The Pentagon plans by 2020 to select one contractor to build 600 missiles, with 400 of those to be deployed on alert and the balance held for testing.

The total bill is estimated by some outside experts to be more than \$500 billion over the next 20 years—some 5% of the total defense budget. The Pentagon hasn't disclosed a final estimate as most of the programs are classified, and officials declined to comment on future contracting arrangements.

Pushing ahead with the programs could lead to a sustained increase in military spending or prove to be a double-edged sword for defense contractors, with some concerned that other contracts for new ships and jet fighters could be crowded out by a singular focus on the nuclear overhaul.

President Donald Trump has supported the Pentagon push even as critics such as former Defense Secretary William Perry have said plans to replace the missiles are too costly.

'Hitman's Bodyguard' Leads Dismal Weekend

By ASSOCIATED PRESS

NEW YORK—Hollywood effectively took the weekend off, resulting in one of the most dismal box-office results in 16 years.

An already slow August came to a screeching halt at the multiplex, where no major new releases were unveiled. That left the Samuel Jackson-Ryan Reynolds action-comedy "The Hitman's Bodyguard" to top all films for the second week with an estimated \$10.1 million in ticket sales.

But the entire slate of films grossed only about \$65 million in North America and the top 12 films generated just \$49.6 million. There have been similarly slow weekends in recent years, including early September in 2014 and in 2016. But not since September 2001 have the numbers been quite so dreadful.

Mid-August through early September is historically the sleepiest time of the year for the movie business, but it has been especially so this year. This August is down a whopping 35% from last year, according to comScore. Next week is expected to be just as bad: No new wide releases are scheduled for Labor Day weekend.

For many, the weekend's top entertainment option was Saturday night's Floyd Mayweather-Conor McGregor match. The Fathom Events simulcast of the fight was one

of the more popular offerings in theaters, taking in \$2.4 million from 481 screens.

But the bigger problem was the death of significant releases. The six major studios have released only two new wide-release films this August: Sony's poorly received Stephen King adaptation "The Dark Tower" and Warner Bros.'s successful horror spinoff sequel "Annabelle: Creation." The latter came in second this weekend with \$7.4 million, bringing its three-week total to \$77.9 million.

The Weinstein Co. animated release "Leap!" was one of the few new films to hit theaters. It earned a scant \$5 million, according to studio estimates Sunday.

"It's a black eye for Hollywood but not a knockout punch," said Paul Dergarabedian, senior media analyst for comScore. "Make no mistake about it; there was little foot traffic in theaters this weekend. But the story line will change in two weeks when 'It' opens."

That second recent Stephen King adaptation is the only near light on the horizon for theaters, which are struggling through the lowest-grossing summers in years. ComScore estimates that this will be the first summer in a decade not to cross \$4 billion in domestic ticket sales. The summer as a whole is running 14% behind last year—and the deadly quiet August is a big reason.

Estimated Box-Office Figures, Through Sunday

SALES, IN MILLIONS

FILM	DISTRIBUTOR	WEEKEND*	CUMULATIVE	% CHANGE
1. <i>The Hitman's Bodyguard</i>	Lions Gate	\$10.1	\$39.6	-53
2. <i>Annabelle: Creation</i>	Warner Bros.	\$7.4	\$77.9	-53
3. <i>Leap!</i>	Weinstein Co.	\$5	\$5	--
4. <i>Wind River</i>	Weinstein Co.	\$4.4	\$9.8	48
5. <i>Logan Lucky</i>	Bleecker Street	\$4.4	\$15	-43

*Friday, Saturday and Sunday Source: comScore



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BUSINESS NEWS



Protesters of the minimum-wage rollback outside a McDonald's in St. Louis. Many workers in the city will lose a raise they got in May.

City Cancels Wage Increase

St. Louis bucks trend, rescinds \$2.30 an hour rise in pay floor, effective Monday

By ERIC MORATH

The minimum wage in St. Louis falls by \$2.30 an hour Monday, making it a rare city to buck the national trend of municipal pay floors rising above federal and state levels.

Many low-wage workers in the Gateway City will lose raises they received in May, when the minimum wage increased to \$10 an hour. A state law taking effect Monday mandates that Missouri municipalities follow the state minimum of \$7.70 an hour, nullifying the higher wage St. Louis officials had sought since 2015.

Some business owners have already pledged to maintain the higher wage in a region where the jobless rate is lower than the national average. Others have told their employees to expect cuts.

Rolling back an already-implemented raise shows the effectiveness of some business groups and state lawmakers in pushing back on a wave of municipal minimum-wage increases since 2014 that spanned more than 30 cities and counties from Portland, Maine, to Pasadena, Calif.

"We can't let the biggest economic engine in the state,

St. Louis, become an island that employers avoid due to higher labor costs," Missouri Chamber of Commerce & Industry President Daniel Mehan said in an interview Friday. Elevated city minimum wages would cost workers jobs, encourage businesses to automate and create confusion along city borders, he said.

The law also bars Kansas City from setting a \$10-an-hour minimum wage approved by voters in that city, but not enforced. In recent years, several states, including Ohio and Oklahoma, have banned cities

from setting their own wages, often in response to a campaign to establish new local rates. But very few municipalities have been turned back once a wage was in effect. It occurred earlier this year in Iowa's Johnson County, when state lawmakers reduced the county's rate to match the federal minimum of \$7.25 an hour from \$10.10. Iowa and 20 other states follow the federal rate.

Missouri Gov. Eric Greitens and other Republican lawmakers said allowing St. Louis and Kansas City to establish their own rates would cost the state jobs. St. Louis Mayor Lyda Krewson, a Democrat, said cities need to have the flexibility to address unique issues, and that a higher wage floor would benefit low-income families.

Bettie Douglas, a worker at a St. Louis McDonald's restaurant, expects to take a pay cut

this week, though she said her manager hasn't informed her of a new rate. Before May, the 59-year-old received \$7.90 an hour, she said. Ms. Douglas, an activist seeking higher minimum wages nationwide, earned about \$63 more a week because of the higher wage floor, money she said allowed her to have her water turned back on and buy school supplies for her teenage son.

"It's made a big difference," she said Friday. "It's still a struggle, but I had a little extra to pay my bills."

A McDonald's Corp. spokeswoman and the franchisee that operates the store where Ms. Douglas works both declined to comment. In the past, the chain has said it is up to local operators to set wages. In its company-owned stores, McDonald's says it pays above the prevailing minimum wage.

Economists and policy makers see costs and benefits of minimum-wage increases. While the policy puts more money in the pockets of low-wage workers, it gives employers less incentive to add to their payrolls, leaving some workers behind.

A 2014 study by the nonpartisan Congressional Budget Office found raising the federal minimum wage to \$10.10 an hour would reduce job creation by 500,000 over two years. At the same time, the report estimated the increase

in the federal minimum would raise the pay of 16.5 million workers who kept their jobs.

Schnucks, a St. Louis-based chain of supermarkets, is reducing wages Monday for some workers at eight stores within the city. The chain will return to paying the wages set in union contracts.

"We informed teammates when the city's minimum-wage ordinance took effect in May that this would happen if the ordinance was reversed," company spokesman Paul Simon said. "Schnucks remains committed to ensuring a fair and competitive wage and benefits package."

Hourly employees with the company more than a year earn \$14.27 an hour, when including health-care and pension benefits, he said.

Casey Miller raised wages in May for some workers at Vista Ramen, a restaurant she owns on St. Louis's trendy Cherokee Street, to comply with the minimum-wage law. She plans to maintain the higher rate, even though it's not legally required.

"Taking it back would be a pretty grinchy thing to do," she said. "I don't want to risk employees leaving or cutting back hours so they can take a second job."

The unemployment rate in the St. Louis region was 4% in June, suggesting some businesses are challenged to find available workers.

OSHA Cuts Down Fatality Reporting In the Workplace

By ALEXANDRA BERZON

The Occupational Safety and Health Administration is reducing its reporting of fatalities in the U.S., part of a series of moves by the agency to cut back the amount of information about workplace accidents made available to the public.

The U.S. Chamber of Commerce, which had long complained about the practice, asked OSHA to roll back some of the information in the fatality reporting and other initiatives when the Trump administration took over.

The publication of the reports—listing the names, locations, employers and circumstances of people who were reported to OSHA as having died in apparent accidents at work—began early in the Obama administration. Before that, OSHA did compile some information about fatalities, according to former OSHA officials. But they said Obama administration officials made the reports more publicized and included additional information.

OSHA is issuing fewer press releases publicizing enforcement actions.

Last week, OSHA removed links to reports going back to 2009 from its website. Instead, the agency posted a more limited set of information about U.S. workplace fatalities that resulted in citations for companies dating to the beginning of the year. An OSHA spokeswoman said the new fatality-data listing respects the privacy of surviving family members because they don't give out the name of the worker who died.

OSHA's weekly reports were, for some, an important regular reminder of the human cost of workplace accidents and a source of information about workplace safety.

"It's really important pieces of information just for raising public awareness," said Celeste Monforton, an occupational health lecturer at George Washington University who writes extensively

about OSHA.

To some companies, however, the release seemed an overreach of government that could produce unfair black marks on employers before the deaths had been fully investigated.

Under the Obama administration, "they saw this as a way to scare employers straight," said Marc Freedman, executive director of labor law policy for the U.S. Chamber of Commerce. The idea was that companies would work harder on compliance if they knew the details of any accidental deaths at their facilities would be made public. The chamber disagreed with that approach and thought that it unfairly maligned some employers.

With the election of President Donald Trump, OSHA has taken several steps that have cut down on publicizing information about workplace accidents. In addition to the change in fatality reporting, OSHA has begun rolling back a regulation that went into effect Jan. 1 of this year to require workplaces to electronically file to the government the injury logs they keep at their work site. OSHA had planned to eventually post some data from the forms online.

OSHA also has reduced the number of press releases it issues to publicize enforcement actions against employers. In December, the agency had 30 such press releases. In January, that number dropped to 18, and February and March had no enforcement releases from the agency. OSHA has put out five enforcement releases in August.

Under the new fatality reporting system, OSHA is posting links to fatality citations, which don't include the name of the worker who died, for accidents only in states regulated directly by the federal agency. It doesn't include states that operate their own OSHA programs, which is about half. Previously, the site included most workplace fatalities, regardless of whether they were under the control of federal OSHA.

Waiting until after citations are issued also creates a lag time of up to six months and limits the fatalities listed to only those that result in citations.

Choosier Customers Vex Campbell

By AUSTEN HUFFORD

Campbell Soup Co. is striving to remain a pantry mainstay even as what, where and how consumers eat undergoes a transformation.

The company, known for its eponymous canned soups, is also facing investor pressure to reverse a yearslong revenue decline and lift its share price, which has fallen 15% this year.

When Campbell reports its fourth-quarter results Thursday, investors and analysts will be looking to see if the company can end 10 straight quarters of declining revenue. Analysts polled by Thomson Reuters are expecting a modest 0.1% revenue increase from the prior year's quarter.

Campbell and other packaged-food companies are facing difficulties in attracting consumers who increasingly want foods they see as healthier, more natural and more environmentally sustainable.

At an investor day last month, Chief Executive Denise Morrison laid out the company's ultimate goal: to become the leading health and well-being food company.

"In this environment, companies and brands must differentiate themselves or risk extinction," Ms. Morrison said.

Campbell and its peers are also slogging through a changing food-retail environment, with the rise of meal-kit companies such as Blue Apron Holdings Inc., the growth of deep-discount chains in the U.S. and the food-selling ambitions of Amazon.com Inc. as it



The packaged-food industry faces challenges including discounting and meal-kit companies.

completes a takeover of Whole Foods Market Inc.

Amazon is set to begin slashing prices on groceries at Whole Foods this week, raising concerns that a price-war could affect Campbell.

One question, said RBC Capital Markets analyst David Palmer, is that if Amazon is willing to make less money as it cuts prices on items, will retailers then "ask food companies to share in those price investments?"

"There is certainly an argument that major food companies are going to be channel-agnostic or even supportive of the rising role of e-commerce," Mr. Palmer said.

Campbell executives have said they intend to use acquisitions and investments in new

products to help lift the company's fortunes.

In July the company said it would buy organic-soup maker Pacific Foods for \$700 million, as part of its natural-food push. It has also invested in some food-related startups, such as Habit, which is developing an at-home testing kit designed to make personalized diet recommendations.

Still, there have been some missteps. A 2012 move to buy juices, baby-carrots and salad-dressings maker Bolthouse Farms Inc. for \$1.55 billion has been somewhat marred by execution issues, including a recall of some of its drinks.

"In terms of the vision, they've definitely been ahead of the peer group," Wells Fargo Securities analyst John

Baumgartner said.

Campbell has also drawn attention for its actions outside of the supermarket. The company said last month it would leave the Grocery Manufacturers Association amid a disagreement with the trade group. Campbell supports alerting customers when food products contain genetically modified organisms on packaging, which the trade group has lobbied against.

Ms. Morrison also left a manufacturing-advisory council to the Trump administration earlier this month, before it disbanded hours later. She said Mr. Trump should have been unambiguous in calling out white-supremacist groups for racism and violence in Charlottesville, Va.

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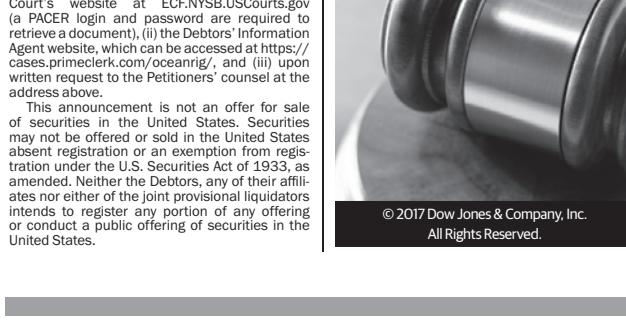
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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re OCEAN RIG INC., et al. Chapter 15
Debtors in Foreign Proceedings.

17-10736 (MG)
(Jointly Administered)

RULE 2002 NOTICE BY PUBLICATION OF MOTION TO ENFORCEMENT OF DEBTORS' FORFEITURE PROCEEDINGS

PLEASE TAKE NOTICE that Simon Appell and Eleanor Fisher (the "Petitioners"), as joint provisional liquidators and foreign representatives for Ocean Rig UDW Inc. ("UDW"), Drill Rigs Holdings Inc. ("DRH"), Drillships Financing Holding Inc. ("DFH") and Drillships Ocean Ventures Inc. ("DOV"), and together with UDW, DRH and DFH, the "Debtors" have moved the Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court" or "Court") for an order granting, among other things, permanent injunctive relief in support of four interrelated schemes of arrangement to restructure the financial indebtedness of the Debtors (the "Enforcement Motion"). The Debtors cases are being jointly administered under Docket No. 17-10736.

A hearing on the Enforcement Motion will be held before the Honorable Martin Glenn in Room 523, One Bowling Green, New York, NY 10004, on September 20, 2017 at 10:00 a.m. (Eastern). Any party-in-interest wishing to submit a response or objection to the Enforcement Motion or the relief requested therein must do so in accordance with the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, and the Local Rules for the United States Bankruptcy Court for the Southern District of New York, and in writing and setting forth the basis therefor, which response or objection must be filed electronically with the Court by registered users of the Court's electronic case filing system, latest by 5:00 p.m. (New York time), September 8, 2017 ("Objection Deadline"). A hard copy of any response or objection shall be sent to the Chambers of the Honorable Martin Glenn, United States Bankruptcy Judge, One Bowling Green, New York, NY 10004-1408 and the Office of the United States Trustee for the Southern District of New York, 201 Varick Street, Suite 1006, New York, New York 10014, and served upon Orrick, Herrington & Sutcliffe LLP (Attn: Evan C. Hollander, Esq., William Haft, Esq. and Raniero D'Aversa, Jr., Esq.), U.S. counsel to the Petitioners, and each party that has requested notice in these proceedings, so as to be received by no later than Objection Deadline. Counsel to the Petitioners shall respond to any such response or objection no later than 5:00 p.m. (New York time) on September 15, 2017.

Copies of the Enforcement Motion and other papers, including declarations and exhibits setting forth factual support for the Enforcement Motion, are available through (i) the Bankruptcy Court's website at ECF.NYSB.USCourts.gov (a PACER login and password are required to retrieve a document), (ii) the Debtors' Information Agent website, which can be accessed at https://cases.primeclerk.com/oceanrig/, and (iii) upon written request to the Petitioners' counsel at the request of the Petitioners' counsel at the time of the hearing.

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MARKETS

China Markets Tell Disparate Tales

Stocks, commodities reflect optimism on economy, but bond investors are cautious

BY SHEN HONG

SHANGHAI—China's financial markets are sending conflicting signals about the health of the world's No. 2 economy, where a strengthening currency, buoyant stocks and soaring commodities contrast with the pessimism common among the country's bond investors.

The country's latest economic data have made the picture even murkier. The pace of industrial output, retail and housing sales and investment growth all decelerated in July. Some economists, however, argue the weakness was temporary and due to an unusually hot summer that affected construction work.

A closer look suggests bond investors' cautious outlook may win out. That is because the recent rally in other asset classes has come partly thanks to policies designed to preserve financial stability ahead of a key Communist Party political meeting this fall, and partly due to potentially excessive optimism about structural reforms.

"Although on the surface the markets are telling different stories about the Chinese economy, the overarching theme remains that the economy faces bottlenecks like a relatively primitive growth model and fresh drivers," said Shen Meng, director at Chanson & Co., a Beijing-based boutique investment bank.

The Chinese currency's resurgence has been one of the year's big surprises. The yuan now trades at a near one-year high and is up more than 4% against the dollar in 2017, after dropping 6.6% last year.

The yuan's rise has some logic behind it: The dollar has



An electronic stock board at a securities brokerage in Shanghai

been weak against a range of global currencies in recent weeks as expectations for U.S. rate increases are pared back.

Still, some say the yuan's recent strength could also reflect Beijing's desire to reduce frictions with the new administration of President Donald Trump, who repeatedly accused China of keeping its currency artificially weak during last year's campaign.

"One can't simply apply textbook explanations to Chinese markets because based on economic fundamentals, the yuan doesn't have any basis for appreciation," Mr. Shen said.

The yuan's rise also reflects Beijing's desire to deter rapid capital outflows. The People's Bank of China sets a daily limit for the yuan against the dollar and then allows it to trade in a 2% range on either side of that level.

"The yuan is a different story because the market is guided by the Chinese central bank everyday with a clear policy agenda," said Iris Pang, an economist at ING Bank NV in Hong Kong.

China's stock market has

also done well in the past two months. The SSE 50, a widely watched index that tracks the 50 most valuable companies listed in Shanghai—almost all of which are state-owned—has surged 16% this year to its highest level in more than two years.

While some analysts have cited signs of a resumption of long-stalled reforms of the country's inefficient state-run enterprises as a factor, others point to Beijing's political agenda as a more important reason for the market's bull run. Some market participants say state-backed investment funds, nicknamed the "national team," have been stepping in to prop up the market.

"If you want to stabilize the market, you need to stabilize these large stocks, and that's why the national team has been putting money in them," said Major Teng, chief equities strategist at Everbright Securities, referring to investments by state-backed funds.

In contrast, the tech-heavy, Nasdaq-style ChiNext board in Shenzhen is down 7.6% for the

Bonds Stand Out

China's bond markets are signaling pessimism about the country's economy even as other asset classes are buoyant.

Spread on Chinese bond yields

Shanghai Stock Exchange 50 index

Commodity futures in China

How many yuan a dollar buys*

10-year bond

3-year bond

Steel rebar

Coke

5,000 yuan a metric ton

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MARKETS DIGEST

Dow Jones Industrial Average

21813.67 ▲139.16, or 0.64% last week
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 20.02 19.94
P/E estimate * 18.38 17.98
Dividend yield 2.28 2.54
All-time high 22118.42, 08/07/17

Current divisor 0.14602128057775



Bars measure the point change from Monday's open

A S O N D J M A J J A

NYSE weekly volume, in billions of shares Primary market Composite

A S O N D J M A J J A

Weekly P/E data based on as-reported earnings from Birlin Associates Inc.

S&P 500 Index

2443.05 ▲17.50, or 0.72% last week
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 23.53 24.71
P/E estimate * 18.73 18.59
Dividend yield 2.01 2.11
All-time high: 2480.91, 08/17/17

65-day moving average

200-day moving average

Week's high

DOWN UP

Monday's open Friday's close

Friday's close Monday's open

Week's low

17000 18000 19000 20000 21000 22000 23000

A S O N D J M A J J A

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1900 2000 2100 2200 2300 2400

1800 1900 2000 2100 2200 2300

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MONEY & INVESTING

Insider-Trading Spotlight

Trading by 'insiders' of a corporation, such as a company's CEO, vice president or director, potentially conveys new information about the prospects of a company. Insiders are required to report large trades to the SEC within two business days. Here's a look at the biggest individual trades by insiders, based on data received by Thomson Financial on August 25, and year-to-date stock performance of the company

KEY: **B:** beneficial owner of more than 10% of a security class **CB:** chairman **CEO:** chief executive officer **CFO:** chief financial officer **CO:** chief operating officer **D:** director **DO:** director and beneficial owner **GC:** general counsel **H:** officer, director and beneficial owner **I:** indirect transaction filed through a trust, insider spouse, minor child or other **O:** officer **OD:** officer and director **P:** president **UT:** unknown **VP:** vice president **Excludes pure options transactions**

Bigest weekly individual trades

Based on reports filed with regulators this past week

Date(s)	Company	Symbol	Insider	Title	No. of shrs in trans (000s)	Price range (\$ in transaction	\$ Value (000s)	Close (\$)	Ytd (%)
Buyers									
Aug.16-18	Xencor	XNCR	J.Stafford	BI	148	19.93-20.96	3,008	20.80	-21.0
Aug.21-22	General Electric	GE	J.Tisch	DI	100	24.56	2,456	24.49	-22.5
Aug.17-21	Fiesta Restaurant Group	FRGI	B.Friedman	DI	110	17.87-18.16	1,981	17.55	-41.2
Aug.22-24			B.Friedman	DI	90	17.59-17.96	1,590		
Aug.21	United Security Bancshares	UBFO	R.Mochizuki	D	175	8.75	1,531	9.20	19.9
Aug.17-18	American Assets Trust	AAT	E.Rady	CEOI	37	39.87-40.35	1,504	40.82	-5.2
Aug.21-23			E.Rady	CEOI	34	40.05-40.41	1,370		
Aug.22-23	First Data	FDC	J.Shanahan	O	77	17.92-18.16	1,397	18.16	28.0
Aug.21	Accelerate Diagnostics	AXDX	J.Schuler	DOI	50	21.34-21.76	1,072	22.55	8.7
Aug.21	Milacron Holdings	MCRN	T.Goeke	CEO	65	15.41	1,002	15.92	-14.5
Aug.18	Kennametal	KMT	C.Rossi	CEO	30	33.42-33.47	1,000	35.20	12.6
Aug.17	Hilton Grand Vacations	HGV	D.Johnson	D	28	35.16	985	35.96	38.3
Aug.17	Snyders-Lance	LNCE	P.Warehime	DOI	21	37.25	792	35.86	-6.5
Aug.21	Tallgrass Energy Partners	TEP	D.Dehaemers	CEOI	17	44.64	775	45.76	-3.6
Aug.17	Luby's	LUB	C.Pappas	CEO	190	2.80	532	2.77	-35.3
Aug.17			H.Pappas	DO	190	2.80	532		
Aug.21	First Mid-Illinois Bancshares	FMBH	M.Westerhold	DI	15	35.00	525	34.92	2.7

Sellers

Aug.18	Genpact	G	D.Humphrey	DOI	8,499	28.72	244,088	28.39	16.6
Aug.22	Financial Engines	FNGN	M.Martin	DI	4,109	33.05	135,807	32.85	-10.6
Aug.22-24	Willis Towers Watson	WLTW	J.Ubben	DI	650	148.98-149.47	97,072	148.88	21.8
Aug.17-21			J.Ubben	DI	106	148.76-150.04	15,800		
Aug.17	Paylocity Holding	PCTY	J.Diehl	DI	1,155	45.00	51,975	46.64	55.4
Aug.22	Acadia Healthcare Company	ACHC	C.Gordon	DI	998	50.69	50,611	45.57	37.7
Aug.22			R.Waud	DI	984	50.69	49,883		
			J.Jacobs	CEO	500*	50.69	25,345		
Aug.21-22	Wal-Mart Stores	WMT	S.Walton	DOI	474	80.01-80.04	37,942	78.63	13.8
Aug.21-22			A.Walton	BI	474	80.01-80.04	37,942		
Aug.21-22			J.Walton	BI	474	80.01-80.04	37,942		
Aug.22	Estee Lauder	EL	F.Freda	CEO	300	105.21-107.14	31,731	106.50	39.2
Aug.21-22	Regeneron Pharmaceuticals	REGN	P.Vagelos	CB	56	470.23-483.00	26,672	477.80	30.2
Aug.17-18	Liberty Broadband	LBRDK	J.Malone	DO	182	99.86-100.50	18,278	99.26	34.0
Aug.21			J.Malone	DO	112*	100.58-100.74	11,264		
Aug.17-18	Liberty Interactive	QVCA	M.Vadon	DI	762	21.15-21.38	16,185	21.86	9.4
Aug.22	Tesla	TSLA	S.Jurvetson	D	45	339.82-340.80	15,240	348.05	62.9
Aug.23	Ichor Holdings	ICHR	D.Deb	DOI	800	18.50	14,792	19.88	83.7

*Half the transactions were indirect **Two day transaction

p-Pink Sheets

Buying and selling by sector

Based on actual transaction dates in reports received this past week

Sector	Buying	Selling	Sector	Buying	Selling
Basic Industries	184,960	9,925,779	Finance	4,943,082	77,185,603
Business services	405,978	15,114,743	Health care	1,990,646	75,529,807
Capital goods	0	0	Industrial	3,757,633	14,493,766
Consumer durables	642,741	858,902	Media	227,060	33,443,457
Consumer nondurables	10,224	50,199,623	Technology	1,534,301	59,352,480
Consumer services	4,459,187	128,078,510	Transportation	611,345	5,515,577
Energy	1,548,310	279,548	Utilities	1,600	2,517,940

Sources: Thomson Financial; WSJ Market Data Group

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DEALPOLITIK | By Ronald Barusch

Herbalife Filing Is Sketchy



Herbalife raised a cloud of mystery last week when it announced a new development in the enduring war between the company and activist Bill Ackman.

When it started a self-tender for around 10% of the shares outstanding, Herbalife teased that it had been in extended discussions to go private. It said those discussions had been "formally terminated," holding out the possibility that some informal work on a deal could continue or start up again down the road.

The company threw in a sweetener, offering a so-called contingent value right, or CVR. If Herbalife is sold within two years, the CVR provides those who tender a payment equal to the difference between the deal price and the tender price.

Predictably, shares of the nutritional-supplements seller soared on the news.

But there has been no disclosure of the price ranges involved or the identity of a buyer, or how far the negotiations went—except that a confidentiality agreement was signed in December, under which the company allowed the potential buyer to perform due diligence.

And then there are these statements adding to the murky picture: The little disclosure that is provided is "a representative overview of the nature of the discussions that transpired" and "from time to time" the company has talked about going-private parties."

The one thing we know is that Carl Icahn, who has become Herbalife's best friend in the battle with Mr. Ackman and a big shareholder

as well as a director, isn't selling his shares in the tender offer. He has also agreed to limit his ownership to 50% or less—unless he buys the whole company.

For those shareholders who choose to sell shares into the tender, Herbalife would argue—and I would tend to agree—that getting the CVR should make them indifferent to whether or not there is a deal in the next two years.

But of course Herbalife shares trade every day on the New York Stock Exchange and the company has disclosure obligations to all investors and not just those accepting the tender offer. How are those investors

supposed to evaluate the likelihood and pricing of a potential deal?

What disclosure is required is straightforward—at least in the wording of the rule.

A company is entitled to keep merger discussions secret as long as it doesn't trade in its shares. The self-tender obviously made that problematic.

Once disclosure is made, a company can't omit a material fact necessary to ensure the statements it makes aren't misleading. Since materiality is judged on the basis of what a reasonable investor would want to know in making a decision to purchase or sell shares, in my view it seems hard to argue that information on pricing, the identity of the prospec-

tive buyer and what caused the negotiations to "formally" break down earlier this month wouldn't be required.

Herbalife might argue no one is being misled; investors know how little they know about how close the company is to going private.

However, a seller in the market who won't have the benefit of a CVR might feel misled if the company is later sold at a higher price. And if the company isn't sold, a buyer of shares on the market might feel the company's disclosure left too optimistic an impression of the odds of a buyout.

Generally, merely telling investors you are withholding important information isn't sufficient to comply with securities-law obligations.

The mere fact that the company could have remained silent about merger discussions absent a self-tender doesn't mean that, once disclosure is made, material information can continue to be withheld.

And let's not forget that hinting at a sale of the company could squeeze Mr. Ackman because, having bet against Herbalife, an increase in the stock might pressure him to exit his bet.

That makes it all the more relevant for investors to know how close to a deal Herbalife really got. The staff of the Securities and Exchange Commission typically reviews tender-of-filer material on a real-time basis. This would seem to be an opportune time to ask Herbalife to complete the picture it has started to paint.

Mr. Barusch is a retired M&A lawyer who writes about deal

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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Cash Is Piling Up at Buyout Funds

Private equity has a \$600 billion problem.

That is the record amount of uninvested cash that buyout funds are sitting on, according to the research firm Prequin, after a bout of fundraising that included the biggest buyout fund ever: Apollo Global Management's \$23.5 billion vehicle wrapped up in June.

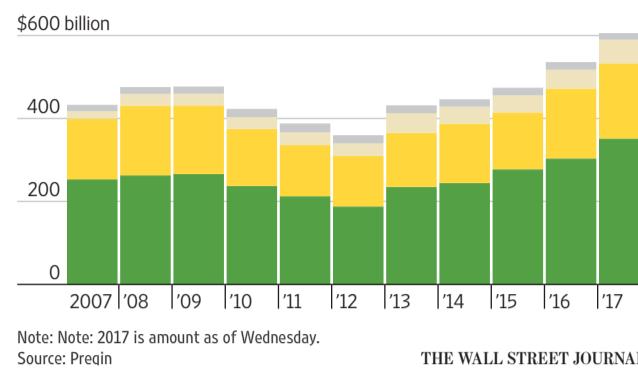
The problem is how to spend it. Although loan markets are flooded with cheap money and loose terms, company valuations are very high and buyout deal volumes have slipped since 2015.

The big risk for private-equity investors is that their deal makers might do something dumb. With so much cash to invest, and no growth in the pool of people to invest it, a new era of megadeals could be in the cards.

The last great wave of supersize buyouts was a decade ago, just before the global financial crisis. Deal volumes then reached more than \$600 billion in both 2006 and 2007. Deal flow recovered after 2010 but remains far below those heady days. The best recent

Burning a Hole

Total uninvested money committed to private-equity buyout funds



Note: Note: 2017 is amount as of Wednesday.

Source: Prequin

THE WALL STREET JOURNAL.

year, 2015, saw \$303 billion of buyouts backed by private equity, which slipped to \$239 billion last year. That pace has ticked up to \$190 billion so far this year, according to Thomson Reuters.

The last cycle peaked with KKR's \$45 billion buyout of Texas energy group TXU, which went bankrupt in 2014 and is only now being sold off in pieces. But even with such big blowups, private equity has given fund investors better

returns than public stock markets throughout the past decade, according to Bain & Co. Even now, it is just about producing double-digit returns, which is why so many remain so eager to invest.

Very large deals have been scarce recently. There were none worth more than \$10 billion announced in 2016 and only a handful worth more than \$5 billion. In 2017, the U.S. power-generation company Calpine has just agreed

to be bought in a deal worth \$17 billion including debt, but beyond that, just four other deals have cost more than \$5 billion, according to Dealogic.

Big deals also carry less debt now than a decade ago, partly due to restrictions on aggressive bank lending imposed by the Federal Reserve. However, valuations paid by private equity are rising. Deal values, as a multiple of underlying earnings, hit 11 times earnings among U.S. buyouts late last year, according to Bain, versus an average multiple of nine between 2007 and 2015.

In this environment, maintaining discipline will get harder. Alongside the glut of funds in private equity's hands, more competition is coming from traditional asset managers and pension funds hunting for better returns.

With that work done, private-equity investors and managers could get itchy trigger fingers. They will have to work hard to balance discipline with the desire to put money to work.

—Paul J. Davies

OVERHEARD

If the use of its network as a bully pulpit by the president of the United States can't save Twitter then what will? Maybe stopping its use as a bully pulpit.

President Donald Trump's tweets have made it the go-to-place for news from the White House. He has sent out over 35,000 tweets and has nearly as many followers as two nemeses, CNN and Oprah Winfrey.

But Valerie Plame Wilson, the CIA agent famous for allegedly being "outed" by the George W. Bush administration, has been raising money to buy a "controlling interest" in Twitter for \$1 billion to kick Mr. Trump off.

It seems like a quixotic quest, in part because she had raised just \$65,000 by Friday afternoon on her GoFundMe page and because \$1 billion would buy her less than 8% of the much-diminished company at current prices.

Samsung Needs Boss Not in Jail

Are your bosses ever worth their paychecks? Maybe not, judging by recent events at **Samsung Electronics**. The South Korean technology giant has been doing just fine without a leader for months, with its de facto boss Lee Jae-yong awaiting trial on charges of bribery and embezzlement. Still, the guilty verdict and five-year prison sentence handed to Mr. Lee on Friday should cause investors to rethink.

The long-running corruption scandal that involved former President Park Geun-hye doesn't appear to have hurt Samsung to date. It reported its best ever quarterly earnings in the three months ended June 30. Its share price has gone up 25%, outpacing the broader Korean market and rivals like Apple, since Mr. Lee's arrest in February.

A big organization with well-defined responsibilities can keep daily operations going as normal even during a leadership crisis. Yet any long-term absence for its leader could still leave Samsung disoriented.

Tech, it hardly needs saying, is a fast-moving business that often requires nimble leadership. Witness the big changes in areas from artificial intelligence to self-driving cars currently taking place. And South Korea's big conglomerates, of which Samsung is the biggest, face uncertainty with the country's new president, Moon Jae-in, promising reforms.

A prison cell hardly seems the best place from which to handle all this. Samsung may carry in an autopilot mode for a while. Unless Mr. Lee can change his fate, it will need to find a new driver soon.

—Jacky Wong

U.S. Banking Data Suggest Economy May Be Losing Steam

U.S. banks are sending signals that the country's economic expansion is getting long in the tooth.

Being a key transmission mechanism for savings, investment and spending, the banking sector is worth watching as a barometer for the health of the overall economy.

Lately it has been acting as one would expect toward the end of an expansion phase.

Most glaringly, after strong lending growth for several years, momentum clearly is slowing. In its quarterly report on the sector, the Federal Deposit Insurance Corp. found that

total loans and leases by banks and other insured institutions rose just 3.7% from a year earlier at the end of June. That is the third consecutive quarterly deceleration and is down from a 6.7% pace of growth a year ago.

In a statement, FDIC Chairman Martin Gruenberg explicitly linked the slowdown to the fact that the economy is now in its ninth year of expansion. But it is more than just a symptom.

Slower lending growth means less fuel for business investment and personal consumption, potentially weighing on economic

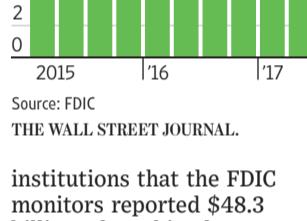
performance.

After a period of strong lending, it is also typical for defaults to start ticking up as levels of indebtedness rise and bills come due. This is indeed happening, at least among consumers. Credit-card charge-offs soared by 24.5% in the second quarter, according to the FDIC, marking the seventh straight increase. Charge-offs on loans to commercial and industrial borrowers, however, declined 9.7%, possibly due to a recovering energy sector.

Despite these headwinds, banks are doing well for themselves. The nearly 5,800 banks and savings

Downshift

Net loans and leases by FDIC-insured institutions, change from year earlier



Source: FDIC

THE WALL STREET JOURNAL.

institutions that the FDIC monitors reported \$48.3 billion of combined net profits in the second quarter, up 10.7% from a year earlier. This was mostly due to

higher interest rates. Banks have been quick to raise rates on loans but slow to do so on deposits, widening their lending margins.

While good for the banks, rising interest rates are also a symptom of a late-phase expansion, and a potential trigger for an economic slowdown.

These signs of advanced age in the credit cycle don't mean a recession is imminent, but they do mean it is time to be on the lookout for other signals of an economic downturn.

Expansions don't die of old age, as they say. They also can't live forever.

—Aaron Back

MARKETS

THE TICKER | Market events coming this week

Monday

No major events are scheduled

Gross domestic product

Percentage change, annual rate

2nd qtr. adv. est. up 2.0%

2nd qtr. sec. est. up 2.9

Chicago PMI

Jul., previous

Aug. expected

58.9

58.9

Aug., expected 16.6 mil.

Personal income

Jun., previous

Jul., expected up 0.3%

0.0%

Jul., expected up 0.6%

ISM mfg. index

Jul., previous

Aug. expected

56.3

56.1

Personal spending

Jun., previous

Jul., expected up 0.4%

up 0.1%

up 0.4%

Earnings Expected*

Estimate/Year Ago(\$)

Analog Devices **1.14**/0.82

Brown-Forman **0.39**/0.36

Keysight Tech. **0.61**/0.63

Workday **0.15**/(0.04)

Tuesday

Consumer confidence

Jul., previous 121.1

Aug., expected 120.3

Earnings Expected*

Estimate/Year Ago(\$)

Best Buy **0.63**/0.57

H&R Block **(0.62)**/(0.55)

Wednesday

Mort. bankers indexes

Purch., previous down 2%

Refinan., prev. up 0.3%

EIA status report

Previous change in stocks in millions of barrels

Crude oil down 3.3

Gasoline down 1.2

Distillates unchanged

Initial jobless claims

Previous 234,000

Expected 236,000

EIA report: natural gas

Previous change in stocks in billions of cubic feet

up 43

Thursday

Total vehicle sales

domestically produced, at an annual rate

Jul., previous 16.7 mil.

Friday

Nonfarm payrolls

Jul. previous 209,000

Aug., expected 175,000

Unemployment rate

Jul. previous 4.3%

Aug., expected 4.3%

* FACTSET ESTIMATES EARNINGS-PER-SHARE ESTIMATES DON'T INCLUDE EXTRAORDINARY ITEMS (LOSSES IN PARENTHESES) ♦ ADJUSTED FOR STOCK SPLIT

NOTE: FORECASTS ARE FROM DOW JONES WEEKLY SURVEY OF ECONOMISTS



Currencies

MARKETS

Terrible Month for U.S. Energy Shares

Sector down 5.7% as quarterly reports disappoint investors and oil prices languish

By MICHAEL WURSTHORN

Shares of energy companies are on track for their biggest monthly decline since the end of 2015, showing that stabilizing earnings aren't enough to attract investors.

Energy companies in the S&P 500 are off 17% so far this year, making it the index's worst-performing sector. August has been particularly painful, with energy shares shedding 5.7% through Friday.

The sector has given back nearly all the gains it made last year, when it rose 24% as oil prices rebounded from multiyear lows. The rally in energy companies reflected expectations that oil would continue to rise, bolstered by an agreement by the Organization of the Petroleum Exporting Countries and other major producers to curb output.

But such shares lost much of their appeal this year when oil prices started to fall again, even as earnings have generally improved off a low base. U.S. crude prices are down 11% this year and are languishing below \$50 a barrel.

About \$2.7 billion has flowed out of energy-focused stock funds for the year through July, according to data from Morningstar, after roughly \$5.8 billion flowed in last year.

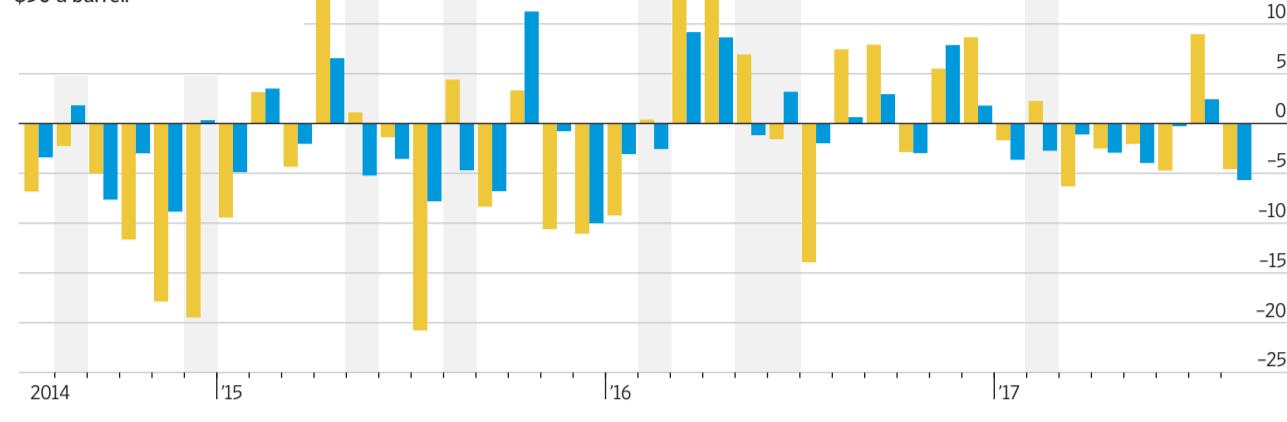
Analysts and investors pointed to quarterly reports from companies including **Pioneer Natural Resources** Co. as key contributors to the sector's sagging stock prices this month.

Some companies talked about not hitting production levels, which "spooked a lot of investors," said Terry Simpson, a multiasset investment strategist at BlackRock.

Pioneer cut its production-

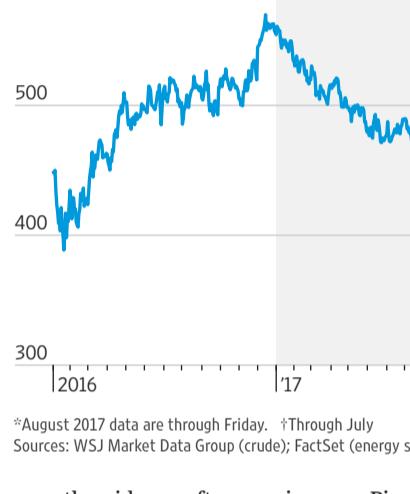
Sapped

Shares of energy companies in the S&P 500 have tumbled this month as earnings disappointed investors and U.S. crude-oil prices languished below \$50 a barrel.



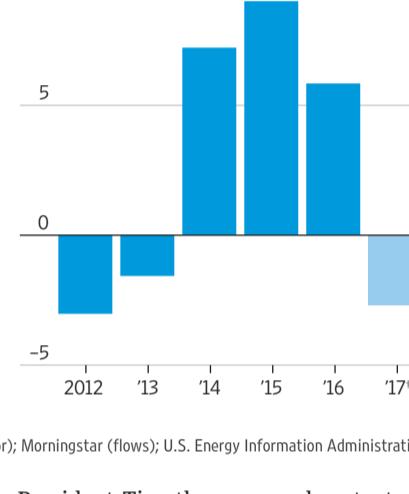
The sector has given back nearly all the gains it made last year, when oil prices rebounded from multiyear lows.

S&P 500 energy sector



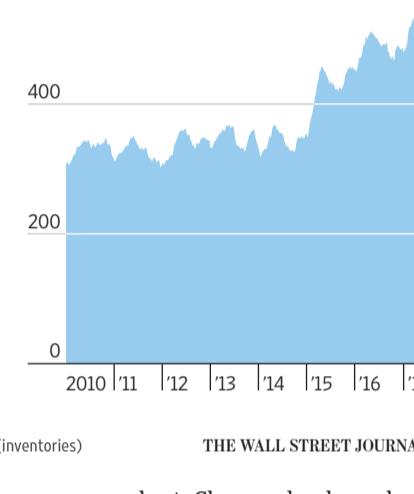
Investors are yanking money from energy funds after three years of inflows.

Estimated net flows into and out of U.S. energy-stock funds



There are signs the oil glut is easing, but U.S. inventories are still relatively high, keeping pressure on prices.

U.S. crude-oil inventories



*August 2017 data are through Friday. †Through July

Sources: WSJ Market Data Group (crude); FactSet (energy sector); Morningstar (flows); U.S. Energy Information Administration (inventories)

growth guidance after running into drilling problems that caused delays. Shares of Pioneer fell 11% Aug. 2, even though it reported a higher profit that beat analysts' expectations. Pioneer is down 28% for the year, with most of that decline coming in August.

Pioneer President Timothy Dove attributed the production issues to "train-wreck wells" that have caused "all kinds of problems," when he discussed earnings results with analysts. Pioneer said it now takes more time to drill those wells, and it has in-

creased costs, too.

"Driving down costs continues to be a primary focus for us," a Pioneer spokesman said.

Chesapeake Energy Corp. exceeded analysts' expectations on quarterly profit and revenue earlier this month, but its production increase fell

short. Chesapeake shares have tumbled 24% in August.

Whiting Petroleum Corp.

said it expects production to increase later this year after the company reported a drop in second-quarter production, which contributed to its eighth consecutive quarterly loss.

Whiting, which isn't in the S&P 500, has shed 63% so far this year.

Analysts said such woes dragged down shares of other companies—especially those that, like Pioneer, operate in the Permian Basin of West Texas and New Mexico. **Concho Resources** Inc., which drills in the Permian, fell more than 8% the day after it reported better-than-expected profit and a higher output forecast. Shares are off 17% for the year.

"These companies attracted fund flows because of production growth," said David Deckelbaum, an energy analyst with KeyBanc Capital Markets. "Now they're in this Catch-22 situation where investors also don't want companies increasing supply dramatically" because of a global glut that has been pressuring prices.

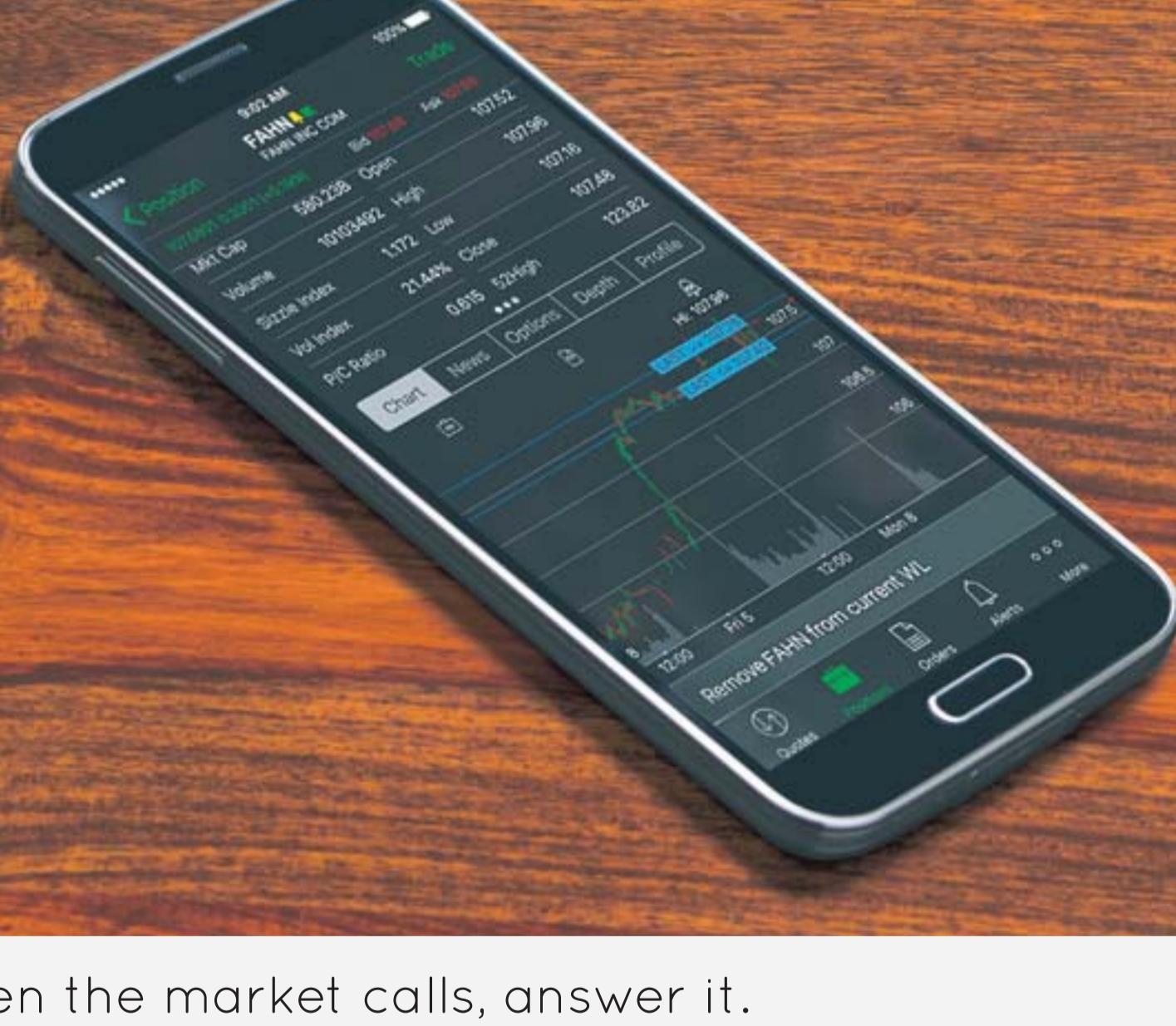
After having a low exposure to the energy sector for several years, Invesco Ltd. has been building up its position over the past 18 months, said Brian Jurkash, a portfolio manager there.

Mr. Jurkash said more companies are embracing spending cuts as a way of coping with lower oil prices and higher costs tied to well drilling, contributing to the firm's decision to buy more shares of energy companies. **Anadarko Petroleum** Corp. and **ConocoPhillips**, for example, said they recently shaved a combined \$500 million from their budgets.

"These guys don't need to be increasing rigs, drilling more wells and spending more money when they're not generating cash flow," Mr. Jurkash said.

John Vail, chief global strategist at Nikkei Asset Management, said that with depressed oil prices, the rosy growth prospects priced into energy shares may not pan out. "Overall, our team does not think energy equities look cheap at all," he said.

—Alison Sider contributed to this article.



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