

THE WALL STREET JOURNAL.

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What's News

Business & Finance

Fed officials in June readied plans to start shrinking the central bank's balance sheet in the next few months, and the debate since then over when to launch the effort has increasingly pointed to September. A1

◆ Volvo's plan to transition its lineup to vehicles powered either by batteries or hybrid engines underscores the mounting challenges faced by Tesla. A1

◆ Vantiv appeared to beat J.P. Morgan in the pursuit of Worldpay, saying it had cinched a \$10 billion takeover deal. B1

◆ IPOs in the U.S. have rebounded this year, but many big-name startups remain on the sidelines. B12

◆ Tech stocks ended a three-session streak of declines with a bounce that lifted the S&P 500. B11

◆ Emirates Airline and Turkish Airlines said that their passengers were cleared to again use laptops on U.S.-bound flights. B2

◆ Goldman is seeking to sell a stake in its web app that sells complex financial products to retail investors. B10

◆ Lloyds promoted executives in a bid to appease investors concerned the bank had few potential internal successors to its CEO. B10

◆ SpaceX sent a large commercial communications satellite into orbit following a pair of last-second launch aborts over two days. B3

◆ True Religion Apparel filed for chapter 11, the latest garment seller to be hit by changing shopping habits. B3

World-Wide

◆ The U.S. and Russia clashed at the U.N. over how to respond to North Korea's nuclear-weapons program, throwing into doubt U.S. hopes for an international diplomatic solution to the crisis. A1, A7

◆ Tillerson said the U.S. is prepared to hold discussions with Russia on setting up no-fly zones in Syria. A7

◆ Senate GOP leaders are weighing a proposal by Cruz to let insurers that sell plans that conform to ACA rules also sell policies that don't. A4

◆ Qatar and the four Arab nations seeking to isolate it exchanged recriminations, with Doha accusing them of waging a smear campaign. A5

◆ Merkel and Xi pledged to boost economic cooperation between Germany and China as they met ahead of the G-20 summit. A16

◆ Trump arrived in Poland, which had been preparing a hero's welcome for the president ahead of his visit. A16

◆ Government supporters burst into Venezuela's congress and severely beat several opposition lawmakers. A5

◆ An NYPD officer was shot and killed while in her vehicle, in what was called an unprovoked attack. A3, A8A

◆ The Illinois legislature seems to have forged a budget deal that could stave off a junk rating, but longer-term problems still loom. A3

◆ An insurgent attack left one U.S. soldier dead and two others wounded in Afghanistan's Helmand province. A16

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Crisis Deepens in Venezuela After Maduro Backers Storm Congress



BATTLE LINES: Legislators Luis Stefanelli, left, and Jose Regnault, center, at the National Assembly on Wednesday after a group of supporters of President Nicolás Maduro stormed the congress and beat opposition lawmakers seeking to redraft the constitution. A5

Russia Balks on North Korea

As U.N. readies vote on Pyongyang sanctions, chances narrow for an international front

The U.S. and Russia clashed at the United Nations Security Council over how to respond to North Korea's nuclear-weapons program, a confrontation throwing into doubt U.S. hopes for an international diplomatic solution to the crisis.

tion to the burgeoning crisis.

The standoff between diplomats on Wednesday came just two days before President Donald Trump and Russian counterpart Vladimir Putin plan to hold their first meeting during the summit of the Group of 20 leading nations in Germany, raising the stakes for both leaders as well as China, which will attend the international gathering.

Following North Korea's July 4 launch of its first inter-

national ballistic missile, deemed by U.S. officials to be capable of reaching Alaska, U.S. officials invoked direct threats of military action as they tried to marshal a coordinated inter-

national response.

At the U.N., U.S. Ambassador Nikki Haley warned diplomats that "time is short" for diplomatic action and said the Trump administration would be willing to use military force if punitive restrictions failed to deter North Korea from its plans to perfect a weapon that

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◆ Heard on the Street: Fed's words spell worry..... B12

Out the Door

For CEOs, job security has rarely been shakier, as firms face increasing impatience on Wall Street and in boardrooms, and a landscape transformed by new technologies and rival upstarts. B1

A selection of exits announced over the past months and the issues the firms were contending with beforehand.

	Activist investors	Planned succession	Industry upheaval
Klaus Kleinfeld Arconic	●	○	○
Sally Smith Buffalo Wild Wings	●	○	●
Doug Oberhelman Caterpillar	○	●	●
Mark Fields Ford	○	○	●
Jeff Immelt General Electric	●	●	○
Mickey Drexler J.Crew Group	○	●	●
Mario Longhi U.S. Steel	○	○	●

Sources: WSJ analysis of company announcements

THE WALL STREET JOURNAL.

Oh, Nuts! The Macadamias Are Stuck

* * * * *

Trendy snacks irk farmers who try to

pry them from trees

By MIKE CHERNEY

DONNELLYVILLE, Australia—After months of waiting, the nuts still hadn't dropped. So around last September, Noah Seccombe, a 39-year-old macadamia farmer in eastern Australia, decided it was time to bring out the sticks.

For about a week, a team of workers up to four people strong used homemade nut-knocking sticks to hit the macadamias out of 1,500 trees. Typically many of the nuts fall naturally, but last year Mr. Seccombe said 30% of the crop of some trees was stuck on the branch.

You're looking up into the

Please see NUTS page A8

MEXICO'S VIOLENT DRUG WAR IS BACK

After a lull, killings are now on pace to rival peacetime record; 'pax mafiosa' unravels

By ROBBIE WHELAN

CHIHUAHUA, Mexico—On the morning of March 23, gunmen here fired eight shots into a cherry-red Renault Duster SUV, killing newspaper reporter Miroslava Breach as she waited outside her home to drive her 14-year-old son Carlos to school.

A hand-painted sign at the scene said the journalist—known for her investigations into ties between drug gangs and local political machines—was murdered "for having a loose tongue."

After a few years of declining violence under Mexican President Enrique Peña Nieto, the drug war has come roaring back to life.

Ms. Breach was one of

11,155 people murdered in

Mexico in the first five months of 2017, according to government statistics. The pace of murders—about one every 20 minutes—represents a 31% jump from a year earlier, and, by year-end, could rival 2011's 27,213 homicides for the worst body count in Mexico's peacetime history.

"The momentum of reducing violence in recent years has clearly broken down," said Earl Anthony Wayne, who served as U.S. ambassador to Mexico from 2011 to 2015. "It's hardly in the interest of the U.S. to have this violence going on near our borders, both for the effect it could have on U.S. citizens in those areas and for the effect it could have on commerce."

Many of the causes of the

Please see MEXICO page A8

Fed Readies Timing of Portfolio Tapering

By NICK TIMIRAO

WASHINGTON—Federal Reserve officials in June readied plans to start slowly shrinking the central bank's large portfolio of bonds and other assets in the next few months, and the debate since then over when to launch the plan has increasingly pointed to September.

Several officials said the Fed had sufficiently prepared markets to initiate the tapering "within a couple of months," according to the minutes of the central bank's June meeting released on Wednesday. Some others said waiting longer could give them more time to figure out why inflation has slowed and that moving sooner might wrongly signal they were moving more aggressively to raise interest rates.

Taken together, the minutes of the June meeting and subsequent comments from Fed officials show a growing likelihood that the Fed will initiate its balance sheet runoff plan in September. That sequence would Please see FED page A2

◆ Greg Ip: Conditions signal recession risk..... A2
◆ Heard on the Street: Fed's words spell worry..... B12

Volvo Gives Tesla a Shock, As Others Plan Electric Push

By JOHN D. STOLL
AND TIM HIGGINS

Volvo, the auto maker that spent 90 years polishing a reputation for safety, indicated Wednesday it is mounting an ambitious challenge to Tesla Inc.'s electric cars.

But the even tougher news for Tesla's billionaire founder, Elon Musk, is that the Scandinavian company isn't the only deep-pocketed rival planning to

compete with the Silicon Valley pioneer. Nearly all global vehicle makers are mounting their own electric-car push, powered by ever-cheaper prices for batteries, stricter emissions rules and lucrative government incentives for customers.

Tesla's shares fell more than 7% Wednesday, the steepest decline in a year in which it passed both General Motors Co. and Ford Motor Co. in stock-market valuation.

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◆ Heard on the Street: Tesla's big talk disturbs investors..... B12

INSIDE



TRASH TALK TURNS LOSERS INTO WINNERS

LIFE & ARTS, A11



CONSERVATIVE 'RESISTANCE' IS FUTILE

OPINION, A15



IT'S TOUCH AND GO FOR IPAD UPGRADE

BUSINESS & FINANCE, B1

Oracle #1 SaaS Enterprise Applications Revenue

#1
Oracle Cloud
14.5%

#2
Salesforce Cloud
12.4%

1,000+ Employees Segment, 2015

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Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size" doc #US41913816, Dec. 2016; Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM.

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U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

Economic Conditions Signal Recession Risk



If you drew up a list of preconditions for recession, it would include the following: a labor market at full strength, frothy asset prices, tightening central banks, and a pervasive sense of calm.

In other words, it would look a lot like the present.

Those of us who have lived through economic mayhem before feel our muscle memory twitch at times like this. Consider the worrisome absence of worry. "Implied volatility" measures the cost of hedging against big market moves via options. When fear is pervasive, options are expensive so implied volatility is high. At present, implied volatility in bonds, stocks, currencies and gold sits near its lowest since mid-2007, the eve of the financial crisis, according to a composite measure maintained by Variant Perception, a London-based investment advisory.

The economic expansion is now entering its ninth year and in two years will be the longest on record. The unemployment rate sits at 4.3%, the lowest in 16 years, suggesting the economy has

reached, or nearly reached, full capacity.

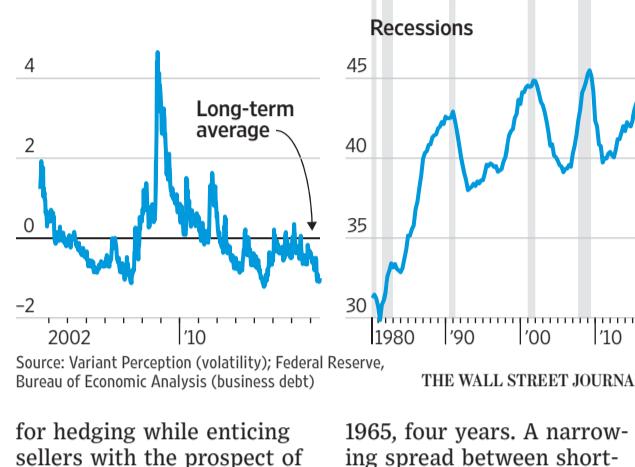
Expansions don't die of old age, economists like to say. On the other hand, should we really assume this one will be a record breaker? From a level this low, unemployment has more room to go up than down. Another ominous sign: Central banks are tightening monetary policy, which has preceded every recession. The Fed has raised rates three times since December and last week central banks in Britain, the eurozone and Canada all hinted that years of easy money were coming to an end.

Still, the presence of recession preconditions isn't enough to say one is imminent. To understand implied volatility, think of hurricane insurance. Right after a storm, homeowners are more anxious to have coverage, even as insurers withdraw, which of course means premiums spike. As years go by without another hurricane, homeowners let their coverage lapse, insurers return and premiums drop. Similarly, implied volatility is low today because years without a financial calamity have sapped demand

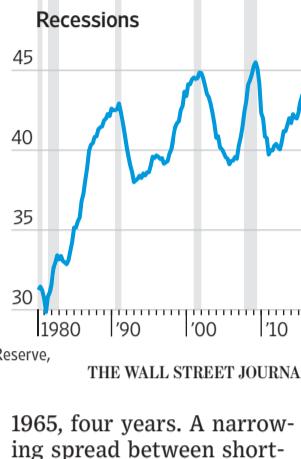
Calm Prevails, but Should It?

Implied volatility, which measures the cost of insurance against big market moves, is at rock-bottom even as business borrowing climbs.

Implied volatility of stocks, bonds, currencies and gold



Business debt excluding financial companies as a share of GDP



and interest rates are low for years, investors and businesses behave as if those conditions will last forever. That's why even with muted economic growth, stocks are trading at a historically high 22 times the past year's earnings. It's also why home prices have returned to their pre-crisis peaks in major American cities.

Companies meanwhile have responded to slow, stable growth and low rates by borrowing heavily, often to buy back stock or pay dividends. Corporate debt as a share of economic output is at levels last seen just before the past two recessions.

When everyone acts as if steady growth and low volatility will last forever, it guarantees they won't. Once asset prices fall, the flow of credit that sustained them dries up, aggravating the correction.

Of course, some things are different this time. The post-crisis regulatory crackdown means if asset prices fall, they probably won't take banks down with them. Last week Janet Yellen, the Fed chairwoman, said she thought there wouldn't be

another financial crisis "in our lifetimes." Fair enough: crises as catastrophic as the last happen twice a century. But small crises are inevitable as risk migrates to financial players who haven't drawn the attention of regulators. "Elevated asset valuation pressures today may be indicative of rising vulnerabilities tomorrow," Fed vice chairman Stanley Fischer warned last week.

Inflation is uncomfortably low rather than too high as in previous cycles, which makes it less likely central banks will have to raise interest rates sharply or rapidly. But in a world with permanently lower inflation and growth, businesses will struggle to earn their way out of debt, and interest rates will bite at lower levels than before. This confronts the Fed with a dilemma. If bond yields remain around 2% to 2.5%, the Fed may be playing with fire by pushing rates to 3%, as planned. If it backs off those plans, it could egg on excesses that make any reversal more violent.

Ms. Yellen and Mr. Fischer, both veterans of past mayhem, need to be on guard for a repeat. So should everyone else.

Hive of Activity at National Building Museum



SOARING IN DEBUT: Hive, an exhibit of more than 2,700 wound paper tubes from several inches to 10 feet long, opens Thursday in Washington, D.C. The highest of the three interconnected domed chambers, designed by architect Jeanne Gang, is 60 feet tall.

FED

Continued from Page One
give officials more time to see if the inflation slowdown is temporary before raising rates, and it would allow officials to proceed well before any transition to a new Fed leader if Chairwoman Janet Yellen isn't reappointed before her term ends Feb. 3.

The Fed's internal debate over the policy path has been complicated by two puzzles. Inflation has weakened, justifying some officials' call for a slower pace of rate increases.

But financial conditions have eased despite recent rate increases—with stock markets running to new highs, long-term yields declining and the dollar weakening. This has strengthened the resolve of those who want to stick with the Fed's current rate path, which projects another quarter-percentage move this year and four more next year.

At the June meeting, officials discussed reasons why financial conditions haven't tightened, including strong corporate-earnings growth and growing risk tolerance among investors. Some officials raised concerns that stock prices looked high and that subdued market volatility could lead to a buildup of risks to financial stability," the minutes said.

"The policy implication says, 'Look we've been raising rates. We haven't overly tightened financial conditions, so we can afford to continue here,'" said Roberto Perli, an analyst at research firm Cornerstone Macro LP. "It is a green light to continue, more than anything."

Officials raised rates to a range between 1% and 1.25% at the June meeting, their third quarter-point rate increase in as many quarters, and they penciled in one more increase this year. They also reached consensus on how they will gradually reduce the Fed's \$4.5 trillion asset portfolio, also known as its balance sheet, which could lead long-term rates to rise.

Because the Fed is prepared to gradually shrink those holdings in a slow, predictable manner, by allowing some assets to mature without reinvestment, officials last month said they expected launching the runoff would have a limited impact on markets, according to the account published Wednesday.

From a market standpoint, the Fed has "done everything to make the end of reinvestment as palatable as humanly possible," said Jim Vogel, market strategist at FTN Financial.

Markets showed little reaction to the minutes Wednesday. The Dow Jones Industrial Average ended down 1.1 points, or 0.01%, to close at 21478. Yields on the benchmark 10-year Treasury note moved up after the release of the minutes but ended the day at 2.334%, ac-

cording to Tradeweb, below Monday's 2.352% closing yield.

The next Fed policy meeting is July 25-26. Ms. Yellen will have an opportunity to elaborate publicly on her outlook when she delivers semiannual testimony before Congress next Wednesday and Thursday.

The minutes showed officials also face divisions over how the portfolio runoff plans could alter the path of interest rates going forward. At the June meeting, officials' median forecasts showed four more quarter-point rate increases in 2018.

The central bank's discussion around the balance sheet picked up this year because Fed officials have grown more comfortable with the economic outlook. Officials stopped adding to the balance sheet in 2014, but they have been reinvesting the proceeds of maturing assets to keep the Fed's holdings steady.

Under the plans announced last month, the Fed will allow its holdings to decline gradually by allowing a predetermined amount of bonds to mature every month without using the proceeds to buy more bonds.

It would start by allowing up to \$6 billion in Treasury securities and \$4 billion in mortgage bonds to roll off without rein-

The Fed's internal policy debate has been complicated by two puzzles.

vestment, and let those amounts rise each quarter. The plan's pace would ultimately rise to a maximum of \$30 billion a month for Treasurys and \$20 billion a month for mortgages.

Fed officials have said they want the balance-sheet wind-down to run quietly in the background, meaning they are unlikely to adjust it from one meeting to the next, barring a shock to the economy.

Officials raised rates last month despite some concern over declines in inflation gauges, which Ms. Yellen and others have largely attributed to one-off factors such as big discounts on wireless phone plans. The Fed's preferred inflation gauge briefly surpassed the central bank's 2% target in February but posted greater-than-expected drops since then, rising just 1.4% on the year ended in May.

Officials will receive two more monthly inflation readings before their September meeting and are likely to study those reports closely to confirm their latest forecasts. They could face greater doubt or division on their policy path if current trends continue— inflation remains soft, the unemployment rate falls further and asset prices continue their rise.

U.S. WATCH

WASHINGTON, D.C.

Scalise Readmitted To Intensive Care

The Washington hospital where House Majority Whip Steve Scalise is recuperating from a gunshot wound says he has been readmitted to the intensive care unit.

MedStar Washington Hospital Center says the Louisiana congressman was in intensive care because of new concerns for infection. Mr. Scalise was in serious condition Wednesday night.

Mr. Scalise and four other people were injured last month when a gunman opened fire on a Republican baseball practice in Alexandria, Va. U.S. Capitol Police and other officers returned fire and killed the gunman. The congressman was struck in the hip and the bullet tore into blood vessels, bones and organs.

—Associated Press

MAINE

Gunman Slain After Deadly Rampage

A gunman killed three people and wounded a fourth early Wednesday in the state's deadliest shooting since 2015 and then was fatally shot by deputies, authorities said.

Somerset County deputies ended the rampage by killing the gunman, a Maine Department of Public Safety spokesman said.

Deputies responding to an emergency call at 7:37 a.m. uncovered a grisly scene with three victims at different locations along a road, Somerset County Sheriff Dale Lancaster said. The gunman left the scene after killing the three people but returned and shot the fourth person while deputies were in the area, and the deputies then fatally shot him.

—Associated Press

ILLINOIS

Eighteen Horses Killed in Barn Fire

Eighteen horses died and two people were injured in a Wednesday morning fire at a barn in the southwest Chicago suburb of Plainfield, fire officials said.

Firefighters arrived at Del Real Stables about 1:15 a.m. Wednesday to find the west side of the barn in flames and a nearby trailer on fire, Plainfield Deputy Fire Chief Jon Stratton said. Both people who were hurt were taken to area hospitals for treatment of minor injuries, authorities said.

The fire spread before firefighters were able to get it under control a half-hour later, Mr. Stratton said. The cause of the blaze is under investigation, police said.

—Associated Press

VIRGINIA

Victim's Daughter Opposes Execution

The daughter of a sheriff's deputy killed by a man set to be executed in Virginia said on Wednesday that she has urged the state's governor to spare the man's life.

William Morva is scheduled to receive a lethal injection Thursday for the 2006 killings of Derrick McFarland, a hospital security guard, and Eric Sutphin, a sheriff's deputy.

"I am against the death penalty for religious and moral reasons," Rachel Sutphin, the deputy's daughter, said in an email to reporters.

"I have fought and will continue to fight for clemency for all death row inmates until Virginia declares the death penalty unconstitutional," she wrote.

—Associated Press

CORRECTIONS & AMPLIFICATIONS

The first name of Jameson Taillon, a pitcher for the Pittsburgh Pirates, was incorrectly given as James in a Sports article Wednesday about pitching velocity.

In some editions Wednesday, the name of Ganeden Inc., which sells probiotics, was misspelled as Ganaden in one refer-

ence in a Life & Arts article about foods that contain probiotics. Also, in some editions the article contained an incomplete quotation from Food and Drug Administration spokeswoman Lyndsay Meyer. She said that the FDA "encourages dietary supplements manufacturers who have questions about their products to meet with the agency."

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U.S. NEWS

In Illinois, Long-Term Problems Still Loom

BY QUINT FORGEY
AND HEATHER GILLERS

The Democratic legislature in Illinois seems to have forged a budget deal that could stave off a junk credit rating and resolve a two-year fiscal standoff, but the plan appears to do little to solve the state's long-term problems.

Indeed, a major ratings firm said Wednesday that it continues to look at a possible downgrade of the state's credit rating to a level no state has ever seen.

On Thursday, the Illinois House is expected to join the Senate in overriding a veto by Republican Gov. Bruce Rauner, a defeat for the billionaire first-term governor.

Democratic House Speaker Michael Madigan, the governor's chief political opponent, passed the revenue measure over the weekend with 72 votes, surpassing the three-fifths-majority threshold of 71 votes required to override a gubernatorial veto.

Ahead of Thursday's vote, the focus remains on 15 House Republicans who voted Sunday to approve a \$5 billion permanent income-tax increase to fund a more than \$36 billion spending bill. The state brings in roughly \$32 billion a year.

Mr. Rauner, who vetoed the measure because he opposed making the tax increase permanent, is still seeking con-

Illinois is struggling with \$250 billion in pension debt, according to Moody's.

cessions from the legislature, including a property-tax freeze and a revamp of the state's worker-compensation system.

"Do not push for a tax hike with no fundamental reforms. Don't do it," Mr. Rauner said at a news conference Wednesday.

A budget wouldn't be a panacea. Illinois is struggling under the weight of \$250 billion in pension debt, according to an estimate by Moody's Investors Service, a liability far greater than any other state's. The state's estimate is about \$126.5 billion, based on more optimistic investment assumptions.

A backlog of nearly \$15 billion in bills left over from two years without a budget will likely leave Illinois "vulnerable to unanticipated economic stress," S&P Global Inc. noted Monday. Last week, a federal judge found Illinois noncompliant with its Medicaid payments, with the state owing \$3 billion to health-care providers.

Moody's on Wednesday said it was officially placing Illinois' rating on review for a possible downgrade, even after factoring in the likely vote by the House of Representatives to override Mr. Rauner's veto.

"Despite the progress toward budget balance that the emerging fiscal plan embodies, the plan entails substantial implementation risk," said Moody's. "The plan...appears to lack broad bipartisan support, which may signal shortcomings in its effectiveness once implemented."

Keith Brainard, research director at the National Association of State Retirement Administrators, said, "One budget is not going to fix their pension liabilities. The pension hole that the state has dug itself took decades, and it's going to take a long time to get out of that hole."

Laurence Msall, president of the Civic Federation, a Chicago-based government-watchdog group backed by business leaders, said there are only a few ways for the state to solve its pension problems. Illinois would need a constitutional amendment that would allow it to reduce the liability or a means of bringing in enough revenue to cover state operations and pay off pension debts over time.

"It would be a great improvement to have any type of budget framework," Mr. Msall said. "However, that will not be the end of Illinois's financial crisis."

—Shibani Mahtani contributed to this article.

Gun Laws Blocked in California

NRA challenges keep ammunition limits and ban on some weapons from taking effect

BY JOE PALAZZOLO

Two new California gun-control laws are on hold after challenges by the National Rifle Association, which is placing more emphasis on fighting restrictions in the state through legal and regulatory means rather than at the ballot box.

California voters last year approved a series of restrictions, including new limits on ammunition and magazines. During the campaign for the measure, pro-gun activists criticized the group, saying the NRA offered only token opposition.

But last week, the group and its local affiliate, the California Rifle & Pistol Association, notched two significant wins—including a ruling by a federal judge who found that the Constitution may protect some "ordinary" military weapons.

"We had to shift our tactics to be more heavily focused on litigation," said Jennifer Baker, a spokeswoman for the NRA. California is home of some of the strictest gun laws in the nation and is often seen as an incubator for measures elsewhere in the nation.

The ballot measure, which passed last year with 63% of the vote, prohibited possession of magazines that hold more than 10 rounds and required background checks for ammunition purchases. U.S. District Judge Roger Benitez in San Diego blocked the magazine restrictions in a ruling on Thursday, while the lawsuit, brought by the gun rights groups moves forward.

The law, scheduled to go into effect July 1, would force Californians to surrender any ammunition magazine exceeding the limit or face criminal penalty of up to a year in jail and a fine of \$100 per magazine, or both.

Separately last week, a California administrative agency denied proposed regulations for implementing a 2016 law that expanded the state's ban on the sale of military-style weapons. The California State Legislature, dominated by



Firearms for sale at a gun store in El Cajon, Calif., in 2016. Voters last year approved new limits on ammunition and magazines.

Democrats, last year expanded the definition of prohibited "assault weapons" to include firearms with detachable magazines.

On the same day as Judge Benitez's ruling, a senior U.S. district judge in Sacramento declined to block the high-capacity magazine law in a separate lawsuit, saying the state was likely to win.

California Attorney General Xavier Becerra said in a statement that he would continue to defend the law. California law already makes it illegal to buy or sell such magazines. A spokeswoman for Mr. Becerra, a Democratic former member of Congress, declined to comment on Monday.

In the NRA's other victory last week, California's Office of Administrative Law rejected the state Justice Department's proposed regulations for the expanded "assault weapon" law. The June 26 order effectively halts the law while Justice officials draft a new proposal, said Chuck Michel, who represents the NRA in the case.

The law, signed by Democratic Gov. Jerry Brown last year, expands the ban on sales of military-style weapons to include firearms with magazines that can be detached without disassembling the guns. The law also requires current owners of such weapons to register them.

The NRA and the California Rifle & Pistol Association challenged the proposal as unlawful and "riddled with other flaws" that would make the

Defense Needs Cited in Ruling

The U.S. Supreme Court ruled in 2008 that the Second Amendment protects an individual right to own a gun for self-defense. Since then, courts have appraised gun-control laws through the prism of self-defense.

U.S. District Judge Roger Benitez, dusting off a Supreme Court case from 1939, said in his ruling last week that laws restricting guns and ammunition should also be weighed against the need for militias capable of defending the homeland.

"The right to bear arms includes the right to keep and carry ammunition and magazines holding more than 10 rounds for those arms, for both self-defense and to be ready to serve in a militia," Judge Benitez wrote.

Four federal appeals courts across the country have upheld restrictions on high-capacity magazines, said Hannah Shearer, a staff attorney at the Law Center to Prevent Gun Violence, which filed a brief in the case in support of the law.

Ms. Shearer said no other court has held that the Second Amendment creates an individual "militia right" to keep and bear certain arms.

Chuck Michel, a lawyer who

represents the NRA in the case, said Judge Benitez correctly found that the state had overstated the public-safety risk of high-capacity magazines, which were involved in two mass killings in California in recent years, according to one survey.

Those included a 2013 shooting in Santa Monica that left six dead and a 2009 Oakland shooting in which four police officers and the shooter perished.

The survey by Mayors Against Illegal Guns, which is now known as Everytown for Gun Safety, defined a mass shooting as one in which four or more people are killed.

—Joe Palazzolo

of military-style weapons to include firearms with magazines that can be detached without disassembling the guns. The law also requires current owners of such weapons to register them.

The NRA and the California Rifle & Pistol Association challenged the proposal as unlawful and "riddled with other flaws" that would make the

regulations unenforceable.

The groups have also filed a lawsuit against the state over the weapon ban and are preparing challenges to the new ammunition restrictions approved by voters in November.

Mr. Michel, who called California a "petri dish for bad gun control laws" that spread to other states.

"It's inevitable that a lot of

these battles have to be fought here," he said.

Lt. Gov. Gavin Newsom, who initiated the ballot measure, said in a statement posted to his Twitter account last week that the NRA cases amounted to "an orchestrated campaign to dismantle public safety laws and overturn the clear will of the California voters."

New York Officer Fatally Shot in Attack

BY ZOLAN KANNO-YOUNGS
AND MIKE VILENSKY

A New York Police Department officer was shot and killed in the Bronx while in her vehicle shortly after midnight Wednesday, NYPD officials said, in what Commissioner James O'Neill called an unprovoked attack.

The officer, Miosotis Familia, 48 years old, was a 12-year veteran of the department and a mother of twins and a 20-year-old daughter, law-enforcement officials said. She was assigned to the 46th Precinct in the Bronx.

The officer was sitting in a police vehicle at about 12:30 a.m. when she was shot in the head. Law-enforcement officials identified the suspect as 34-year-old Alexander Bonds.

Mr. Bonds was seen on video walking toward the vehicle and tightening his hood before firing one shot at the officer from a silver revolver, a senior law-enforcement official said. Officer Familia died early Wednesday, officials said.

An officer and a sergeant shot and killed the suspect one block away after Mr. Bonds drew the revolver, the officials said. A bystander also was hit during the encounter with the suspect and was in stable condition.

Officer Familia was in an NYPD mobile-command post when she was struck, police said. The NYPD deploys the large vehicles to locations that have recurring crime.

Commissioner O'Neill and New York City Mayor Bill de Blasio appeared at a news conference at about 3:30 a.m. Wednesday after meeting with Officer Familia's family.

"It's such a painful reality at just the end of a very, very good thing," Mr. de Blasio said hours after the city's July Fourth celebration. "A female police officer attacked out of

nowhere."

A video, on what officials said was Mr. Bonds's Facebook page, in September 2016 criticized police treatment of residents and corrections officers' treatment of prison inmates and referred to police in derogatory terms.

"This horrific and senseless assassination is a devastating reminder of the risks these brave men and women face each day," New York Gov. Andrew Cuomo said in a statement.

The incident was similar to the shooting of two police officers in December 2014, when Rafael Ramos and Wenjian Liu were killed while in their patrol car in Brooklyn.

The last member of the NYPD shot and killed in the line of duty was in November 2016, when Sgt. Paul Tuozzolo, 41, was shot in the head during a gunbattle with a heavily armed suspect in the Bronx.

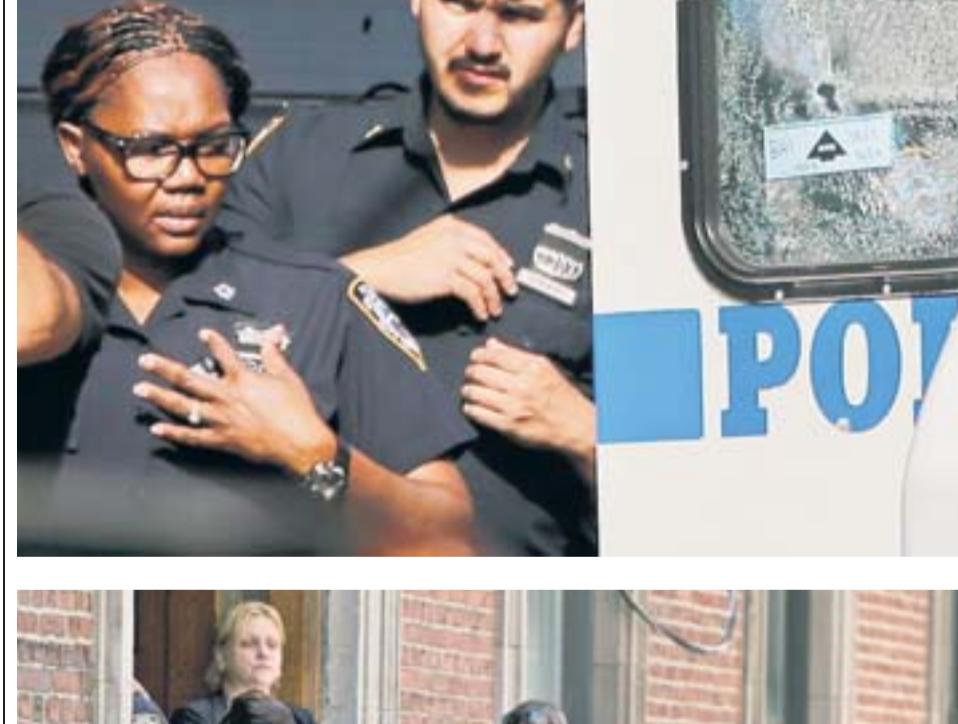
Mr. Bonds previously had been arrested in January 2001 for assaulting a police officer in Queens with brass knuckles, a senior law-enforcement official said. According to the official, Mr. Bonds's other arrests include narcotics-related crimes in 2001 and 2002, subway fare evasion in 2005 and robbery in 2005.

Mr. Bonds violated his parole in 2006 and was in prison until 2013, the senior official said. He was slated to be on parole until 2018, officials noted.

"This kind of violence against police officers cannot stand," said Patrick Lynch, president of the Patrolmen's Benevolent Association. "We need the public's help."

Outside Officer Familia's Bronx home, a man who identified himself as her brother-in-law said in Spanish, "She was an excellent woman."

—Mariana Alfaro contributed to this article.



CLOUDIO PAPAPIETRO FOR THE WALL STREET JOURNAL



Top, police officers next to the vehicle in which NYPD Officer Miosotis Familia was shot and killed. Bottom, the scene outside the 46th Precinct in the Bronx after a moment of prayer for Officer Familia.

U.S. NEWS

Cruz's Plan to Save Health Bill Gets Closer Look

BY STEPHANIE ARMOUR
AND KRISTINA PETERSON

Senate Republican leaders, in a bid to salvage their health overhaul, are weighing the merits of a proposal by Sen. Ted Cruz (R., Texas) to let insurers that sell plans that conform to the Affordable Care Act's regulations also sell policies that don't.

The idea, also backed by Sen. Mike Lee (R., Utah), would allow insurers to offer cheaper, less-comprehensive policies, likely to be bought by healthier people. Those policies could charge higher prices to those with pre-existing medical conditions and possibly deny them coverage altogether.

Senate Majority Leader Mitch McConnell (R., Ky.) asked the nonpartisan Congressional Budget Office to analyze the Cruz provision's impact on the federal budget and on insurance coverage, according to Senate GOP aides—a sign Senate leaders are genuinely contemplating it.

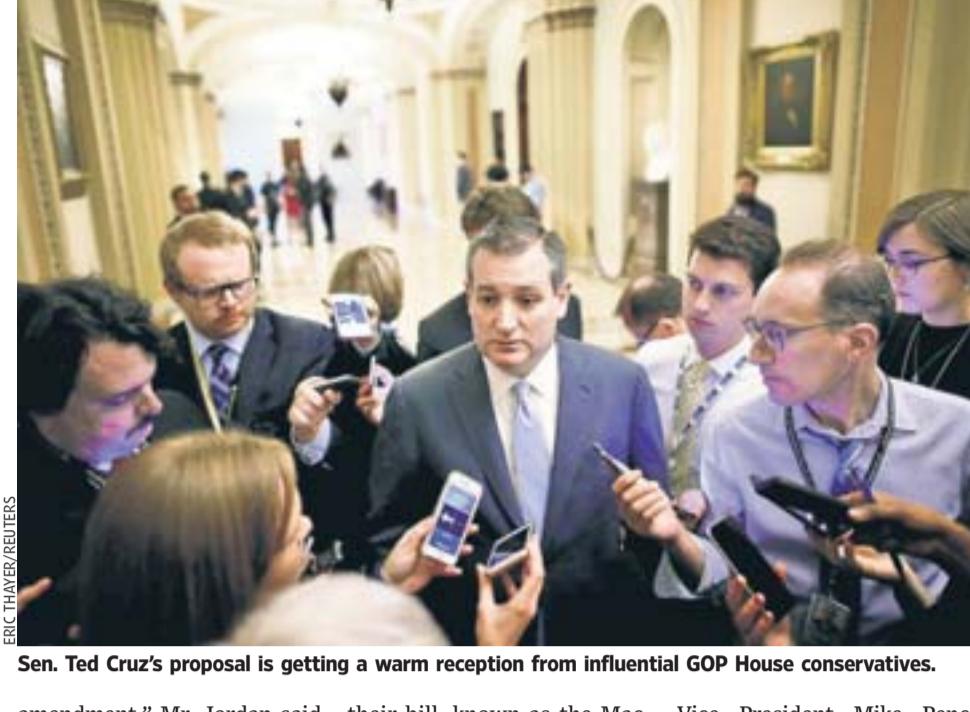
The action unfolded as Mr. McConnell continued to reach out to various senators while Congress is on recess. Mr. McConnell was forced to delay

a vote before the recess amid defections from both conservatives and centrists. He is working to assemble a revised version the Senate can consider shortly after it returns to Washington.

The majority leader still wants a bill to modify and replace the ACA, despite calls from President Donald Trump to pursue a full repeal first and work on a replacement later. Tweaks to the original Senate bill are likely to include more funding for opioid addiction treatment and possibly beefed-up funding for tax credits that help low-income people buy insurance.

The Cruz proposal likely would lower premiums for some consumers, a priority of Senate conservatives, and could help bring some of them on board. Sens. Cruz and Lee are among four conservative senators who rejected the initial version of Mr. McConnell's bill, saying it did too little to uproot the ACA and lower premiums.

The Cruz idea also is getting a warm reception from influential GOP House conservatives, including Reps. Jim Jordan of Ohio and Mark Meadows of North Carolina. "It's a good



Sen. Ted Cruz's proposal is getting a warm reception from influential GOP House conservatives.

amendment," Mr. Jordan said in a brief interview. "If that goes in, that's a great move."

Still, Mr. McConnell's challenge has always been that moves aimed at enticing conservatives could alienate centrists, and vice versa. The Cruz proposal puts GOP Senators who pledged to preserve protections for people with pre-existing conditions in a precarious position.

Health analysts said the amendment would cause premiums for that demographic to jump, resurrecting a thorny political issue that drew national attention earlier this year when House Republicans added a similar measure to

their bill, known as the MacArthur amendment.

Mr. Cruz's office, asked for comment Wednesday, referred to an interview he gave a Dallas-based radio station. "We've got to lower premiums, and the way you lower premiums is you give the consumers freedom to choose the health insurance plan that they want without the government mandates," Mr. Cruz told WBAP.

The measure started gaining traction in the Senate last week when Mr. McConnell scrapped a planned vote because nine GOP senators said they couldn't support the legislation. Mr. McConnell can only lose two GOP votes for the bill to pass, with

Vice President Mike Pence breaking any tie, since no Democrats are likely to support the Republican effort.

A vote on a revamped Senate GOP health bill could be held in mid- or late July, said people familiar with the matter.

The House would have to approve any bill the Senate passes for it to become law, and conservative House Republicans who almost foiled the party's effort to pass a bill in May also say the Cruz provisions could be essential to getting their support.

The White House also has backed Mr. Cruz's proposal.

—Michelle Hackman
contributed to this article.

WASHINGTON WIRE

CONGRESS

Trump's FBI Nominee To Face Senate Panel

President Donald Trump's pick to be the next FBI director is scheduled to appear before Congress next week in what is likely to be a contentious confirmation hearing in light of the president's decision to dismiss James Comey as director in May.

Christopher Wray, a former top Justice Department official who is Mr. Trump's nominee to head the Federal Bureau of Investigation, is scheduled to appear before the Senate Judiciary Committee on Wednesday, the panel's chairman, Sen. Chuck Grassley (R., Iowa) said.

Mr. Comey had been overseeing an investigation into Russia's alleged meddling in the 2016 election when Mr. Trump fired him. His dismissal sparked a political storm; in May, the Justice Department appointed Robert Mueller as special counsel to oversee the Russia probe.

Democrats are expected to press Mr. Wray about whether he can maintain his independence from the Republican president.

—Del Quentin Wilber

HOLOCAUST

Museum Surpasses Fundraising Goal

The U.S. Holocaust Memorial Museum exceeded its \$250,000 goal in an effort to preserve and digitize more than 200 diaries from Holocaust victims and survivors.

The museum said Wednesday that its first crowdfunding campaign launched on Kickstarter last month met its goal with pledges from more than 4,500 people. The campaign launched on June 12, the birthday of Holocaust diarist Anne Frank. The funding also will make it possible to translate three diaries into English.

The museum is now launching a stretch goal of \$50,000 to translate 10 more diaries into English. That effort runs through July 13.

Museum officials said the diaries are important because they offer evidence that the Holocaust happened at a time when Holocaust denial is on the rise.

—Associated Press

TWITTER FIGHT

'Morning Joe' Ratings Climb After Criticism

Joe Scarborough and Mika Brzezinski reached their biggest television audience ever when they talked Friday about President Donald Trump's tweets about their show.

The Nielsen company said Wednesday that 1.66 million people watched the MSNBC morning show the day after the tweets. That narrowly beat the show's previous record, which came the day after Mr. Trump was elected last year.

Mr. Trump, in rebuking the show last week, wrote that Ms. Brzezinski was "bleeding badly from a face-lift" when he saw them around the New Year. Friday's "Morning Joe" proved more popular than Mr. Trump's favorite morning show, "Fox & Friends." Mr. Trump tweeted that he watched "Morning Joe" on Friday.

—Associated Press

GOP Scrambles to Recruit Senate Candidates

BY NATALIE ANDREWS

Republican leaders consider next year's midterm elections a ripe opportunity to strengthen their party's majority in the Senate, but GOP lawmakers are turning down challenges in states in which President Donald Trump defeated Democrat Hillary Clinton.

Rep. Ann Wagner, a Republican who represents the Second Congressional District in Missouri, said Monday that she won't challenge her state's senior U.S. senator, Claire McCaskill, a Democrat who is running for re-election in 2018. Mr. Trump won Missouri by 19 points last year.

Ms. Wagner's decision follows similar choices by other lawmakers elsewhere. In Wisconsin, Rep. Sean Duffy, a Republican, has decided not to challenge first-term Sen. Tammy Baldwin, a Democrat; in Ohio, Rep. Pat Tiberi, a Republican, is passing on trying to unseat Sen. Sherrod Brown, a Democrat.

Republicans currently hold 52 seats in the Senate, and the party is defending eight of those seats next year. Democrats have 23 seats up for re-election in 2018, along with the two independent senators who caucus with them. Of the Democratic seats, 10 are in states that Mr. Trump, a Republican, won in 2016, five of those by double digits.

Still, midterms are often referendums on the president and Mr. Trump currently has a 37% approval rating, according to Gallup. And history shows the midterm elections more often than not go poorly for the party that controls the White House.

"It's hard to knock off an



President Donald Trump looks over to Rep. Ann Wagner (R. Mo.) before he signs an executive order in the Oval Office in February.

incumbent in a good year. In a not-great year, those odds drop even further," said Josh Hader, a senior fellow at Georgetown University's Government Affairs Institute.

The prospect has left many potentially vulnerable Democratic incumbents without serious challengers. In North Dakota, a state where Mr. Trump won 63% of the vote, Sen. Heidi Heitkamp, a Democrat, has no challenger from the GOP.

While the polls suggest Democrats face significant obstacles picking up seats in the

Senate, they have done better in recruiting candidates. Rep. Jacky Rosen (D., Nev.), a polished political veteran, is planning to challenge the state's senior senator, Dean Heller, a Republican.

A Public Policy Polling survey released last month showed Mr. Heller winning 39% of the vote against a Democratic candidate.

Democrats are also hoping to unseat first-term GOP Sen. Jeff Flake of Arizona. Mr. Flake has challenges from both the left and the right.

The National Republican Senatorial Committee declined to comment on the status of its candidate recruitment.

Austin Stukins, executive director of the Missouri Republican Party, said the race to challenge Ms. McCaskill is still early. There are "a lot of great conservatives who are looking at the race, there's no doubt about that," he said.

Republicans are gearing up for a competitive race in West Virginia against Sen. Joe Manchin, a Democrat. GOP Rep. Evan Jenkins is challenging

the incumbent senator.

Among the challenges facing the GOP recruiters is that the environment in Washington appears toxic, and Congress, which has struggled for years to pass major legislation, is viewed by some as an unproductive and unfulfilling job, said GOP strategist Chuck Warren.

"You go back there and all it is, is a food fight," Mr. Warren said. "Nothing is getting done. Why would you want to sacrifice your money, your family's time, to go back to a food fight?"

New Jersey Governor Faces Decision on Racial Impact Bill

BY BETH REINHARD
AND KATE KING

When Rev. Charles Boyer asks his African-American parishioners at the Bethel AME Church in Woodbury, N.J., if they know someone in prison, a majority of hands go up.

Black neighborhoods in this blue-collar town and others across the country have been disproportionately scarred by the number of African-Americans serving long, mandatory-minimum sentences for drug offenses. In New Jersey, blacks make up 61% of the prison population but only 14% of the state's residents, according to figures from the state.

A bill that is now in the hands of Gov. Chris Christie would make New Jersey the fourth state in the country to require lawmakers to consider a "racial impact statement" before approving any criminal justice system legislation.

The movement toward racial impact statements is emerging as another front in the long-running debate on the intersection of race and criminal justice, which has intensified in recent years partly due to a series of police shootings of black men that were captured on video.

Supporters of the bill like Rev. Boyer say the Republican governor's signature would reinforce one of the strengths of his record—an innovative approach to criminal justice—at a time when his poll ratings are among the worst of any governor and New Jersey is just getting past a recent budget impasse that shut the state government for three days. Opponents contend that sentencing laws should be written without consideration of race.

Mr. Christie has made combatting the state's drug addiction crisis a signature issue, backing laws that expand alternatives to prison for drug of-

fenders, require insurers to cover six months of addiction treatment, and overhaul the state's bail system so poor people aren't unnecessarily behind bars. The governor was tapped by President Donald Trump this year to lead a national commission to combat opioid addiction.

"Gov. Christie sees himself as a forward thinker on criminal justice reform," Rev. Boyer said. "I know he agrees that the war on drugs has been horrible for people of color and has a passion around solving the opioid

crisis."

Opponents of racial impact statements, however, like Roger Clegg, president of the conservative Center for Equal Opportunity, said they distract policy makers from what he says are the root causes of crime in minority communities, particularly higher rates of out-of-wedlock births.

"The whole idea of the civil rights movement was to get government out of the business of taking race into account," said Mr. Clegg, a former deputy assistant general in two Republican administrations. "Is government supposed to say, 'We're not going to pass this bill because it has a politically incorrect racial result even though it's a necessary bill?'"

Mr. Christie hasn't taken a public position on the bill, which faces a July 10 deadline for his signature or veto. A spokesman said he would review the legislation.

The bill received unanimous support in the state Senate and only three no votes in the Assembly, quietly marking the latest victory for the bipartisan movement in state capitols to revamp criminal justice policies.

African-Americans in New Jersey are incarcerated at 12 times the rate of whites, making New Jersey's racial disparity the worst in the country, according to an analysis of Justice Department data last year by the Sentencing Project, a nonprofit that advocates reducing the prison population.

On average, African-Americans are incarcerated in state prisons at five times the rate of whites across the country, according to the Sentencing Project. Iowa was the first to require racial impact statements in 2008, followed by Connecticut and Oregon. Minnesota lawmakers also use racial impact statements, though they aren't mandatory.



Gov. Chris Christie's approach on criminal justice has supporters of the racial impact statement bill optimistic about its chances.

WORLD NEWS

Rift Between Qatar, Neighbors Intensifies

As deadline passes for Doha to accept list of demands, both sides step up angry rhetoric

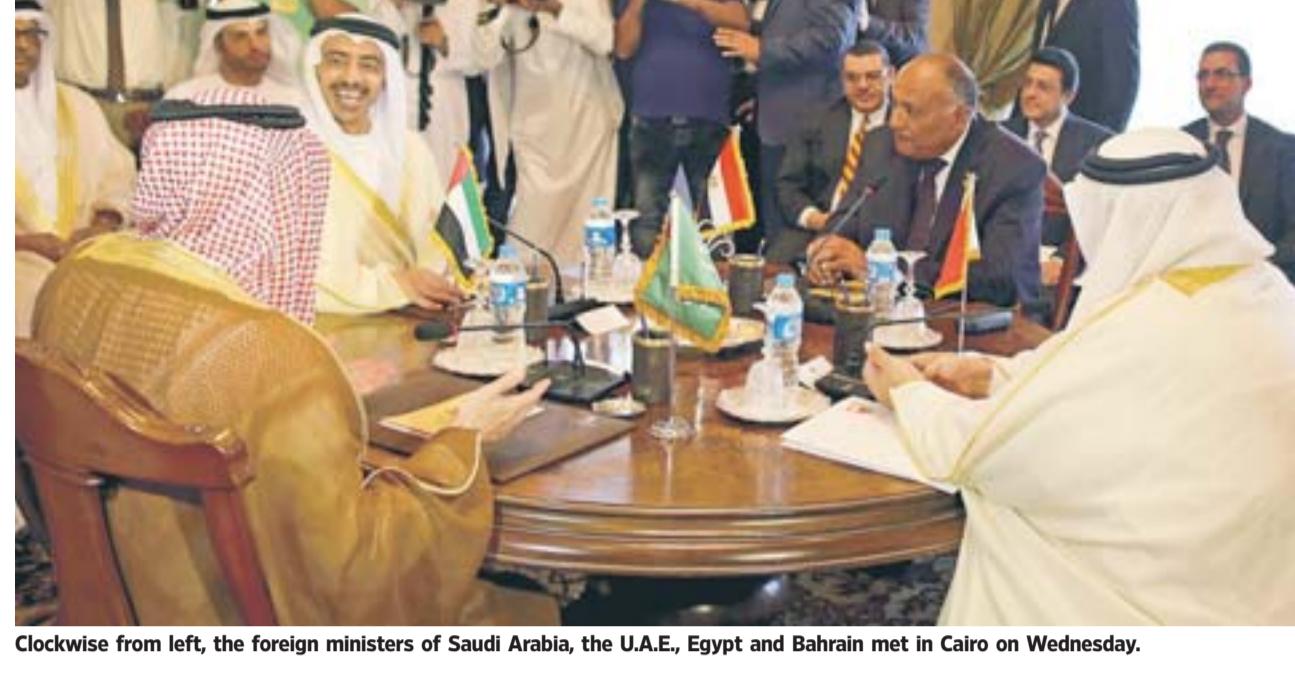
Qatar and the four Arab nations seeking to isolate it exchanged bitter recriminations, with Doha accusing the Saudi Arabian-led bloc of waging a

By Sarah Kent in London and Dahlia Kholai in Cairo

smear campaign and Cairo declaring that its energy-rich neighbor isn't serious about resolving the worst diplomatic crisis in the Persian Gulf in decades.

Meeting in Cairo on Wednesday, the foreign ministers of Saudi Arabia, Egypt, Bahrain and the United Arab Emirates discussed Qatar's latest response to their 13-point list of demands, which include curbing diplomatic ties with Iran, severing links with the Muslim Brotherhood, and closing the Al Jazeera television network.

Egyptian Foreign Minister Sameh Shukri said after the gathering that Qatar's reply had been "negative," adding



KHALED ELFI/ASSOCIATED PRESS

Clockwise from left, the foreign ministers of Saudi Arabia, the U.A.E., Egypt and Bahrain met in Cairo on Wednesday.

that it "reflects negligence and lack of seriousness in dealing with the origins of the problem as well as unawareness of the gravity of the situation."

Qatar is facing a potential volley of new punitive measures from the four nations after signaling its rejection of the demands.

Saudi Arabian Foreign Min-

ister Adel al-Jubeir told reporters in Cairo that further measures against Qatar will be taken as needed. The "political and economic blockade will continue until Qatar revises its policies," he said.

Accusing Qatar of supporting extremist groups and meddling in their domestic affairs, the four Arab states severed diplo-

matic relations on June 5 and imposed a transport ban on the nation of 2.2 million people. Qatari officials have consistently denied the allegations.

On Wednesday, Qatar's former minister, Sheikh Mohammed bin Abdulrahman Al-Thani, lashed back, saying in London that the allegations by Saudi Arabia and its allies were

"clearly designed to generate anti-Qatar sentiment in the West" and that their demands didn't represent "reasonable and actionable grievances."

"Qatar continues to call for dialogue despite the siege that is a clear aggression and an insult to all international treaties bodies and organizations," Mr. Al-Thani told a gathering

at the London-based think tank Chatham House. He said his country is more progressive and open than others in the region, and its principles have made it a target.

"Unlike many states in the Middle East, Qatar was not built on oppression, fear and censorship," Mr. Al-Thani said.

When they issued their demands to Qatar on June 22, the four Arab states boycotting Qatar gave it 10 days to comply. That deadline was extended on Sunday and expired early Wednesday. Doha has responded to the demands through Kuwait, but the details of its reply have not been made public.

The steps under consideration by the four nations at their gathering in Cairo on Wednesday weren't known. U.A.E. Minister of State for Foreign Affairs Anwar Gargash has said Qatar could be expelled from the Gulf Cooperation Council, a six-member political and economic bloc that includes Saudi Arabia, the U.A.E., Bahrain, Qatar, Kuwait and Oman.

Mr. Al-Thani said Qatar's rivals in the group couldn't suspend it because such a decision would have to be taken by consensus.

Mosul Civilians Emerge and Flee as Battle Wanes

By ASA FITCH
AND ALI A. NABHAN

MOSUL, Iraq—Thousands of Iraqi civilians have emerged thirsty and starving from Mosul's Old City in recent days, many after hiding out in basements, as the eight-month battle to remove Islamic State from Iraq's second-largest city nears its end.

Backed by a U.S.-led coalition carrying out airstrikes, government forces have cornered what Iraqi military officials say are about 200 Islamic State fighters remaining in the

city, now hemmed into a tiny patch of territory on the western bank of the Tigris River.

The doomed Islamic State militants are mostly foreigners refusing to surrender, Sabah al-Numan, a spokesman for Iraqi counterterrorism forces, told state television. They have turned to last-gasp measures—including the use of women as suicide bombers—as Iraqi forces close in.

"This is evidence that the terrorists are desperate now," he said. "The ideology of such foreign [fighters] is well-known to us. They fight until

the end, until they get killed."

Islamic State militants have trapped thousands of civilians to the labyrinthine neighborhoods of Mosul's Old City, using them as human shields in an attempt to discourage artillery shelling and bombing.

As Iraqi forces closed in on Islamic State holdouts this week, civilians poured out of hiding and fled west out of Mosul, joining what the International Organization for Migration estimates are 818,000 Iraqis—or nearly half of the city's prewar population—already uprooted by the fighting.

Reaching government checkpoints on the outskirts of the Old City after trekking down dusty streets lined with destroyed buildings, they asked for food and water. Other families were separated amid the confusion and chaos of flight.

The fighting has become more difficult as the battle nears an end, partly because of the concentration of civilians in the area, said Lt. Gen. Abdul Ghani al-Asadi, the general commander of Iraq's counterterrorism forces, who put the number of Islamic State fighters left in Mosul at some 200.



A woman walked through Mosul's Old City with a child Wednesday.



Congressional workers fled after government supporters attacked the National Assembly in Caracas.

President's Backers Assault Lawmakers in Venezuela

By KEJAL VYAS
AND ANATOLY KURMANAEV

CARACAS—Government supporters armed with pipes and sticks burst into Venezuela's congress on Wednesday and severely beat several opposition lawmakers, as the nation's political crisis grows more inflamed ahead of a contested effort to redraft the constitution.

The violence started after dozens of backers of the president stormed the opposition-controlled National Assembly in downtown Caracas ahead of a legislative session to mark Venezuela's independence day.

Some 300 congressional workers and journalists sought protection by barricading themselves for several hours inside the assembly, where lawmakers also were organizing an unofficial July 16 ballot to counter President Nicolás Maduro's plan to rewrite the constitution, which his critics say is a last-ditch effort by the unpopular leader to forgo elections.

"The dictatorship's attack cannot go against a people decided on regaining freedom," opposition lawmaker Armando Armas said in a post on social media after he was left blood-

ied, according to witnesses.

The attack drew swift international censure. "My absolute condemnation of the violent assault on Venezuelan parliament," Spanish Prime Minister Mariano Rajoy posted on his Twitter profile.

The U.S. State Department in a statement called the attack "an assault on the democratic principles cherished by the men and women who

scious Mr. De Grazia covered in blood on the lawn on the National Assembly.

Another congressman, José Guerra, posted photos on social media of what appeared to be a bullet hole in a window of the building. "Fortunately, no one was hit," he said.

Scuffles inside the legislature aren't uncommon in Venezuela, which has bounced from one political crisis to another in recent years.

But violence has increased with almost daily street demonstrations calling for Mr. Maduro's ouster. In the past three months, at least 91 people have been killed amid fears the nation could descend into civil war.

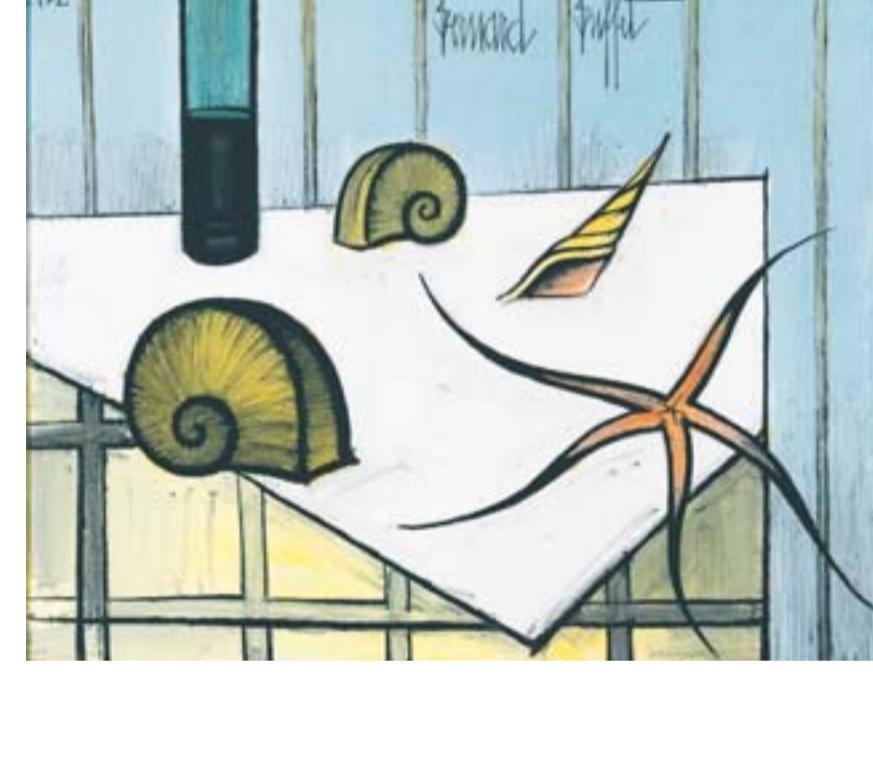
Mr. Maduro has stepped up heated rhetoric in recent weeks, implying his government would cling to power by any means necessary. "We would never give up, and what couldn't be done with votes, we would do with weapons," he said at a rally last week.

Mr. Maduro's ruling Socialist Party lost control of congress in late 2015 amid a crippling economic crisis. Since then, the president has sought to neutralize the assembly by stripping it of basic powers.

struggled for Venezuela's independence 206 years ago."

Venezuela's government said in an emailed statement it would investigate the attack.

A 58-year-old lawmaker, Américo De Grazia, was taken away in an ambulance after receiving injuries to the head, according to lawmakers. His son Federico told local media the politician was in stable condition. Photographs showed a seemingly uncon-



ART OF EXPRESSION BERNARD BUFFET



Expressionist master. Avant-garde aesthetic. Visual masterpiece. Bold and indelibly beautiful, this original oil on canvas was composed by French Expressionist Bernard Buffet, an artist who in the 1950s was more well known and beloved than even Pablo Picasso. His stark and haunting style, characterized by flattened planes

and thick black contours, defined the existential mood of the Post-War era. This rare nautically-themed still life epitomizes his highly unique and unforgettable oeuvre. Signed and dated 1982. Canvas: 25 3/4" h x 32" w; Frame: 35" h x 41" w. #30-6373

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WORLD WATCH



TURN OUT: Supporters of Turkey's main opposition party take to the road in Izmit as part of a 'march for justice' on Istanbul to protest what they say are the government's repressive policies.

BULENT KILIC/AGENCE FRANCE PRESSE/GTY IMAGES

CHINA Doctors Are Invited To Treat Dissident

China responded to international calls to let cancer-stricken Nobel Peace Prize laureate Liu Xiaobo seek treatment abroad by inviting foreign doctors to come help treat him in China.

China has attempted to head off any criticism around the treatment of Mr. Liu, a central pro-democracy figure who was serving an 11-year prison sentence for subversion. According to his lawyers and the Shenyang Bureau of Justice, he was released from jail to a hospital on June 7 after being diagnosed with late-stage liver cancer.

China's government has released several high-profile dissidents from prison to seek medical attention abroad in the past, but has resisted increasing pressure from the U.S., the European Union and the United Nations to let the 61-year-old Mr. Liu leave.

Doctors recently told Mr. Liu's family the cancer was getting worse and that he was too weak to leave the country, said a Liu family lawyer, who welcomed the invitation to outside doctors. "At the very least, the foreign experts can determine whether his body is strong enough for him to travel abroad," the lawyer said.

—Josh Chin

AUSTRALIA

Central Bank Content With Level of Rates

The Reserve Bank of Australia is comfortable holding interest rates steady for now and doesn't share the same need to tighten policy as the Federal Reserve or the European Central Bank, RBA board member Ian Harper said.

While encouraging data on the economy is trickling through, there is still no need "to scare the horses" by signaling coming interest-rate increases, Mr. Harper said in an interview.

He said a lower Australian dollar would benefit the economy, noting that it strengthened in recent weeks, an appreciation that has been fueled by speculation the RBA might adopt a more-hawkish tone.

—James Glynn

PHILIPPINES

Villagers Find Bodies Of Abducted Seamen

The decapitated bodies of two Vietnamese crewmen abducted last year by suspected Abu Sayyaf militants were found on the southern Philippine island of Basilan, the Philippine military said.

The bodies of the sailors, Hoang Thong and Hoang Va Hai,

were found Wednesday by villagers in the town of Sumisip, the military's Western Mindanao Command said.

The two were among six crewmen of the Vietnamese cargo vessel MV Royal 16 taken captive by gunmen in November in the waters off Basilan, part of a wave of sea assaults.

One of the six crewmen was rescued in June. Three are believed to be still in captivity.

—Associated Press

EUROZONE

Business Data Point To Faster Recovery

Economic recovery likely accelerated in the three months to June, according to a business survey that has been a good guide to growth in the past.

Data firm IHS Markit said its composite purchasing managers index for the eurozone, based on a survey of 5,000 companies, registered 56.3 in June—higher than the preliminary estimate of 55.7, though below May's reading of 56.8. A reading above 50 signals an increase in activity, while a reading below signals a decline.

Despite a drop as the second quarter came to an end, the average PMI for the three months through June was the highest for more than six years.

—Paul Hannon

AUTO

Continued from Page One
advantages" of multinational car companies likely means Mr. Musk's lead isn't as sizable as often believed.

Investors also were reacting to Tesla's news Monday that second-quarter sales of its luxury Model S and Model X sport-utility vehicle were lower than analysts had projected because of a supply issue with battery packs, raising new fears the company will have trouble meeting ambitious production targets for its cheaper Model 3, which starts at \$35,000.

Several analysts also questioned whether demand for Tesla's two niche products is waning as it scrambles to make the leap to the mass market. The Model S, which sells for about \$100,000, "is getting a little long in the tooth," said Dave Sullivan, an analyst for AutoPacific Inc.

Owned by China's Geely Holding Group, Sweden-based Volvo on Wednesday outlined ambitious plans to transition its entire lineup to vehicles powered either by batteries or hybrid electric-internal combustion engines by 2019.

While representing potentially the biggest bet yet against gasoline and diesel cars, the announcement follows a blueprint being drawn up by Toyota Motor Corp., Volkswagen AG and Daimler AG. Those companies plan to sell millions of electric cars by 2025—evidence the auto industry's incumbents believe the internal-combustion engine has an expiration date.

While Mr. Musk is broadly credited with making electric cars sexy, regulations and financial incentives in the U.S., the European Union and China are the driving force pushing most auto makers to look to batteries as the industry's silver bullet for reducing emissions.

Strict fuel-economy mandates are in place in the world's largest vehicle markets, often matched by tax breaks that can cut up to 50% off the price of an electric vehicle.

FROM PAGE ONE

In the U.S., Mr. Musk's Tesla is the face of the electric-car movement, outpacing all-electric offerings from GM and Nissan Motor Co. that are cheaper but considered dull by comparison.

A new class of electrified or hybrid vehicles will soon challenge Tesla's thrust, however, with nameplates as exotic as Aston Martin, as rugged as Jeep's Wrangler or iconic as Ford's Mustang.

Investors have prized Tesla's focus on technologies, including semi-autonomous driving

The Trump administration is reviewing federal emissions rules, but any rollback could take several years and may not address mandates at the state level. California, and several states that subscribe to its clean-air rules, demand that 15% of vehicle sales by 2025 be zero-emission cars.

Yet Americans continue to shrug off electric vehicles. While all but two states have regulations or incentives designed to promote their sales, cheap gasoline means car makers are investing in a technology that today offers meager returns.

Ford, for instance, is spending \$4.5 billion to revamp its U.S. portfolio with electric or hybrid trucks and SUVs, including a hybrid version of its F-150 pickup, the best-selling vehicle in America.

But less than 1% of the record 17.5 million-plus vehicles sold in the U.S. in 2016 were all-electric, says Ward'sAuto.com.

In Detroit, electrified vehicles have long been panned as "compliance cars" because they help the makers comply with clean-air rules—even if they don't excite many customers or turn a profit.

To get electrification into the mainstream, analysts say gas prices likely need to rise while government subsidies remain in place or increase, and charging stations for the vehicles become much more numerous.

A new class of electrified vehicles will soon challenge Tesla's thrust.

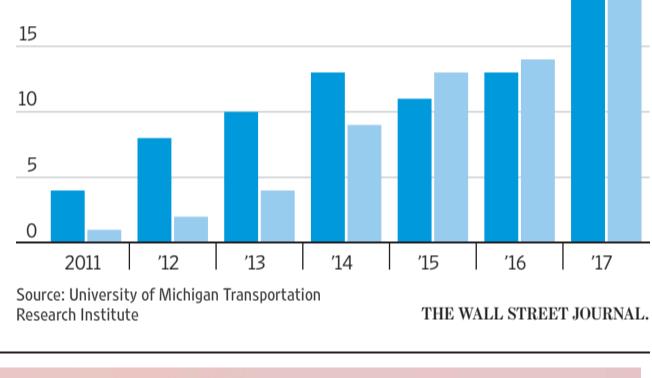
and over-the-air software updates—but Volvo and others are looking to match them.

Car makers in the U.S. are threatening to edge in on Tesla's turf, pressured by Obama-administration rules mandating a steep increase in miles-per-gallon performance over the next eight years.

Auto executives say a broad shift toward electrification—whether hybrids that pair high-powered batteries with conventional gasoline engines, or full-blown electric cars—will be needed to meet those regulations.

Powered Up

Number of individual models of battery electric and plug-in hybrid electric vehicles available in the U.S. by model year



Source: University of Michigan Transportation Research Institute

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AUTISM SPEAKS

WORLD NEWS

Missile Launch Creates Tough Choice for U.S.

BY PAUL SONNE

WASHINGTON—North Korea's provocative July 4 test of an intercontinental ballistic missile comes as the Trump administration faces an uncomfortable reality: Any use of force against North Korea carries the risk of a catastrophic war and could still fail to stop the regime from wielding a nuclear arsenal.

A recent review of the issue at the White House provided American officials with possible options on North Korea, including the outside possibility of using force against the regime or its nuclear facilities with the aim of derailing leader Kim Jong Un's quest for weapons of mass destruction.

U.N. Ambassador Nikki Haley warned Wednesday the U.S. is willing to use military force against North Korea "if we must."

An overt military action would run the risk that the North Korean regime would interpret the attack as an exis-

tential threat and respond with force that could kill millions of people on the Korean Peninsula.

"The secretary of defense and the commander of U.S. Forces Korea have both stressed the high degree of risk involved in the use of force," said Patrick Cronin, senior director in the Asia-Pacific security program at the Center for a New American Security. "And that's because Kim Jong Un has never experienced a military attack, however limited, on his soil, and there is a risk that he would see any use of force as the opening salvo in an attempted regime change in which he would have nothing to lose."

North Korea over the years has created one of the world's most militarized societies, with an active-duty military of some 1.19 million people, according to the International Institute for Strategic Studies.

North Korea also possesses tens of thousands of special operations commandos, which Pyongyang could insert co-



The U.S. and South Korea fired missiles during a joint drill in South Korea on Wednesday.

vertly into South Korea by submarine and plane to sabotage critical infrastructure, cripple the economy and stymie a military offensive, according to a U.S. military official.

North Korea could also respond with cyberwarfare capabilities, chemical weapons and bombings, analysts said.

There is also likely to be limited appetite for military actions in South Korea.

South Korean President Moon Jae-in called Wednesday for more sanctions against

North Korea, but said he believes the issue should be resolved peacefully.

Meanwhile, the window for any military strike that would seriously damage the North Korean nuclear program may be closing.

"You have reached the point where it's less and less clear that you will have any opportunities in the future," said Anthony Cordesman, a defense expert at the Center for Strategic and International Studies.

Another question facing the

U.S. is whether it is better to risk war with North Korea or to accept Pyongyang as a nuclear power and concentrate on deterring the regime from using its nuclear arsenal.

"We can continue to effectively deter the use of those weapons," Mr. Cronin said. "The problem is the American body politic is not ready to accept a nuclear-armed North Korea that can strike U.S. soil. We haven't had to make that judgment yet but we are right on the cusp of having to make that."

THREAT

Continued from Page One
can strike the U.S.

In Seoul, Gen. Vincent Brooks, the top American military commander in South Korea, said the U.S. and South Korea were prepared to go to war with the North if given the order.

"Self restraint, which is a choice, is all that separates armistice and war," Gen. Brooks said. "We are able to change our choice when so ordered....It would be a grave mistake for anyone to believe anything to the contrary."

U.S. officials for years have said an attack on North Korea would have devastating results in the form of a counterattack on South Korea and possibly Japan.

Military action, some analysts say, could take a number of forms. Most likely among them: a limited airstrike on North Korea's nuclear infrastructure or missile facilities. How successful such an attack would be in derailing North Korea's nuclear program would depend in large part on the quality of U.S. and allied intelligence on the nuclear and missile sites.

Far less likely, but also possible, would be an attack designed to target the country's leadership.

U.S. military officials on Wednesday said North Korea's latest weapons test featured a new type of missile fired from a mobile launch site, two factors propelling the view in Wash-

ton that the isolated country's nuclear-weapons program is a growing threat.

Pentagon officials, briefing reporters on Tuesday's launch, described the potential weapon as a kind of missile U.S. officials haven't seen launched from North Korea before. The two-stage missile was launched from a location known as the Banghyon Aircraft Plant, about 60 miles north of Pyongyang, said Capt. Jeff Davis, a Pentagon spokesman.

At the emergency session of the Security Council on Wednesday, the U.S. said it would introduce a new resolution within days to expand economic and diplomatic sanctions.

However, Russia and China formed a united front against the U.S. and its allies, saying they would strongly oppose new sanctions or military action, and offering a joint plan that called for dialogue and a parallel halt in military operations and exercises by all parties, including the U.S., in the Korean Peninsula. Both Russia and China have veto power, as permanent members of the Security Council, and hold considerable sway over North Korea.

Ms. Haley fired back, indicating the U.S. would be willing to put the resolution to a vote even in the absence of a consensus, an unusual move in a diplomatic body that usually takes care to coordinate texts of resolutions behind closed doors to appear united.

"If you are happy with North Korea's actions, veto it," she

Wrapped Up

China is North Korea's leading trade partner by far.

Top export destinations

China	\$2.34 billion
India	97.8 million
Pakistan	43.1
Burkina Faso	32.8
Other Asia	26.7

Note: data are as of 2015
Source: Observatory of Economic Complexity

Top import origins

China	\$2.95 billion
India	109.0 million
Russia	78.2
Thailand	73.8
Philippines	53.2

THE WALL STREET JOURNAL.

by the U.S. and "clear to outside observers in advance of any military move."

U.S. officials monitoring Tuesday's launch operation made a determination of the missile's trajectory within minutes after takeoff, concluding quickly that it didn't pose a threat to the U.S. or its allies. The U.S. maintains missile-defense systems based in South Korea, at sea and in ground installations in the U.S.

North Korea on Wednesday touted another achievement of the test launch: It claimed that its missile warhead—the forward section, which carries the explosive—can withstand the extreme heat and pressure of re-entering the earth's atmosphere. If true, that would clear another hurdle in developing a nuclear-tipped missile that can reach American cities.

U.S. defense officials said they were still assessing the re-entry vehicle and couldn't confirm North Korea's claims of the missile warhead's effectiveness. Officials determined that the missile was capable of traveling more than 3,400 miles.

Following the North Korean test, the U.S. and South Korean armies conducted a rare unscheduled live-fire drill, launching tactical surface-to-surface missiles off the east coast of Korea—an action they said was aimed directly at "countering North Korea's destabilizing and unlawful actions on July 4."

—Jeremy Page and Paul Sonne contributed to this article.

Tillerson Optimistic On Russia Talks Over Syria War

BY FELICIA SCHWARTZ

WASHINGTON—Secretary of State Rex Tillerson said the U.S. is prepared to hold discussions with Russia on setting up no-fly zones in Syria, describing prospects for cooperation with Moscow in markedly optimistic terms despite tense relations between the two countries.

Mr. Tillerson's comments, in a statement issued late Wednesday, come as he is leaving to meet President Donald Trump at a summit of leaders from the Group of 20 leading nations in Hamburg, Germany, where Mr. Trump and Russia's president Vladimir Putin will meet face-to-face for the first time.

The chief U.S. diplomat said Mr. Trump would tell Mr. Putin that the U.S. was prepared to cooperate with Moscow to end more than six years of civil war in Syria.

Offering to discuss no-fly zones is a significant step by the administration.

"The United States and Russia certainly have unresolved differences on a number of issues, but we have the potential to appropriately coordinate in Syria in order to produce stability and serve our mutual security interests," Mr. Tillerson said in a statement.

The Russian Embassy in Washington, D.C., didn't respond to a request for comment.

Offering to discuss no-fly zones is a significant step by the Trump administration toward expanded cooperation with Russia.

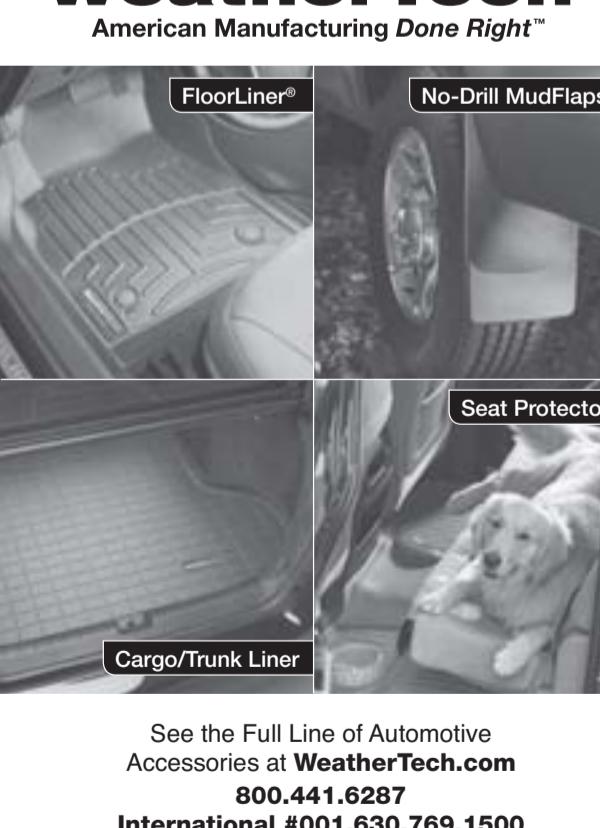
No-fly zones have long faced opposition from U.S. military officials, who see them as risky and expensive and could potentially drag U.S. forces further into the conflict.

But Mr. Tillerson cited progress in efforts between the U.S. and Russia on avoiding accidents between their militaries in Syria as evidence that they could collaborate further.

Russia backs the regime of Syrian President Bashar al-Assad.

—Gordon Lubold contributed to this article.

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IN DEPTH

MEXICO

Continued from Page One

resurgence are long standing, including the growing market for opioids in the U.S. and a bloody competition among rival trafficking groups touched off by the death or arrest of senior leaders.

There is also a counterintuitive dynamic at work, say scholars of the drug trade: In recent months, voters have thrown out of office allegedly corrupt state and local leaders of President Peña Nieto's ruling Institutional Revolutionary Party, or PRI. That, in turn, has led to the breakdown of unofficial alliances between drug gangs and politicians—what some are calling a *pax mafiosa*—that had kept the killings in check.

"The local and state governments of the PRI controlled the violence and crime using informal rules," said Jorge Chabat, a professor who focuses on security issues and international relations at Mexico City's nonpartisan CIDE research center. "They would say, 'You can traffic drugs, as long as you don't kill too many people.'"

Peak violence

Mexico's earlier peak in violence started in 2006, when rival cartels began turf wars that eventually claimed more than 100,000 lives. Then-President Felipe Calderón of the National Action Party, or PAN, deployed the armed forces against powerful drug lords who had grown influential enough to challenge government power and control large swaths of the country.

The troops managed to cut some cartels down to size, but homicides continued to rise, and the military drew accusations of human-rights abuses, including the killing of innocent civilians and summary execution of suspected gang associates.

Six years later, Mr. Peña Nieto's PRI returned to power by branding itself as the party of efficiency. Rather than emphasizing drugs—and risking the parade of horrific headlines that swamped his predecessor—Mr. Peña Nieto focused instead on revamping education policy and the energy and telecommunications industries.

At a dinner with reporters during the 2012 campaign, Aurelio Nuño, who would go on to become Mr. Peña Nieto's chief of staff and education minister, said that the new government would "change the narrative."

One of Mr. Peña Nieto's first acts as president was to eliminate Mexico's Public Security Ministry, an agency founded in 2000 by a PAN president to create a more professional federal police force to crack down on drug-related crime. Mr. Peña Nieto folded its responsibilities into the Interior Ministry.

The PRI has been plagued by corruption scandals since Mr. Peña Nieto took office. Nearly a dozen former PRI governors in Mexico are under investigation, serving time or being prosecuted for corruption, and three fled the country to escape prosecution. Two have since been captured in recent months. All deny the charges against them.

In late March, Edgar Veytia, the top prosecutor in the Pacific coast state of Nayarit and a close ally of its PRI governor, was arrested at the U.S. border on drug-trafficking charges. He



DANIEL GARCIA/NANOU AGENCY/GTY IMAGES

A man holds a portrait of slain Mexican journalist Miroslava Breach, who wrote about the ties between politics and the drug trade in her home state of Chihuahua. Below, state police officers stop a suspected member of the Los Aztecas gang in Ciudad Juárez.



JULIAN CARDONA FOR THE WALL STREET JOURNAL

has pleaded not guilty.

Alejandro Hope, a prominent Mexico City security expert, predicted in an April newspaper column that murders could approach a record 30,000 by the end of 2017, based on the fact that initial numbers tend to be revised upward by Mexican government statisticians.

Mr. Peña Nieto "thought that Mexico did not have a structural problem that needed to be tackled," Mr. Hope said. "They tried to change the narrative," he said. "But they didn't try to change the reality."

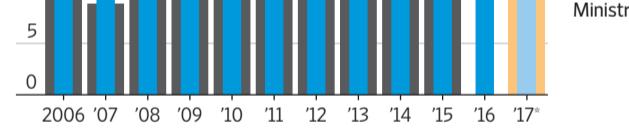
In a lengthy response to a list of questions from The Wall Street Journal, Mr. Peña Nieto's office acknowledged an uptick in murders beginning in 2015 that has continued into this year, and said the government has implemented a new, long-term anticrime strategy as one of its top priorities. It said the new program includes a broad overhaul of Mexico's justice system and moves to strengthen national-security institutions.

It blamed Mexico's local law enforcement for failing to do its job. "The lack of professional, trustworthy and efficient institutions at the local level has opened up spaces for organized crime to operate with impunity," the statement said.

Here in Chihuahua—Mexico's largest state by area, which borders Texas and New Mexico—the killing of Ms. Breach

Deadly Trend

By some calculations, 2017 is likely to be Mexico's bloodiest year in recent history. The Interior Ministry, which reports numbers monthly, shows a spike in murders. The National Statistics Institute, which reports yearly and is considered more accurate, typically shows a higher total.



*Interior Ministry data through May. **Based on the current murder rate holding course for the rest of the year and the average upward revision by the National Statistics Institute. Sources: Interior Ministry; National Statistics Institute; Alejandro Hope, security analyst in Mexico City (2017 estimate)

took place in an atmosphere of mounting violence and political intrigue.

In October, voters elected Javier Corral, a former journalist who had been friends with Ms. Breach for more than 25 years, as Chihuahua's new governor. Chihuahua was one of seven states where PAN governors swept to victory last year, including some of the country's most violent, such as Tamaulipas, Veracruz and Quintana Roo.

Late last year, Chihuahua's former governor, César Duarte, fled to El Paso, Texas, not long

before an arrest order was issued in Mexico alleging that he had embezzled hundreds of millions of dollars from the state.

The new governor has declared Mr. Duarte a fugitive from justice. Mr. Duarte's attorney didn't return calls seeking comment.

Chihuahua has long been a coveted territory for drug traffickers. The state's largest city, Ciudad Juárez, was ground zero for cartel violence during the last drug war, suffering one of the highest murder rates in the world.

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Chihuahua has long been a coveted territory for drug traffickers. The state's largest city, Ciudad Juárez, was ground zero for cartel violence during the last drug war, suffering one of the highest murder rates in the world.

date could be reached for comment.

Soon after, Ms. Breach began receiving death threats, according to her family. When she was killed, the hand-scratched message next to her body was signed "El 80."

One person rattled by Ms. Breach's murder was Mr. Corral, the new governor. In an interview, Mr. Corral said that before he took office the state prosecutor's office had been "totally dismantled" and thousands of open criminal investigations filed away and forgotten, including crimes of murder, rape and kidnapping.

Mr. Corral said the previous state administration under the PRI made deals with drug gangs to relocate some of them to rural areas, where they were allowed to operate.

"They were sent to the Sierra de Chihuahua, and they began to take control of the towns, the local police forces, and they became bosses of the whole territory," Mr. Corral said.

A spokesman for the PRI's state committee in Chihuahua didn't respond to multiple requests for comment.

César Peniche, a former federal security official appointed by Mr. Corral to be the state's top prosecutor, has pledged to rebuild his office and solve Ms. Breach's murder. Police say they have identified two suspects but have yet to make any arrests.

In March, a human head, believed by law-enforcement officials to belong to one of the bodyguards of Mr. Quintana, the purported La Línea capo, was found in a cooler by the side of the road in the city of

The PRI has been plagued by corruption scandals since Mr. Peña Nieto took office.

Álvaro Obregón.

A day later, police killed another purported cartel gunman, a rival of El 80, believed to be responsible for the decapitation. On a recent Saturday night, gunmen killed six people and injured 22 in a bar in the semirural town of Ciudad Cuauhtémoc.

In late May, state police officer Jesús Pérez was on patrol in Ciudad Juárez with a reporter and photographer from The Wall Street Journal when a distress call blared out from shortwave radio: Gunmen had attacked a state police command post in the rural town of Villa Ahumada, about 90 minutes' drive away.

The gunmen strafed the local police post with hundreds of .50 caliber rounds using a military-grade machine gun, killing one officer and critically injuring three more, before fleeing to the countryside.

A spokesman for the state prosecutor's office identified the suspected gunmen as members of La Línea, and later said that the shooting was retaliation for an investigation the state police were carrying out into cattle theft and extortion by organized crime groups in the area. Days later, two local police commanders were arrested on suspicion of collaborating with the attackers.

—José de Córdoba and Dudley Althaus in Mexico City contributed to this article.

NUTS

Continued from Page One

trees all day with a stick above your head and every now and then a nut falls down and hits you on the forehead," he says. "They're pretty hard. It's not much fun."

Demand for macadamia nuts, native to Australia, has soared as consumers seek more natural alternatives to processed snacks. Over the past decade, global production of macadamias, which are also used in trendy skin creams, is up some 80%, says the International Nut and Dried Fruit Council. In Australia, the world's biggest macadamia producer, prices have roughly doubled in recent years.

Macadamia farmers must collect their crop from trees that can tower more than 30 feet, and the boom has them devising increasingly nutty ways to extract every last kernel. In eastern Australia, growers have tried blowing the nuts down, or blasting them from trees with water—with little success. Some have fixed rods or chains to

tractors and forklifts to knock the branches, drawing local comparisons with medieval torture instruments.

Other tree-nut industries cracked this problem years ago. Almond farmers use machines that grab the trunks with a claw-like appendage, shake the tree and knock out the nuts. Macadamia farmers are skeptical. They are worried their tree, a subtropical rain-forest species, can't withstand the abuse like an almond tree, which comes from a drier climate. They must find other ways.

In Australia, macadamia nuts typically start dropping in February and keep falling for about six months. A plant hormone can be used to speed up the fall, but many farmers don't like it. It is then a race to pick the nuts from the ground, generally with machine harvesters, before rainstorms wash them away or pests eat them.

"I come from a country where we do everything by hand, and I thought, why do we have to wait? Why don't we just go and get the nuts?" said Enrique Paredes, a Peruvian who has been farming macadamias

in Australia for 15 years. But then there are the tall trees. "What do you do then? You cannot get them down," he said.

Adding to the challenge, some tree varieties are particularly prone to "sticktight" or "mummies," which are nuts that simply don't want to fall.

For Mr. Secombe, that is when the sticks come out. His preferred wood is from the kurrajong tree, which grows on his farm in the state of New South Wales. He bolts a bit of triangle-shaped metal to the top. Last year, workers knocked nuts worth about 20,000 Aus-

tralian dollars, or \$15,300, from his trees. Even with a long stick,

that tactic is feasible only for smaller trees. Australia's labor costs make it too expensive to manually knock macadamias down on a large scale. And there are hazards more dangerous than falling nuts.

About seven years ago, one of Mr. Secombe's workers—a relative, in fact—was on nut-knocking duty when he disturbed a bunch of wasps. He was stung maybe six or seven times, said Mr. Secombe, including on his face. "He must have stuck his head pretty much

straight into a wasp's nest, and went yahooing and tearing clothes off as he ran down the hill and ended up pretty much stripped down to his shorts," Mr. Secombe said. "I rang him to come back the next day, and he said no. He probably never looked at a macadamia tree the same way again."

When Andrew Wallis, a farmer in Queensland, was faced with lots of sticktight last year, he put a metal beam across the bed of a forklift and attached chains to the beam. Lifting the beam above the trees, he drove through the orchard, allowing the dangling chains to smack around the macadamias.

"It worked, to a certain extent," said Mr. Wallis's wife, Joanne. "You can't get them all out. It just doesn't happen."

Between the sticktight, the rain and the pests, about 15% of the macadamia crop is lost every year, compared with more like 2% in the almond industry.

Chris Cook, who manages a farm not far from Mr. Secombe's, decided to mechanize nut-knocking after being asked by his boss to solve the problem of macadamia farming's ineffi-

cency. Mr. Cook tried hooking up a blower, like those used in cotton harvesters, to the back of a tractor. It would "only blow off three or four at a time," he said. He tried a pressure washer, which "got down nuts, but got down leaves and branches."

He settled on a contraption that resembles a spiral hair-brush and involves some 360 fiberglass rods vibrating around a center shaft. He mounts it on a pruner. On a recent day, he donned a pair of industrial earmuffs, got in the driver's seat, and slowly drove the machine through a row of trees. The rods jiggled through the canopy, and nuts came falling down.

The Australian Macadamia Society, an industry group, began testing a modern shaking machine in Mr. Cook's macadamia orchard in June. Early results appear promising. But years of study will be needed.

Mr. Secombe is all for testing shakers, though he is skeptical they will be fully effective. Of more immediate concern is how many macadamias will be stuck in his trees this year. "The nut's worth a lot of money," he said.

Noah Secombe, a macadamia farmer in Australia, uses homemade sticks to knock stubborn nuts out of some trees.

MIKE CHERNETZ/THE WALL STREET JOURNAL

GREATER NEW YORK

Slain Officer Put Life on Line to Serve

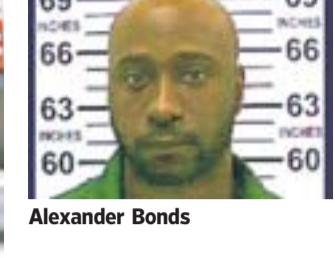
Mother of three always wanted to help others, joined the force at 36: 'Honored to be a cop'

Miosotis Familia joined the New York Police Department when she was 36 years old, hoping to help protect the city where she had spent her life.

Mike Vilensky, Zolan Kanno-Youngs and Mariana Alfaro



ASSOCIATED PRESS



Alexander Bonds

Killed on Duty

◆ Officer Miosotis Familia, 48, July, 2017

◆ Sgt. Paul Tuozzolo, 41, November, 2016

◆ Officer Randolph Holder, 33, October, 2015

◆ Officer Brian Moore, 25, May 2015

◆ Officer Rafael Ramos, 40, December 2014

◆ Officer Wenjian Liu, 32, December 2014

"With the drugs and the gangs, it's a complete change," Ms. Robinson said. "A lot of people felt safer to see officers around—they say hello, very friendly."

"You got your good ones, you got your bad ones, but they're doing their job. And for them to lose their lives for someone who just comes up to them and shoots them for no reason, it makes no sense," she said.

moved to the Bronx.

Ms. Familia studied at the John Jay College of Criminal Justice before becoming a police officer. A spokesman for John Jay confirmed she attended the Manhattan school, but didn't graduate.

A Red Cross spokesman couldn't confirm Ms. Familia's work there, saying its records might not date back to the late '90s. "Our hearts go out to her family and the NYPD," he said.

Friends, family members, and co-workers described Ms. Familia, who was assigned to the 46th Precinct in the Bronx, as upbeat and spontaneous.

She came from a Dominican-American family, and was a member of the New York Dominican Officers organization. "She was very kindhearted," said Rayssa Galvez, an NYPD detective who belongs to the

group.

Ms. Sanchez recalled playing in Washington Heights parks with Ms. Familia when they were young, and staying close throughout their lives, even after Ms. Sanchez moved to Florida.

She would walk in a room, and say, "Let's get the party started," Ms. Sanchez recalled.

Isabel Roman, a family friend from Manhattan, said she has known Ms. Familia for more than 30 years. In Spanish she said Ms. Familia's mother "has

huge pain."

She became a police officer "to help the community...She was a very happy woman," Ms. Roman said.

On Wednesday, friends and relatives gathered at Officer Familia's apartment in the Kingsbridge section of the Bronx across from the Fort Independence Playground. The quiet residential area borders the Jerome Park Reservoir.

For most of the day, officers stood guard at the corner building where Officer Familia lived,

bringing in supplies and water for the family.

Meanwhile, a 15-minute drive from Ms. Familia's home, debris from the previous night's July Fourth celebrations was strewn on the ground, as police cars blocked the crime scene area and neighbors consoled each other.

Yolanda Robinson, a 44-year-old resident who lives on the block where the shooting occurred, said she was concerned about the neighborhood becoming more dangerous.

Penn Fixes Yield Limited Upside for Riders

BY PAUL BERGER

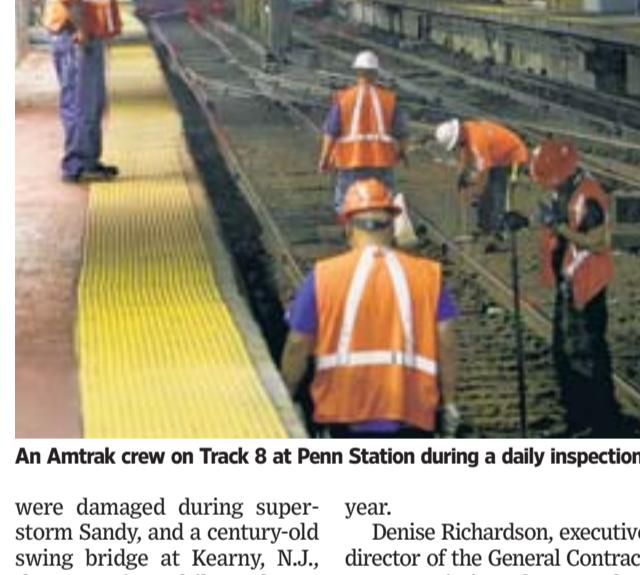
Commuters who rely on New York Penn Station will endure considerable pain this summer amid accelerated repairs, but there won't be a big payoff come September because the major causes of delays in recent years won't be addressed.

The repair work will return Penn Station roughly to the level of service it delivered this winter, before derailments led to speed restrictions that resulted in frequent delays of up to 30 minutes.

"That's the goal," said Amtrak's chief operating officer Scot Napolitano, who is overseeing the repair work. "Our goal is to return the reliability of the station to at least if not better than it's been before."

Many delays are caused by equipment and infrastructure owned and operated by NJ Transit and the Long Island Rail Road.

They are also caused by common choke points such as rail tunnels under the Hudson River and the East River, which



ALEXANDER COHEN/THE WALL STREET JOURNAL

An Amtrak crew on Track 8 at Penn Station during a daily inspection.

year.

Denise Richardson, executive director of the General Contractors Association of New York, a trade group, worries that once service is restored in September, people will wonder why they suffered through eight weeks of what New York Gov.

Andrew Cuomo has dubbed a "summer of hell" only to withstand continued disruption.

"They are not going to understand because it's not being explained properly," Ms. Richardson said.

Amtrak will reduce service at Penn Station from July 10 through Sept. 1 while engineers carry out repairs to tracks and switches at the western end of the station, the site of two low-speed derailments in March and April.

An estimated 20,000 commuters will be diverted to other stations in New Jersey, Brooklyn and Queens where they will transfer onto the subway, buses, ferries and the PATH rail system to reach Manhattan.

One commuter, John Gallagher, a communications officer at an investment bank, said he realizes that the work is only the start of a long haul to improve reliability and that delays will continue even after the work is completed.

"I think most of us are being realistic," Mr. Gallagher said as he rode an NJ Transit train

from Penn Station to South Orange one recent evening.

On Monday, Amtrak lifted a speed restriction that has been in place during preparation work for the July repairs.

The restriction has mostly affected NJ Transit. During the peak morning and evening hours in May, on average, 59% of NJ Transit trains operated on time at Penn Station.

But according to the rail system's figures, during the 12 months ended February 2017, peak hour NJ Transit trains were, on average, on time 86% of the time.

A report by New York state's comptroller found that last year, 87% of the LIRR's trains arriving at Penn Station between 8:30 a.m. and 9:30 a.m. were on-time.

A spokesman for the Metropolitan Transportation Authority, which runs the Long Island Rail Road, said: "The work they are doing this summer will help reduce LIRR delays from one set of switches, but will not eliminate the potential for delays at other locations."

City Open To 'Zombie' Charters

BY LESLIE BRODY

As part of a deal to renew mayoral control of New York City schools, state and city leaders agreed to an administrative fix that allows a bump in the number of charters in the city, people familiar with the matter said Wednesday.

The deal would allow the reuse of 22 charters—or contracts for schools—that were previously revoked or surrendered by charters that closed or never opened. This strategy has been dubbed reviving "zombie" charters.

Now 216 charters operate in the city and 23 more new charters are left to be issued under the state cap, according to the New York City Charter School Center. The deal means nearly two dozen additional charter schools could be opened without changing state law to lift the cap.

Charter advocates have long argued the cap should be eliminated altogether, saying tens of thousands of children are on waitlists for seats. Teachers unions and other critics say most charters don't serve enough hard-to-teach students and drain resources from the regular public schools.

Pro-charter groups have long accused Mayor Bill de Blasio of failing to give them as much space in city buildings as they deserve.

Mr. de Blasio has said his administration follows the state law, which requires it to offer charters appropriate space free of charge or to help pay rent in private space.

One person said the new deal would also streamline the process for getting that rental assistance.

Coffee Shop Seeks \$10 Million in Starbucks Unicorn Suit

BY CORINNE RAMEY

is asking for \$10 million in damages.

The case's first court date is scheduled for July 25 in federal court in Suffolk County.

Montauk Juice contends Starbucks infringed on its "distinctive and famous trademark" and confused its customers.

The suit portrays multicolored chaos: Customers tagged the Frappuccino with #unicornlatte on Instagram. Media outlets mixed up the names. People wrongly thought the latte was inspired by the Frappuccino.

Since January, the Unicorn Latte has accounted for 25% of The End's revenue, the suit says. But now, according to the suit, the \$9 drink "has suffered,

and continues to suffer, brand dilution and tarnishment."

The latte and the Frappuccino feature shades of pink and blue, and brightly colored powders. Both were popular on social media. Neither contains coffee.

In legal documents, Starbucks disputed the fame of the latte and denied it had an obligation to get permission from The End. Furthermore, while Montauk Juice had submitted a trademark application, it was pending, Starbucks noted.

Madeleine Murphy, co-founder and chief visionary officer of Montauk Juice, said the key ingredient, which the suit calls "her greatest invention thus far," is an algae only

harvested from an Oregon lake.

A Starbucks spokeswoman said the claims were without merit and its Frappuccino was

inspired by unicorn-themed food and drink on social media. It is no longer available in its stores, she said.

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GREATER NEW YORK

Jersey City to Regain Control of Its Schools

BY LESLIE BRODY

New Jersey officials on Wednesday approved transitioning Jersey City to full control of its schools, making it the first district statewide to regain autonomy after a takeover due to academic failure.

In 1989, Jersey City became the first of four urban districts to be taken over under a new state law allowing such intervention in dysfunctional systems. At the time, state officials said the district was so rife with nepotism, patronage and academic problems that children were deprived of their right to an education.

The New Jersey Board of Education passed a resolution Wednesday saying the district had made enough progress in improving its instruction that state intervention could be withdrawn. The district's four-year graduation rate rose to 75% last year, up from 67% three years before. Even so, Jersey City lags far behind the state's 90% graduation rate last year, and test scores in many of the city's schools remain low.

Jersey City Superintendent

Marcia Lyles said in a statement that "while the journey ahead is still long, we have reached one of our most significant milestones."

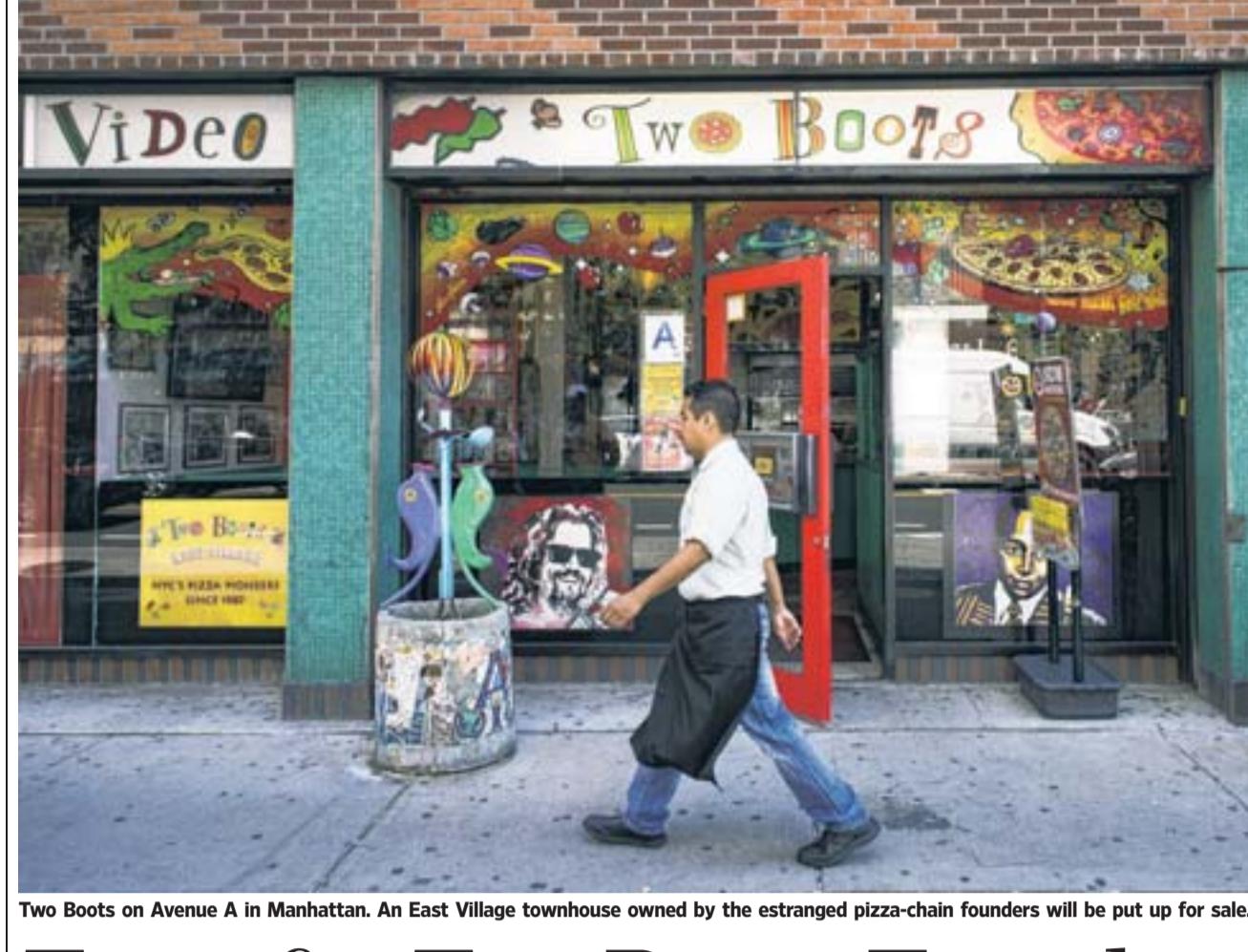
New Jersey's acting education commissioner, Kimberley Harrington, called the vote proof that officials in Trenton sought to support state-operated districts on a path to local control.

Newark and Paterson have earned back some areas of autonomy, while Camden remains fully state operated.

Many residents in these cities have complained that state takeovers left them without enough of a voice in their children's schools.

Newark Mayor Ras Baraka has argued for local control for years, and Newark's state-appointed superintendent, Chris Cerf, has said the district is making strong strides toward getting it back.

State and Jersey City officials will now develop a transition plan for full local control in the district. The district had previously regained control of other elements, such as governance, fiscal management and personnel.



Two Boots on Avenue A in Manhattan. An East Village townhouse owned by the estranged pizza-chain founders will be put up for sale.

MARK KAUFZARICH FOR THE WALL STREET JOURNAL

PROPERTY WATCH

MANHATTAN

New-Condo Supply Swelled in Spring

The supply of new Manhattan condominiums is continuing its steep climb as more new developments begin sales, while other units linger on the market.

The number of available apartments in new developments rose 35% in the second quarter compared with the same quarter in 2016, according to a report by Halstead Property Development Marketing.

The report counted 5,936 available units in new developments, including both listed units and the so-called shadow inventory of units in new buildings not yet shown in listings.

The number of new-development units has been increasing steadily for years as projects that received financing at about the same time gradually come to market, said Stephen Kliegman, president of Halstead marketing.

A separate report prepared by appraiser Jonathan Miller for Douglas Elliman Real Estate found that the number of listed units in new developments rose by 3.1% in Manhattan to 1,021 units in the second quarter, compared with the same quarter in the previous year.

In Brooklyn, where many developers had turned to rental buildings after the last downtown, inventory of new condominiums fell by 28%, to 620 units, the Halstead report said.



The Hudson Yards development

HOME BUYERS Opens Houses Fizzle For Condos, Co-Ops

Attendance at open houses for Manhattan co-ops and condominiums slowed this spring despite strong recent sales and record prices, brokers said.

Showings declined, as did bidding wars with multiple bidders making offers on the same property, said Frederick W. Peters, founder and chief executive of Warburg Realty.

"Buyers have been both scarcer and slower this spring than in past years," he noted in a market commentary on second-quarter activity.

At the same time, Mr. Peters said, the number of deals hasn't declined dramatically because the buyers still in the game were serious about buying. Price cuts by sellers also spurred deals, he said.

—Josh Barbanel



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Insured and Bonded

BY JONATHAN RANDLE

A townhouse in Manhattan's East Village neighborhood that is co-owned by the estranged founders of Two Boots, a New York City chain of quirky pizzerias, is being shopped in bankruptcy to pay off more than \$5 million in debt as the restaurant grows beyond its roots in the area.

The five-story, 8,500-square-foot residence, currently in chapter 11, has been the object of a court fight between former partners Phil Hartman and Doris Kornish, who filed for divorce in 2005. Her ownership interest in Two Boots was transferred to Mr. Hartman in the divorce, according to a 2008 court order.

Real-estate broker Warburg Realty said it intends to list the property for \$10 million.

Two Boots isn't directly affected by the bankruptcy, and Mr. Hartman said sales have been strong. Some business debt is attached to the property, including a loan taken out in 2013 that with fees and interest has increased to \$2.3 million.

A landlord also has staked a bankruptcy claim for more than \$500,000 tied to a broken

lease for a Baltimore outlet that closed this year.

The townhouse is around the corner from the first Two Boots pizzeria that opened 30 years ago on Avenue A and, coincidentally, is likely to be sold at an important moment for the family-owned business. Two Boots is talking with potential partners about the possibility of providing operational expertise and investing new capital to grow a business that has more than a dozen outlets, Mr. Hartman said.

"The company has grown about as far as an indie-filmmaker-turned-entrepreneur can take it," he said.

Two Boots has faced challenges following the loss in 2016 of a busy spot in Grand Central and major source of revenue it had operated for 16 years, Mr. Hartman said. To make up for the loss, Two Boots moved to another location nearby.

Mr. Hartman also planned to open a new pizzeria in the Financial District last fall but renovations took longer than anticipated and it is now expected to open in six weeks, he said.

With its vibrant, funky decor and cornmeal-crusted pies,

Two Boots has remained a neighborhood fixture as development and higher rents have transformed the East Village from a bohemian enclave of artists and punk rockers to a popular landing spot for young professionals.

As the downtown landscape changed, Two Boots adapted, moving across town to open a West Village pizzeria in 1995. Since then, Two Boots has added pizzerias in Manhattan,

and writer Tess Stahl, who described the arrival of Two Boots as a forerunner to the gentrification of the East Village. "In many ways, Two Boots is one of the last remnants of the old neighborhood," she said.

Referring to how the neighborhood has changed, Warburg Realty said in a price assessment filed in the bankruptcy court: The townhouse likely would attract an investor who can turn the home into multiple rental units. The property was valued by the New York Department of Taxation in 2015 at \$14.1 million, according to court documents.

The sale likely would force out Ms. Kornish, who continued living in the townhouse following the divorce. An overseer for the property who was appointed by a judge took legal action in June to remove her from the residence, which initially was to be sold in 2012. Placing the building in chapter 11 halted a foreclosure sale that had been set for last October.

Ms. Kornish would be entitled to half of the proceeds from the sale after debt on the property is paid. Mr. Hartman declined to comment on issues related to the divorce.

\$10M

Planned list price for townhouse now in chapter 11 proceedings

Brooklyn and Citi Field in Queens. Two Boots—the name refers to the shape of Italy and Louisiana—also moved further afield with franchises in Jersey City, Nashville and Los Angeles. Two Boots says its influences are Cajun and Italian.

The East Village "is almost unrecognizable today compared with what it was" in the 1990s, said New York City historian

BY JOSH BARBANEL

The rebellion against supertall skyscrapers rising in New York City has found a new weapon: grass-roots do-it-yourself zoning rules.

The push, by opponents of an 800-foot-tall condo tower under construction on East 58th Street near the East River, has gained surprising bureaucratic traction during the past few months, despite potential opposition from City Hall.

Some community groups hold rallies and protests. In a neighborhood in Midtown known as Sutton Place, the East River 50s Alliance, filed an application for a zoning change to ban tall towers in a 10-square-block area. It called the effort "an unprecedented citizens' application."

The alliance's leaders say the group has spent more than \$1 million since 2015 on lawyers, planners and environmental consultants to move their application through the city's review process.

The local Community Board unanimously voted for it, and last week, Manhattan Borough President Gale Brewer, who had already signed on as co-applicant, formally approved it. The application is headed for a hearing at the City Planning Commission followed by a vote later this summer.

Many of the movement's leaders live across the street from the new tower, in a massive 485-foot-tall co-op known as the Sovereign, where some views would be blocked by the new building.

"We are going to take this to the finish line because we believe that building it right is crucial for our community," said Lisa Mercurio, a member of the alliance board. She lives

in the Sovereign, but said her own views wouldn't be affected by the new tower.

The plan would cap new building heights at between 210 and 260 feet in a 10-block area in Midtown, east of First Avenue. To reach 260 feet in height, developers would have to include affordable housing in their projects.

Also listed as co-applicants are two Manhattan council members, Ben Kallos and Daniel Garodnick, as well as state Senator Liz Krueger.

The developer, Gamma Real Estate, is racing to complete work on the foundation of the new tower, known as Sutton 58, on East 58th Street near Sutton Place. Once a foundation is substantially complete the old zoning would apply.

The slender building will be 62 stories on a 60-foot wide lot that will cantilever 10 feet over a low-rise apartment building next door. The building permit lists the height at 799 feet, but a zoning diagram shows the top of the roof above a floor of mechanicals at 856 feet.

Under current rules, the tower developers are receiving a zoning bonus by agreeing to pay more than \$24 million toward affordable housing at another East Side site.

Jonathan Kalikow, president of Gamma Real Estate, said the zoning application was an illegal attempt to "spot zone" the Sutton 58 project. He said the alliance was "seeking to protect the window views of its members."

"At every step, this application has been wholly driven by the desire of these residents to preserve views, not to benefit their community," he said.

The planning commission's staff worked with the alliance to get the proposal ready, but has raised strenuous objec-

tions to it.

Melissa Grace, deputy press secretary to Mayor de Blasio said the plan would "block new buildings in what is already a high-rise neighborhood," and not actually ex-

pand affordable housing.

"This proposal would protect the views of a handful of residents who live in a building that is hundreds of feet taller than the height they feel is appropriate," she said.



Slender high-rise buildings cast long shadows in New York.

New Techniques Spur Tall Towers

Extell Development Co. spent 15 years assembling a development site on West 57th Street. But when construction began in 2010 on a 1,005 foot tall condominium tower, now known as One57, preservationists were caught by surprise.

Since then, as other towers have sprung up and the neighborhood has become known as billionaire's row, alarms have been raised about the slender shadows these buildings may cast over Central Park.

Many of these towers were assembled without public input in areas with no height restrictions on developers, who purchased development rights from neighboring buildings.

The Municipal Art Society, a civic group, wants new rules

that would include a public review of buildings more than 600 feet high and a moratorium on tall towers until then.

Elizabeth Goldstein, president of the society, said that thin tall towers, made possible by advances in construction techniques, as well as transfers of development rights known as "air rights," weren't anticipated when the current zoning rules were adopted in 1961.

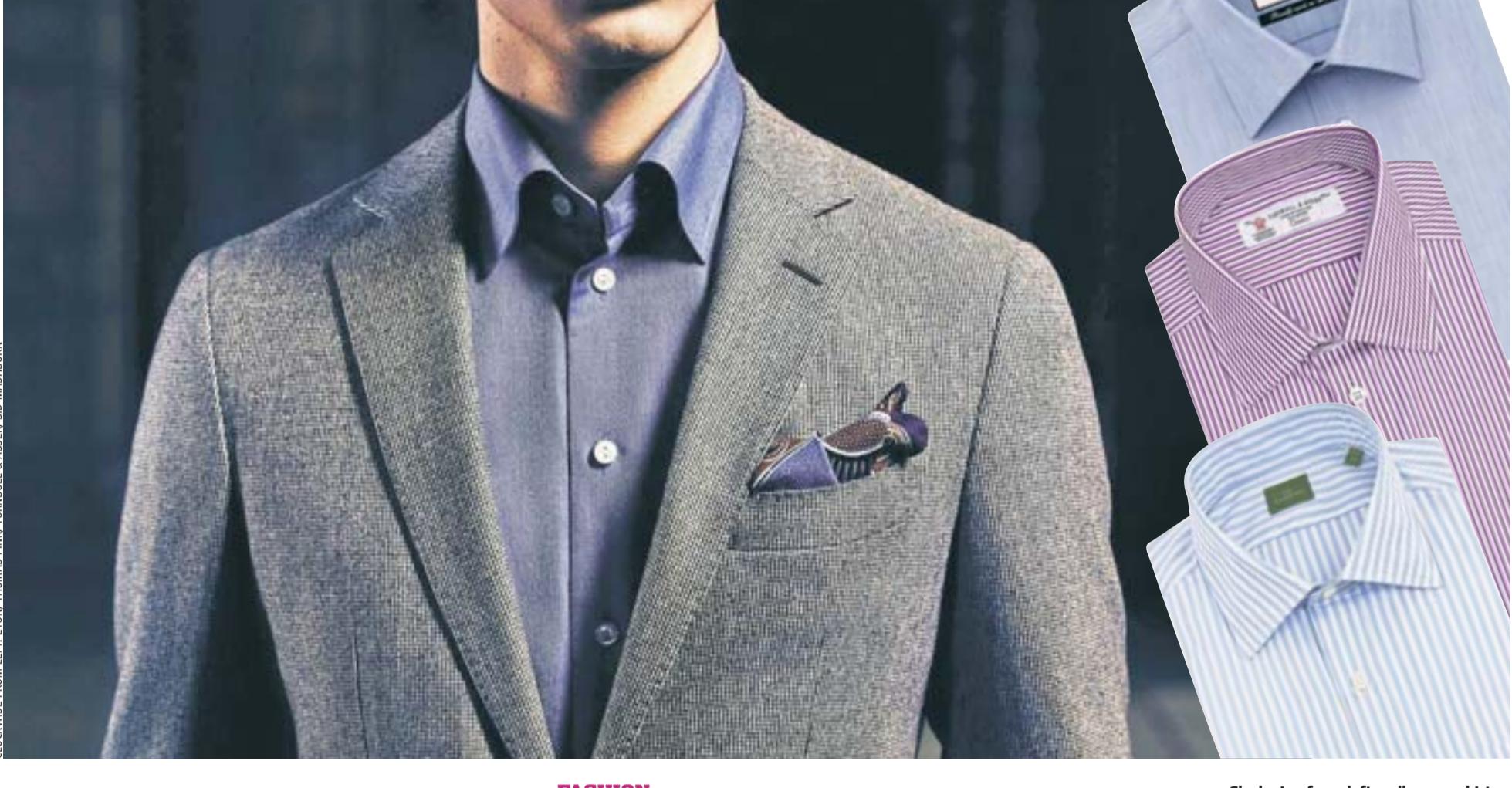
Her group is supporting the East River 50s Alliance. "They have done something which is really unusual and kind of amazing," she said.

The real-estate industry says limits on tall towers would discourage growth in a city with little available land.

"The irony of it is that New York would not be New York without tall buildings," said John Banks, president of the Real Estate Board of New York.

—Josh Barbanel

LIFE & ARTS



FASHION

Losing the Tie? These Collars Can Go It Alone

As some men favor a less-formal look, clothiers are coming up with collars that can stand on their own and look stylish, not sloppy

BY RAY A. SMITH

MEN LOOK COOLER without a tie—both in temperature and style. But, getting it right takes more than just unbuttoning.

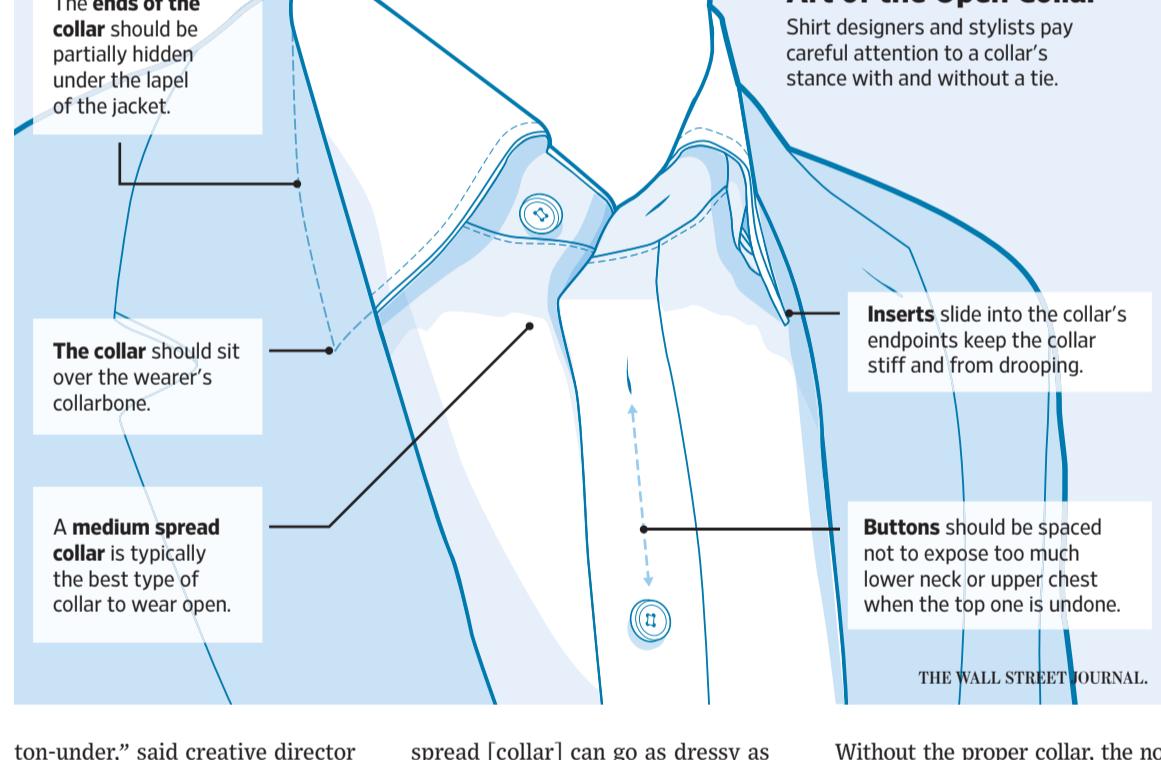
There is a lot to consider. The collar shouldn't droop. The top and second buttons shouldn't be so far apart that man cleavage is exposed when the first button is undone. The lapel on the suit jacket or sport coat shouldn't swallow the ends of the collar.

"Difficult," is how Andrew Downing, of Columbus, Ohio, described figuring out how to wear a suit without a tie. The 23-year-old was set on wearing the look to a high-school sports award show. "I wanted to try something a little more casual and be confident with it," said Mr. Downing, creative director of Varsity Magazine, which chronicles high-school athletics.

After conducting tryouts with a few shirts in front of the mirror, he "was running into trouble," he said. "Some of them, the collar is a little too flimsy. The collar can't be too flimsy. But it can't be too stiff either because you're going for a casual look." Ultimately unsatisfied with his collars, he gave up and went with a V-neck T-shirt instead.

Some shirt makers are helping men nail down the open-collar look.

Eton, a nearly 90-year old Swedish company whose shirts are sold at **Bloomingdale's**, Nordstrom and **Saks Fifth Avenue**, plans to debut next month a shirt line where collars come with buttons hidden underneath to help keep the collar from drooping, flapping or otherwise losing its place, especially when worn without a tie. "Instead of a button-down, you have a but-



ton-under," said creative director Sebastian Dollinger.

Thomas Pink, the upscale British shirtmaker, carries a line of shirts with a "specially engineered independent collar, designed to be worn independent of a tie," the company says. The collar was designed to support itself and be more stiff than traditional collars, so that it rests perfectly under a jacket, according to the company.

Specialty retailer Sid Mashburn calls out which collar works best for the no-tie look in the options menu for its new made-to-measurement shirt program. "Hands-down our most versatile collar...a

spread [collar] can go as dressy as black-tie and as casual as no-tie," a description reads online.

The store, with locations in Dallas, Houston, Los Angeles and Washington, D.C., in addition to its Atlanta flagship, also developed a taller collar for its ready-to-wear dress-shirt line so the shirt "stands above the collar line of the suit jacket or the sport coat," said Sid Mashburn, the retailer's founder and designer. "It's even better without a tie. It gives it a little more prominence." An extra piece of interlining where the collar band meets the collar also gives it shape and "a little lift," he said.

Without the proper collar, the no-tie, unbuttoned shirt look can come off as slovenly rather than stylish.

Julie Rath, a men's image and style consultant, directs men she helps to shirts with medium-to-full spread collars, "which will sit nicely" under a lapel, she said.

A spread collar refers to its width, specifically to how far the ends are spread from each other. The collar extends out rather than down. The wider the spread, the more formal the shirt is considered, making a tie less optional since there is so much open space about the neck. A moderate spread collar is viewed as borderline formal and

Clockwise from left, collars on shirts from Eton, Thomas Pink, Turnbull & Asser and Sid Mashburn.

casual, making it work better with an open collar than most others.

A straight or point collar is narrower with longer ends and is considered more formal, almost always worn with a tie. "Open collar can look really awkward with a straight or point collar," Ms. Rath said. Even if men can get part of the long point collar to sit flat under the lapel, "inevitably as you move throughout the day, one side, and sometimes both, end up winging up and out while the other side stays down," Ms. Rath said.

The decline in tie-wearing over the years has prompted shirt makers to put more thought into men's bare necks. "When looking at introducing new collar shapes into the ready-to-wear collection we now always consider what it looks like without a tie as importantly as it does with one," said Dean Gomilsek-Cole, head designer at high-end British clothier Turnbull & Asser, which now offers many collars that can be worn with or without a tie. Its most popular is the Classic T&A collar, which is shaped to sit over a wearer's collarbone without needing a tie to maintain its shape.

Men also have to think about how high the second and third button are so that when the top button is undone, the collar looks relaxed and fits neatly under a jacket, without spreading so open and exposing too much chest.

"Depending on the client's height and torso length, one button undone can hit too high on the chest and read as stuffy, whereas two buttons undone can hit too low and read as trying too hard to look swanky," said Ms. Rath, who is also the founder of NextLevelStyle.com, an online style course for men.

Eton relaunched a higher collar on its shirts last year. The extra 1 centimeter in height makes the collar stand up more while the strategic higher placement of the second button from the top keeps an open collar from veering too low. For an extra guarantee that the collar won't droop or flap, hang on to the collar stays that come with new shirts. Take them out when getting shirts laundered and pop them back in when you're ready to wear.

BY JOHN JURGENSEN

BATS, BULL SHARKS, lions and langurs are getting roped into the quest to create live television events.

While other TV networks have used live musicals and sports events to try to harness mass audiences, the National Geographic channel is luring viewers with a two-hour special starring animals around the world filmed in real time. "Earth Live," airing Sunday night, will cut among camera feeds from wildlife cinematographers in 16 countries across 12 time zones.

Unlike typical wildlife programs where crews spend months in the field capturing animal highlights, "Earth Live" will rely on raw footage of creatures in the moment. Producers zeroed in on shooting locations and a date with a full

moon to maximize their chances for drama. If weather, technology and the wildlife itself cooperate, viewers will see lion prides in Kenya hunting by moonlight during a wildebeest migration, and macaque monkeys in Thailand smashing mussels on the beach for their breakfast.

The animals "are our superstars, but like any talent you hope they perform on the day you need them to," says Tim Pastore, National Geographic's president of original programming and production.

To combat overcrowded TV schedules, audience indifference and the ratings-deflating force of DVRs, TV networks continue to invest in live programming. NBC, which kicked things off in 2013 with "Sound of Music Live," scheduled "Jesus Christ Superstar" for

Please see WILDLIFE page A10

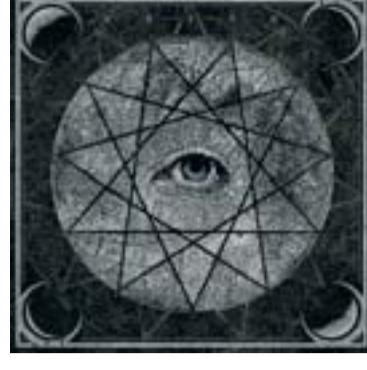
TELEVISION

NATIONAL GEOGRAPHIC'S LIVE TV SPECTACLE

LIFE & ARTS



SCOTT IRVINE



Greg Fox, Colin Stetson, Toby Summerfield and Shahzad Ismaily

occasional squeal; Mr. Ismaily shines a light underneath him with a subtle figure; Mr. Fox then enters with a stalking, down-tempo beat; and Mr. Summerfield offers arpeggiated notes on electric guitar. Thus, the trap is set and when the guitar suddenly issues a metallic roar, the maelstrom begins. Soon, Messrs. Fox and Summerfield lock in furiously, then Mr. Stetson leaps over the top. On it goes, with jolting stops and unexpected unison playing; and eight minutes after it begins, the performance hurdles to an raging, tightly choreographed conclusion. Exhausting but also invigorating, "Ex Eye" reveals new things with repeated listenings.

Contrast this music with what's on Mr. Stetson's solo disc "All This I Do for Glory," which was released in late April. On that record, Mr. Stetson creates dense electronic tracks via a variety of reed instruments—most notably the bass saxophone—which he augments with his moaning voice, the air that passes through his nose and lips, and clacking percussion. For all its activity, the album has a clarity that's in contrast to the wash of threatening sounds on "Ex Eye."

When I asked Mr. Stetson if he feared sales of his solo disc would be cannibalized by "Ex Eye," he said he has no control over such things, adding there is no perfect time to release recordings by musicians as busy as he and his fellow bandmates. Mr. Fox, who is the drummer for the metal-inclined rock band Liturgy, will release a solo album, "The Gradual Progression," in September, and he, Mr. Stetson and bassist Trevor Dunn plan to record a trio album. Mr. Ismaily, who's probably best known for his stint with Marc Ribot's Ceramic Dog, is in demand as a musician and producer, and based on his performance here Mr. Summerfield should find no shortage of work. As for Mr. Stetson, he has a solo tour lined up, which includes an appearance at the Pitchfork Festival in Chicago later this month.

"Ex Eye" will reunite in August for several U.S. dates that will test how its through-composed minimalist music is experienced in a live performance. There is every chance that the boundaries the band imposed on itself will be destroyed on stage with determination and ominous glee.

Mr. Fusilli is the Journal's rock and pop music critic. Email him at jfusilli@wsj.com and follow him on Twitter @wsjrock.

MUSIC REVIEW | By Jim Fusilli

A Saxophonist Goes Metal

Colin Stetson's Ex Eye plays avant-garde music that straddles free jazz and extreme heavy metal

A PROJECT OF saxophonist Colin Stetson, Ex Eye plays avant-garde music that straddles free jazz and extreme heavy metal. Also featuring Greg Fox on drums, Shahzad Ismaily on synthesizers and Toby Summerfield on guitar, the quartet makes music that is a squall of aggressive sounds that loop, collide and coalesce to engulf and occasionally disorient the listener. At its best, "Ex Eye" lands hard as a relentless, textured wave. It's out now on the Relapse label.

That wave, said Mr. Stetson when we spoke by phone last

week, is the deliberate result of a mutual decision by the newly formed band regarding how it would approach its work. Following the recording of Mr. Stetson's album "Sorrow: A Reimagining of Górecki's 3rd Symphony," which was released in 2016 and featured Messrs. Fox and Ismaily, the musicians decided to join in a unit that emphasized maximalism and formal compositions. Having played in Mr. Summerfield's large ensemble Never Enough Hope, Mr. Stetson invited the guitarist to become a member.

While they juggled other projects, the musicians carved out writing and rehearsal time to prepare for Ex Eye appearances at some of last summer's major festivals. As soon as they began practicing at Mr. Ismaily's Figure 8 studio in Brooklyn, they achieved the kind of brutal, intricate sound they had discussed. "If you don't achieve the fantastic," Mr. Stetson said, "what's the point?"

Along with the musical maturity of his Ex Eye colleagues, Mr. Stetson's techniques—in which he deploys circular breathing and mul-

tiphonics—defend the quartet against comparisons to a heavy-metal rock band led by a free-jazz saxophonist. Mr. Stetson is part of the ensemble, not its sonic centerpiece; and the jabbing, provocative arrangements often push the music outside of rock's propensity for the groove, (though on "Xenolith; the Anvil," the bass synth line by Mr. Ismaily grabs on and doesn't let go).

On the track "Form Constant; the Grid," Ex Eye offers what may be its prototypical performance: Mr. Stetson opens with a lengthy repetitive solo complete with the

WILDLIFE

Continued from page A9

next Easter (though it postponed a production of "Bye Bye Birdie"). Fox will stage live versions of "Rent" and "A Christmas Story" next season. ABC is planning an adaptation of Disney's "The Little Mermaid."

National Geographic channel has dabbled in its own version of such stunts, airing live footage of a brain surgery and astronauts on the International Space Station. "Earth Live," however, is a bigger bet in terms of budget and logistical challenges. It brings a commensurate risk of giving viewers a lackluster day in the (wild) life of the planet, or the cringe-worthy experience of watching a high-wire act gone wrong.

After years of reality shows about survivalists and other rugged characters, the channel has been launching more ambitious shows to steer its programming back into sync with National Geographic's 129-year-old brand. They include the channel's first fully scripted series, "Genius" (about the life of Albert Einstein), and "Mars," a documentary-drama hybrid.

The channel is part of a joint venture between the National Geographic Society and 21st Century Fox. 21st Century Fox and News Corp, parent company of The Wall Street Journal, share common ownership.

As the director of many live awards shows, including Oscars, Emmys and Tonys broadcasts, "Earth Live" director Glenn Weiss is more accustomed to corraling footage of celebrities than animals. He'll orchestrate feeds coming in from the field to a studio in midtown Manhattan. There, naturalist Chris Packham will provide on-camera com-

tary, along with hosts Phil Keoghan and Jane Lynch, who says her role as host is to "stand there in amazement and say 'Wow!'"

National Geographic has deployed wildlife cinematographers who specialize in the species and locations they'll be shooting. They include Sophie Darlington, tracking lions in the Maasai Mara game reserve in Kenya; Bob Poole, looking out for hyenas that come into Ethiopian villages for food by night; and Andy Casagrande, sending underwater images of bull sharks on the prowl in Fiji. Producers in New York will keep an eye on social media, so if any specific animals emerge as stars, they can respond with more footage.

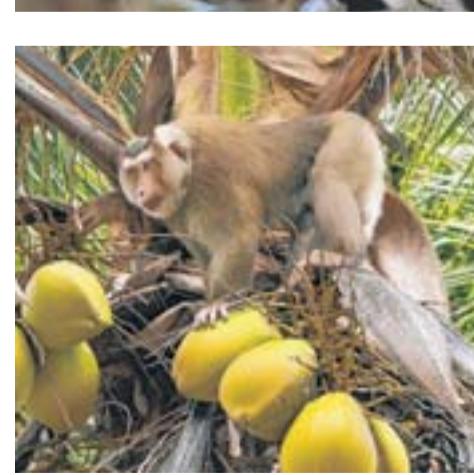
New technology, including a camera with capability of capturing images in color of

animals under moonlight, made it more feasible to tape animal nightlife. "Earth Live" locations include a cave near San Antonio, where millions of Mexican free-tailed bats should emerge at dusk, and in Finland, near the Arctic Circle, where there's some sunlight in the sky at 3 a.m. when wolverines are expected to be on the move.

Plans for the special started two years ago when executive producer Al Berman pitched the concept to National Geographic. That began the process of narrowing down more than 100 potential shooting locations, and dates with a full moon that would bring heightened tides and animal activity. "We looked right across the calendar, in both Northern and Southern hemispheres. If you want to choose



A camera team films wildlife in Sabi Sand, South Africa, above. Top right, an ocelot and a Macaque monkey.



one night to look at animals, this is the night," says executive producer Andrew Jackson.

In the run-up to July 9, researchers and camera crews have been keeping tabs on members of the wildlife cast to make sure they're behaving as expected and in their places for several weekend rehearsals before the big show.

LIFE & ARTS

BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

When Trash Talk Motivates

New research finds people perform better in certain tasks when their competitive instincts are sparked with banter

ONE RECENT evening after work, Wallace Bruce set off for a run. The 30-year-old actor had taken a few months off from exercising, so he planned an easy loop through his Los Angeles neighborhood.

He was five minutes from his house and had just broken a sweat when a man with white hair, also jogging, blew past him. Mr. Bruce estimated him to be in his late 70s. Ten yards down the road the man turned his head back and shouted: "Keep up...if you can!"

Although Mr. Bruce chuckled to himself, he immediately picked up his pace. "A 'game-on' type of instinct kicked in," he says. "I thought, 'Alright old man, I got you.'"

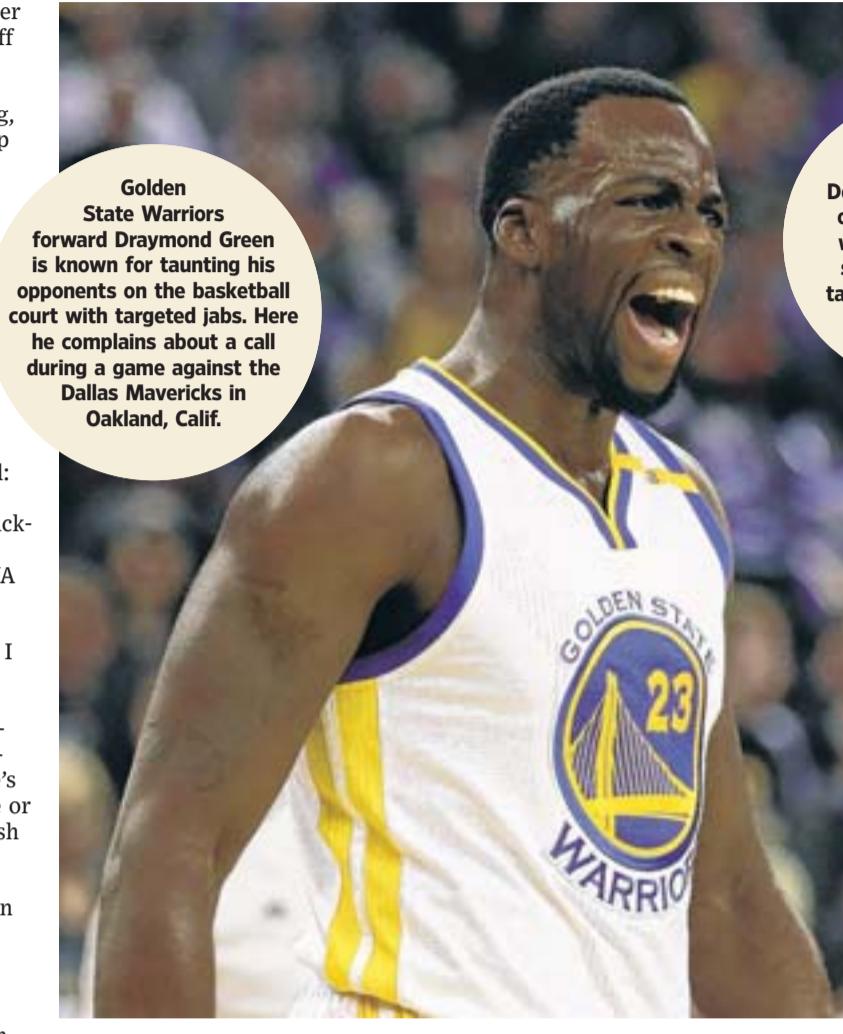
Psychologists define "trash talk" as boastful remarks about oneself or insulting remarks about one's opponent delivered before or during a competition. Trash talk is prevalent in sports, business, politics and the military—and also common between friends or family members when they find themselves competing for something.

Now, new research from the University of Pennsylvania's Wharton School—soon to be published in the journal "Organizational Behavior and Human Decision Processes"—shows that trash talk can be surprisingly motivating to the target of it.

In a series of six studies, the Wharton researchers brought approximately 1,000 participants into their lab and told them they were being paired with another person taking part in the study—in reality, it was a researcher—and that they would compete with this person on a task. But first they were asked to chat with their partner online. Some received neutral messages from this person: "Hey, it looks like we will be competing against each other in the next task." Others received trash talk: "This is going to be so easy." "You are a total loser." "I am going to beat you like a rented mule."

The participants then performed tasks that measured their persistence or effort. The "slider task" required them to move a slider, or cursor, on a computer quickly to a target number. The candle problem tested their creativity: Each person was given a candle, a pack of matches and a box of tacks and asked to figure out a way to attach the candle to the wall so that it doesn't drip on the table or floor below it. The researchers told them they could win money. And in one experiment, they were instructed that they would be working as a team with the person they were paired with, to compete against other teams.

The researchers found that the trash talk recipients performed better on all the tasks that required them to exert effort. They reported



Golden State Warriors forward Draymond Green is known for taunting his opponents on the basketball court with targeted jabs. Here he complains about a call during a game against the Dallas Mavericks in Oakland, Calif.



The superhero Deadpool, in the film of the same name, was known for his sophomoric trash-talking and bragging.

feeling more rivalry, and they were also more likely to cheat. But they performed worse on the task that measured their creativity—perhaps because they were distracted by anger—and on the ones where they were asked to cooperate with their partner.

"When you interact with someone who is trash talking you, it shifts your perception about the relationship," says Jeremy Yip, an assistant professor of management at Georgetown University, visiting scholar at Wharton and lead researcher on the studies. "You were already in a competitive relationship, but now it becomes a rivalry and you start to care more about defeating your opponent."

Rivalry makes people work harder when they compete, Dr. Yip says. In the research, the people who were the targets of trash talk wanted to punish their rival, even when he or she was on the same team.

The researchers didn't study whether men or women use trash talk more. They focused on the targets of the trash talk and found that both men and women react similarly when they are on the receiving end of it.

How can you harness trash talk, either as the talker or the target? Here is some advice.

If you are trash talking someone:

Recognize the consequences. You may boost your opponent's performance. "Ask yourself how you would react if someone trash talked you," Dr. Yip says. "If you step back and think about it, you will see that being called a loser is going to motivate you as

competitor."

Consider your personality. This is a specialized type of communication. "Trash talk requires a certain brashness that not everyone has, and, as in tennis, you have to be ready for the return shot," says Daniel McGinn, author of "Psyched Up: How the Science of Mental Preparation Can Help You Succeed" and a senior editor at the Harvard Business Review. "The recipient is often going to try and give better than he or she gets."

Choose your target well. The research shows that people who are targets of trash talk do worse on tasks that are creative and better on tasks that require persistent effort. So trash talk the quarterback, to distract him, not the defensive tackle. Try it with a golfer, not a cyclist.

Don't trash talk your teammates. This turns them into competitors, according to the Wharton studies.

If you are the target of trash talking:

Don't take it personally. Realize that in competition, even unstated ones, the norms for communication are different. Aggressive talk is common.

Know yourself. Are you better off ignoring the trash talk completely, using it to motivate yourself but staying quiet, or responding with verbal fire of your own to try to destabilize your opponent? "I see a parallel between how one deals with trash talk and how a comedian deals with a heckler," says Mr. McGinn. "Personality is important."

Try ignoring it. Not every comment needs a response. "Just because you see a log floating down the river doesn't mean you need to jump on it," says Warren

Kennaugh, a behavioral strategist and executive coach in Sydney.

Motivate yourself. Not just in the moment. Write taunting words down and post them on the fridge. On days when you're lagging, think about the last time someone trash talked you. View the comments as challenges—how can you prove your competitor wrong?

The trash talk Mr. Bruce received on his run didn't

immediately help him. He powered up—but so did the older man. "He was laughing when I fell back to catch my breath," Mr. Bruce says.

But the trash talk did motivate him for the long haul. "It's a great reminder that when I think I am tired at the end of the day, I've always got more gas, he says." Ever since the incident, he has been pushing himself out the door after work most nights, and is working up to

a run around Echo Lake near his house.

"I'm only a few more days away from the big jog," Mr. Bruce says. "And if I see that guy again, I'm going to kick it into the highest gear I've got, run right past him and say 'Keep up, old timer!'"

Write to Elizabeth Bernstein at elizabeth.bernstein@wsj.com or follow her on Facebook, Instagram or Twitter at EBernsteinWSJ.



Singers Katy Perry, left, and Taylor Swift have publicly sparred for years. Here they interact at the 2011 American Music Awards in Los Angeles.

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SPORTS

OLYMPICS

PARIS, L.A. LOOK LIKE WINNERS

BY MATTHEW FUTTERMAN

The International Olympic Committee took another step toward awarding the Olympic Games to both Paris and Los Angeles Wednesday, issuing a report heralding the merits of rival bids for the 2024 Games as exceptional opportunities.

In a technical report intended to guide the full IOC on how to compare the Paris and Los Angeles bids for the 2024 Summer Games, Patrick Baumann, chair of the organization's evaluation commission stated, "We have two very different cities with two great proposals that truly fit their own unique circumstances, promising legacies that will benefit the local populations and the Olympic Movement."

The statement and a report that heralded both Paris and Los Angeles bids will be the key topic of discussion next week when the IOC gathers in Switzerland to vote on whether to award the 2024 and 2028 Games simultaneously—a move that would guarantee both Paris and Los Angeles would emerge as winners.

If the full IOC approves the measure, the group will then decide in September which city plays host to the Games first.

IOC officials and U.S. bid officials have already begun discussions on awarding the 2028 Games to Los Angeles. The Los Angeles bid isn't dependent on public investment other than expenditures for security and some transportation improvements that are already underway or in the planning stages.

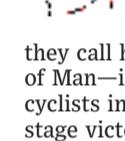
Paris requires a public-private partnership for construction of its Olympic Village as well as some other sites, and government support may wane if the city has to wait until 2028. A Paris 2024 spokesman said recent independent polls show support at 73%, higher than the 63% that an IOC poll found earlier this year.



Mark Cavendish, left, gets assistance after he and Peter Sagan were involved in a crash during Tuesday's fourth stage of the Tour de France.

TOUR DE FRANCE | By Jason Gay

Booting Peter Sagan: Fair or Foul?



Let's start by saying it's terrible that Mark Cavendish is out of the Tour de France. The British sprinter—the Manx Missile,

they call him, as he's from the Isle of Man—is one of the winningest cyclists in history, with 30 Tour stage victories, just four off legend Eddy Merckx's record of 34. Cavendish is 32, not ancient but getting up there for a sprinter, and he's raced hard for a long time. It isn't clear how many more shots at the Tour stage record he'll have. And it's brutal to leave with a broken shoulder just four days into the planet's biggest bike race.

It stinks.

Now let's talk about Peter Sagan.

Even if you're not a bike racing fan, you've probably caught a whiff of the controversy over the past day or so, ever since Cavendish hit the deck in the furious closing meters of Tuesday's Stage 4, and Sagan, cycling's popular world champion, wound up being expelled for what the race jury concluded was dangerous riding and his role in causing the crash. The video replay has been argued about, slow-mo'd, super-slow-mo'd, atomized and picked apart with Zapruder-like focus. Accusations have flown. Sides have been taken. Sagan and Cavendish have been trending on Twitter in the U.S.—as if they were NBA free agents.

The whole thing is another dose of crazy for a sport that pretty much invented crazy.

There are two aspects to this story: what did or didn't happen, and what it means for Sagan to get booted from the Tour. We should tackle the what-happened question first, though a person hoping for clarity on what happened will likely wait forever.

A sprinter crashes and a star cyclist is expelled from the race, and the arguments rage on.

I think it's important to establish that a field sprint in a bike race is a highly chaotic environment. Bikes are moving at speeds approaching 40 miles an hour, heart rates are fully in the red, and, in a race like the Tour de France, careers can literally be made with a victory. In a space of seconds there are dozens of factors for a racer to consider, including what the right wheel is to follow (hiding behind a teammate or rival is a great way to save energy until the final burst), what the right time is to jump, and, importantly, what's the right place to be on the road. Then, of course,

they're riding between immovable barriers over pavement wearing basically form-fitting underpants. It's sketchy as hell.

No one, not even Sagan and Cavendish, can probably tell you with 100% certitude what happened Tuesday. I've watched the video at least 40 times, and there are angles that look terribly damning to Sagan, and then angles that make it look like Cavendish was already crashing before Sagan flicked an elbow, which will now be known in Tour de France lore as The Elbow. What's undeniable is that Cavendish crashes very hard, and on his way down, takes out a couple of riders behind him as well. It's a pile-up. It's ugly. It also happens in bike races all the time.

The most interesting voices to hear from have been the people who've actually been there: in the madness of a sprint, where positioning is everything and the smallest deviations can cause havoc. Riders who've been there know that stuff like Tuesday will occur in a sprint: there's tricky maneuvering, boneheaded choices, and yes, bodily contact. It's dangerous, but sprinters bump shoulders and butts and even helmets from time to time, intentionally and not. Chances are taken—Cavendish took one himself in moving up between Sagan and the barrier, because while Sagan can move, a

barrier doesn't care who Cavendish is, and isn't going anywhere. But aggression like that is everywhere in a sprint. Smart aggression can be rewarded. Dumb aggression can be a disaster. Emotions afterward run high.

It isn't for everybody. There's a reason 90% of the peloton steers clear of the final sprint.

What seems pretty clear among sprinters is that even if Sagan deserved a penalty for contact with Cavendish—throwing him out of the race was a truly nuclear option. Retired Tour sprinters like Baden Cooke and Robbie McEwen lined up to disagree with dramatic expulsion. Even Sagan's current rivals feel it was extreme. "Sometimes I should watch images before I say something," tweeted Andre Greipel, who'd harshly criticized Sagan before.

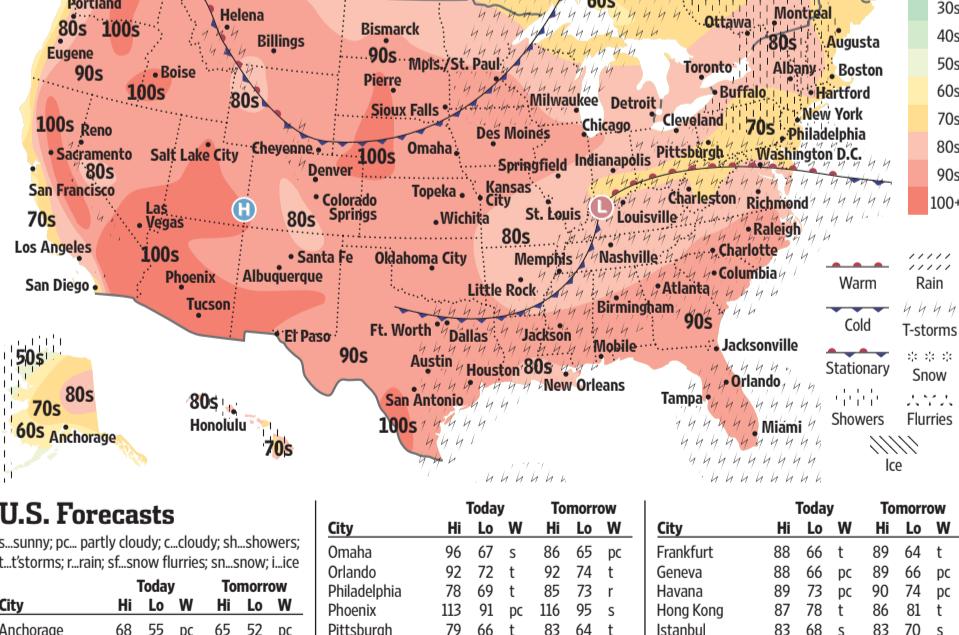
Sagan is a supremely skilled and admired (even Cavendish likes him) rider who's brought panache and personality to a sport that can sometimes feel personality-deprived. That's not a reason to keep him in the Tour if what he did clearly merited being tossed from the race. But it doesn't seem clear. Clarity is nowhere to be found. The arguments are still raging, and likely will be for a long time.

What we're left with is a race without Peter Sagan and Mark Cavendish—and a Tour that suddenly feels a lot less fun.

(T-B) CHRISTOPHE ENA/ASSOCIATED PRESS; FREDERIC J. BROWN/AGENCE FRANCE PRESSE/GTY IMAGES

The outside of the Los Angeles Memorial Coliseum.

Weather



U.S. Forecasts

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

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

Today Hi Lo W

Tomorrow Hi Lo W

Anchorage 68 55 pc 65 52 pc

Atlanta 91 73 pc 87 73 pc

Austin 98 74 pc 98 75 t

Baltimore 79 69 r 86 70 r

Boise 101 70 pc 102 68 s

Boston 79 65 pc 75 68 r

Burlington 83 67 pc 84 66 pc

Charlotte 93 74 pc 93 72 pc

Chicago 91 68 pc 83 59 pc

Cleveland 86 69 pc 83 65 t

Dallas 92 76 t 95 77 pc

Denver 98 61 pc 91 60 pc

Detroit 89 69 pc 86 59 t

Honolulu 87 75 sh 87 74 s

Houston 94 75 t 94 75 t

Indianapolis 81 68 pc 85 61 t

Kansas City 90 70 s 87 63 pc

Las Vegas 111 89 pc 113 92 s

Little Rock 88 70 pc 93 72 s

Los Angeles 89 68 pc 94 70 pc

Miami 91 81 sh 90 80 pc

Milwaukee 88 67 pc 76 59 t

Minneapolis 91 65 t 82 61 s

Nashville 85 71 t 88 71 pc

New Orleans 88 76 pc 90 76 t

New York City 78 68 r 80 72 r

Oklahoma City 92 68 s 94 69 s

Edinburgh 67 55 c 64 49 c

International

Today Hi Lo W

Tomorrow Hi Lo W

Amsterdam 78 62 t 76 59 t

Athens 89 74 s 92 74 s

Baghdad 119 90 s 120 89 s

Bangkok 90 76 t 90 78 t

Beijing 76 68 t 88 71 r

Berlin 72 58 pc 75 58 t

Brussels 79 64 t 81 59 s

Buenos Aires 55 49 sh 58 52 r

Dublin 106 89 s 111 90 s

Dublin 70 55 c 66 50 r

Zurich 67 55 c 64 49 c

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The WSJ Daily Crossword | Edited by Mike Shenk



ARRIVING | By David Alfred Bywaters

Across		
1 Falstaff's young friend	26 *Bellicose speech?	46 Wows 'em at Caroline's
4 Domestic disturbance	28 *Undercarriage rust?	48 *Coat closet array?
8 Book containing 150 poems	30 Mesoamerican group	50 *Bill from a kennel?
14 It takes hops	31 Some flow into el mar	53 It can give you an edge
15 Norman native, informally	32 Object of Lady Macbeth's hygienic efforts	54 Floor space, e.g.
16 Equally profound	34 Place to get clean	55 Viscous stuff
17 *Chair or stool, say?	38 Fuss	57 Expedition VIP
19 Denounce abusively	39 *Cause of some drunken brawls?	60 Reach, as an age
20 Tea variety	41 Without exception	62 Boundaries, and a hint to the puzzle's starred answers
21 Detail	42 Don's dominion	64 Ruffian
23 Bus. sch. course	44 No pro	65 Hibernia
24 Chanel's home	45 Water bearer	66 Balinese or Burmese

► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

67 Aussie gal	28 Bone up
68 Without a partner	29 Opera set in Egypt
69 Diva's hallmark	30 Eves' opposite
Down	33 Seek help from, in a way
1 Irish euro coin image	35 Rug, so to speak
2 Off the wind	36 Brand for boxers
3 Like a good travel mug	37 Recklessly paid out
4 Ring star	39 Seat at a hootenanny
5 1979 Robert Duvall miniseries	40 Shower package
6 Punch ingredients?	43 Begin, e.g.
7 Tiroipa ingredient	45 Like a new dad
8 "The flavor says butter" brand	47 Silky goat
9 Sacramento-to-L.A. heading	49 Persuasion
10 Unfavorable	50 Pacifies
11 Big name in lenses	51 Heep of fiction
12 Pinkish Crayola color	52 Song-and-dance show
13 Paid out	53 Circumvent
18 Dins from dens	56 They're often dedicated
22 Try to hit	58 Pass slowly
25 " deal!"	59 "____ perpetua" (Idaho motto)
27 Remarkable	61 Business card abbr.
28 Through	63 Through

► Previous Puzzle's Solution



OPINION

The GOP's Fatal Infatuation



WONDER
LAND
*By Daniel
Henninger*

Watching the Republican party self-immolate over the ObamaCare law, I'd like to shake the hand of whoever had the idea to plant the expansion of federal Medicaid payments inside ObamaCare.

Before this, Washington on average has been paying about 57% of Medicaid's costs. ObamaCare expanded the federal payment's share to 100% of newly eligible adults for any state that signed on, with the match "falling" permanently to 90% in 2020. That was political genius.

Maybe it was Jonathan Gruber, the ObamaCare architect vilified for admitting that the "stupidity" of American voters got the law passed. I'd say Mr. Gruber has the last laugh now on what people not long ago called the stupid party.

What an irony it is that one of the Republican arguments made now for preserving ObamaCare's Medicaid expansion is the opioid crisis. Even after the Supreme Court ruled in 2012 that Medicaid's expansion was optional, some Republican governors got hooked on the promise of federal cash flow to the horizon.

Now GOP governors in the Medicaid-expanded states of Ohio, Arkansas and Nevada are pushing their Republican senators to defeat any significant limitations on the nationalized

funding of this entitlement. Other Republican-led states that took the expansion are Arizona, Iowa, Louisiana, North Dakota, Pennsylvania, New Mexico, New Jersey, Iowa and Indiana (which to its credit extracted the Obama administration's commitment to its Medicaid reform program).

Now the party's fabled repeal-and-replace effort is threatened by a standoff between Medicaid's new best friends—"moderate" GOP senators—and conservative colleagues who are trying to moderate the entitlement's permanent expansion.

Add in Donald Trump criticizing the House bill as "mean," and how can anyone fault the retired Barack Obama for golfing his way through the world's resorts? He earned his victory lap. His people understood the iron law of political spending: Offer it, and they will come.

The structure of Medicaid always made the program a Faustian bargain for the states. Originating in the Great Society outpourings of the 1960s, Medicaid's purpose was to ensure medical care for the disabled and women and children in poverty. Though the states and Washington split the costs, a political genius back then inserted this spending opiate: If states expanded their Medicaid populations, Washington would still send them at least half of the rising costs.

Meaning, of course, that taxpayers in states with even a minimal sense of fiscal responsibility paid for open-spigot

states like California, New York, Illinois and New Jersey.

Medicaid has become most states' second biggest budget outlay, behind K-12 education. Even the feds have cut back federal grants on everything else to pay for Medicaid. Here's the Government Accountability Office's bloodless 2012 report of how that works:

Once the governors took expanded Medicaid payments, they were hooked.

"The increase in federal outlays for Medicaid and other health-related grant programs was offset by an approximately equivalent decrease in grants to state and local governments targeted for other areas such as transportation, education, and regional development."

Like state-administered medicine everywhere, Medicaid "works" only if no one notices it's robbing Peter to pay Paul. The Peters getting robbed to make Medicaid work include doctors who are supposed to serve this population.

A Pew report described the mechanics of this perpetual grinding wheel: "In 2012, for example, Medicaid paid physicians on average 66 percent of what Medicare paid for services, down from 72 percent in 2008. Furthermore, both Medicaid and Medicare pay providers significantly less than what they receive from private pay-

ers. Low reimbursement rates decrease the willingness of providers to treat Medicaid enrollees, which sometimes limits enrollees' access to health care services."

As to Nancy Pelosi, Bernie Sanders and Elizabeth Warren charging that the Republicans' attempted Medicaid reforms will kill people, those are crocodile tears. For years, states have tried to control Medicaid's open throttle the only way they know how—with cuts. On Friday, a federal judge ordered Illinois to start paying a stunning \$3 billion it has withheld from Medicaid providers, claiming it doesn't have the money. But from a pro shop somewhere, Mr. Obama, who learned his politics in Illinois, says the GOP effort to fix his namesake would "ruin Medicaid as we know it."

Medicaid is already a fiscal ruin and lowest-common-denominator medicine. Advocates say it's better than nothing for the poor or uninsured, but well-controlled studies put even that claim in doubt.

Reform Republicans want to give states a shot at restructuring the albatross Medicaid has become. Some GOP governors, such as Wisconsin's Scott Walker, are gamely trying to reform Medicaid without taking the federal payment expansion. But pressure on them to take the money will be intense if Senate Republicans fail or vote to repeal and revisit ObamaCare in two years.

Give credit: ObamaCare's designers got this part right.

Write henninger@wsj.com.

BOOKSHELF | By Randall Stross

The Future On Fast Forward

Machine, Platform, Crowd

By Andrew McAfee and Erik Brynjolfsson
(Norton, 402 pages, \$28.95)

The future is already here—it's just not very evenly distributed." The aphorism coined by novelist William Gibson explains why Andrew McAfee and Erik Brynjolfsson's tour of the technologies that are shaping the future of business, "Machine, Platform, Crowd: Harnessing Our Digital Future," contains sights that are already familiar and others that are not. This is a book for managers whose companies sit well back from the edge and who would like a digestible introduction to technology trends that may not have reached their doorstep—yet.

The authors are well-qualified in futurology. Mr. McAfee is a research scientist and Mr. Brynjolfsson a professor of information technology, both at the MIT Sloan School of Management. The pair's last book, "The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies" (2014), surveyed the "astonishing progress" of digital technologies—hardware, software, networks—and, as they put it in one chapter title, "The Digitization of Just About Everything."

The authors define the first machine age as the Industrial Revolution, made possible by a much improved steam engine invented by James Watt in the late 18th century. The second machine age began more than half a century ago, when businesses first deployed computers to handle routine information processing.

Machine power began to replace brain functionality as it had earlier replaced human and animal muscles. But just as the Industrial Revolution did not begin with the crude, pre-Watt steam engines, the transformative effects of computers did not begin at their first appearance. The big effects came only with recent, and now accelerating, technological improvements. The authors call this the second phase of the second machine age, when computers go beyond handling the routine and increasingly provide decision making whose quality exceeds that of humans.

"The Second Machine Age" presciently captured the bleeding edge of technology. For their new book, the authors have repackaged much of the same material on "the digitization of just about everything" into a primer written expressly for business decision makers. Each chapter ends with a list of bullet points and discussion questions, suitable for internal company planning sessions. The book's title, stripped of plurals, articles and on the dust jacket even commas—"Machine Platform Crowd"—is so concise as to risk being unintelligible.

GE used 'crowdfunding' to gauge interest in a new ice maker. McDonald's has begun adding self-service ordering in all its U.S. locations.

In the authors' terminology, "Machine" is shorthand for computers running software that, with new AI techniques called "deep learning," essentially teaches itself how to make judgments superior to those of humans. "Machine" also encompasses the disappearance of employees in the services sector, leaving only the customer, robots and software—which the authors refer to as "virtualization." "Platform" refers to digital environments that bring economic actors together, exploiting free, or nearly free, online access, reproduction and distribution. Uber and Airbnb are examples of new platforms. "Crowd" refers to information resources created by the uncredentialed, the nonexpert and, with rare exceptions, the unpaid. Wikipedia and the Linux operating system comprise the two most impressive achievements of the crowd.

Messrs. McAfee and Brynjolfsson argue that, in the latest phase of the second machine age, incumbent businesses will be pushed aside if they fail to understand how new machines and software, platforms, and the crowd enlarge the scope of digital technologies—just as manufacturers that had appeared and thrived in the first phase of the first machine age were displaced when electricity supplanted steam power in the early 20th century.

The disruptive power of digital technologies is widely appreciated at this point, however. In the authors' own reporting we see not only start-ups at work in putting digital technologies to novel uses but also stalwarts that came of age in analogue times. General Electric used an online design competition run by FirstBuild for a new countertop ice maker it was considering developing, then gauged market interest by running a crowdfunding campaign at Indiegogo. McDonald's has embarked on virtualization, installing self-service ordering and payment stations that will soon be placed in all 14,000 of its American restaurants.

The book's last section, on the crowd, covers bad behavior on the part of the online crowd so briefly that a reader who blinks will miss it. But then comes the book's strongest segment. In the penultimate chapter, the authors present a splendid tutorial on things that are too new for most civilians to have gained a good understanding of—cryptocurrencies like Bitcoin, distributed ledgers, and smart contracts. The authors present the theoretical possibility that conventional contracts and the human handling of disputes could be rendered obsolete by dense networks of sensors in the physical world and extremely detailed contracts anticipating all contingencies so that machines alone can handle enforcement. But they show that computing power, however much it grows, seems unlikely to replace the human component for dispute resolution.

At the end of their tour, the authors back away from the excited tone that permeates the preceding 300 pages. "The company of the future will actually be pretty boring," they write—the institution of the firm will not be pushed into the dustbin of history. They even see a future for middle managers, not because their knowledge or decision-making ability will match the machine's—it won't—but because "we're much more swayed by a good story or compelling anecdote than we are by a table full of statistically significant results."

"Machine, Platform, Crowd" is not the first book to speak of the seismic impact of the digital revolution on economic life. It's not even Messrs. McAfee and Brynjolfsson's first book to clang the bell. But as machines do more and humans do less, our curiosity about how much time we might have left will likely remain insatiable.

Mr. Stross, a professor of business at San José State, is the author of "A Practical Education: Why Liberal Arts Majors Make Great Employees," to be published in September.

The U.S. Specializes in Comebacks

By Karl Rove

Cork, Ireland

The Continental Congress approved it on July 4, but it was July 6 before the Declaration of Independence was printed in a newspaper, namely the Pennsylvania Evening Post ("price two coppers"). So if our forbearers celebrated the nation's founding over several days, I can stretch the holiday, too—marking it not at home but in Europe, among friends of America who are mystified by what is happening in the United States.

Many do not understand why the world's most powerful man acts on childish impulses and tweets ugly messages aimed at critics. Nor can they fathom why the world's oldest political party has twisted itself into mindless opposition—"resistance," as it's styled by the extremists who now call the tune for Democrats.

This picture is not reassuring for a world that counts on American leadership. Our anxiety at home is mirrored in the anxiousness of our foreign friends. Still, we've been here before. America has appeared broken in the past yet recovered its vigor, creativity, prosperity and leadership.

While researching for my book on the 1896 election, I was taken aback at the quarter-century dysfunctionality of Gilded Age politics. In the five

presidential elections before 1896, every winner received less than 50% of the vote. In two contests, the new president took an Electoral College majority but came in second in the popular vote. In a third race, the president came in first in the Electoral College and popular vote, but only by 9,467 ballots nationwide, a 0.02% margin.

The country has been deeply divided before, but it always manages to pull itself together.

There were two years with a Republican president, House and Senate; two years with a Democratic president, House and Senate; and 20 years of divided government in which little was accomplished because the two parties not only had deeply conflicting ideas about policy but were still fighting the Civil War.

After Republicans narrowly captured the House in 1888, Democrats responded by refusing to answer roll calls, thereby denying a quorum to conduct business. This went on for months until, after another fruitless vote, Speaker Thomas Reed directed the clerk to show as present every Democrat on the floor who refused to answer the roll call. All hell broke loose as Demo-

crats attempted to bolt, but Reed had ordered the doors barricaded. Only one member—a Texan—escaped, pummeling a sergeant-at-arms and kicking out door panels to make good his escape.

When the House later debated Reed's action, another Texas congressman rose and asked fellow Democrats to "order me to remove this dictator" from the podium by force. The speaker ruled him out of order and moved on. The offended Democrat was so angry that during the rest of the debate he sat in front of the podium, methodically sharpening his Bowie knife on his boot heel for hours in an attempt to menace Reed.

Yet along came a new president, elected in 1896, William McKinley. He broke the gridlock, restored the country's confidence, and ushered in an America Century. Many of us have seen this in our lifetime as Ronald Reagan restored the nation's spirit when he reversed the decline of the 1970s.

I'm now doing research for a book on presidential decision-making, and I have come across many other moments when America seemed to be coming apart—not just in those desperate years before 1860 or the tumult of riots in cities and on campuses a century later. We also had nullification, an agrarian revolt and the Great Depression, among other periods of disruption.

clarified recently, we must all take our defense and security obligations seriously. No one understands this better than Poland. That's why President Andrzej Duda announced that Poland will further increase its defense spending, to 2.2% of GDP by 2020 and 2.5% by 2030.

President Trump's visit indicates that the new U.S. administration is taking the challenges of our region and their global ramifications seriously, and is steadfastly committed to strengthening NATO's collective defense.

America's renewed interest in our region is also visible in last month's delivery of American liquefied natural gas to Poland. Central and Eastern Europe have long been dominated by an energy monopoly left over from the Cold War era. We no longer have to be victims of geopolitics. Thanks to the newly constructed LNG import terminals on the Baltic coast and a system of interconnected pipelines, LNG delivered by ship to Świnoujście,

Poland, can be transported throughout our region and beyond. These terminals allow us to exert greater energy independence, and we look toward our American partners for continued LNG gas exports.

The need to reassert our region's influence is the underpinning of the Three Seas Initiative, a forum that includes 12 countries from our neighborhood. President Duda and his Croatian counterpart, Kolinda Grabar-Kitarović, have invited Mr. Trump to meet with leaders from the Adriatic, Baltic and Black Sea region.

America's commitment to liberty and democracy has captivated the Polish people for generations. Even more

than four decades of forced Communist rule could not shake our appreciation of American values. We will see that appreciation manifested as the American president is welcomed in Warsaw.

Mr. Rove helped organize the political-action committee American Crossroads and is the author of "The Triumph of William McKinley" (Simon & Schuster, 2015).

By Piotr Wilczek

President George H.W. Bush once said: "Poland should be strong and prosperous and independent and play its proper role as a great nation in the heart of Europe."

Poland has lived up to those words. On Thursday, as an active member of NATO and the European Union, Poland hosts President Trump on his second international trip.

This visit will demonstrate the unbreakable bonds between Poland and the U.S. and address the challenges facing our neighborhood and the broader Euro-Atlantic community. Polish-American relations are thriving, and for good reason. Poland has been a reliable partner to the U.S. since our democratic transformation. In the Middle East we answered America's call for action, deploying more than 40,000 Polish military personnel to Afghanistan and Iraq.

With instability just beyond

our borders, we welcome the deployment of U.S. and other NATO troops to our region.

Thanks to the decisions made at the 2016 Warsaw NATO Summit and bipartisan support in Congress, Poland now hosts thousands of U.S. military personnel, as together we train to be ready to meet any threat.

Four decades of rule by Communists didn't shake our admiration.

Poland also continues to be a security provider. We understand that solidarity is our strength. From the 2% of gross domestic product we spend on defense to our contribution of F-16s to the fight against ISIS, Poland continues to approach NATO membership and our alliance with America not as a handout but a commitment that must be honored every day.

As President Trump de-

livered by ship to Świnoujście, Poland, can be transported throughout our region and beyond. These terminals allow us to exert greater energy independence, and we look toward our American partners for continued LNG gas exports.

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Mr. Wilczek is Poland's ambassador to the U.S.

OPINION

REVIEW & OUTLOOK

Trump's Putin Test

Donald Trump thinks of himself as a great judge of character and master deal-maker, and that could be a dangerous combination when the President meets with Vladimir Putin for the first time Friday during the G-20 meeting in Germany. The Russian strongman respects only strength, not charm, which is what Mr. Trump will have to show if he wants to help U.S. interests abroad and his own at home.

The meeting comes amid the various probes of Russian meddling into the 2016 election, and Mr. Trump's curious refusal to denounce it. There's no evidence of Trump-Russia campaign collusion, nor that Russian interference influenced the result. But the Kremlin's attempt was a deliberate affront to democracy and it has done considerable harm to Mr. Trump's Presidency. Mr. Trump should be angry at Mr. Putin on America's behalf, and his apparent insouciance has played into Democratic hands.

The irony is that on policy Mr. Trump has been tougher on Mr. Putin than either of his two predecessors. Over Kremlin objections, the U.S. President has endorsed Montenegro's entry into NATO and new NATO combat deployments in Eastern Europe. He has approved military action against Russian ally Bashar Assad in Syria even after Russian threats of retaliation.

The White House was also wise to visit Poland a day before he meets Mr. Putin. In Warsaw on Thursday he can reinforce traditional American support for Polish freedom and assert his personal and public support for NATO's Article 5 that an attack on one alliance member is an attack on all.

Perhaps most important, Mr. Trump has unleashed U.S. oil and gas production that has the potential to weaken Mr. Putin at home and in Europe. The Russian strongman needs high oil prices and wields the leverage of natural-gas supplies over Europe, and U.S. production undermines both.

Yet Mr. Putin will be looking to see if he can leverage Mr. Trump's desire for better U.S.-

Russia relations to gain unilateral concessions. One Kremlin priority is easing Western sanctions for the invasion of Ukraine and President Obama's December 2016 sanctions for its election interference. The Russian foreign ministry is in particular demanding that the U.S. let Russia reopen compounds in Maryland and New York that

Mr. Obama shut down.

Mr. Trump will be tempted to oblige because the compounds are ultimately of no great consequence, but the political symbolism of reopening them would still be damaging if the President gets nothing in return. Mr. Putin still denies any Russian election hacking, and to adapt Michael Corleone's line to Carlo in "The Godfather Part II," he should stop lying because it insults our intelligence. Mr. Trump should at least follow French President Emmanuel Macron's precedent and issue a face-to-face public rebuke unless Mr. Putin apologizes.

Mr. Putin, the former KGB man, concluded early that Barack Obama could be pushed around because he bent to the Russian's demands on nuclear arms and missile defenses in Europe. This week he'll be looking to take Mr. Trump's measure.

The American can quickly show he's not Mr. Obama by suggesting he'll sell lethal military aid to Ukraine if Mr. Putin refuses to implement the Minsk accords that call for defusing the military conflict. Mr. Putin knew he could get away with violating Minsk because he judged, correctly, that Mr. Obama would never risk confrontation.

Mr. Trump says he wants good relations with Russia, but the question as always in foreign affairs is on what terms? Mr. Putin wants to push the U.S. out of Eastern Europe and the Middle East, and he will be looking to exploit any presidential weakness toward that goal. No single meeting will determine the Trump-Putin relationship over four years, but first impressions matter. Mr. Trump will have a better chance at a better relationship if he shows Mr. Putin that the price of improved ties is better Russian behavior.

State of the Teachers Union

The president of the National Education Association has had enough. On Sunday Lily Eskelsen Garcia told her delegates that though she knows "how to find common ground with people who will never agree with me," she won't make the effort with President Trump and Secretary of Education Betsy DeVos.

This is a sign the Trump Administration must be doing something right. The NEA is America's largest union with some three million members, and it represents the adults in education, not the children. As if to underscore the point, on July 4 of all days the union approved a new and harsher statement on charter schools, calling privately run charters "a failed and damaging experiment."

What the NEA really objects to is that charters are public schools that prove children written off as uneducable can be taught in the right environment. A telling sign of NEA priorities is

that while it was denouncing charters the union said it is still happy to unionize them.

As for the Education Department, Jimmy Carter created it as payoff to the NEA for its support in the 1976 election. The department has neither the funds nor the authority to make much of a difference in schools, which are mostly a state and local

matter. Where Mrs. DeVos can make an impact is by using her bully pulpit on behalf of parents who are desperate for more good schools for their children—whether they are traditional public schools, charter public schools, or private and religious schools.

Mrs. DeVos has apparently been effective enough to shock the NEA into disavowing federal control of education, which is like Fannie Mae rejecting taxpayer loan guarantees. We'll know Mrs. DeVos has succeeded when Ms. Eskelsen Garcia calls for the Education Department to be abolished.

Junk by Any Name in Illinois

Credit-rating agencies are now backing off their threat to downgrade Illinois

more revenues into the city and keep local politicians from targeting downtown businesses. Good luck with that.

Politicians and credit raters form a coalition for tax and spend.

Rating agencies in effect gave downstate Republicans political cover to back the tax increase. After the House passed a budget over the holiday weekend raising \$5 billion in taxes, Fitch praised the state's "concrete progress." S&P noted that the budget could "help put a halt to this erosion of the state's sovereignty over its fiscal affairs."

But while higher taxes may let bondholders breathe easier for a while, they won't change the state's tax-borrow-and-spend culture. To pay its backlog of health-care bills—which are accruing interest at a 9% rate—the state now plans to issue \$6 billion in general obligation bonds. Illinois has borrowed \$17 billion to fund pensions, which remain unfunded by \$130 billion. The state this year will pay \$1.6 billion in interest on the bonds and \$8.9 billion to the pension funds—equal to about 35% of the state general fund.

After jacking up property taxes, Chicago Public Schools last month borrowed \$400 million at roughly 6.4% to make mandated pension payments. The short-term loans are backed by state aid. As one alderman said, "you're still robbing Peter to pay Paul and putting a Band-Aid on it."

Rating agencies were loath to scold Puerto Rico, Detroit and Stockton, California, when they raised taxes while deferring spending reforms. But the tax increases propelled their economic decline and population flight, and bondholders ultimately got fleeced. Illinois may not be able to go bankrupt under federal law, but that won't stop politicians from making them an offer they can't refuse.

Oh, and please don't come whining about "the sanctity of contracts" when the politicians start the fleecing. It's hard to tell who are less believable: Illinois politicians or the credit raters who judge their paper.

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OPINION

How Many Jobs Does the ACA Kill?

By Casey B. Mulligan

Democrats loudly complain that people will lose health insurance if the Affordable Care Act is repealed. They never mention those who lose jobs because the ACA remains.

The ACA includes a penalty on employers that fail to provide "adequate" insurance for full-time workers. Thanks to the ACA, hiring the 50th full-time employee effectively costs another \$70,000 a year on top of the normal salary and benefits.

Many business owners have described how this penalty prevents them from hiring and has caused them to reduce work hours to below the full-time threshold. ACA supporters dismiss these statements as "mere anecdotes" not corroborated by national sampling and statistical analysis. But did any of them rush out to gather the national samples, especially after Jan. 1, 2016, when the employer penalty took full effect?

We surveyed managers at small businesses and put the count at 250,000.

In partnership with the Mercatus Center at George Mason University, in March 2017 I was able to commission Hanover Research to survey small businesses nationwide regarding their hiring and compensation practices. The result was a sample of 745 small businesses, representing every major industry and together employing almost 50,000 people.

We asked managers (almost evenly divided between Democrats and Republicans) how many people each business employed and whether it offers health insurance. Many businesses, when they do not offer coverage, keep their payrolls just below 50 full-time employees and thereby narrowly escape the ACA's penalty. This pattern is not visible among businesses that offer coverage.

When we followed up, the businesses employing just fewer than 50 often said the ACA caused them to hire less and cut hours below the full-time threshold. The penalty caused payrolls to shrink or prevented them from growing.

Nationwide, we estimate the ACA-inspired practice of keeping payrolls below 50 has cost roughly 250,000 jobs. This does not count jobs lost when businesses close (we didn't survey closed businesses) or shrink because of other ACA incentives.

The tally of lost jobs is bound to grow because the penalty itself automatically grows and the IRS is still learning how to enforce it. And the businesses we surveyed disproportionately say that they reduce hiring and hours for new employees rather than existing employees. They may continue to shrink until their payrolls are fully turned over.

Does the ACA at least spur small business to offer coverage? About a third of those now offering coverage began doing so after the ACA was passed. But two-thirds of those now not offering coverage previously did offer it. Some of the managers said the exchanges are a new option and that offering coverage at work would render employees and their families ineligible for taxpayer assistance.

No doubt a few of the 250,000 lost jobs are replaced at businesses that weren't seeking to duck the 50-employee threshold. But even reallocated jobs are a problem, because the reallocation is motivated by uneven federal incentives unrelated to creating value in the marketplace.

The ACA is an important reason why the growth rates of employment, wages, productivity and GDP continue to be substandard. Maybe it is time for repeal.

Mr. Mulligan is author of "Side Effects: Economic Consequences of Health-Care Reform."

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WORLD NEWS

Poland Prepares ‘Huge’ Trump Welcome

By ANTON TROIANOVSKI

WARSAW—Like many of his fellow Polish pro-government lawmakers, Dominik Tarczynski was sending a busload of constituents to Warsaw on Thursday to cheer for President Donald Trump. The buses were being provided by a foundation close to the governing party.

“It’s going to be huge—absolutely huge,” Mr. Tarczynski said of the welcome for Mr. Trump. “They just love him, the people in Poland—they just really love him.”

Poland was working to put on a hero’s welcome for Mr. Trump, who arrived late Wednesday for a brief visit that includes a speech Thursday in a Warsaw square.

Behind Poland’s warm reception is a recognition across the continent that Mr. Trump has the potential to change the balance of power in Europe.

President Barack Obama formed a close bond with German Chancellor Angela Merkel and backed her liberal worldview, her acceptance of immigrants, and her support for a deeply integrated European Union.

Now it is nationalist governments such as Poland’s that hope Mr. Trump will see them as ideological kindred spirits and back their push to loosen the European Union and rebalance it away from Berlin.

“There’s this new success—Trump’s visit,” Jaroslaw Kaczynski, chairman of the ruling Law and Justice party, said at a party congress over the weekend. Pointing to Europeans who are nervous that Mr. Trump’s visit could deepen the divide on the continent, Mr. Kaczynski went on: “They’re envious of it!”

Poland, where the conserv-



President Donald Trump and his wife, Melania, arrived at Warsaw Chopin Airport late Wednesday.

ative Law and Justice government took over in 2015, is locked in an escalating feud with the EU’s executive body in Brussels and with Western European capitals. The European Commission has said the government’s changes to the Polish judicial system, including appointing its own judges to the Constitutional Court, undermine the rule of law.

French President Emmanuel Macron suggested Poland was rejecting democratic principles and treating the bloc like a “supermarket,” implying it is taking advantage of the EU without following all of its norms.

German politicians often slam Poland for failing to take in refugees and for reducing press freedoms.

In Mr. Trump, some Polish politicians and commentators see a leader who has campaigned against accepting refugees and criticized the EU and Germany’s influence in the bloc.

“Regarding refugees, the Polish government has the same position as Americans—we want strict restrictions on refugees,” said Krzysztof Mróz, a Law and Justice lawmaker who planned to dispatch two buses full of Trump fans—98 people—from his district at 2 a.m. on Thursday for

the 300-mile drive to Warsaw.

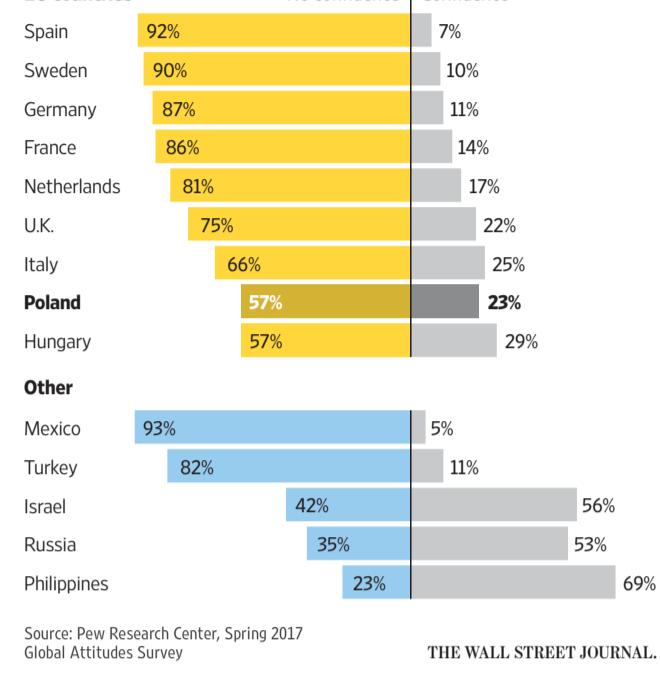
Some critics of Poland’s government are wary of Mr. Trump’s trip. Bartosz Wielński, foreign editor of the liberal Gazeta Wyborcza newspaper, said the government appeared to be turning Mr. Trump’s speech into a “partisan spectacle” and that his public reception would amount to a “Potemkin village.”

In Western Europe, some officials worry Mr. Trump will fan the flames of anti-immigrant, anti-European Union sentiment, as when he endorsed Brexit ahead of the British referendum on leaving

President’s Standing

Europeans are among the most skeptical about U.S. President Donald Trump, and only in a handful of countries do positive opinions outweigh negative ones.

How much confidence do you have in U.S. President Donald Trump to do the right thing regarding world affairs?



Source: Pew Research Center, Spring 2017 Global Attitudes Survey

THE WALL STREET JOURNAL.

Poles at a public square, Mr. Trump will address 12 central European, Baltic and Western Balkan leaders who are gathering in Warsaw.

Several organizations close to the Law and Justice party were also drumming up supporters to cheer for Mr. Trump. One of them, the nationalist Gazeta Polska Clubs, is touting Mr. Trump’s address in Warsaw on Thursday as comparable to John F. Kennedy’s “Ich bin ein Berliner” speech of 1963.

—Valentina Pop in Brussels and Martin Sobczyk in Warsaw contributed to this article.

Afghan Attack Kills U.S. Soldier

By JESSICA DONATI

KABUL—An insurgent attack left one U.S. soldier dead and two others wounded in Afghanistan’s southern Helmand province, where hundreds of U.S. troops are deployed to train local forces and back them in the fight against the country’s Taliban-led insurgency, the U.S. military said Wednesday.

The 19-year-old soldier died Monday in an incident the military said was caused by “indirect fire,” a term often used to describe rocket attacks.

“At a time when we remember the patriots who founded our nation in freedom, we are saddened by the loss of one of our comrades who was here protecting our freedom at home,” said Gen. John Nicholson, the top U.S. military commander in Afghanistan.

Seven U.S. soldiers have been killed in action this year in Afghanistan. The majority have died in the eastern part of the country, where the U.S. military has stepped up operations to fight the local Islamic State branch, which has a foothold near the Pakistani border.

Fewer than 9,000 U.S. soldiers are currently deployed in Afghanistan. The Pentagon is considering plans to send an influx of between 3,000 and 5,000 more troops to bolster their presence.

The latest death likely will add to the growing pressure on President Donald Trump’s administration to complete its review of the situation in Afghanistan and decide on a strategy for its involvement in the 16-year war, which has grown increasingly violent since most foreign troops were withdrawn in 2014.

U.S. senators visiting Kabul this week criticized Secretary of State Rex Tillerson’s lack of focus in the country, cautioning that it threatened to undermine an escalation in U.S. military efforts in Afghanistan and calling the foreign service there “woefully understaffed.”

Afghan forces are bearing the brunt of the conflict. Casualties among local forces have soared in recent years, causing low morale and resentment among the army and police.

Berlin Bolsters Economic Ties With Beijing

By ANDREA THOMAS

BERLIN—German Chancellor Angela Merkel and China’s President Xi Jinping pledged to boost economic cooperation between their countries as they met ahead of what is expected to be an unusually tense international summit.

“We are very happy to see that thanks to efforts from both sides, Chinese-German relations have entered a new phase,” Mr. Xi said Wednesday, according to a German translation of his remarks.

President Donald Trump’s “America First” policies, his threats to crack down on abuse of free trade, and his withdrawal from the Paris climate accord have brought Germany and China—two of the world’s largest exporters and both defenders of the climate agreement—closer together.

“Economic relations between China and Germany are of course very important,” Ms. Merkel told a joint press conference with Mr. Xi. “We don’t only exchange goods, but we’re also cooperating more and more in technological areas.”

The two-day G-20 summit starts Friday in Hamburg. European delegates have said they would confront Mr. Trump on his trade stance and on his decision to withdraw from the Paris accord.

Ms. Merkel said she expected difficult negotiations. “It’s not easy to bring together all 20 countries with all their developments and positions,” she said. “I don’t know yet what the final result will look like.”



Chancellor Angela Merkel, third from right, President Xi Jinping and his wife, Peng Liyuan, view a Germany-China children’s soccer match.

Apart from conflicting views on free trade, climate protection is seen as the main stumbling block at the G-20 meeting.

China has said it would stick to its commitments under the Paris deal, which saw more than 190 countries pledge to cut greenhouse-gas emissions.

In separate comments pub-

lished Wednesday, Ms. Merkel also took direct aim at Mr. Trump’s trade policy.

The U.S. view of globalization, she told the Die Zeit weekly, was “not about a win-win situation but about winners and losers....Not just the few should benefit from economic progress. Everybody should participate.”

Several commercial deals were signed on Wednesday, timed to the meeting between Ms. Merkel and Mr. Xi. These included an agreement between car maker Daimler AG and BAIC Motor Corp. to develop electric cars; strategic partnerships between industrial conglomerate Siemens AG and Chinese companies; and a

Chinese order for 140 aircraft from Airbus SE.

Ms. Merkel also pledged that Germany would participate in China’s planned revival of ancient Silk Road trading routes from China to Europe if the tendering process was transparent. She didn’t elaborate on what form this participation would take.

Weaker Currency Tests U.K. Military Spending

By JENNY GROSS AND STEPHEN FIDLER

LONDON—The sharp slide in the British pound’s value against the dollar since the U.K. voted to leave the European Union could pose difficulties for Britain’s defense budget, British Defense Secretary Michael Fallon said.

“If that lower rate persists, then obviously that is a challenge,” Mr. Fallon said in an interview. “I don’t know how permanent that is, but that is clearly a change” since Britain last reset its defense strategy in 2015, he added.

His comments came ahead of a trip to Washington, where he will meet with Defense Sec-

retary Jim Mattis to discuss improving collaboration between the U.S. and the U.K. and also promote Britain as America’s most dependable and highest-spending defense partner in Europe.

As the U.K. prepares to leave the EU, it has sought to strengthen ties with the U.S. in areas including defense, security and trade. While the slump in sterling since June 2016 has boosted exporters, it has also increased the cost of imports, such as dollar-denominated arms purchases from the U.S.

Britain has bought billions of dollars of equipment from U.S. manufacturers, including F-35 Joint Strike Fighters

from Lockheed Martin Corp. and P-8 maritime patrol planes and AH-64E Apache attack helicopters from Boeing Co.

The pound has slumped 14% against the dollar since June

2016, when the U.K. voted to leave the EU amid uncertainty about the effect of Brexit on trade and investment. The U.K. defense ministry has in the past said it hedged in the

short term against the weakness in sterling ahead of the vote, but the currency’s decline has put new projects in question.

A report published this week by the Royal United Services Institute, an independent think tank on defense and security, said the British military is facing an estimated £20 billion (\$26 billion) “black hole” to plug, or about 5% of projected spending commitments over the next 10 years. The defense ministry will need more cash from the Treasury or will have to significantly curtail spending programs or forces, the report said.

—Robert Wall contributed to this article.



Lockheed Martin Corp.’s F-35A jet fighter in a flight over England.

—Robert Wall contributed to this article.

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CEO

Continued from the prior page
helped them fend off.

The typical CEO of a major company a decade ago resembled a ship captain "who could rally a group of people with a lot of process and procedures," said Deborah Rubin, a senior partner at RHR International, a leadership-development firm. "Today's CEO has to be much more like a race car driver," she added. "You have to do the sharp maneuvers."

Flush with more cash than ever, activist investors are pursuing bigger corporate prey. This year, they have helped push out the leaders of AIG, railroad operator CSX Corp. and aluminum-parts manufacturer Arconic Inc. Indeed, one-third of the 42 S&P 500 and Fortune 500 companies that replaced a CEO through May this year grappled with the demands of ac-

tive industries. If you run a retailer, for instance, "you are watching your whole market go away in just a matter of years," said Peter D. Crist, chairman of Crist/Kolder.

J. Crew Group Inc. and Macy's Inc., two such retailers that have struggled to adapt to consumer shifts created by online shopping and upstarts with more nimble supply chains, have recently appointed new CEOs. Both of their predecessors, J. Crew's Mickey Drexler and Macy's Terry Lundgren, are remaining chairmen of their companies.

Likewise, Ford's ouster of Mark Fields after less than three years in its highest job was the starkest sign yet of how tech players such as electric-car maker Tesla Inc. and Alphabet Inc.'s autonomous-car unit Waymo threaten the traditional auto sector. Mr. Fields had been groomed for years to take Ford's helm, but his fellow board members swiftly replaced him after he failed to persuade Wall Street he was reinventing the car maker quickly enough. Ford said Mr. Fields, who retires in August, wasn't available to comment.

"That's just not enough time to do that kind of job" required at Ford, said Bill George, former chief executive of Medtronic PLC who is now a professor at Harvard Business School. Some CEOs Mr. George speaks with, he said, are asking themselves "How much time do I have?"

Corporate boards increasingly reply: Not much.

"In boardrooms, sentimentality is officially dead," said Constantine Alexandrakis, head of the U.S. for recruiting firm Russell Reynolds Associates Inc. Such pressures aren't just forcing boards to jettison CEOs. Donald Hambrick, a professor of management at Penn State University's Smeal College of Business, said he suspected some corporate chiefs are voluntarily hastening their retirements.

Roland Smith, hired to run struggling Office Depot Inc. in November 2013, retired this year after saying he had always planned to do so after three years. His tenure at the office-supplies retailer marked the fifth CEO stint for the 62-year-old turnaround specialist—and one of his toughest.

Mr. Smith's latest challenge: A 13,000-mile motorcycle trip with his son from Key West, Fla., to Alaska and then Jackson Hole, Wyo.

"I am in total control of everything I do on the [motorcycle] ride," Mr. Smith said from the road last week. "As the CEO, you only are in control of a small proportion that happens."

tivist shareholders during the prior chief's tenure, Crist/Kolder's analysis found.

Through June 23, activists had launched nine campaigns targeting top management at U.S. companies this year—and the fastest pace since 2014, according to FactSet, a research firm.

Even GE CEO Jeff Immelt's disclosure that he would depart this summer came amid brewing tensions with activist investor Nelson Peltz over the conglomerate's languishing stock price.

Though the move was part of a long-in-the-works transition, Mr. Peltz's Trian Fund Management LP had recently stepped up pressure on GE to cut costs more aggressively and boost profits, setting off speculation about when the longtime CEO might leave.

Mr. Immelt said he decided in 2013 that he would step aside sometime this year after 16 years at the helm, and GE board officials have said Trian played no role in the leadership change. "My predecessor did it for 20 years—it's not a 20-year job today," the 61-year-old Mr. Immelt said last week at the Aspen Ideas Festival in Colorado.

Growing shareholder clamor for quick results comes as new technologies are upending en-



Terry Lundgren remains chairman of Macy's following the appointment of a new CEO.

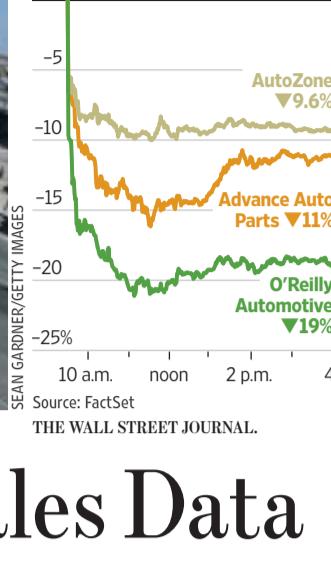
BUSINESS & FINANCE



The automotive retailer warned of weak sales in its latest period, citing demand and mild weather.

Low Gear

Shares performance Wednesday of major auto parts retailers



THE WALL STREET JOURNAL.

O'Reilly Shares Dive on Sales Data

By JUSTINA VASQUEZ

Shares in **O'Reilly Automotive Inc.** fell Wednesday to their lowest level since late 2014 after the auto-parts retailer warned a key sales metric in its second quarter fell short of expectations, fueling investor concerns about the sector's health.

O'Reilly Automotive said in a securities filing that same-store sales rose 1.7% in the quarter ended June 30, short of estimates for growth between 3% and 5%.

The company cited weak consumer demand and winter weather that was milder than normal, reducing the need for

more repairs from weather-related parts breakage.

The retailer, which is based in Springfield, Mo., reported same-store sales growth of 4.3% in the comparable period last year.

Chief Executive Greg Henslee said in prepared remarks that the sales weakness will hurt the bottom line but added "we remain confident in the long-term health of our industry" and said the company can continue to capture market share.

An O'Reilly spokesman declined to comment beyond its filing with the Securities and Exchange Commission. The company is expected to re-

lease its full quarterly financial results July 26.

Shares in O'Reilly Automotive, one of the largest U.S. specialty retailers of auto parts, fell 19% to \$178.77, its largest one-day percentage decline since its initial public offering in 1993, according to FactSet.

Analyst Alan Rifkin of BTIG lowered his earnings per share expectations for O'Reilly Automotive by more than 4% for 2017 and 2018, to \$11.80 and \$13.50, respectively.

The warning from O'Reilly Automotive weighed on peers Advance Auto Parts Inc. and AutoZone Inc., whose shares fell Wednesday by 11% and

9.6%, respectively.

In recent months Advance Auto Parts said a warmer winter contributed to a comparable-store sales decline of 2.7% in its April-ended quarter, while AutoZone said a similar metric fell by 0.8% in its quarter ended in May.

AutoZone said it planned to strengthen its advertising, increase store staff and diversify the products it offers to combat the decline.

Earlier this year, O'Reilly Automotive said it a decline in "do-it-yourself" customers cut into the company's first-quarter sales performance despite seeing an increase in average ticket values.

POWER

Continued from the prior page
American electricity generation for decades, the past few years have been a bloodbath. Three of every 10 coal generators has closed permanently in the past five years.

Nukes, another mainstay for decades, are imperiled, too. By 2023, there may be 54 nuclear-power plants, down from 65 a decade earlier. Only new state subsidies can keep more from closing, plant operators argue.

Coal and nuclear plants have provided so-called baseload power for decades, running around the clock to ensure a reliable stream of electricity. As those sources of power lose ground to gas and renewables, some worry the grid could become unstable.

Natural gas has been the main agent of change, mostly because the advent of hydraulic fracturing unlocked vast new natural gas reserves in the U.S., creating very low prices for the fuel.

"That is what is making coal go away," said Pat Vincent-Collawn, chairman and chief executive of PNM Resources Inc., a New Mexico utility. It expects coal to drop from 51% of its generation last year to 41% next year.



In addition to inexpensive and abundant gas, new power plants are much more efficient than they were even five years ago.

"Not only have we gotten better at getting the natural gas molecule out of the ground, but we have gotten much better at getting as much electricity out of that molecule as possible," said Josh Rhodes, a research fellow at the University of Texas Energy Institute.

Until a few years ago, gas plants typically operated about 30% of the time, turning on and off as the grid needed power. Today, they run more than half the time. Many are on virtually nonstop, taking over the role once played by coal and nuclear.

Ben Fowke, chairman and chief executive of Xcel Energy Inc., a large utility that covers parts of Colorado, Minnesota and six other states, says wind and solar aren't responsible for

the demise of coal and nuclear plants. "I hope it doesn't come out that renewables are to blame," he said. "Wind is saving our customers money." For now, renewable energy enjoys a federal tax subsidy.

Few utilities chiefs agree the administration should step in to prop up coal. There is more agreement that nuclear power plants should be saved from premature retirement.

Nukes, which have no carbon emissions, are struggling to compete with low wholesale power prices brought on by natural gas and renewable generation. Low power prices are great until baseload assets are on the line, said Joe Dominguez, executive vice president of governmental and regulatory affairs for Exelon Corp.

"Policy makers need to step in and address that," he said.

For Minnesota Power, a mixture of a lot of wind, some solar, hydro power from Canadian dams and a state-of-the-art gas plant will make it easier to provide reliable electricity, even with the loss of so much coal.

"The combination of flexible natural gas and renewables really work well together," said Julie Pierce, Minnesota Power's vice president of strategy and planning.

—Dan Molinski contributed to this article.

U.S. Lifts Laptop Ban On Two More Airlines

By ROBERT WALL

LONDON—Emirates Airline and Turkish Airlines said their passengers were cleared to again use laptops and other electronics on U.S.-bound flights, further scaling back a ban Washington put in place on some flights over concerns about terrorism.

Emirates Airline, the world's largest international carrier by traffic, said on Wednesday that the restrictions on the use of laptops, tablets and other devices that had been in place since March were lifted "effectively immediately."

The U.S. government on Sunday began rolling back the ban when it cleared passengers at Etihad Airways to use electronic gadgets again on U.S.-bound flights after it au-

dited security procedures at the carrier's Abu Dhabi hub.

The U.S. Department of Homeland Security in March imposed restrictions on 10 airports across the Middle East and Africa and had threatened to roll them out more widely unless airports improved security checks.

Washington imposed the ban amid concerns terrorists were trying to smuggle explosives inside a laptop or tablet to get past security and set off an explosion once a plane was aloft. The department required passengers to either check in their devices or leave them at home.

Last week, Homeland Security Secretary John Kelly said the ban could be widened to airports that fail to adopt more stringent security.

Airports already subject to the restrictions could see those lifted in return for closer checks. The 280 foreign airports that send direct flights to the U.S. must have explosives-detecting scanners within 21 days, one step the Department of Homeland Security has mandated to avoid a broader ban on laptops aboard flights.

Opponents of widening the restrictions were concerned that storing a large number of electronic devices in the cargo area of planes posed safety concerns. Lithium batteries used in many of the devices pose a fire risk.

The U.S. has been auditing security procedures at airports.

EMIRATES AIRLINE

TURKISH AIRLINES

BUSINESS NEWS

For SpaceX, Third Launch Is Charm

BY ANDY PASZTOR

Following a pair of last-second launch aborts over two days, the third attempt worked for **SpaceX** on Wednesday as it blasted a large commercial communications satellite into orbit without a hitch.

The evening blastoff, which occurred without any countdown delays or technical problems from Florida's Kennedy Space Center, avoided a repeat of the automated safety warnings that scrubbed previous launch attempts Sunday and Monday just seconds before the rocket's main engines were set to ignite.

The flight of the Falcon 9 rocket carrying a 7.5-ton satellite into a high-earth orbit for **Intelsat SA** was the third successful mission in less than two weeks for Elon Musk's **Space Exploration Technologies Corp.**, as the closely held

Southern California company is formally called. It is also believed to be the heaviest payload Mr. Musk's team has ever put into space.

Roughly three minutes into the flight, the rocket's lower stage separated and the upper stage's engine ignited as planned. Some five minutes later, the upper engine shut down as the satellite continued on its way.

Rebounding from launch delays stemming from two Falcon 9 explosions spanning 2015 and 2016, SpaceX is seeking to reassure commercial and U.S. government customers that it is safely ramping up its launch tempo. The company has targeted for later this year the initial flight of its Falcon Heavy rocket, a Falcon 9 derivative featuring 27 main engines and roughly twice the lifting capacity of SpaceX's current fleet of boosters.

Wednesday's mission was the 10th successful launch of a Falcon 9 this year, already beating SpaceX's previous record of eight launches in 2016.

With some \$10 billion in launch business on its books, including contracts from the Pentagon and the National Aeronautics and Space Administration, SpaceX has set the pace for the budding commercial space industry. But in addition to its swift growth and lofty ambitions—including a manned flyby of the Moon as early as next year—the company is renowned for a scrappy attitude and nimble engineering culture that is determined to make decisions more quickly than legacy competitors or government agencies.

Before the end of the decade, company officials hope to routinely launch at least one SpaceX rocket every week.



The Falcon 9 rocket lifts off.



The sportswear maker is broadening its reach through direct sales, but analysts say the move risks diminishing the brand's allure.

Nike Treads New Sales Path

BY SARA GERMANO

With the retail sector in flux, **Nike Inc.** is looking for new ways to sell sneakers and shirts, but some industry watchers worry the company's efforts to broaden its reach could damage its cachet.

The world's largest sportswear maker has begun selling goods through **Amazon.com Inc.** and increasingly is using its mobile apps as sales tools, trying to connect with consumers who are buying more online. Sales on Nike.com and the company's apps have doubled to more than \$2 billion since 2015, the company said last month.

Those initiatives mark a shift away from how Nike traditionally released its most desirable products. Five years ago, the company had to tell longtime sales partners **Foot Locker Inc.** and **Dick's Sporting Goods Inc.** to move limited-shoe releases to the morning hours from midnight

because shoppers who camped outside stores were getting out of hand. Frequent online releases of coveted Jordan shoes could detract from their allure, some industry watchers say.

"They're putting their foot on the gas in terms of releases," said Matt Halfhill, founder of sneaker-news site **Nice Kicks**, which chronicles new releases across major shoe brands. Mr. Halfhill, who said he has been involved in sneaker culture since the 1990s, believes the push toward direct sales hurts Nike's connection with consumers.

"It's a great way to sell commoditized shoes, but most boutiques even discourage you from buying on the phone. They only sell shoes in stores to customers, where you see everyone in line waiting for shoes talking to each other," he said.

A Nike spokesman said the company is focused on "disrupting the sneaker shopping experience" by offering differ-

ent types of releases, some in nontraditional places.

Last month, the company released a limited edition sneaker in collaboration with acclaimed chef David Chang. Users of the **Nike SNKRS app** could purchase the shoe at Mr. Chang's Fuku restaurant in New York through augmented-reality technology by taking a photo of the menu within the app, which unlocked a sales portal.

Wall Street has taken note of the choppy waters for Nike, which has to navigate North America's retail downturn, in particular the troubles facing sporting-goods stores. "The big picture concerns are competition is gaining on Nike, 'athleisure' is slowing, and the shift to online spending is proving highly disruptive to Nike's wholesale business," Morgan Stanley analyst Jay Sole wrote in a research note.

Nike's share of the U.S. retail sneaker market fell 1 percentage point to 50% this year through May, according to in-

dustry tracker NPD Group, while rival **Adidas AG** climbed to 11% from 7%.

Adidas's gains come about two years after the company changed its leadership and refocused on sales in the U.S. Its resurgence includes new "franchises"—such as the NMD and Kanye West's Yeezy line—that have gained a youthful following.

"It took them a while, but things are coming together the right way," said Nick Santora, a former sneaker-store owner and editor of online sneaker magazine **Classic Kicks**. "Kanye, for some people, for certain kids, that brand is now acceptable," he said. "Nike was always 'sports, sports, sports,' but if you're over 11 years old right now, musicians are where it's at."

Nike has released collaborations with hip-hop artists such as Drake and A\$AP Bari among others, and a training shoe with actor and comedian Kevin Hart.

Jeans Company True Religion Files for Bankruptcy

BY PATRICK FITZGERALD

Jeans maker **True Religion Apparel Inc.** filed for bankruptcy protection on Wednesday, the latest in a string of Southern California garment sellers to succumb to changing consumer shopping habits that are transforming the retail industry.

Los Angeles-based True Religion filed for chapter 11 protection after its private-equity

owner, TowerBrook Capital Partners, struck a deal with lenders on the terms of a debt-for-equity swap that will erase \$350 million in debt from the company's books.

Chief Executive John Ermatinger said the restructuring deal will allow True Religion to keep its doors open while spreading its digital footprint as the brand looks to survive in a challenging retail environment.

In addition to cutting three-quarters of its debt of \$535 million, the company said it would use bankruptcy laws to close or consolidate underperforming stores and, where possible, renegotiate leases.

Under the terms of a restructuring agreement filed with the court, lenders including funds managed by **Goldman Sachs Group**, Waddell & Reed Financial Inc., **Farmstead Capital Management**

LLC and others will swap \$386 million in top-ranking loans for about 90% of new equity in a reorganized True Religion. Junior creditors and existing shareholders are eligible for small distributions of equity in the reorganized company, provided they vote for the plan.

For its most recent fiscal year, the company generated \$369.5 million in revenue. But True Religion's sales have been declining for several years, ac-

cording to court papers.

The company took steps to stanch the red ink, closing 30 stores and cutting its workforce in recent years. But it hasn't been enough, as the business posted a \$78.5 million loss for last year.

Southern California garment sellers and manufacturers have been hit hard as retailers shutter stores at a record pace.

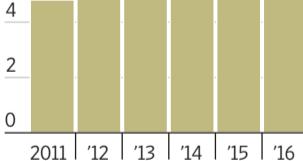
In the past two years,

American Apparel Inc., surfwear pioneer Quiksilver Inc. and teen-friendly retailers Wet Seal LLC, Nasty Gal Inc. and Pacific Sunwear of California Inc. have filed for bankruptcy.

True Religion has lined up a \$60 million bankruptcy loan to fund its business while under chapter 11 protection, which will allow the company to continue to pay its vendors and a workforce of approximately 1,900 employees.

Medicine Momentum

China's share and ranking in world-wide drug sales



Sources: IMS Health; Bain & Co.

THE WALL STREET JOURNAL.



Western pharmaceutical firms are investing heavily in China-based research into deadly diseases prevalent in the country. A Novartis lab in Shanghai.

Drugmakers Sharpen Focus on Top Killers in China

BY PREETIKA RANA

SHANGHAI—Big Pharma is investing billions of dollars to tackle deadly diseases prevalent in China, developing new drugs to combat a lineup of top killers that differs from that in the West.

Swiss drugmaker **Novartis AG** is testing a molecule to combat a rare head and neck cancer widespread in southern China. American rival **Johnson & Johnson** is creating innovative drugs to tackle lung cancer and hepatitis B, endemic in China. And France's **Sanofi SA** is researching a new way to treat liver cancer—one of the most common forms of cancer here—despite early setbacks.

The move is a switch from a decades-old strategy of selling existing drugs to China's billion-plus people, and is aimed at strengthening a foothold in the world's second-largest drug market, which has long thwarted Western companies.

Lung, liver and stomach

cancers are among China's top killers, according to the World Health Organization, accounting for more than a million deaths every year. Those diseases kill hundreds of thousands of people in countries like Japan and South Korea too, offering an opportunity for drugmakers to sell China-tailored treatments in neighboring markets. Alzheimer's and other forms of dementia are among the top causes of death in the U.S. in comparison.

Western firms found China's lucrative market slipping away, and in recent years many began shifting from bringing in existing drugs to discovering new cures here.

J&J in 2012 opened a discovery lab in Shanghai, and is now working on new medicines for lung cancer, blood cancers and hepatitis B. Hepatitis C is more common in the U.S. The lab is planning to test its first breakthrough on patients over the next year, and expects the compound to emerge from its lung cancer or hepatitis B programs.

Novartis injected \$1 billion between 2009 and 2014 to convert an existing Shanghai facility into a new discovery

center. In October, it began testing its first China discovery—a molecule to treat nasopharyngeal cancer—on Chinese, Korean and Taiwanese patients.

En Li, Novartis's research head in China, said the company will soon test another compound, to treat liver fibro-

sis. His team of 600 scientists is running at least a dozen other projects aimed at finding new treatments for diseases such as lung and stomach cancer.

Until a few years ago, China lacked the manpower needed for drug discovery, a process that involves searching for

compounds with medicinal potential. But a government program encouraged thousands of Western-trained Chinese scientists to return over the past decade, prompting Big Pharma to deepen research.

Western firms have long contracted Chinese factories to manufacture their drugs inexpensively. Likewise, the cost of drug discovery is cheaper in China, meaning companies will increasingly use labs here to advance their global pipeline, according to Vikram Kapur, who leads Bain & Co.'s healthcare practice in Asia.

J&J and Novartis say their discoveries, while targeted at China's needs, will also be tested on patients in the West so they could be sold there if needed. Lung cancer, for example, is widespread in the U.S. and the U.K.

Instead of developing new molecules in its own lab, Sanofi is striking partnerships with academia in China. The company is running roughly 10

projects with Chinese universities, focused on finding treatments for liver cancer, hepatitis B and diabetes, said Alex Zhang, who oversees Sanofi's research activities in China. The collaborations are still in early stages, and he doesn't expect to see results before two years. The U.K.'s AstraZeneca PLC has also joined with universities in China, and is creating new drugs for stomach cancer and chronic kidney disease, among others.

Drugs that meet large clinical demand stand a better chance at being reimbursed by the government, making otherwise costly medicines more affordable for patients. They are also harder for doctors to ignore.

Local upstarts aren't far behind. Hutchison China MediTech Ltd., which counts Hong Kong billionaire Li Ka-shing among its backers, has sought approval for its first drug in China—a compound to fight colorectal cancer.

TECHNOLOGY

WSJ.com/Tech

Reality Is Dull for Game Makers

Augmented technology provides no big hits despite great hopes after 'Pokémon Go'

BY SARAH E. NEEDLEMAN
AND CAT ZAKRZEWSKI

A year after "Pokémon Go" prompted throngs of people to scour parks and streets for monsters visible only through smartphones, hit games made with augmented reality are rarer than a Snorlax.

In fact, analysts say, the monster-hunting blockbuster drove only a brief spike in games using the nascent technology, which

INDUSTRY FOCUS blends digital images with a person's view of the real world.

That is surprising, considering the ubiquity of screenshots showing Pokémon invading players' work desks, kitchen counters and other locations of everyday life. "Pokémon Go" reached \$1 billion in revenue globally just seven months after its release last July—faster than any other mobile game, including **Activision Blizzard** Inc.'s "Candy Crush Saga," according to App Annie Inc.

There are thousands of augmented-reality games among the millions of apps in the **Apple** Inc. and **Alphabet** Inc. stores. None, though, has

come close to the success of "Pokémon Go." There are several reasons why, industry observers say.

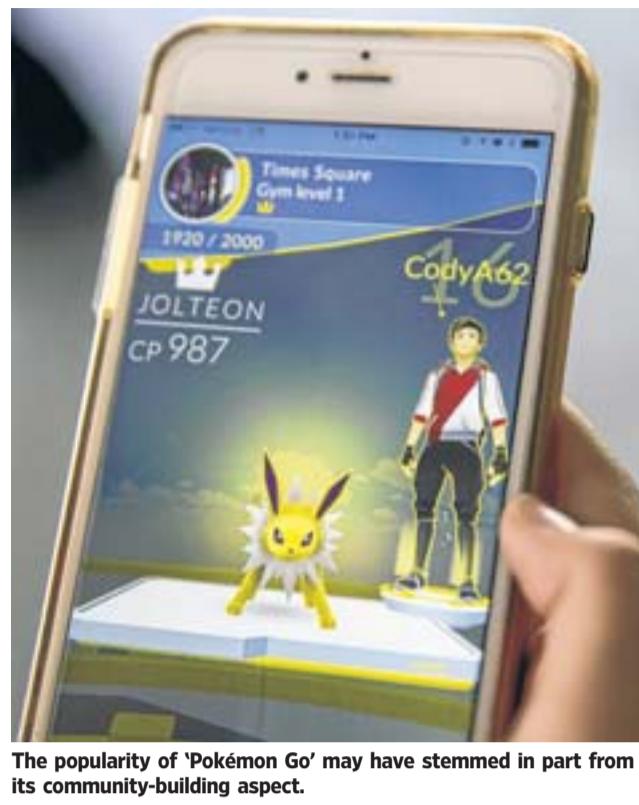
One is that the allure of "Pokémon Go" wasn't primarily its augmented reality.

While the game's digital monsters materialize as if in the real world, they don't interact with it. A Snorlax might appear next to a tree, but the catlike creature won't peek from behind it. Many players who took up hunting the monsters ended up turning off the augmented-reality feature.

The real innovation of "Pokémon Go," analysts say, was its use of location-based technology to get players walking outside and socializing with others. A recent update to the game doubled down on community building by letting players meet at specific locations to jointly defeat powerful monsters in "raids."

"We have worked for many years to build a new kind of game based on real world exploration, physical movement and social gameplay," **Niantic** Inc., the game's creator, said in an email. "Our definition of 'Augmented Reality' is the entire concept of building a game that takes place in and augments the real world."

Others believe the popularity of "Pokémon Go" had to do with, well, Pokémon, whose characters are known to millions of gamers old and young. "Ingress," a prior augmented-



The popularity of 'Pokémon Go' may have stemmed in part from its community-building aspect.

reality game from Niantic, attracted a decent following but wasn't nearly as popular.

Pocket Gems Inc. wanted to tap into the buzz around augmented reality last summer. The San Francisco mobile-game maker scratched the idea, though, convinced the success of "Pokémon Go" came largely from its intellectual property. The company is still open to making games using

augmented reality when the technology can better stand on its own, Chief Executive Ben Liu said.

The foundation is there. Some 40 million people in the U.S. this year are expected to use augmented reality at least once a month, mostly through social or utility apps, according to eMarketer. The research firm estimates that number will rise to 54.4 million by

2019.

Investors have poured \$4.5 billion into 707 virtual- and augmented-reality startups since 2010, according to industry tracker PitchBook Data Inc. Most of the money has gone toward the development of augmented-reality glasses and other areas outside of games, it said.

Augmented-reality backers argue more hit games will emerge as app makers experiment. Developers, for example, will be able to make digital images interact with objects in the real world, said Noah Falstein, who served as Google Inc.'s chief game designer from 2013 through April. Currently, fewer than a million smartphones worldwide can make use of that ability, he estimates.

Apple last month unveiled a new platform called ARKit aimed at bringing a richer augmented-reality experience to its roughly one billion devices worldwide. A demonstration at its developers conference showed a digital coffee cup appearing to physically rest on a table, rather than appearing superimposed on it.

Several smartphone brands that support Alphabet Inc.'s augmented-reality platform Google Tango are due out later this year. Currently, there are just two. And there are augmented-reality headsets in development from Microsoft Corp. and Magic Leap Inc.

Samsung Sets Sights On Smart Speaker

BY TIMOTHY W. MARTIN

SEOUL—Samsung Electronics Co. is developing a voice-activated speaker powered by its digital assistant Bixby, according to people familiar with the matter, joining an arms race in tabletop devices.

The timing is far from determined, the people said. The English-language version of Bixby has been delayed and they said many of the speaker's features and other specifications are yet to be decided. But the project—internally code-named Vega—has been going on for more than a year, several of the people said.

Should a Samsung speaker hit the market, the South Korean tech giant would face the likes of **Amazon.com** Inc., **Alphabet** Inc. and **Microsoft** Corp. in a race to create and install such speakers to eventually run internet-connected homes, cars and offices—from turning off lights to adjusting the thermostat.

To Silicon Valley, voice-activated speakers are more about big data than big bucks. The ultimate payoff is advancing voice-activated artificial-intelligence technology. The virtual assistants, like Amazon's Alexa, **Apple** Inc.'s Siri and Bixby, improve with use as the software learns from mistakes, industry executives say.

Amazon's Echo has captured more than 70% of the U.S. market for voice-activated speakers, with Alphabet's Google Home next at around 24%, according to eMarketer, a market-research firm.

The number of Americans using such speakers at least once a month will reach about 36 million this year, eMarketer said, double last year's figure.

One variable slowing Samsung's progress is the postponed U.S. launch of the English-language version of Bixby, which would operate the speaker much as Alexa operates Amazon's Echo device, according to people familiar with the matter.

Bixby's voice features were a key selling point for the smartphone maker's latest flagship model, the Galaxy S8, introduced April 21.

The company vowed the English-language Bixby would be ready by spring, but now Samsung internally believes those voice features are unlikely before the second half of July, one of the people said.

A Samsung spokeswoman said the company doesn't comment on rumors and speculation.

Baidu's CEO Takes Driverless Spin in Beijing

BY ALYSSA ABKOWITZ

BEIJING—Self-driving cars may be the future of personal transportation, but they are still forbidden on the streets of China's capital—as **Baidu** Inc. Chief Executive Robin Li was reminded Wednesday.

The tech executive took a ride in one of his company's self-driving prototypes to Baidu's artificial-intelligence developer conference at the National Convention Center. Chinese news organizations and social-media commentators quickly pointed out that driverless cars aren't allowed to operate on public streets.

Beijing traffic authorities couldn't be reached to comment, although Chinese media reports said they were looking into the matter. Baidu didn't respond to a request to comment.

Who said the road to self-driving cars wouldn't have a few potholes along the way?

Baidu, which operates China's most popular internet search engine, is hoping to leverage its technology in mapping and artificial intelligence into an autonomous vehicle capable of navigating city roads and highways by 2020. But Al-



Baidu-enabled vehicles under testing in China. On Wednesday, the company opened its Apollo software platform to developers.

phabet's Waymo, Ford Motor Co. and General Motors are all ahead of Baidu, according to a recent report by Navigant Research.

Instead of trying to go it alone, Baidu this spring announced Apollo, an open-source platform for self-driving software—akin to Google's open-source Android system for smartphones. At the developer conference on Wednesday, Baidu opened its Apollo open-source platform for self-driving software so developers can be-

gin downloading source code. "Apollo can be the Android in the car industry," Baidu President Qi Lu said. "In the long term, our innovation, capability and speed will be better than a closed system."

Mr. Qi also said the self-driving-vehicle platform now has partnerships with more than 50 entities, including chip maker Nvidia Corp., Dutch navigation maker TomTom, Intel Corp., Microsoft Corp. and Ford.

Many details on those partnerships haven't been released,

however, and it wasn't clear how Baidu would work with Ford, a potential competitor.

Even so, Baidu's move to open-sourcing its software and forging partnerships might help it catch up to its competitors, analysts said. "It definitely gives Baidu more of a chance to succeed," said Kitty Fok, managing director of research firm IDC. "Technology wise, Google and other global companies have spent a lot on investments."

To demonstrate the poten-

tial of collaboration, two of Baidu's Apollo version 1.0 self-driving cars were on hand for test drives at the developers conference.

Baidu's Apollo software, which provided a simple interface to drive a programmed route, was used in a Lincoln sedan. Baidu worked with **AutonomouStuff**, a Peoria, Ill.-based company that provides autonomous-enabling technology to create the prototype.

—Junya Qian and Liza Lin contributed to this article.

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FOWLER

Continued from page B1
board shortcut.

Multitask

The iPad now gets closer to dashboard experience of laptops, with the ability to make multiple apps fully functional at the same time—if you can figure out how.

The most basic way to multitask is Split View:

Launch one app, then pick another out of the dock and move its icon toward the edge of the screen. You have to hit just the right spot—not far enough, and it won't stick. This mode requires participation by app makers, which is limited today.

Another option, called

Slide Over, lets one app hover over another. Launch an app, then pick another out of the dock, dropping it not quite so

close to the edge. This took practice, and I never found a convenient way to make the floating app go away.

There's no way to turn an incoming notification—say, an email from your boss—into a Slide Over app. And with the exception of Safari windows, you can't run two of the same app side by side. Little stuff like that means more finger yoga to accomplish tasks that take only a slight hand movement on a Mac.

Drag and drop

This may be the most useful iPad skill yet. Say you want to email a photo: Tap the image you want to send, then drag it over to your email app and drop it in a new message. It works with text and files too.

You can drag several things at once: Tap one photo, then use a different finger to tap on another, and

they make a stack that you can drop as one.

Is this easier than holding command and selecting multiple things with a mouse or trackpad? No. But it is a clever use for the iPad's multi-touch screen.

Browse your files

On a laptop, you know where all your stuff is. But it was a big mystery on the iPad until now. iOS 11's Files app shows you what you've got stored locally, as well as in the cloud. Combined with drag and drop, this lets you organize your stuff into nested folders and even tag it.

Apple says even third-party services like Dropbox will be coming to this app. So your iPad could actually become the easiest way to search, tag and browse files if you've got them spread all over the place.

Apple has given its apps a boost, and the best example is Notes. Now if you tap the lock screen with an iPad Pro pencil, up pops the Notes app for taking your big ideas. It'll even recognize your handwriting so you can search for them with text later. Another trick: tap an icon in the lower right corner to take photos of paper documents. Notes will act like a scanner app and fix lighting and stretch them out to look great. Is this easier than taking a photo on your phone and sending it to your computer? Actually, yes! And that's still where the iPad shines most: doing things you just can't on a laptop.

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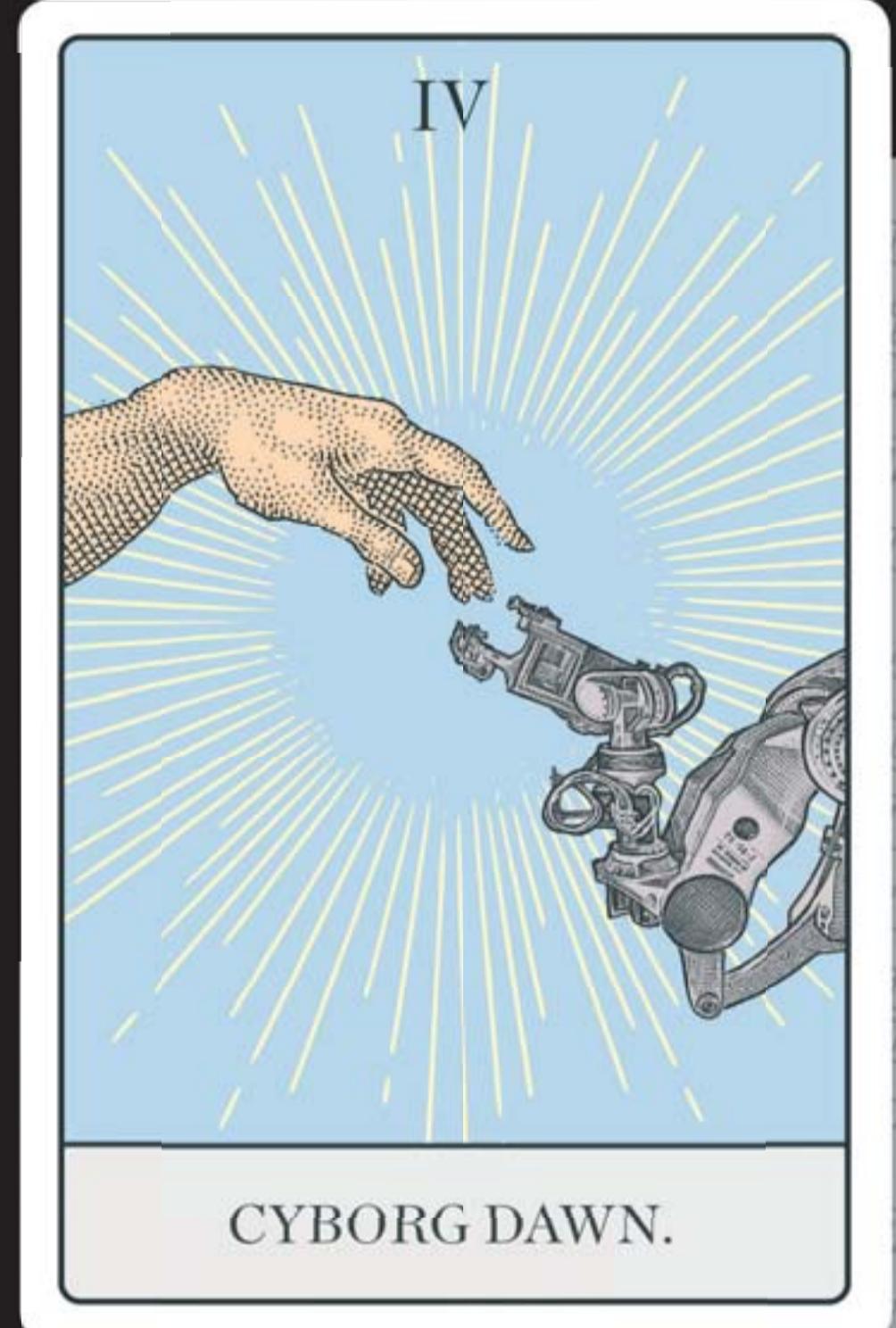
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BUSINESS NEWS

Stanford Tells Startups to Behave

Business school reacts as Silicon Valley faces criticism on treatment of women, minorities

By KELSEY GEE

As a slew of Silicon Valley companies confront accusations of unfair treatment of women and minorities, Stanford University's Graduate School of Business is trying to help would-be entrepreneurs create more conscientious companies.

The 10-week course is the first of its kind at the nation's most selective M.B.A. program and prime breeding ground for tech startups. Students enrolled in "Building Diverse and Inclusive Organizations," slated to launch this spring, will examine research on how to prevent bias from creeping into job descriptions and managers' feedback—and how to promote stronger feelings of belonging, which can enhance employee performance and retention of women and underrepresented minorities.

Students will also review case studies of companies' efforts to improve diversity with expanded parental leave and job promotion policies and critique recruitment and retention reports from firms like Facebook Inc., Apple Inc. and Procter & Gamble Co.

"We're at a tipping point, as people begin to realize that inclusion has to be built into the fabric of the company," says Fern Mandelbaum, a Silicon Valley venture capitalist leading the course.

Though other courses at Stanford touch on how diversity impacts a company's business performance, this is the first specifically evaluating the



ANGELA DECENZO FOR THE WALL STREET JOURNAL

'We're at a tipping point,' says Fern Mandelbaum, a venture capitalist leading Stanford's diversity course.

policies of startups and early-stage companies.

Gender and racial inclusivity has become one of Silicon Valley's most intractable challenges. This year alone, Facebook and Alphabet Inc.'s Google have been locked in public battles over allegations of discriminatory pay practices, which the companies dispute. The sector's treatment of women has attracted more scrutiny in recent weeks, as big investors in Uber Technologies Inc. demanded the resignation of Chief Executive Travis Kalanick following allegations he presided over a workplace permissive of sexism. Days later, a partner of venture firm Binary Capital resigned after he was accused of sexually harassing multiple women entrepreneurs.

Although companies have committed to stronger recruitment and retention efforts, the annual data that firms like

Twitter Inc. and Apple share about the gender and racial makeup of their workforces suggest slow progress.

Sluggish improvement and the string of scandals have prompted executives and aspiring founders to seek strategies to diversify workforces. Stanford business school's as-

changing," Ms. Mandelbaum says.

She has been on the front lines of Silicon Valley's efforts to change. In the past few years, she has spent less time in the office of Vista Venture Partners, the Palo Alto, Calif., firm she co-founded, as her role has grown as a corporate diversity coach. She also teaches other classes at Stanford, including "Entrepreneurship from Diverse Perspectives" and conducts workshops on creating supportive work environments.

During a two-week pilot of the new course in May, speakers like Pat Wadors, LinkedIn Corp.'s chief human resources officer, and Rachel Williams, Yelp Inc.'s head of corporate recruiting, led case study discussions. Co-teacher Joelle Emerson, founder of diversity consultancy Paradigm, invited Candice Morgan, the head of diversity at Pinterest Inc. and a current client, to speak

Silicon Valley's treatment of women has attracted more scrutiny.

sociate dean for academic affairs, Sarah Soule, says students have also asked for more guidance on the issue.

"There's been a lot of focus on the numbers by companies that say they care about diversity, without those numbers

changing," Ms. Mandelbaum says.

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about how the company trains managers to minimize implicit biases about job candidates and employees.

The course comes as Stanford—which enrolled 41% women and 29% minorities in the M.B.A. class last year—and other top business schools take steps to diversify the makeup of their own programs, administrators say.

Colton Heward-Mills, an African-American student who enrolled in the pilot course, says that while he has long felt passionate about diversity, he was particularly moved when a white classmate in the early stages of launching a company devised a strategy for supporting diverse employees for a project the two worked on.

"This class made me hopeful that more people who haven't typically needed to pay attention to these issues are beginning to now," he says.

Most companies are just starting to introduce strategies for reducing workplace bias, despite academic research showing bottom-line benefits, says Ms. Emerson.

Venture firm Freestyle Capital invited Ms. Mandelbaum to lead a panel on inclusion for the leaders of its portfolio companies last month. Since the discussion, Freestyle has started developing a metric for early-stage startups to evaluate investment opportunities. The measure is based on factors like a startup's commitment to diverse hiring and inclusive promotion practices, which Freestyle co-founder Josh Felser says have become an important gauge of a company's health.

"We don't want our CEOs to end up like Travis [Kalanick], and it's become clear that the earlier we can get them to understand the importance of diversity and inclusion the better," says Mr. Felser.

Judge Orders Shkreli to Keep Quiet

By REBECCA DAVIS O'BRIEN

A federal judge in Brooklyn told Martin Shkreli Wednesday to stop speaking about his ongoing securities-fraud trial in the vicinity of the courthouse after prosecutors sought a gag order to stop what they called a "campaign of disruption" by the former pharmaceutical executive.

The judge's directive came in court, minutes after prosecutors from the Brooklyn U.S. attorney's office revealed that the government and lawyers for Mr. Shkreli had been in plea talks up until weeks before the trial began in June.

A plea deal expired in April, Assistant U.S. Attorney Jacqueline Kasulis told the court. Mr. Shkreli's lawyer, Ben Brafman, said he was "ethically obligated" to seek a resolution, but that his client wasn't interested.

Mr. Shkreli, 34 years old, is on trial facing charges of conspiracy and securities and wire fraud stemming from his management of two hedge funds and a pharmaceutical company. He has pleaded not guilty and denied wrongdoing.

In a motion for a gag order, prosecutors cited the activity of a Twitter account that appeared to be run by Mr. Shkreli, as well as an un supervised visit Mr. Shkreli made Friday to an overflow viewing room in the courthouse, where he spoke with reporters.

On Wednesday, U.S. District Judge Kiyo A. Matsumoto said she was "shocked" by Mr. Shkreli's reported comments.

Mr. Brafman said his client's conversation in the overflow room was "ill-advised" and wouldn't happen again.

Dividend Changes

Dividend announcements from July 5.

Company Symbol Amount Yld% New/Old Frq Payable / Record

Increased

Bank of The Ozarks OZRK 15 18/175 Q Jul21/Jul14

Pacific Coast Oil Trust ROYT 19.7 0278/00673 M Jul20/Jul10

Riverview Bancorp RVSB 1.42 0225/02 Q Jul25/Jul14

Watco WSO 3.2 125/105 Q Jul31/Jul17

Watco B WSOB 3.3 125/105 Q Jul31/Jul17

Reduced

MV Oil Trust MVO 15.1 .225/.25 Q Jul25/Jul14

Funds and investment companies

AdvtClym Convertible II AGC 9.0 .047 M Jul31/Jul14

AdvtClymFd AVK 8.3 1132 M Jul31/Jul14

AllianzL Conv & Incm NCV 11.0 .065 M Aug01/Jul13

AllianzL Conv & Incm II NCZ 11.0 .0575 M Aug01/Jul13

AllianzL Div Incm ACV 9.4 .167 M Aug01/Jul13

Avenue Incm Cr Strat Fd APC 10.3 .12 M Jul31/Jul13

BlackRck Rscs Comm Str BCX 7.7 .0516 M Jul31/Jul14

BlackRock 2022 Gibl Cmng BGI 6.0 .05 M Jul31/Jul14

BlackRock CA Munia 2018 BJZ 2.0 .0253 M Aug01/Jul14

BlackRock CA Municipal Tr BFZ 5.0 .0595 M Aug01/Jul14

BlackRock Core Bond Tr BHK 5.6 .065 M Jul31/Jul14

BlackRock Corp Ht Yd Fd HYT 7.6 .07 M Jul31/Jul14

BlackRock Def Opp Cr BHL 6.2 .112 Jul31/Jul14

BlackRock Def Opp Cr Tr BHL 6.2 .051 M Jul31/Jul14

BlackRock Enh Eq Tr BDJ 6.3 .0467 M Jul31/Jul14

BlackRock Enh Gl Tr BOE 7.0 .078 M Jul31/Jul14

BlackRock FR Incm Strat FRA 5.2 .061 M Jul31/Jul14

BlackRock Income Trust BKT 5.0 .0265 M Jul31/Jul14

BlackRock Inv BKN 5.0 .062 M Aug01/Jul14

BlackRock Long-Term Muni BTA 5.5 .0545 M Aug01/Jul14

BlackRock MA Tax-Exempt MHE 4.6 .053 M Aug01/Jul14

BlackRock MD Muni BZM 3.9 .0474 M Aug01/Jul14

BlackRock Multi-Sector IT BIT 7.7 .1167 M Jul31/Jul14

BlackRock Mun BAF 5.6 .0685 M Aug01/Jul14

BlackRock Mun Yield NDF BHN 5.6 .065 M Jul31/Jul14

BlackRock Mun Yield RJF BHN 5.6 .065 M Jul31/Jul14

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MARKETS DIGEST

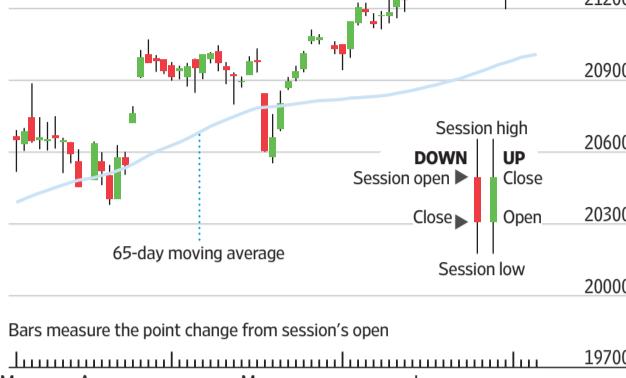
EQUITIES

Dow Jones Industrial Average

21478.17 ▼1.10, or 0.01%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 20.89 19.04
P/E estimate * 18.18 17.08
Dividend yield 2.30 2.55
All-time high 21528.99, 06/19/17

Current divisor 0.14602128057775



Bars measure the point change from session's open

Mar. Apr. May June 19700

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2432.54 ▲3.53, or 0.15%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 23.87 23.74
P/E estimate * 18.72 17.82
Dividend yield 1.96 2.18
All-time high: 2453.46, 06/19/17



Mar. Apr. May June 2270

Nasdaq Composite Index

6150.86 ▲40.80, or 0.67%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 25.69 22.62
P/E estimate * 21.01 18.88
Dividend yield 1.13 1.30
All-time high: 6321.76, 06/08/17



Mar. Apr. May June 5580

Major U.S. Stock-Market Indexes

	Latest		52-Week		YTD		% chg	
	High	Low	Close	Net chg	% chg	High	Low	3-yr. ann.
Dow Jones								
Industrial Average	21505.36	21404.76	21478.17	-1.10	-0.01	21528.99	17888.28	19.7 8.7 8.0
Transportation Avg	9683.16	9603.49	9645.91	6.28	0.07	9645.91	7557.62	27.6 6.7 5.2
Utility Average	704.27	698.86	700.94	-2.42	-0.34	737.51	625.44	-2.1 6.3 8.1
Total Stock Market	25235.20	25110.37	25211.69	14.14	0.06	25399.65	21514.15	16.6 8.3 6.6
Barron's 400	649.24	645.19	648.55	-0.07	-0.01	650.48	518.07	25.2 7.8 5.9
Nasdaq Stock Market								
Nasdaq Composite	6163.62	6100.42	6150.86	40.80	0.67	6321.76	4859.16	26.6 14.3 11.1
Nasdaq 100	5663.60	5593.66	5648.82	51.86	0.93	5885.30	4444.70	27.1 16.1 12.9
Standard & Poor's								
500 Index	2434.90	2422.05	2432.54	3.53	0.15	2453.46	2085.18	15.9 8.7 7.0
MidCap 400	1758.87	1746.85	1751.94	-6.10	-0.35	1769.34	1476.68	17.6 5.5 6.7
SmallCap 600	863.08	852.50	857.25	-6.09	-0.71	866.07	703.64	21.7 2.3 7.4
Other Indexes								
Russell 2000	1426.53	1412.62	1420.15	-6.54	-0.46	1426.68	1147.33	23.8 4.6 5.5
NYSE Composite	11829.92	11772.92	11809.49	-26.23	-0.22	11835.72	10289.35	13.1 6.8 2.1
Value Line	525.58	521.20	522.83	-2.75	-0.52	529.13	455.65	14.5 3.3 0.8
NYSE Arca Biotech	3960.38	3872.37	3954.57	77.36	2.00	4016.86	2834.14	26.9 28.6 11.5
NYSE Arca Pharma	538.05	533.79	537.57	0.39	0.07	554.66	463.78	0.5 11.6 0.4
KBW Bank	97.68	96.50	97.41	0.33	0.34	99.33	62.77	55.2 6.1 10.4
PHLX® Gold/Silver	80.01	78.48	79.87	0.86	1.08	112.86	73.03	-25.3 1.3 -7.7
PHLX® Oil Service	134.50	129.86	130.86	-4.21	-3.12	192.66	127.17	-19.9 28.8 -25.1
PHLX® Semiconductor	1043.15	1026.99	1041.78	21.28	2.08	1138.25	673.55	54.7 14.9 17.0
CBOE Volatility	12.03	10.79	11.07	-0.15	-1.34	22.51	9.75	-26.0 -21.2 2.4

\$Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Mkt and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Alerian MLP ETF	AMLP	12,667.6	11.90	...	unch.	11.96	11.89
SPDR S&P 500	SPY	5,926.6	242.65	-0.12	-0.05	242.77	242.49
Bank of America	BAC	5,123.6	24.88	-0.04	-0.16	24.95	24.68
PwrShrs QQQ Tr Series 1	QQQ	3,897.1	137.42	-0.11	-0.08	137.64	136.23
iSh US Home Construction	ITB	3,400.0	33.91	...	unch.	33.91	33.91
Cnsmr Staples Sel Sector	XLP	2,676.1	54.88	0.03	0.05	54.98	54.79
Vanguard FTSE Emerg Mkt	VWO	2,590.8	40.93	-0.02	-0.05	40.95	40.86
Van Eck Vectors Gold Miner	GDX	2,548.0	21.80	0.04	0.18	21.83	21.58

Percentage gainers...

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Teekay Offshore Ptrs	TOO	11.6	2.85	0.25	9.62	2.86	2.59
Impax Laboratories	IPXL	37.3	17.91	1.51	9.18	19.00	16.39
Herman Miller	MLHR	61.7	33.00	2.15	6.97	33.95	30.80
Regal Entertainment Grp	RGC	15.1	20.48	0.97	4.97	20.48	19.51
Velocity 3x Lg Crude ETN	UWT	360.5	12.72	0.58	4.78	14.00	11.80

...And losers

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Egalet Corp.	EGLT	123.9	2.06	-0.48	-18.90	2.50	2.00
Tahoe Resources	TAHO	38.9	7.35	-0.95	-11.45	8.30	7.22
Exterran	EXTN	5.4	23.23	-2.58	-10.00	26.18	23.23
PriceSmart	PSMT	17.8	80.81	-7.20	-8.18	88.00	79.20
Yum China Holdings	YUMC	694.3	38.01	-2.12	-5.28	40.48	36.15

Trading Diary

Volume, Advancers, Decliners

	NYSE	NYSE Mkt
Total volume*	884,853,235	9,351,673
Adv. volume*	310,830,842	2,769,627
Decl. volume*	555,562	

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract		Open		High hilo		Low		Settle		Chg interest	
Copper-High (CMX)-25,000 lbs.; \$ per lb.			March	3.229	3.267	▼	3.111	3.116	-1.106	79,477		
July	2.6755	2.6760		2.6330	2.6490	-0.0320	4,764					
Sept	2.6875	2.6915		2.6435	2.6600	-0.0330	141,815					
Gold (CMX)-100 troy oz.; \$ per troy oz.			April	2.831	2.848		2.764	2.769	-0.055	92,953		
July	122.50	125.00		121.10	122.40	2.50	74					
Aug	122.10	122.80		121.50	122.70	2.50	288,401					
Oct	122.50	123.80		122.40	125.30	2.40	17,532					
Dec	122.70	123.00		123.50	128.90	2.50	114,405					
Feb'18	123.10	123.70		122.60	123.40	2.50	12,155					
Jun	124.70	124.60		123.40	129.30	2.60	7,505					
Palladium (NYM)-50 troy oz.; \$ per troy oz.												
July	847.40	847.80		847.40	846.75	-8.00	18					
Aug	837.90	837.90		837.90	836.25	-7.60	4					
Sept	843.20	857.95		830.85	834.40	-8.00	31,479					
Dec	849.05	849.05		826.20	830.40	-6.10	2,758					
Platinum (NYM)-50 troy oz.; \$ per troy oz.												
July	905.80	906.70		902.50	905.70	1.90	137					
Oct	908.00	917.80		901.90	908.80	2.70	68,877					
Silver (CMX)-5,000 troy oz.; \$ per troy oz.												
July	16.100	16.100	▼	15.835	15.842	-0.195	1,201					
Sept	16.135	16.190	▼	15.850	15.896	-0.196	154,861					
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.												
Aug	47.04	47.32		44.51	45.13	-1.94	510,718					
Sept	47.25	47.52		44.73	45.34	-1.95	328,982					
Oct	47.40	47.71		44.96	45.55	-1.94	124,004					
Dec	47.89	48.19		45.50	46.10	-1.91	317,940					
June'18	48.66	49.11		46.79	47.31	-1.72	116,796					
Dec	49.52	49.84		47.73	48.23	-1.52	158,891					
NY Harbor USLD (NYM)-42,000 gal.; \$ per gal.												
Aug	1.5123	1.5248		1.4688	1.4785	-0.0343	124,579					
Sept	1.5188	1.5151		1.4750	1.4847	-0.0352	69,303					
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.												
Aug	1.5340	1.5409		1.4875	1.5024	-0.0324	142,376					
Sept	1.5260	1.5320		1.4766	1.4907	-0.0348	78,311					
Natural Gas (NYM)-10,000 MMBtu; \$ per MMBtu.												
Aug	2.952	3.020	▼	2.832	2.840	-0.111	273,835					
Sept	2.955	3.016	▼	2.830	2.837	-0.116	182,587					
Oct	2.989	3.045	▼	2.857	2.865	-0.119	180,664					
Jan'18	3.311	3.355	▼	3.175	3.181	-0.120	112,177					

Cash Prices | WSJ.com/commodities

Wednesday, July 05, 2017

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

Energy

	Wednesday		Wednesday		Wednesday	
Energy						
Propane,tet,Mont Belvieu-g	0.6081		Coin,wholesale \$1,000 face-a	12135		
Butane,normal,Mont Belvieu-g	0.7494		Soybeans,No.1 yellw IL-bp,u	9,4950		
NaturalGas,HenryHub-i	2.900		Wheat,Spring 14% pro Mnpls-u	9,1725		
NaturalGas,TranscoZone3-i	2.850		Wheat, No.2 soft red,St.Louis,bp,u	5,6400		
NaturalGas,TranscoZone6 Ny-i	2.230		Wheat - Hard - KC (USA) s per bu-u	5,3150		
NaturalGas,PanhandleEast-i	2.520		Wheat, No.1 soft white,Portlnd,OR-u	5,5500		
NaturalGas,Opal-i	2.630					
NaturalGas,MarcellusNE PA-i	1.950					
NaturalGas,HaynesvilleLla-i	2.770					
Coal,Cap.125,000Btu,12S02-r,w	52.50					
Coal,PwdrRvrBsn,8800Btu,0.8S02-r,w	11.550					

Metals

	Wednesday		Wednesday		Wednesday	
Gold, per troy oz						
Engelhard industrial	1221.72		LBMA Platinum Price PM	*908.0		
Engelhard fabricated	1313.35		Platinum,Engelhard Industrial	904.0		
Handy & Harman base	120.20		Platinum,Engelhard fabricated	1004.0		
Handy & Harman fabricated	1354.53		Palladium,Engelhard industrial	845.0		
LBMA Gold Price AM	*122.25		Palladium,Engelhard fabricated	945.0		
LBMA Gold Price PM	*122.75		Aluminum,LME, \$ per metric ton	*1903.5		
Krugerrand,wholesale-e	1271.35		Copper,Comex spot	2,6490		
Maple Leaf-e	1283.57		Iron Ore, 62% Fe CFR China-s	62.0		
American Eagle-e	1283.57		Hogs,Iowa So. Minnesota-u	86.70		
Mexican peso-e	1481.91		Pork bellies,12-14 lb MidUS-u	n.a.		
Austria crown-e	1201.25		Corn gluten meal,Midwest-u,w	468.8		
Austria phil-e	1283.57		Cottonseed meal,u,w	n.a.		
Silver, troy oz.			Hominy feed,Cent IL-u	n.a.		
Engelhard industrial	15,9500		Meat-bonemeal 50% pro Mnpls-u	290		
Engelhard fabricated	19,1400		Oats,No.2 milling,Mnpls-u	n.a.		
Handy & Harman base	15,9600		Rice, 5% Broken White, Thailand-u	429.00		
Handy & Harman fabricated	19,9500		Rice, Long Grain Milled, No.2 AR-u,w	21.50		
LBMA spot price	£12,3557		Sorghum,(Milo) No.2 Gulf-u	7,9463		
(U.S.\$ equivalent)	15,9500		Soybean Meal,Cent IL,rai,ton48%-u	318.30		

Metals

	Wednesday		Wednesday		Wednesday
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BIGGEST 1,000 STOCKS

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISYE and BATS.

The list comprises the 1,000 largest companies based on market capitalization.

Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.

Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Wednesday, July 5, 2017

Net

Stock Sym Close Chg

NYSE

ABB ABB 24.83 -0.05

AES AES 10.87 -0.14

Aflac AFL 78.30 -0.12

AT&T T 38.12 0.01

AXIS Capital AXS 65.75 -0.04

AbbottLabs ABT 49.00 0.29

AbbVie ABV 72.48 0.06

Accenture ACN 124.05 0.12

AcuityBrands AYI 208.84 -2.19

Adient ADNT 66.00 0.11

AdvancedAero AAP 1051.20 -3.20

AdvSemiEng ASX 6.30 0.02

Aegon AEG 5.25 0.05

AerCap AER 47.18 0.22

Aetna AET 153.33 0.93

AffiliatedMtrs AMG 170.29 1.07

AgilentTechs A 59.77 0.64

AigcinoEagle AEM 44.23 0.18

Aigrum AGU 91.14 -2.83

AirProducts APD 142.61 -1.68

AlaskaAir ALK 91.28 1.06

Albermarle ALB 108.02 1.99

Alcoa AA 33.77 -0.25

AlexandraRealEst ARE 120.35 -0.60

Alibaba BABA 144.87 3.88

Alleghany Y 59.65 -5.13

Allegion ALL 82.14 0.77

Allergan AG 244.29 0.31

AllianceData ADD 259.85 1.05

AllianceBernstein AB 23.65 -0.15

AllianzEnergy LNT 39.67 -0.13

AllisonTransl AMS 37.65 -0.17

Allstate ALL 88.81 0.18

AillyFinancial ALL 21.31 -0.02

AlticeUSA ATUS 31.20 -0.70

Altira MO 74.61 0.08

AlumofChina ACH 13.44 0.17

Ambev ABEV 5.49 0.02

Ameren AEE 53.86 -0.27

AmericaMovil AMX 16.05 0.13

AmericaMovil AMOV 15.87 0.18

AmCampus ACC 47.09 -0.74

AEP AEP 68.82 -0.18

AmericanExpress AXA 84.89 0.11

AmericanFin AFN 101.69 0.24

AmericaHomesRt AMH 22.47 -0.14

AIG AIG 62.79 -0.51

AmerTowerReIT AMT 132.23 0.84

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A

BANKING & FINANCE

Lloyds Shuffles Top Executives

Moves come amid criticism from investors of bank's succession plans

By MAX COLCHESTER

Lloyds Banking Group PLC promoted several executives Wednesday, ahead of a strategy revamp and in a bid to appease investors concerned that the bank had too few potential internal successors to Chief Executive António Horta-Osório.

The shuffle announced by the bank also sees key lieutenants to Mr. Horta-Osório handed extra responsibilities, evidence of the Portuguese financier's desire to tighten his grip at the lender's helm.

Executive Director Juan Colomé will take the additional role of chief operating officer, while Chief Financial Officer George Culmer will also over-

see strategy. Andrew Bester, head of commercial banking and one of the few Lloyds executives once touted as a potential successor to Mr. Horta-Osório, is leaving the company.

The moves follow months of speculation that Mr. Horta-Osório, having overseen the successful privatization of Lloyds, would leave the bank to join a rival or pursue a career outside finance. Mr. Horta-Osório has repeatedly said he was happy at Lloyds.

However, one major criticism from investors was that the bench of potential internal successors for Mr. Horta-Osório was too small. Wednesday's moves were in part to address this, according to a person familiar with the matter.

A handful of executives were promoted, including Vim Maru, who will oversee the bank's vast retail business. David Oldfield will run the bank's

commercial business. The changes are still subject to regulatory approval, according to the bank.

Lloyds will outline its next strategic plan in February, following years of reshaping after its taxpayer bailout in 2009. Earlier this year the government finally shed the remnants of its investment in the bank.

Lloyds will now focus on continuing to reshape itself into one of the lowest-cost retail banks in Europe. The new plan is likely to see more focus on cost cutting and refocusing on digital products as the bank wrestles with low interest rates and the threat of disruption by technology giants like Amazon.com Inc. or Alphabet Inc.'s Google, according to a person familiar with the matter.

The management shuffle will allow executives to be in place and put the plan into action once it is completed.



Key lieutenants of CEO António Horta-Osório were promoted.

FINANCE WATCH

AIG

Marsh & McLennan Veteran Joins Firm

New American International Group Inc. Chief Executive Brian Duperreault has hired former Marsh & McLennan Cos. colleague Peter Zaffino to be one of his top lieutenants, his first high-profile recruit since joining the insurer in May.

Mr. Zaffino will start as executive vice president and global chief operating officer on Aug. 1. Current chief operating officer Jeff Hurd will leave AIG at the end of July, according to an employee memo from Mr. Duperreault that was reviewed by The Wall Street Journal.

Mr. Zaffino comes to AIG after six years as CEO of Marsh &

McLennan's Marsh brokerage unit. He was also chairman of Marsh & McLennan's risk and insurance services operation. Current Marsh President John Doyle will take Mr. Zaffino's spot as CEO.

Mr. Duperreault was CEO of Marsh & McLennan from 2008 to 2012.

Mr. Zaffino's selection was first reported by trade publication Insurance Insider.

Mr. Zaffino is expected to become a key part of a team tasked with improving AIG's profit margins after years in which the company has trailed many peers. He will "work closely with me" and other executives to "develop AIG's long-term strategy and operating plan," Mr. Duperreault said in his memo to employees.

Mr. Duperreault was named to the top job after a profit-improvement plan championed by the previous AIG chief executive, Peter Hancock, fell behind schedule. Some activist investors—including Carl Icahn, who has a representative on AIG's board—last year called for the insurance conglomerate to improve its results by splitting itself apart. But those investors have given AIG some leeway to improve returns using other methods.

Thus far Mr. Duperreault has said he is open to slowing down the firm's share buybacks and instead using the capital for acquisitions. He also has said he won't split up AIG and instead pledged to "grow it." He has said he doesn't have specific acquisitions in mind but was "open for business."

—Leslie Scism

NASDAQ

Vendor Reporting Glitch Is Resolved

Nasdaq Inc. said Wednesday that a "vendor reporting issue" that caused erroneous data to be disseminated earlier this week was resolved.

The erroneous data on some platforms showed wild price swings in two dozen securities, including widely held Apple Inc. and Microsoft Corp.

Many U.S. investors likely didn't notice anything amiss ahead of the Independence Day holiday and the issue didn't affect any trades.

Still, some global investors were left scratching their heads late Monday after incorrect stock-price data briefly

showed shares of Apple down 14%, Amazon.com Inc. off 87% and Microsoft shares up nearly as much.

Tal Cohen, Nasdaq's senior vice president of North American equities, wrote in a news release that a "few isolated third-party vendors" disseminated incorrect price data after 6:30 p.m. Eastern Time on Monday. He said that Nasdaq contacted the vendors, which weren't named, to inform them of the issue.

"Because the markets were closed, no trades were executed at the test data prices," Mr. Cohen said. "The vendors who distributed the erroneous data have corrected their systems, and accurate prices are reflected across all channels."

—Chris Dieterich

HNA

Continued from page B1
the June 15 petition.

"HNA stands to gain nothing from the liquidation process," HNA said in a statement.

Charles B. Mobus, a different HNA appointee to Travana's board who is a managing partner at New York banking firm Benedetto, Gartland & Co., said the allegations in the petition are without merit. Mr. Mobus sits on the boards of several other companies acquired by HNA and says he has worked with HNA for more than 20 years. Benedetto, Gartland & Co. specializes in raising capital for private-equity firms and providing other investment banking services.

Closely held HNA Group had humble beginnings as an airline in China's southern Hainan province and once attracted billionaire George Soros as an investor. In recent years it has been on an acquisition tear. Large via overseas acquisitions, its assets have more than quadrupled since 2010 to about \$146 billion, according to HNA's website. It has announced about \$33 billion in foreign acquisitions since 2015, according to Dealogic, including a \$6.5 billion purchase of 25% of Hilton Worldwide Holdings Inc. and a \$6 billion deal for electronics distributor Ingram Micro Inc.

But Chinese regulators have recently started to probe the high debt levels of HNA—which had about \$104 billion in debt at the end of 2016—as well as other aggressive overseas investors. Some industry watchers warn that HNA may be taking on more than it can effectively manage.

"It's stretching their management bandwidth," said Edward Tse, chief executive of Gao Feng Advisory Co., a Shanghai-based consulting firm. "They are dabbling in financials and logistics. It's getting farther from what they are familiar with."

In previous statements, HNA said it "has built up a strong global business with world class tourism, logistics and financial services assets. The Company is in a sound financial and operational situation." HNA declined to comment beyond the statement.

Another one of HNA's earlier investments in the U.S. also appears to be struggling. At Nicklaus Club, a Monterey,



CHRISTOPHER GOODMAN/BLOOMBERG NEWS

HNA Chief Adam Tan. HNA's assets have more than quadrupled since 2010 to about \$146 billion.

The Ups and Downs Of Deal Making

HNA Group Co. has struggled with some of its acquisitions. But others appear to be paying off for the Chinese conglomerate.

Brussels-based **Rezidor Hotel Group** AB, in which HNA has a 51.2% stake as of May 2017, reported its strongest quarterly earnings since 2007 during the first quarter of this year. The Chinese firm has also made, thus far, shrewd bets in real estate in Midtown Manhattan. HNA said in March it is looking to sell its 90% stake in a top tier office building at 1180 Sixth Avenue in New York

City. It purchased the property for about \$265 million in 2011.

In Europe, HNA is facing problems with the management of a Spanish hotel group in which it is the biggest shareholder. Last year, a minority investment group removed Charles B. Mobus and other HNA appointees from NH Hotel Group's board and replaced the chief executive officer after stating that HNA had conflicts of interest when HNA decided to purchase a rival chain.

In open letters to NH Hotel's shareholders, Mr. Mobus, who sits on the boards of several other companies acquired by HNA, said that there are corporate governance lapses in the current management of the ho-

tel group. He added that the managers had interests that weren't aligned with other shareholders. NH Hotel didn't respond to requests for comment.

"All acquisitions have problems. What matters is how you solve them," said Mr. Mobus.

He pointed to a situation in Zurich, where a Swiss air-cargo handler bought by HNA and on whose board Mr. Mobus sits, found itself in a technical breach of debt covenants this year, after a mistaken transaction by an HNA subsidiary. HNA put \$800 million into **Swissport International** Ltd. after the breach was discovered, helping to support the company's finances.

—Carolyn Cui and Esther Fung

Calif., golf club that HNA took over in 2015, the Chinese company insisted on approving all expenses, according to a person who worked there. HNA took seven months to approve a \$150,000 bill to fix a broken well on the course, causing the grounds to dry and many members to leave, according to a member and a former manager.

HNA declined to comment on the Nicklaus disputes.

HNA's involvement with Travana started in early 2015, when HNA Chief Executive Adam Tan was introduced

through a Goldman Sachs Group Inc. investment banker to an entrepreneur, Mr. Chen, according to a person familiar with the situation. Mr. Chen was seeking funds to help rescue the assets from a bankrupt online travel firm that he had invested in, according to the creditors' court petition to launch an investigation into Travana's bankruptcy. He proposed to start a new company, which became Travana, using the assets from his previous bankrupt firm, according to the filings and the creditors' court petition.

Messrs. Tan and Chen met at HNA's headquarters in Beijing in May, and later that month, Mr. Chen went to Hangzhou and met with HNA's chairman Wang Jian and Mr. Tan at Shangri-La Hotel near the scenic West Lake in the city, according to the person familiar with the matter.

HNA agreed to invest as much as \$200 million in the venture, acquiring a 90% ownership interest, according to the June 15 creditors' petition. Mr. Chen was appointed CEO and represented minority shareholders on the board,

Goldman Says Stake In Simon Available

By LIZ HOFFMAN

Goldman Sachs Group Inc. is seeking to sell a stake in Simon, its two-year-old web app that sells complex financial products to retail investors.

Goldman is soliciting investments that would value Simon at about \$75 million and lay the groundwork for a spinoff of the business, according to people familiar with the matter.

Simon is an online marketplace for structured notes, bondlike instruments that pay investors based on the performance of other financial metrics, like the S&P 500 or oil prices. It has done well with retail brokers who buy these products but has been slower to take off among banks that issue them—Goldman rivals.

This is a common challenge on Wall Street: Initiatives that need multiple banks to thrive—to reduce costs, deepen liquidity and product choice, and gain clients' trust—can be hampered by old rivalries. Shared platforms are cheaper and more efficient but are a tough sell when they are backed by a single bank.

Bringing in outside investors could bolster Simon's credibility as a neutral platform and give it an edge in a growing crowd of tech-enabled competitors.

Goldman is talking to several firms about a deal to both invest in Simon and agree to sell products through it, the people said. There is no guarantee, though, that the talks will produce a deal.

Having outside investors could bring more banks onto the Simon platform.

Goldman declined to comment.

Simon connects banks that issue structured notes with retail brokers who buy them on behalf of clients. It was originally developed as a conduit between Goldman's traders and its own wealth advisers, and opened up to outside firms in 2015.

Since then it has enrolled thousands of advisers at brokerages such as **Raymond James Financial** Inc. who can use the app to customize notes for their clients and learn about these complex products.

But it has been tougher to attract rival banks to the platform. **J.P. Morgan Chase & Co.**, one of the largest issuers of structured notes, chose to partner with **International Business Machines Corp.** to develop its own competing platform.

Among the largest banks that sell structured notes and certificates of deposit, only Goldman does so through Simon. Others such as **Barclays PLC** and **Credit Suisse Group AG** use independent brokerages or their own sales forces.

Some other banks have resisted Goldman's fees, according to people familiar with their concerns. Others say they would prefer a neutral platform that isn't run by one bank. Independent competitors are springing up, too, such as **Transparitrade**, launched by a former Wall Street lawyer.

Having outside investors in Simon would put some distance between it and Goldman's own trading desk and potentially bring new banks onto the platform. That could give brokers more choices when selecting products for clients.

It would also mark the latest bid by Goldman to monetize software it initially developed for internal use. Goldman in 2015 spun out a series of apps it had built to allow its employees to access their work email on mobile devices. An internal chat tool called **Live Current** became the basis for the **Symphony** message service now available across Wall Street.

MARKETS

Hotels, Cruise Lines, Casinos Flourish

Stocks are among top U.S. performers as demand for travel and leisure stays strong

BY AMRITH RAMKUMAR

Hotels, cruise lines and casinos are some of the best-performing stocks in the U.S. so far this year, reflecting solid demand for travel and leisure despite industry concerns that President Donald Trump's policies could hurt foreign tourism.

Wynn Resorts Ltd. was one of the top five best-performing stocks in the S&P 500 so far this year, rising 53% through Wednesday. **Royal Caribbean Cruises** Ltd. and **Wyndham Worldwide** Corp., a hospitality-service company, were among the index's 35 best performers. A group of 11 hotel, restaurant and leisure stocks in the S&P 500 has risen 19% so far this year, outperforming the S&P 500 and its broad consumer-discretionary sector.

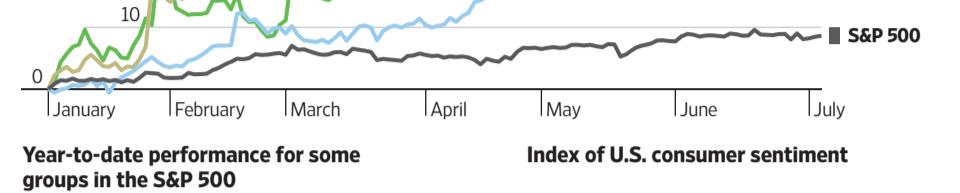
Some travel organizations, including the World Travel & Tourism Council and travel consultant ForwardKeys, have said that they expected some of Mr. Trump's policies to dampen appetite for tourism to the U.S.

The administration started to implement its temporary travel ban that affects visitors from six Muslim-majority na-

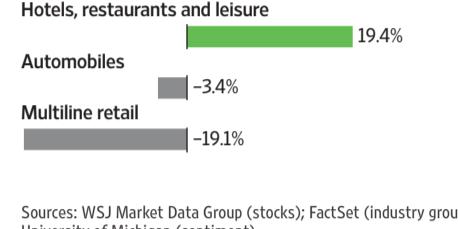
Sailing

U.S. travel and leisure stocks are rising even as some in the industry have expressed concerns that U.S. policies could weigh on tourism. Consumer sentiment is helping, some analysts say.

Performance since the end of 2016



Year-to-date performance for some groups in the S&P 500



Sources: WSJ Market Data Group (stocks); FactSet (industry group performance); University of Michigan (sentiment)

Index of U.S. consumer sentiment



THE WALL STREET JOURNAL.

with other stocks in the consumer-discretionary sector, they say. The S&P 500 grouping also includes traditional retailers, many of which have been hammered by lower foot traffic and internet competition from e-commerce giants like Amazon.com Inc.

"Consumer-discretionary money needs to be invested somewhere, and the gaming and lodging spaces have benefited from some of the Amazon-driven disruption in some of the other subsectors," Deutsche Bank analyst Carlo Santarelli said.

The U.S. Travel Association said Wednesday that international travel to the U.S. grew in May compared with the same month a year earlier, after also posting a year-to-year increase in April. Domestic travel also rose in May, the association said.

As of May, spending on hotels, leisure and travel has increased every month except for two since the start of 2015 compared with a year earlier, according to First Data Corp. Sales data from a database that includes four million merchant locations across the U.S. show monthly travel expenditures increased almost 6% on average year to year, hotel expenditures rose 4.4% and leisure spending increased 2.8% over that period.

Aside from leisure-linked shares in the consumer-discretionary sector, "you're looking at retail or restaurants, where every day, same-store sales are down," and store closures and fears of competitive encroachment weigh on investors, said Rachael Rothman, a Susquehanna Financial Group analyst who covers hotels, casinos and cruise companies.

Meanwhile, casinos are benefiting from strength in Macau, Las Vegas and regional gambling, Telsey Advisory Group senior equity analyst David Katz said.

Macau monthly gambling revenue has increased every month from a year earlier since August 2016, according to the Macau Gaming Inspection and Coordination Bureau. That follows 26 months of declines as Chinese President Xi Jinping's administration cracked down on corruption.

Steve Wynn, chairman and CEO of Wynn Resorts, said on Wynn's most recent earnings call in late April that the crackdown hurt the company briefly, but that expected patterns of spending were resuming.

"People are settling back into routines that they're comfortable with, and that includes going to Macau and buying a new car or shopping at Louis Vuitton," Mr. Wynn said.

Wall Street analysts expect Wynn's earnings per share to grow by more than 40% from the end of 2016 to the end of 2017, according to FactSet.

Saudis to Cut Price of Some Crude Exports to Asia

BY BOENIT FAUCON

cision by OPEC and key allies such as Russia to tighten the spigots last year should enable Saudi Arabia to charge more for each barrel it sells.

But the Kingdom faces mounting competition from other producers in OPEC, notably Libya, Nigeria and Iran, which are exempted from the group's output reductions.

Amid a thaw between the country's warring militias, Libya says its oil production has risen to 1 million barrels a day—an increase of 170,000 barrels a day over two months to a level not reached since 2013. According to **JBC Energy**, Nigeria added 250,000 barrels a day during the same period following a truce with militants last year.

Both countries mostly produce highly prized light oil and have focused their expanding sales to the Asian market.

Iran's production is nearing 4 million barrels a day for the first time since sanctions were lifted last year, the country's government spokesman Mohammad Bagher Nobakht was quoted as saying Tuesday by the semiofficial ISNA news agency. Iraq, which has struggled to comply with its commitment to cut, also is increasing its exports, according to Baghdad's petroleum ministry.

Prices normally rise in the third quarter to reflect higher seasonal demand as refineries restart operations after first-half maintenance; the Middle East burns oil for air conditioning and American drivers hit the road. In addition, a de-

tions last week and has pushed to restrict some visas and issued new security measures for airlines flying to the U.S.

"We are watching it like a hawk," said **Marriott International** Inc. Chief Executive Arne Sorenson, when asked at an analyst meeting in March about travel challenges relating

to the travel ban, currency difficulties and nationalist sentiment in the U.S. and abroad.

"To state the obvious, the language around these issues and the sentiment around these issues is not a positive thing."

Mr. Sorenson is one of several executives who have publicly voiced concerns that Mr.

Trump's policies could hurt the travel industry.

So far, some analysts say that anxiety hasn't hurt their shares. Travel and leisure shares are benefiting from improved consumer confidence and tourism-related spending, making them attractive investment alternatives compared



Saudi Arabia is facing mounting competition within OPEC from Libya, Nigeria and Iran. Saudi Aramco's Manifa oil-field causeway.

SAUDI ARAMCO

S&P Climbs as Technology Rebounds

BY AMRITH RAMKUMAR AND RIVA GOLD

A rebound in technology shares boosted the S&P 500 on Wednesday.

The tech sector ended a three-session streak of declines and remained the best performer out of the 11 major groupings in the S&P 500 so far this year.

The gains helped the Nasdaq Composite outperform its peers Wednesday.

The Nasdaq rose 40.80 points, or 0.7%, to 6150.86 after falling for three consecutive trading days. The S&P 500 rose 3.53 points, or 0.1%, to 2432.54 and the Dow Jones Industrial Average declined 1.10 points, or less than 0.1%, to 21478.17.

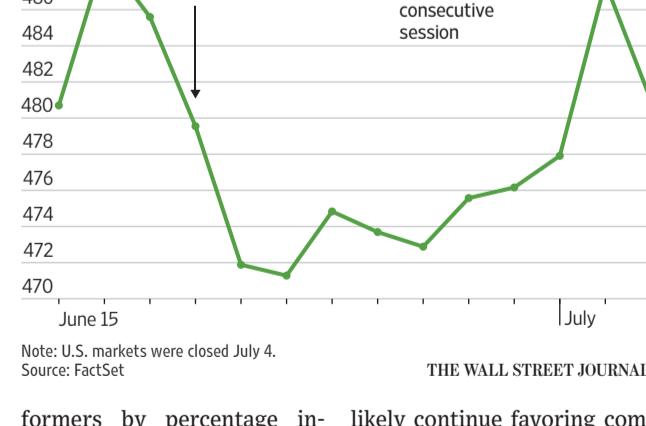
Semiconductor stocks were some of the day's biggest gainers after chip maker **Nvidia** announced an artificial-intelligence technology partnership with Chinese internet giant **Baidu**. On Monday, the Semiconductor Industry Association said worldwide chip sales grew by 22.6% in May compared with the same month a year prior, the largest such increase since September 2010.

Advanced Micro Devices and **Micron Technology** were the S&P 500's two best per-

Slippery Slope

Volatile oil prices have swung energy stocks in recent weeks.

S&P 500 energy sector



Note: U.S. markets were closed July 4.

Source: FactSet

a bear market June 20 amid oversupply concerns, before prices rallied at the end of the month.

"I've been a long-term believer of the view, 'sell rallies in oil,'" said Nathan Thooft, senior managing director of global asset allocation at Manulife Asset Management. "This is just another instance of that. The overall supply dynamic is still not solved," he said.

Falling oil prices helped support bonds and other haven assets, with the yield on the benchmark 10-year U.S. Treasury note falling to 2.334% from 2.352% Monday. Yields fall as prices rise.

Market reaction to the Federal Reserve's minutes from its June meeting was muted. The minutes showed officials readying plans to start gradually shrinking the central bank's balance sheet in coming months.

Some investors and analysts said the minutes of the meeting weren't surprising after a number of global central banks struck a more hawkish tone last week.

"Markets seem to have an understanding of where the Fed's mind is today, and nothing has altered that path as of yet," said Mr. Thooft.

Elsewhere, the Stoxx Europe 600 rose 0.2%. Early Thursday, Japan's Nikkei was down 0.3%.

Traders said the muted reaction in the bond market suggested that many investors don't expect a big rise in yields given the cautious approach taken by the Fed in normalizing its crisis-era monetary policy.

The minutes suggested the Fed was inching closer toward making the first step in cutting its large bondholdings. Yet it showed officials remained split on the timing to implement the exit strategy for its signature monetary stimulus following the 2008 financial crisis.

Policy makers are confront-

Treasurys Hardly Stir As Fed Signals Shift

BY MIN ZENG

The bond market barely budged Wednesday following the latest signal that the Federal Reserve may start paring back its large bondholdings in the coming months.

The yield on the benchmark 10-year Treasury note briefly ticked up to 2.35% after the release of the minutes for the Fed's June meeting. But it then slipped and settled at 2.334%, compared with Monday's 2.352%, its highest close since May 11.

Yields fall as bond prices rise. The U.S. bond market was shut Tuesday for the Independence Day holiday.

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Policy makers are confront-

ing the continued disconnect in the economy that is complicating the policy normalization process: a labor market that is approaching full employment versus signs of slowing inflation.

"The Fed is divided over the timing of the balance sheet rundown and why inflation is where it is," said Luke Bartholomew, investment manager at Aberdeen Asset Management. "The market is going to struggle to read the tea leaves with this one."

The 10-year yield has jumped from this year's low of 2.135% set on June 26. Hawkish comments last week from top policy makers at central banks in the eurozone, Canada and the U.K. raised investors' concerns over a pivot toward tighter monetary policy, pushing up global government bond yields.

A closely watched survey showed Wednesday that sentiment was the most bearish on Treasury bond prices since last December.

The share of investors expecting higher bond yields rose to 32% for the week that ended Monday from 27% a week ago, according to the Treasury client survey from J.P. Morgan Chase & Co. The share of those expecting lower yields fell to 11% from 23%.

likely continue favoring companies with good cash flow, said Laurie Kamhi, managing director and partner of LCK Wealth Management at HighTower.

"There's going to be a huge disparity in the winners and losers," she said.

Meanwhile, energy shares slid as oil prices tumbled anew.

The energy sector was the S&P 500's worst performer, falling 1.3%. U.S. crude for August delivery fell 4.1% to \$45.13 a barrel to end an eight-session winning streak—its longest since 2010. Oil entered

the session with a 1.1% decline.

With investors piling into and out of some of the biggest tech stocks recently, they will

likely continue favoring companies with good cash flow, said Laurie Kamhi, managing director and partner of LCK Wealth Management at HighTower.

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MARKETS

IPOs Rebound Despite Big Holdouts

More than 160 private companies are valued at \$1 billion or more, including Uber, Airbnb

By CORRIE DRIEBUSCH

Initial public offerings in the U.S. have rebounded this year, but that strength hinges on reducing the backlog of private companies valued at \$1 billion or more, bankers and fund managers say.

Companies making their stock-market debuts in the first half raised roughly \$28 billion, above the first-half average going back the last two decades, according to data provider Dealogic. Given a strong stock market, low volatility and scores of private companies that could be ready for initial offerings, the IPO market should be even busier, some fund managers and bankers say.

"The new-issue market is healthy, so I would have expected we'd have more IPOs given the market environment matched against this backlog of private companies," said Anthony Kontoleon, global head of equity syndicate at Credit Suisse Group AG.

More than 160 private companies are valued at \$1 billion or more, including ride-hailing company **Uber Technologies Inc.** and **Airbnb Inc.**, according to data from Dow Jones VentureSource. In June 2014, there were about 60.

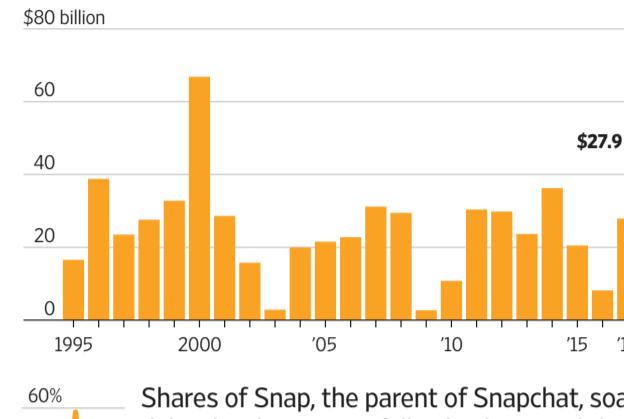
Some of these companies are likely to go public in the second half of this year, but few big-name startups are expected, some bankers and stock-exchange officials say.

"There are a lot of private companies I would assess as ready to go public. Whether they choose to go public or not, I'm not sure," said Gavin Baker, manager of the Fidelity OTC Portfolio. His firm invests in still-private companies as well as publicly traded firms,

Next to Normal

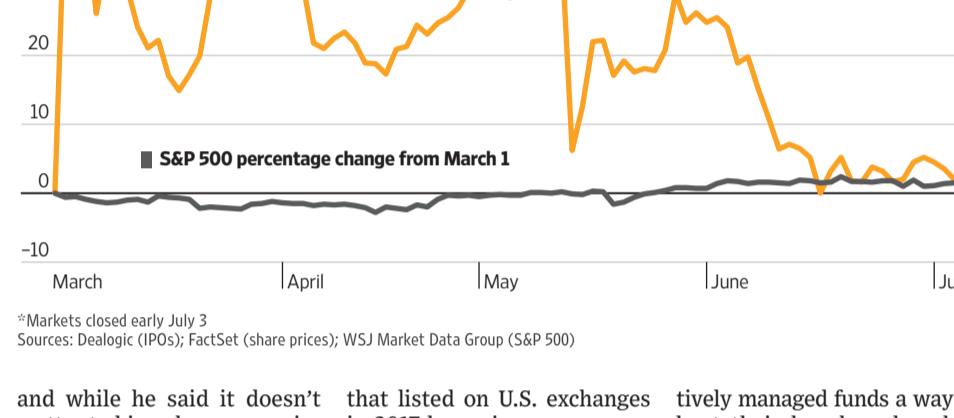
Money raised by U.S.-listed initial public offerings returned to more average levels in the first half of the year, after a dismal 2016.

Total money raised through the first six months of each year



Shares of Snap, the parent of Snapchat, soared in their debut but have since fallen back toward their IPO price.

Snap percentage change from IPO price



*Markets closed early July 3
Sources: Dealogic (IPOS); FactSet (share prices); WSJ Market Data Group (S&P 500)

and while he said it doesn't matter to him when companies choose to make their stock-market debuts, he does believe companies benefit from being publicly traded. "It forces a level of discipline and transparency," he said.

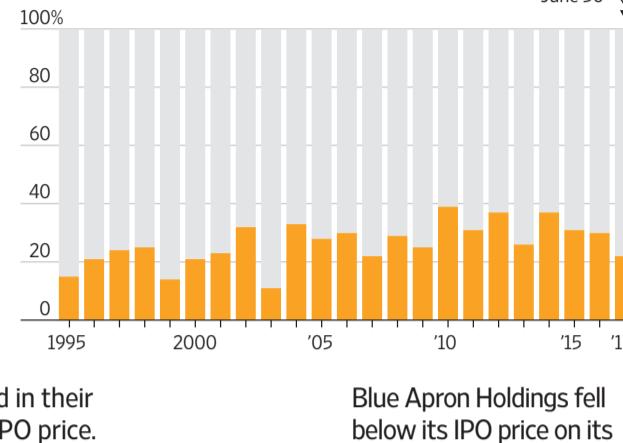
IPOs have generally encountered solid interest from investors this year. Companies

that listed on U.S. exchanges in 2017 have risen an average 10% from their IPO prices, according to Dealogic data for the first half. The S&P 500 rose more than 8% in that time.

Part of what has fueled demand for new offerings, some fund managers say, is that these outsize gains offer ac-

A majority of companies that have gone public in the U.S. this year have been able to avoid pricing their shares below expectations.

Percentage of U.S.-listed IPOs that priced shares below their initial target range



Blue Apron Holdings fell below its IPO price on its second day of trading, after it priced shares below its initial expectations.



THE WALL STREET JOURNAL.

tively managed funds a way to beat their benchmarks when passive investment strategies are growing more popular and stock indexes such as the S&P 500 have performed well.

Newly listed technology companies have had a particularly strong showing, echoing broader gains in technology stocks around the world. Tech

IPOs in the first half of 2017 were up an average 19% from their offer price, according to Dealogic. Among the best performers are enterprise software companies, including MuleSoft Inc. and Okta Inc., which have gained more than 45% and more than 30%, respectively, since their IPOs.

In a sign of the breadth of

the rebound, one of the best-performing IPOs in the first half was construction company Jeld-Wen Holding Inc., which has risen 37% from its IPO price through Wednesday.

Still, some of the most highly anticipated IPOs of 2017 have struggled recently. Snap Inc. shares soared in their first day of trading in early March, rising 44% after pricing at \$17 a share, a dollar above expectations, but in recent weeks the Snapchat parent has fallen. On Wednesday, shares closed down 1.5% at \$17.32.

Blue Apron Holdings Inc. suffered a particularly disappointing stock-market debut in the last week of June. The meal-kit maker offered shares at the bottom of its lowered target range, and the stock closed below its IPO price on its second day of trading. Blue Apron shares closed at \$8.84 Wednesday, down 12% from their IPO price.

Some fund managers and bankers said Blue Apron's difficult path to public markets was likely to come up in conversations as other private companies decide whether to list. However, many are treating the company as an outlier. In the first half, 22% of companies priced their U.S.-listed IPOs below their initial pricing ranges, on track for the smallest percentage of companies to do so since 2007, according to Dealogic.

Fear of potentially market-moving events, such as the U.K. referendum on leaving the European Union and the U.S. presidential election, deterred many companies from going public in 2016, but expectations of volatility have been muted so far this year, which bodes well for offerings in the second half.

"From a macro point of view, there are more reasons to go public in the current environment than there are to wait," said Paul Donahue, head of Equity Capital Markets Americas at Morgan Stanley.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

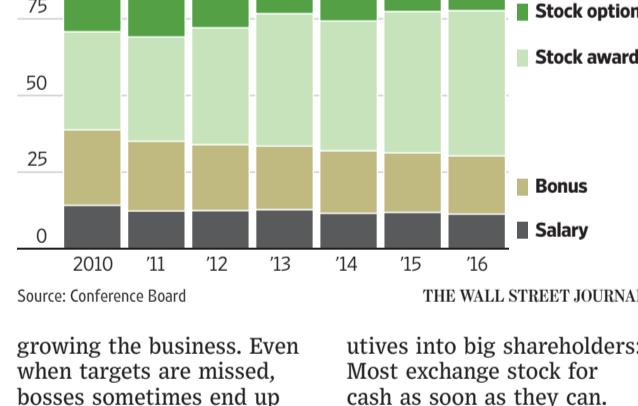
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How to Fix Out-of-Whack Executive Pay

Breakdown

Composition of executive pay for S&P 500 companies



growing the business. Even when targets are missed, bosses sometimes end up with their awards, over which boards typically have discretion.

Governance folk initially took to stock-based pay because it appeared to align management with shareholders' interests.

But LTIPs don't turn exec-

utives into big shareholders: Most exchange stock for cash as soon as they can. Meanwhile, LTIPs inflate pay, because in salary negotiations executives discount the value of uncertain future awards they barely understand.

Royal Bank of Scotland is one reformist. In May it introduced a new compensa-

tion plan that required its bosses to hold a lot more shares and keep stock awards for a minimum of four years.

The move at the bank, still controlled by the U.K. government after a financial-crisis bailout, opened up a trans-Atlantic battleground over the philosophy of executive pay.

U.S. governance adviser Institutional Shareholder Services recommended shareholders vote against the new plan on the basis that it created "greater certainty of outcome." Stock awards were easier to get, even if the maximum payout was reduced.

Norges Bank Investment Management countered with a statement of support for the policy. The manager of the world's largest sovereign-wealth fund said in April that requiring bosses to be long-term shareholders was an "underutilized strategy."

The RBS proposal eventually passed with 96% of votes cast.

Payment in shares held in trust for many years makes the performance of long-term stockholdings, rather than stock awards or options, the key form of variable compensation for bosses. Share prices can't, over a period of years, be gamed in the way the metrics that trigger LTIP payouts can.

Not all reforms have been successful: Last year Weir Group, a Scotland-based pump maker that suffered in the mining downturn, tried to introduce smaller but more-certain pay packages. Shareholders voted down the change.

In general, however, the fad for stock awards with complex performance triggers has gone far too far. Executive pay should be structured to turn bosses into long-term investors.

—Stephen Wilmot

OVERHEARD

The holiday weekend has shown American moviegoers may be suffering from a mild case of sequel fatigue.

"Despicable Me 3," the latest installment of the franchise from Comcast's NBCUniversal topped U.S. box-office charts last weekend. But its estimated \$86.4 million in receipts over the four-day period through Monday falls short of the \$19.4 million predecessor "Despicable Me 2" took in during the comparable period, according to Box Office Mojo. Another cinematic sibling that hasn't lived up to its predecessors is "Transformers 5" from Viacom's Paramount Pictures.

In a possible sign of thirst for originality, Sony's "Baby Driver" was the weekend's second-highest grossing film. A strong showing, but with an estimated \$35 million in box office receipts through Monday, it still has a way to go to catch up with even the disappointing sequels.

The Fed's Words Appear to Spell Worry

Mood Swing

Positive words as share of total words in Federal Reserve minutes



emerging-market stresses, falling commodity prices and slower U.S. growth were buckling financial markets.

The low level of inflation is a worry for the Fed because it calls into question whether the central bank will be able to keep raising rates to what it considers

normal levels without damaging the economy.

The tone of the minutes was also less upbeat. The share of words in the minutes that were positive ("optimistic," "progress," etc.) fell to the lowest level since January 2016, according to Mr. McDonald. Such shifts in tone can be revelatory. As carefully worded as the Fed's communications tend to be, they can reveal shifts in sentiment.

Consider what happened after the Fed's January 2016 meeting: Even though some Fed officials had recently professed otherwise, they soon dialed back plans to raise rates four times over the course of the year. In the end, they ended up tightening only once.—Justin Lahart

Big Talk From Tesla Disturbs Investors

Investors started to lose patience with **Tesla Motors** this week after another unkept promise.

The jolt from **Volvo** that all its cars would be electric or hybrid by 2019 casts serious doubt on Tesla's ability to live up to its long-term expectations. The electric car maker's shares were down more than 10% this week through Wednesday, in less than two full days of trading because of the holiday.

The belief that Tesla would generate hefty profits in the coming years led investors to forgive the company's long history of missing its own deadlines.

In the latest example, CEO Elon Musk promised earlier this week that Tesla would be able to build 20,000 of its

mass-market Model 3s a month by December. Last year, he told analysts that Tesla aimed to build at least 100,000 Model 3s in 2017.

The new timeline, which calls for 100 vehicles manufactured in August and more than 1,500 in September, would fall well short of the earlier forecast.

But fresh competition means patient attitudes won't last forever. In addition to Volvo, Volkswagen has promised several new electric cars by 2020. And **General Motors** has begun selling the all-electric Chevrolet Bolt.

The Model 3 will launch as U.S. auto sales are slowing dramatically. And sales of Tesla's two high-end models haven't grown meaningfully

in a year. The company blames this in part on production issues, but Tesla produced more vehicles than it sold for the past six quarters.

Analysts still expect big profits by 2020, predicting \$11.93 a share, on average. But those estimates were also much higher a year ago.

Meanwhile, Tesla's stock has surged more than 50% this year and trades at more than 28 times that 2020 earnings forecast. Rival auto makers trade for a fraction of that multiple.

Investors' expectations for Tesla have gotten so disconnected from reality that even if the Model 3 succeeds and growth resumes for its other two models, the company's shares could perform terribly.

—Charley Grant