

# THE WALL STREET JOURNAL.

DOW JONES | News Corp \*\*\*\*\*

THURSDAY, JULY 27, 2017 ~ VOL. CCLXX NO. 22

WSJ.com

★★★★ \$4.00

DJIA 21711.01 ▲ 97.58 0.5% NASDAQ 6422.75 ▲ 0.2% STOXX 600 382.74 ▲ 0.5% 10-YR. TREAS. ▲ 12/32, yield 2.285% OIL \$48.75 ▲ \$0.86 GOLD \$1,249.00 ▼ \$2.70 EURO \$1.1735 YEN 111.18

## What's News

### Business & Finance

Foxconn said it would build a \$10 billion plant in Wisconsin to make display panels, the company's first major U.S. investment. A1

◆ Samsung delivered record-breaking results, positioning the tech giant to top Apple in quarterly profit. B1

◆ Facebook's profit jumped 71% in the second quarter, as the company looks beyond its news feed to slot ads. B1

◆ The Fed signaled readiness to start shrinking its bondholdings as soon as September, as it held rates steady. A2

◆ Treasury yields fell slightly and the dollar dipped after the central bank issued its policy statement. B11

◆ U.S. stock indexes hit records as earnings continued to beat estimates. The Dow rose 97.58 to 21711.01. B11

◆ Viacom is out of the running to acquire Scripps Networks, leaving Discovery as the only remaining suitor. B1

◆ The U.K. said it would ban the sale of cars powered by traditional internal-combustion engines by 2040. B3

◆ Boeing earnings beat forecasts, lifting shares 10%, as the firm clamped down on the cost of building jets. B2

◆ Goldman and Fidelity struck a partnership that will enable the Wall Street firm to move deeper into lending. B10

◆ Ford's net rose 4% on a lower tax rate and financing-arm profits, but shares fell on revised 2017 guidance. B3

◆ Berkshire Hathaway won a round against Elliott Management in the competition for Texas utility Oncor. B5

### World-Wide

◆ Senate GOP leaders picked up support for a plan to pass a scaled-back bill to repeal a handful of elements in the ACA and open talks with House Republicans. A1

◆ Trump said he would bar transgender people from the military, citing "medical costs and disruption" at odds with a Pentagon report. A3

◆ Kushner and lawmakers are discussing criminal-justice changes that could clash with Sessions' agenda. A4

◆ White House aides and Trump's friends have urged the president to back off his criticism of Sessions. A4

◆ The EU threatened action against the U.S. over a Russia sanctions bill that would penalize European firms. A5

◆ The EU warned it could still pursue sanctions against Poland even after the president vetoed legislation to replace the Supreme Court. A5

◆ The U.S. leveled sanctions on 13 Venezuelan officials for alleged corruption, human-rights violations and undermining democracy. A6

◆ China is close to completing a long-targeted overhaul of operations at its state-owned enterprises. A7

◆ The Taliban attacked an Afghan army base in southern Kandahar province and killed at least 26 soldiers. A7

◆ Minneapolis tightened rules on police body cameras after the fatal shooting of an Australian woman. A3

◆ Cardinal Pell will plead not guilty to charges of sexual abuse in Australia. A7

CONTENTS Middle Seat..... A9  
Business News B35-6 Opinion..... A13-15  
Capital Account..... A2 Sports..... A12  
Crossword..... A12 Technology..... B4  
Head on Street. B12 U.S. News..... A2-4  
Life & Arts..... A9-11 Weather..... A12  
Markets..... B11-12 World News..... A5-7

30436>  
0 78908 63141 1

Copyright 2017 Dow Jones & Company. All Rights Reserved

Please see SNAP page A6

## U.S. Adds Venezuela Sanctions as Protests Against Maduro Erupt



RISING TENSIONS: A two-day strike called by opposition leaders turned violent in Caracas as the U.S. government leveled sanctions on 13 high-ranking Venezuelan officials for alleged corruption, human-rights violations and undermining the country's democracy. A6

## Foxconn to Build U.S. Plant

Taiwanese electronics manufacturer to spend \$10 billion in first major U.S. investment

By TRIPP MICKLE  
AND REBECCA BALLHAUS

Foxconn Technology Group, which helped cement China's dominance in electronics manufacturing, said it would build a \$10 billion plant in Wisconsin to make display panels used in televisions and other products. The plan, announced

Wednesday at a White House ceremony, marks the first major U.S. investment for Taiwan's Foxconn, the world's largest contract manufacturer of electronics and the maker of iPhones and other gadgets for Apple Inc.

Foxconn, which also owns Sharp Corp., said the factory would be the first in a series of U.S. investments. Company Chairman Terry Gou is betting the U.S. can rebuild an electronics supply chain that largely shifted to China and other lower-cost Asian countries in recent decades.

The factory is expected to employ 3,000 people initially and as many as 13,000 people eventually. The state is providing Foxconn with a \$3 billion, 15-year incentive package of tax credits, said Wisconsin Gov. Scott Walker.

President Donald Trump, who routinely invites CEOs to meet with him at the White House to showcase his emphasis on jobs, has vowed to revive U.S. manufacturing and singled out companies for criticism for building plants outside the country. Yet many major corporations have plowed ahead

with plans to move factories to Mexico, underscoring the scale of the economic forces that confront Mr. Trump's plans.

Asia's sophisticated electronics supply chain and deep labor pool have made it the dominant power in producing devices ranging from TVs to smartphones. Mr. Gou and U.S. officials are banking on the display factory in Wisconsin becoming the cornerstone of a new manufacturing network.

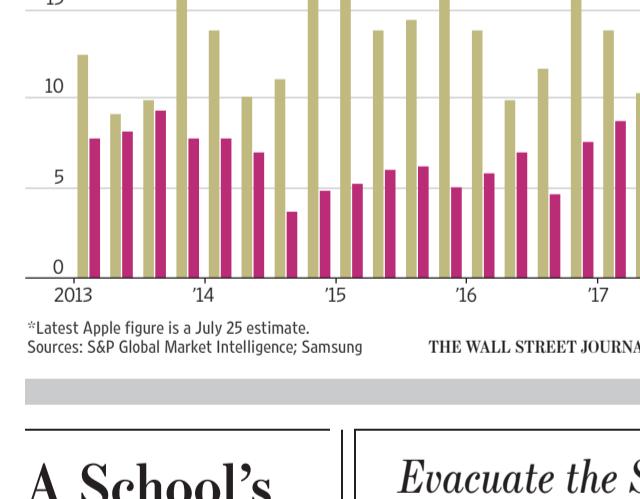
Please see PLANT page A2

◆ Amazon pushes to staff its expansion..... B4

## Samsung Poised to Upset Apple

Samsung Electronics posted its biggest-ever quarterly profit, leaning on its strength as a supplier of electronics parts, and positioning it to top Apple's projected quarterly earnings. B1

Quarterly operating profit ■ Apple ■ Samsung



\*Latest Apple figure is a July 25 estimate.  
Sources: S&P Global Market Intelligence; Samsung

THE WALL STREET JOURNAL.

## AUTOMATION STALKS FINANCIAL ADVISERS

Algorithms generate investment advice, undercut traditional 1% fees

By Jason Zweig,  
Anne Tergesen  
and Andrea Fuller

Automation is threatening one of the most personal businesses in personal finance: advisers.

Over the past decade, financial advisers in brokerage houses and independent firms have amassed trillions in assets helping individuals shape investment portfolios and hammer out financial plans. They earn around 1% of these assets in annual fees, a cost advisers say is deserved because they understand clients' particular situations and can provide assurance when markets fall.

In the latest test of the reach of technology, a new breed of competitors—including Betterment LLC and Wealthfront Inc. but also initiatives from established firms such as Vanguard—is contending even the most personal financial advice can be delivered

online, over the phone or by videoconferencing, with fees as low as zero. The goal is to provide good-enough quality at a much lower price.

"It's always been questionable whether or not advisers were earning our money at 1% and up," said Paul Auslander, director of financial planning at ProVise Management Group in Clearwater, Fla., who says potential clients now compare him with less expensive alternatives. "The spread's got to narrow."

The shift has big implications for financial firms that count on advice as a source of stable profits, as well as for rivals trying to build new businesses at lower prices. It also could mean millions in annual savings for

Please see ADVICE page A8

◆ Wall Street's new frontier..... B1

## A School's Glorious Mystery: How to Spend IPO Riches

By GEORGIA WELLS

MOUNTAIN VIEW, Calif.—Simon Chiu has been wrestling with an unusual dilemma: how the Catholic high school he leads should spend one of the most extraordinary windfalls in Silicon Valley.

A \$15,000 investment by Saint Francis High School five years ago turned into \$34 million in March when Snapchat parent Snap Inc. went public.

Since the school hit the jackpot, Mr. Chiu has had to weigh competing ideas for what to do with the money. Students speculated they wouldn't have to pay tuition next year. Parents asked whether annual fundraisers were still necessary. Some ad-

## Evacuate the Sandbox! Japan Is Freaking Out About Fire Ants

\* \* \* \* \*  
Stinging insects spook sumo wrestlers, grandmas; industrial-strength ponchos

BY ALASTAIR GALE  
AND SEAN MC LAIN

TOKYO—The first invaders, hiding in a cargo container, landed in western Japan on May 20. They possessed powerful fangs to hold their victims down before pumping them with venom.

The intruders were caught and promptly destroyed, but as more marauders breached the nation's borders, television

news shows began fanning concerns of a crippling attack.

Workers distributed wanted posters. Inspectors armed with poisoned bait swept through cargo ports with orders to kill entire colonies on sight. Even sumo wrestlers began taking precautions.

At the Kobe Municipal Minatojima Kindergarten about 2 miles from the first discovery site, children were banned from the sandbox. "It's on the most likely path of infiltration," explained the principal, Fumiko Miki.

The miscreants now terrorizing Japan are, in fact, ants. Fire ants, to be precise—a genus famous for its reddish-brown color and for painful jabs delivered from stingers in their abdomens.

Please see ANTS page A8



A fire ant

## Oracle #1 SaaS Enterprise Applications Revenue

#1  
Oracle Cloud  
14.5%

#2  
Salesforce Cloud  
12.4%

1,000+ Employees Segment, 2015

ORACLE®

oracle.com/applications

Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size" doc #US413816, 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.

Copyright © 2017, Oracle and/or its affiliates. All rights reserved.

Copyright © 2017, Oracle and/or its affiliates. All rights reserved.

# U.S. NEWS

## Leading Horses to Water in Virginia



THE SWIMMING OF THE PONIES: Wild ponies made their way toward land on Wednesday. Ponies are herded each year into the water so that they move from Assateague Island to Chincoteague Island, Va., where a portion of the herd is sold at auction.

## Fed Ready to Shrink Bondholdings

By NICK TIMIRAO

WASHINGTON—The Federal Reserve signaled Wednesday that it is ready as soon as September to start slowly shrinking its holdings of more than \$4 trillion in bonds it bought to try to buoy the economy.

The rate-setting Federal Open Market Committee said it expects to begin shrinking the bondholdings “relatively soon,” using a phrase that often has preceded action at the next policy meeting.

The statement provided the group’s most specific indication so far of when officials could initiate plans to taper the reinvestments of maturing

Treasury and mortgage securities.

Officials offered little indication that several weak inflation readings had altered their plans to raise short-term interest rates once more this year. They voted unanimously to leave their benchmark rate in a range between 1% and 1.25%.

The Fed raised rates by one-quarter percentage point in March and again in June, when officials penciled in one more quarter-point move this year. Many analysts expect that increase in December, after the Fed initiates the bondrunoff process this fall.

One potential complication would be a congressional

standoff over raising the Treasury’s borrowing limit.

The Treasury Department employed emergency cash-conservation steps that Secretary Steven Mnuchin said should last through September. After that, the U.S. risks being unable to make timely payments on government bills if Congress hasn’t raised the debt ceiling.

One way for the Fed to sidestep any fiscal issues would be to announce at its Sept. 19-20 meeting the start date of the portfolio runoff and to set that date a few weeks later, well beyond the debt-limit deadline.

Investors had expected the

Fed to leave rates unchanged Wednesday and were looking for signals about whether the slowdown in inflation this spring might alter its plans for another rate increase this year.

The statement issued after a two-day FOMC meeting noted the recent weakness in inflation but didn’t deviate significantly from the statement released after last month’s meeting.

After the meeting Wednesday, investors placed a 3% probability of a rate increase in September.

◆ Heard on the Street: Investors may feel left out.....B12

## PLANT

Continued from Page One

The announcement confirms plans reported Monday by The Wall Street Journal. Foxconn was exploring investments in seven states including Illinois, Indiana, Michigan, Ohio, Pennsylvania and Texas. Some of those states, including Wisconsin, were pivotal to Mr. Trump’s victory in 2016, and are home to many of the working-class voters who were seen as key to his win.

Mr. Trump also foreshadowed Foxconn’s plans in an interview with the Journal Tuesday. In the same interview, he said Apple Chief Executive Tim Cook had committed to build three big manufacturing plants in the U.S. The remarks thrust Apple into an uncomfortable position, creating expectations it would build manufacturing plants in the U.S. for the first time in decades. Apple declined to comment.

A White House official said those plants were separate from the planned Foxconn facility announced Wednesday.

Jared Kushner, the president’s son-in-law and senior adviser, who heads the White House’s Office of American Innovation, led discussions with Foxconn in recent months, along with Reed Cordish, assistant to the president for intragovernmental and technology initiatives. Both Messrs. Kushner and Trump met with Mr. Gou over the course of the discussions, a White House official said.

Wisconsin’s tax credits are tied to job creation, capital expenditure and purchases of construction materials, a state



VCG/GETTY IMAGES

Workers on a Foxconn production line in China.

official said. In addition to the potential 13,000 factory workers, state officials said analysts with Ernst & Young estimate the plant would create 22,000 indirect jobs and another 10,000 construction jobs.

Mr. Walker said the plant could draw as many as 150 supporting suppliers to Southeastern Wisconsin and nearby states. Mr. Walker said the average salaries for the 13,000 jobs at the factory would be \$53,000 annually, plus benefits.

The 20 million-square-foot campus would primarily produce high-resolution liquid-crystal displays, known as 8K resolution LCD, used in smartphones and car dashboards as well as TVs.

The facility would be located in House Speaker Paul Ryan’s district, which stretches from just south of Milwaukee to the Illinois border, according to Mr. Ryan’s spokesman. The exact location is still being determined.

“We’re calling this corridor in Wisconsin the Wisconn Valley,” Mr. Walker said in an interview.

Foxconn, based in Taiwan, operates factories across China, where it employs hundreds of thousands of workers, and last year reported about \$140 billion in revenue. Mr. Gou started the company as Hon Hai Precision Industry Co. in 1974 making plastic channel-changing knobs for black-and-white television sets. He turned it into the world’s foremost contract manufacturer and one of China’s largest exporters, making products for a range of other customers in addition to Apple.

Mr. Gou has wanted to open a U.S. display factory for years in hopes of reducing the costs of shipping large-screen TVs from Asia. In 2014, Foxconn raised the possibility of investing \$40 million in manufacturing and research facilities in Pennsylvania. The

project never made headway because U.S. local governments didn’t offer terms that were favorable enough, the Journal previously reported.

Speaking Wednesday at the White House ceremony, Mr. Gou said the Trump administration’s and Republicans’ support of American-made products gave Foxconn confidence that American manufacturing projects could be a success. “Because of you, we are also committed to creating great jobs for the American people,” said Mr. Gou, who met with Mr. Trump three times during the planning process.

Mr. Gou didn’t elaborate on how the displays would be assembled into TVs or other devices. Much of that work is currently done in Asia where an array of suppliers are based, making it easy to ship components to a plant to assemble products.

Many TVs sold in the U.S. are assembled in Mexico, so it is possible that the displays made in Wisconsin could be shipped across the border to be installed in TVs that are later shipped back to the U.S. for sale, said Paul Gagnon, who analyzes the TV set market for research firm IHS Markit.

“As far as what state are you going to build this in to make it most efficient, Wisconsin is a little far from the Mexican border,” said Mr. Gagnon.

However, with the cost of resources in China rising, labor shortages mounting and automation increasing, now could be the right time for such an ambitious effort, said David Sullivan, a partner with Alliance Development Group, a Chinese-focused strategy firm that advises technology firms.

## CORRECTIONS & AMPLIFICATIONS

**A funeral** was held Tuesday in Scottsdale, Ariz., for 10 members of a family killed on July 15 in a flood near Payson, Ariz. In Wednesday’s edition, a caption with a U.S. News photo of the funeral incorrectly said they died in Scottsdale.

**Oliver Schmidt**, a former Volkswagen AG compliance executive, is scheduled to appear Aug. 4 at a plea hearing. A Business & Finance article

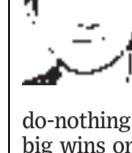
Wednesday about his plans to plead guilty to U.S. charges related to VW’s emissions cheating incorrectly said he is scheduled to be sentenced.

**Anheuser-Busch InBev** brews Goose Island and Wicked Weed brand beers but not Leinenkugel’s. A Heard on the Street article on Wednesday about beer incorrectly said that AB InBev owns all three.

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

## CAPITAL ACCOUNT | By Greg Ip

# The Mythical Do-Nothing Presidency



Six months into his presidency, Donald Trump’s detractors portray him as a do-nothing president with no big wins on issues such as health care, taxes and infrastructure.

That may be true if the benchmark is legislation, but that is an incomplete benchmark. To gauge a president’s impact, you have to go beyond the laws he signs to the vast authority he wields through departments and agencies that apply the law.

On that score, Mr. Trump is on track to do a lot. On finance, the internet, immigration and drugs, to name just a few issues, Trump appointees have begun nudging the economy and the country in a more conservative, pro-business direction.

Whether that is good or bad is to a great extent in the eye of the beholder. What isn’t debatable is that the imperial presidency, after expanding under Barack Obama, remains just as formidable under Mr. Trump.

In recent weeks, headlines have been dominated by the Senate’s stop-start efforts to repeal and replace the Affordable Care Act. Away from this drama, Mr. Trump’s Labor Department moved to undo Mr.

Obama’s expansion of eligibility for overtime pay, financial regulators dropped efforts to tighten restrictions on banker pay and the Interior Department signaled it would rescind proposed rules on oil

and gas fracking on federal land. On Wednesday, Mr. Trump announced transgender individuals couldn’t serve in the military, reversing an Obama-era decision.

In Mr. Trump’s first six months, rule making has changed dramatically.

The latest update on regulatory actions released last week by the White House Office of Management and Budget contained 1,731 preliminary, proposed or final rules, down 40% from its peak under Mr. Obama in 2011 and a 17-year low, according to Sofie Miller of George Washington University’s Regulatory Studies Center.

Ms. Miller says of 66 completed actions at the Environmental Protection Agency, a third were rule withdrawals.

This may not yet meet Mr. Trump’s promise to repeal two rules for every new rule written, and, indeed, agencies may find they are legally compelled to have a rule whether they like it or not.

**N**onetheless, the shift is clear. Deciding not to act can be just as consequential as deciding to act, given the discretion presidents have in how they enforce existing laws.

Mr. Obama, for example, chose to not deport some classes of illegal immigrants. Mr. Trump’s playbook is similar. His ap-

pointees have signaled they will use the discretion allowed under the Dodd-Frank postcrisis regulatory overhaul to loosen the reins on finance. Keith Noreika, the acting comptroller of the currency, has suggested he may reinterpret the “Volcker rule” prohibition on proprietary trading to make it less onerous.

Mr. Trump has been criticized for how few officials have been confirmed to key jobs. Time will take care of that, and in the meantime, understaffed agencies can still get plenty done. The Federal Communications Commission is moving quickly to undo the Obama-era decision to regulate internet-service providers like utilities even though two of the commission’s five seats are vacant.

**M**r. Trump may be distracted with investigations into his campaign’s links to Russia or cable news, but that doesn’t matter to regulators who have enormous freedom to act without input from the White House. A shift in the political winds can also prompt agency staff, companies and individuals to fall in line.

Amicus Therapeutics, a biotech company, recently applied for approval of a drug treating a rare genetic disorder without the additional clinical trial the Food and Drug Administration had previously demanded, a sign the agency is pushing faster approvals.

*In Mr. Trump’s first six months, rule making has changed dramatically.*

Now that the Department of Homeland Security is prioritizing deportation, fewer illegal immigrants are attempting to enter the U.S., judging by reduced apprehensions at the Southwest border.

There are of course real-life limits to executive authority. Mr. Trump was ready to tear up the North American Free Trade Agreement until other countries and firms persuaded him that would be rash.

And there are still the courts. Mr. Obama’s limits on power-plant carbon-dioxide emissions and his overtime-pay rule were both halted by courts, as was Mr. Trump’s initial ban on travel from several majority-Muslim countries. But courts generally defer to regulators under a 1984 Supreme Court precedent called “Chevron deference.”

The fruits of Mr. Trump’s presidential actions, like Mr. Obama’s, could be swept away as soon as another president takes office.

But for the time being, don’t underestimate how much a president can shape the economy with no input at all from Congress.

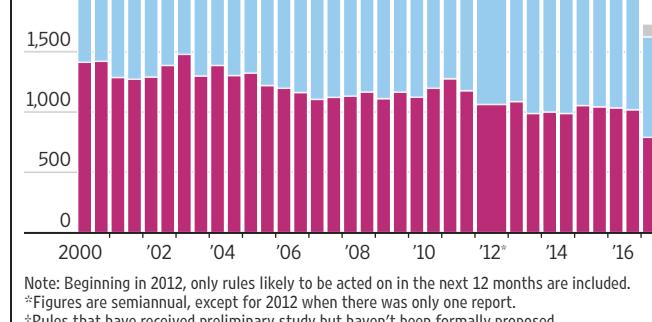
## Not to Act Is to Act

Rules under consideration by federal departments and agencies have dropped significantly under Donald Trump.

Final rules

Proposed rules

Prerules\*



Note: Beginning in 2012, only rules likely to be acted on in the next 12 months are included.

\*Figures are semiannual, except for 2012 when there was only one report.

†Rules that have received preliminary study but haven’t been formally proposed

Source: Regulatory Studies Center, George Washington University

THE WALL STREET JOURNAL.

**THE WALL STREET JOURNAL**  
(USPS 664-880) (Eastern Edition ISSN 0099-9660)  
(Central Edition ISSN 1092-0935) (Western Edition ISSN 0193-2241)

**Editorial and publication headquarters:**

1211 Avenue of the Americas, New York, N.Y. 10036

Published daily except Sundays and general legal holidays.

Periodicals postage paid at New York, N.Y., and other mailing offices.

**Postmaster:** Send address changes to

The Wall Street Journal, 200 Burnett Rd., Chicopee, MA 01020.

All Advertising published in The Wall Street Journal is subject to the applicable rate card, copies of which are available from the Advertising Services Department, Dow Jones & Co. Inc., 1211 Avenue of the Americas, New York, N.Y. 10036.

The Journal reserves the right not to accept an advertiser’s order. Only publication of an advertisement shall constitute final acceptance of the advertiser’s order.

**Letters to the Editor:** Fax: 212-416-2891; email: [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com)

**NEED ASSISTANCE WITH YOUR SUBSCRIPTION?**

**CONTACT CUSTOMER SUPPORT.**

By web: [customercenter.wsj.com](http://customercenter.wsj.com); By email: [wsjsupport@wsj.com](mailto:wsjsupport@wsj.com)

By phone: 1-800-JOURNAL (1-800-568-7625); Or by live chat at [wsj.com/livechat](http://wsj.com/livechat)

## U.S. NEWS

# School Funding Is New Fight In Illinois

By QUINT FORGEY

Less than a month after Illinois's Democratic Legislature overrode Republican Gov. Bruce Rauner's veto to pass the state's first budget in more than two years, lawmakers are back in Springfield and at loggerheads with the governor.

Mr. Rauner called a special session that began Wednesday focused on approving a new K-12 school-funding formula before the start of fall classes.

The \$36 billion budget package passed earlier this month included a funding increase of roughly \$350 million for K-12 schools, but the state must still establish a mechanism to distribute the new money.

The General Assembly approved legislation in May to enact a funding formula allocating funds to the neediest school districts first, but the governor has pledged to use his veto pen to rewrite the bill.

The governor has said the new funding formula, outlined in Senate Bill 1, favors the hard-pressed Chicago Public Schools district—the only school district in Illinois that funds its teacher pension system without state aid. Senate Bill 1 would allocate CPS roughly \$221 million in extra funds to help cover those pension costs.

"The point of the school-reform bill is to ensure every child in Illinois, including kids in Chicago, get the education they deserve," Mr. Rauner said in a video message last week. "What we're not here to do is bail out CPS's mismanaged teacher pension system at the expense of every other child in the state."

Backers of Senate Bill 1 say it attempts to establish adequate funding levels for school districts based on students' and institutions' individual needs, and takes into account factors such as districts' property-tax contribution to school funding.

"We have the most inequitable system of school finance in the country," said Democratic Sen. Andy Manar, the bill's lead sponsor in the Senate. "The bill is well-vetted and it represents the culmination of four years of public discussion, and there's only one person who is opposed to it today, and that's Gov. Rauner."

Officials with the state Board of Education said the new funding formula must be signed into law by early August to give the board enough time to issue vouchers for state aid payments by Aug. 10.

# Trial Looms in Case Trump Cited

Killing of San Francisco woman, allegedly by an illegal immigrant, played role in campaign

By ZUSHA ELINSON

SAN FRANCISCO—During his campaign, President Donald Trump repeatedly pointed to the wrenching story of Kate Steinle—a young woman allegedly murdered by an undocumented Mexican—as a prime example of violent crimes committed by illegal immigrants.

The man accused of killing Ms. Steinle, Juan Francisco Lopez-Sanchez, will soon be on trial, refocusing attention on an issue that Mr. Trump has continued to emphasize as president.

A hearing scheduled for Friday could determine whether the owner of the stolen gun used in the killing will testify.

The defendant, a repeat

felon who was deported five times, has pleaded not guilty to second-degree murder in the death of Ms. Steinle, 32 years old, who was shot as she walked on a pier with her father on July 1, 2015. The single bullet that killed Ms. Steinle ricocheted off the ground before hitting her, ballistics experts have testified.

Prosecutors often face skeptical juries in liberal-leaning San Francisco and anti-Trump sentiment won't help, legal experts said. At the same time, the population's aversion to firearms could benefit the prosecution, they added.

Mr. Trump and Attorney General Jeff Sessions frequently cited the case as an example of crimes committed by illegal immigrants as they seek to crack down on sanctuary cities like San Francisco and tighten the country's borders.

The case inspired legislation making its way through Congress called "Kate's Law," which would in-



MICHAEL MACOR/PRESS POOL/REUTERS

Juan Francisco Lopez-Sanchez pleaded not guilty to murder.

crease penalties for criminal aliens caught re-entering the country.

Overall, illegal immigrants are incarcerated at a lower rate than native-born Americans, according to research by the Cato Institute, a libertarian think tank.

Immigration in general ei-

ther has no effect on crime or is linked to a decrease in crime, according a recent analysis of 51 studies on the topic conducted by Charis Kubrin, a criminology professor at University of California, Irvine.

Mr. Lopez-Sanchez had been freed from San Francisco County jail on an old drug charge months before the shooting, despite a request from Immigration and Customs Enforcement to the city's sheriff's department that would have enabled the federal agency to take him into custody. The city doesn't honor these requests from ICE.

Mr. Lopez-Sanchez's public defender, Matt Gonzalez, said in an interview that the shooting was an accident.

Mr. Gonzalez said his client found the gun after it had been stolen from a U.S. Bureau of Land Management ranger's parked vehicle.

"I'm unaware of a ricochet ever being charged as a mur-

der in San Francisco," said Mr. Gonzalez. "If he didn't fit into the immigrant crime narrative I doubt this case would've been charged."

A spokesman for San Francisco District Attorney George Gascón declined to comment. An attorney for Ms. Steinle's family didn't return requests for comment.

Mr. Trump's frequent commentary on the case may actually help in Mr. Lopez-Sanchez's defense, said Anthony Brass, a former San Francisco prosecutor who now works as a criminal defense attorney.

"That favors the defense because people find Trump's views distasteful" in the city, said Mr. Brass. "San Francisco is about as anti-Trump as you get."

Mr. Brass said the jury pool in San Francisco is often skeptical of prosecutors and police. But in this case, one factor may work in the prosecution: the gunplay. "Politically left jurors despise firearms and their negligent use," he said.

# City Tightens Body-Camera Rules After Death

By QUINT FORGEY

Minneapolis Mayor Betsy Hodges tightened rules Wednesday on the use of police body cameras following the July 15 fatal shooting of a 40-year-old Australian woman who had called police about a possible assault in her alley.

The incident has gained international attention and led to the resignation of Minneapolis Police Chief Janeé Harteau on Friday.

"It has been a tough 10 days for the city," particularly for the family of the victim, Ms. Hodges said.

The new policy, which will take effect Saturday, mandates that officers turn on their body cameras as soon as they are dispatched to any call or during any self-initiated activity, including traffic stops.

Noncompliance with the policy could result in repercussions ranging from a 10-hour suspension to termination of employment.

"We need to build and regain our community's trust," said interim Police Chief Medaria "Rondo" Arradondo. "The one thing we cannot equip [officers] with is the benefit of the doubt, and they have to gain that through their relationships with the community."

The city rolled out its body camera program about eight months ago, joining departments around the country seeking greater transparency in policing after a series of high-profile deaths of young black male suspects during encounters with police or in po-



Australian Justine Ruszczyk's fatal shooting by police earlier this month in Minneapolis wasn't recorded by the officer's body camera.

lice custody.

The original Minneapolis policy gave officers more discretion over when to turn on their cameras.

"I can tell you this policy enhancement has been in progress for a few months now," Mr. Arradondo said.

"There are some officers, quite frankly, who are not using them enough," the interim police chief said.

Mohamed Noor, an officer with the Minneapolis Police Department for 21 months, shot Justine Ruszczyk two weeks ago after responding to a 911 call from Ms. Ruszczyk just after 11:30 p.m., state investigators said in a news release.

Officer Matthew Harrity, who has been with the Minneapolis Police Department for one year, accompanied Mr. Noor on the call, and was startled by a loud sound near the squad car, according to investigators.

Noor on the call, and was startled by a loud sound near the squad car, according to investigators.

Mr. Harrity told investigators Ms. Ruszczyk approached the driver's side window of the vehicle, and Mr. Noor discharged his weapon, striking her through the open driver's side window, the release said.

Mr. Noor has declined to be interviewed by investigators.

Ms. Ruszczyk, who was engaged to be married and was already using her fiancé's last name of Damond, died of a single gunshot wound to the abdomen, the investigators said.

The officers' body cameras weren't turned on until after the shooting, and both Mr. Harrity and Mr. Noor have been placed on administrative leave.

# President's Military Ban Causes Storm

By REBECCA BALLHAUS  
AND BEN KESLING

## Transgender Troops

A 2016 Rand Corp. study found that extending transition-related care to transgender soldiers—who make up a small fraction of active duty troops—would have a minuscule effect on health-care spending.

Estimated number of transgender personnel in the U.S. military

Active duty  
2,450\*

Reserve  
1,510†

\$2.4 million to \$8.4 million a year  
Estimated increase in Military Health System costs if the military extended gender transition-related care to personnel

\*Out of a total active duty force of 1.3 million. †Out of a total reserve force of 831,992.

Source: Rand Corp.

with the "consultation" of his national security team.

"Sometimes you have to make decisions, and once he made a decision he didn't feel it was necessary to hold that decision," she told reporters at a White House news briefing.

Ms. Sanders said she couldn't answer questions about whether transgender individuals currently serving openly would be thrown out of the military, saying the policy hasn't been formed yet.

"That's something that the Department of Defense and the White House will have to work together on as implementation takes place," she said. Ms.

can Civil Liberties Union, called the move "outrageous and desperate."

Rep. Adam Smith, the top Democrat on the House Armed Services Committee, called the move an "unwarranted and disgraceful attack on men and women who have been bravely serving their country."

Sen. John McCain (R, Ariz.), chairman of the Senate Armed Services Committee, said Mr. Trump's tweet was "yet another example of why major policy announcements should not be made via Twitter," calling the statement unclear.

"Any American who meets current medical and readiness standards should be allowed to continue serving," Mr. McCain said.

The decision drew praise from conservative groups while igniting a storm of criticism from many U.S. actors and celebrities.

In June 2016, the Obama administration moved to lift the U.S. military's longstanding ban on transgender individuals serving openly and began to establish a process for enlisted personnel to undergo treatment while serving.

A report by Rand Corp. commissioned by the Pentagon on the effects of allowing transgender individuals to serve openly, found that the policy shift would have little to no impact on military cohesion or readiness, and that costs would be negligible.



Trump International Hotel & Tower\* New York  
Forbes Five-Star Hotel Award 2009 - 2017

TRUMP  
HOTELS™

NEW YORK | CENTRAL PARK & SOHO CHICAGO LAS VEGAS WAIKIKI  
MIAMI WASHINGTON, D.C. VANCOUVER PANAMA

IRELAND | DOONBEG Estate Collection WINERY | CHARLOTTESVILLE

SCOTLAND | ABERDEEN Coming Soon BALI LIDO

TRUMPHOTELS.COM

## U.S. NEWS

# Kushner, Attorney General Split on Crime

Mandatory minimum sentences and other issues divide Trump's son-in-law, ex-senator

BY BETH REINHARD

President Donald Trump's son-in-law and senior adviser, Jared Kushner, and some Republican lawmakers are discussing potential changes to the criminal justice system, including to mandatory minimum sentencing, that could conflict with Attorney General Jeff Sessions' tough-on-crime agenda.

Mr. Kushner met this month with House Judiciary Chairman Bob Goodlatte (R., Va.), continuing a dialogue with lawmakers that began in March with Senate Judiciary Chairman Chuck Grassley (R., Iowa) and Sens. Dick Durbin (D., Ill.) and Mike Lee (R., Utah). Mr. Kushner also has huddled with leaders of organizations involved in criminal justice.

"He's quietly listening to all sides, including outside groups, to understand what's possible and to ultimately be able to make a recommendation to the president," said a White House official familiar with the meetings. "It's a personal issue to him, given his father spent time in prison. He got to know the families and got to see what's wrong with the federal prison system."

Mr. Kushner's father, Charles Kushner, a real-estate executive, was sentenced in 2005 to two years in prison after pleading guilty to tax evasion.



Jared Kushner has discussed curbing long mandatory-minimum sentences, while Attorney General Jeff Sessions favors them.

are always guns and violence associated with that," said Chuck Canterbury, national president of the Fraternal Order of Police. "I would be surprised to see any legislation related to drug crime pass muster with the attorney general or the president."

Critics of mandatory minimums say they contribute to disproportionate numbers of African-Americans serving time in costly prisons without improving public safety. A number of states, including several led by Republicans, have revamped or eliminated mandatory-minimum sentencing laws that became popular during the "war on drugs" in the 1980s.

Mr. Grassley, in a recent speech outlining his agenda at the American Enterprise Institute, a conservative think tank, said he is awaiting input from the White House before reviving the sentencing bill. Supporters cast it as a bipartisan initiative that demonstrates the growing consensus around reducing the prison population.

"It is consistent to be both tough on crime and still support sentencing reform," Mr. Grassley said at AEI. "Passing a sentencing bill remains a top legislative priority for me as chairman."

Advocates of less-punitive drug-sentencing laws view Mr. Kushner as their chief ally in the White House.

However, Mr. Kushner's responsibilities are broad, from Middle East politics to overhauling the federal bureaucracy. He has also been drawn into the Russia probes.

Mr. Kushner's discussions have included a range of issues, including curbing long mandatory-minimum sentences for nonviolent drug offenders. In contrast, Mr. Sessions is promoting mandatory minimums as a pivotal crime-fighting tool that helps prosecutors get cooperation from suspects and keeps dangerous offenders behind bars. Mr. Kushner has met with Mr. Sessions and is trying to find common ground, according to the White House official.

However, Mr. Sessions appears to have lost favor with the president for recusing himself from a probe into Russian interference in the 2016 election. Mr. Trump has taken to berating Mr. Sessions publicly. On Monday, Mr. Trump referred to Mr. Sessions as "our beleaguered A.G."

"Everyone does see it as a challenge that some people in the White House and Congress want to do criminal-justice re-

form but are at odds with actions the attorney general is taking," said Greg Mitchell, a federal lobbyist who has worked on criminal-justice issues for years, representing groups that favor shorter sentences.

The attorney general recently scuttled an Obama administration policy discouraging prosecutors from bringing charges that carry long sentences for nonviolent, lower-level drug offenders.

As an Alabama senator last year, Mr. Sessions helped doom bipartisan legislation backed by Sens. Grassley, Durbin and Lee that would have limited mandatory-minimum sentences for less-dangerous drug offenders.

Mr. Sessions' policies are backed by police unions and prosecutors' groups.

"We're not talking about getting arrested with a joint. We're talking about massive quantities of drugs, and there

## Aides, Friends Urge Trump to Lay Off Sessions

BY PETER NICHOLAS  
AND BYRON TAU

Attorney General Jeff Sessions was about 45 minutes into a routine meeting Wednesday morning at the White House with fellow cabinet members when President Donald Trump, from another part of the building, took to Twitter.

"Why didn't A.G. Sessions replace Acting FBI Director Andrew McCabe," whom the president accused of being aligned with former Democratic presidential nominee Hillary Clinton, his message read. "Drain the Swamp."

It marked the third consecutive day that Mr. Trump used Twitter to attack the leadership of the Justice Department. Privately, friends and White House aides have urged Mr. Trump to back off, but he has shown no sign of letting up, and he and Mr. Sessions

haven't yet met to see if they can resolve differences.

"We've seen some of the tweets increase, and all I can tell anyone is I don't understand it. I'm not part of it, and I'm a little befuddled by it," said Rep. Chris Collins (R., N.Y.), the first member of Congress to endorse Mr. Trump in the 2016 campaign.

White House aides describe an impasse: Mr. Trump isn't about to fire his attorney general, but he also wouldn't be sorry if Mr. Sessions were to quit.

In the past week, Mr. Sessions' chief of staff, Jody Hunt, told White House Chief of Staff Reince Priebus that the attorney general wasn't going to resign, according to a person familiar with the conversation.

Mr. Sessions' departure could upend the investigation led by special counsel Robert Mueller into Russian interference in the 2016 presidential



Attorney General Jeff Sessions has faced mounting criticism.

campaign and whether the Trump campaign colluded in that. Both Mr. Trump and Russia have denied doing so.

According to a January report from the U.S. intelligence agencies, Russia's interference

was directed from the highest levels of its government. Its tactics included hacking state election systems, infiltrating and leaking information from party committees and political strategists, and disseminating through social media and other outlets negative stories about Mrs. Clinton and positive ones about Mr. Trump, the report said.

Driving Mr. Trump is a conviction that Mr. Sessions' decision last year to recuse himself from the Russia probe is now fueling the investigations, White House aides and friends of the president said.

White House spokeswoman Sarah Huckabee Sanders, in a press briefing Wednesday, suggested Mr. Trump hadn't given up on Mr. Sessions.

One White House official said Wednesday that the open criticism of Mr. Sessions is eroding morale inside the administration and making it

tougher to recruit new staff.

Sen. Lindsey Graham, a South Carolina Republican, unleashed a flurry of criticism of Mr. Trump's behavior in remarks to reporters on Capitol Hill Wednesday, saying that publicly berating his own attorney general was unseemly, inappropriate and belittling and humiliating.

Sen. John Cornyn (R., Texas) said Mr. Trump "ought to sit down and talk with the attorney general man-to-man and work it out."

Mr. Trump could attempt to make a recess appointment during a break in the Senate's schedule, such as the one in mid-August. But in recent years, the Senate has been holding what are called pro forma sessions rather than adjourning, in part to prevent the president from making such appointments.

—Aruna Viswanatha contributed to this article.

## HEALTH

Continued from Page One  
bill could be improved in Senate-House talks.

With no other plan capable of unifying Republicans, the skinny repeal plan gained traction with senators from the party's conservative and centrist wings, as well as rank-and-file Republicans who didn't want the health-care push to die in their chamber. The House narrowly passed a far more sweeping bill in May.

"I've been saying for months we should start with what we agree on, and try to build up," said Sen. Rand Paul (R., Ky.). "The previous strategy was to start big and try to have the whole kitchen sink in there."

The proposal under discussion would likely end the much-debated requirement under the Affordable Care Act that most people have insurance or pay a penalty. It would also overturn the requirement that most employers provide health insurance to their workers.

But it would leave in place much of the broad shape of the Obama administration's signature health law, including the expansion of the Medicaid program for low-income Americans in 31 states; regulations that require insurers to cover people regardless of their health status; and a mandate that most health plans cover a raft of specific benefits such as maternity care. Republicans haven't been able to agree on how, or whether, to modify or cut those elements.

Insurers and Democrats reacted with alarm to the idea

### GOP Tax Principles Set to Be Released

Top congressional Republicans and Trump administration officials plan to release their tax-policy principles at the end of this week, said two people briefed on those discussions.

The plan will include high-level principles, said one of the people. An administration official said the statement will reflect areas of agreement in the group.

The so-called Big Six officials on tax policy have been meeting for months and gathered Wednesday evening, in what was expected to be their final session before the congressional summer recess.

It is unclear what conclu-

sions they will reach and how those will go beyond what they have already said. The broad strokes—lower tax rates in a deficit-neutral tax-code revamp—have generally been agreed on for months.

What isn't clear yet is how the principles released this week will address the House GOP's plan for border-adjusting the corporate tax. House members have been sticking to that idea—taxing imports and exempting exports—even though it has faced heavy criticism from senators and retailers.

The six officials are Treasury Secretary Steven Mnuchin, White House economic policy chief Gary Cohn, House Speaker Paul Ryan, Senate Majority Leader Mitch McConnell, Senate Finance Committee

Chairman Orrin Hatch and House Ways and Means Chairman Kevin Brady.

When Congress returns, lawmakers expect to start the more-detailed tax-policy work. Members of the group have said they hope to pass a new law by the end of the year.

Rep. Mark Meadows (R., N.C.), head of the conservative House Freedom Caucus, said he welcomed the principles as a way of clarifying where Congress is heading, but that doesn't mean House members will accept it.

"History shows you that when six people get together and agree on anything, it doesn't necessarily make for 218 votes in the House," he said Wednesday.

—Richard Rubin

that Republicans might pass the scaled-back bill.

Health insurers warn of the danger of ending the individual mandate without other provisions to prod young, healthy people to buy insurance. Without such efforts, individual insurance markets have in the past gone into meltdowns known as "death spirals," they say, meaning cycles of rising premiums and shrinking enrollment, leaving insurers covering the sickest, costliest patients.

Some GOP senators, including Shelley Moore Capito of West Virginia and Mike Lee of Utah, were undecided on the idea Wednesday, and it isn't clear it will have the votes to pass. Mr. McConnell presides over a narrow 52-48 Republican majority and can lose no

more than two Republicans, with Vice President Mike Pence breaking a potential 50-50 tie.

The proposal appealed to some centrist Republicans, who have been uneasy over \$756 billion in cuts to federal Medicaid funding that was part of earlier GOP proposals.

Sen. Dean Heller (R., Nev.) said he appreciated that the skinny repeal didn't seek to make cuts to federal funding for Medicaid and viewed it "favorably" on Wednesday.

But Mr. Heller and other senators acknowledged that passing such a measure would open up unpredictable negotiations with House Republicans, who would likely lobby to return Medicaid cuts and other conservative measures.

The House could take up and pass the skinny repeal bill as is, if it clears the Senate, but that appears unlikely as a first step. Rep. Mark Meadows (R., N.C.), the chair of the conservative House Freedom Caucus, said he would oppose such a move.

Health and Human Services Secretary Tom Price signaled support for the skinny repeal plan Wednesday, urging lawmakers to vote in favor of any measure that stands a chance of passing.

In a move that could siphon support for the skinny repeal proposal, a group of five GOP governors and five Democratic governors pressed senators to abandon the idea. The governors wrote in a letter to Senate leaders Wednesday night that a skinny repeal plan is "expected

to accelerate health plans leaving the individual market, increase premiums, and result in fewer Americans having access to coverage." They instead urged senators to work with governors and colleagues from both parties to shore up the individual insurance market.

Attacking the proposal, Sen. Elizabeth Warren (D., Mass.) said the skinny plan would boost premiums for many Americans, in part because Senate passage would usher in a period of uncertainty.

"The Senate Republicans will be responsible for every dollar of premium increases that occur over the weeks and months that follow, as this bill sits in a conference with the House and insurance companies jack up prices because they don't know what they might be required to cover," Ms. Warren said.

About 15 million fewer people would have coverage in 10 years if the ACA individual mandate is repealed, according to an estimate last year from the nonpartisan Congressional Budget Office. Premiums on the individual market would increase 20% because healthier and younger people, who help offset the costs of older and sicker consumers, would likely drop coverage, the CBO found.

A new CBO analysis released Wednesday night, which was requested by Democrats based on reports of the skinny repeal plan, pegs the number of additional uninsured at 16 million over the next decade.

—Natalie Andrews, Anna Wilde Mathews and Janet Hook contributed to this article.

## STATE DEPARTMENT

### Brownback Is Choice For Ambassador Role

The White House on Wednesday announced that President Donald Trump plans to nominate Kansas Gov. Sam Brownback to serve as ambassador-at-large for international religious freedom. If confirmed by the Senate, he will run the State Department's Office of International Religious Freedom.

Kansas officials expect Mr. Brownback to step down when he is confirmed, but his office wouldn't discuss his plans.

Wednesday evening, Mr. Brownback's fellow Republicans called the job a good fit, and some conservative religious groups had pushed for the appointment.

Mr. Brownback, 60 years old, served in the Senate before his election as governor in 2010. He was an early advocate of U.S. action to stop genocide in Sudan's Darfur region, and visited Congo and Rwanda to decry humanitarian crises.

In a tweet, Mr. Brownback called religious freedom "the first freedom" and said he was honored "to serve such an important cause."

—Associated Press

# WORLD NEWS

## EU Cautions U.S. Over Russia Sanctions

Bloc says it will retaliate if Washington fails to resolve its concerns over penalties bill

By LAURENCE NORMAN

BRUSSELS—The European Union stands ready to act against the U.S. within days if the bloc's concerns about American legislation to impose new sanctions on Russia aren't addressed, the top EU official said.

The bill, which the House of Representatives passed Tuesday, would let President Donald Trump penalize European companies working on the development, maintenance, modernization or repair of energy export pipelines.

European officials, while not specifying what actions they could take, say that poses a threat to a range of regional energy projects.

"The EU is fully committed to the Russia-sanctions regime," European Commission President Jean-Claude Juncker said Wednesday, adding that "close coordination among allies are at the heart of" making the measures effective.

Mr. Juncker said the bill could have "unintended unilateral effects" on the EU's energy security interests and that the bloc will respond swiftly if its concerns aren't addressed. "America First" cannot mean that Europe's interests come last," Mr. Juncker said.

American lawmakers tried



EU Commission President Juncker spoke Wednesday in Brussels.

to ease Europeans' concerns, adapting draft legislation to say that any sanctions on pipeline projects would be undertaken "in coordination with allies of the United States," said Sen. Bob Corker (R-Tenn.), chairman of the Senate Foreign Relations Committee.

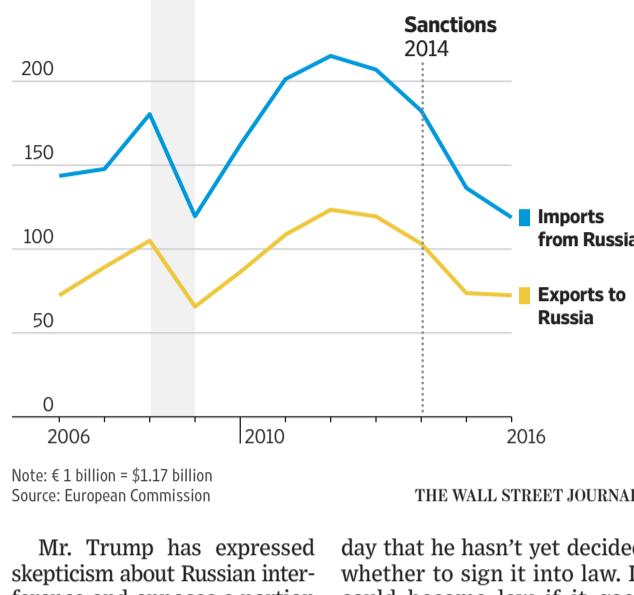
But that wasn't enough for European leaders, who said they would closely follow the U.S. legislative process and be ready to act. European officials have long chafed at U.S. legislation which seeks to target foreign companies with sanctions, saying that runs against international law.

They also worry Mr. Trump could use the legislation as leverage to pressure European governments on other issues, like trade. Austrian Chancellor Christian Kern slammed the bill as an unacceptable "mixing of political interests with economic ones, at the cost of European jobs."

Against Mr. Trump's wishes, lawmakers passed legislation in an overwhelmingly bipartisan vote Tuesday that would punish Russia after the U.S. intelligence community concluded that Moscow had sought to interfere in the 2016 presidential election.

### Trade Fallout

Commerce between the European Union and Russia, which sank after Brussels imposed sanctions in 2014, risks falling below 2009 lows if European companies are targeted by U.S. penalties.



THE WALL STREET JOURNAL.

day that he hasn't yet decided whether to sign it into law. It could become law if it goes unsigned for 10 days.

The sanctions would come on top of others passed by the U.S. and EU after Russia's intervention in Ukraine and its annexation of Crimea in 2014. EU officials say the bloc has paid a higher price from those broad economic sanctions since EU-Russia trade was greater than U.S. economic ties before Ukraine crisis.

The EU and the U.S. have tied the easing of sanctions to Russia's implementation of the 2015 Minsk cease-fire and

peace accords. The bloc recently extended its sanctions for an extra six months.

The EU acknowledged U.S. lawmakers had made a number of changes to the draft bill to lower the risk of American legal action against European firms. German Foreign Ministry spokesman Martin Schaefer said lobbying from the EU and from Germany had helped improve the draft legislation.

Among the changes was a higher threshold of Russian involvement in projects which could lead to European companies being sanctioned, with the latest version setting a 33% threshold for crude-oil projects, instead of the original 10%. And it now applies only to new investments in projects, not to existing ones.

The new bill says the president, in making his decision, should "continue to uphold and seek unity with European and other key partners."

The EU hasn't spelled out what action it would take if the legislation takes effect without further changes. Officials said any action wouldn't come until a final bill is enacted. Additional retaliation could follow if the legislation is implemented in an aggressive way, they said. One possible channel for retaliation is a complaint at the World Trade Organization.

The EU also could apply legislation drawn up over a decade ago—the so-called blocking statute—which orders European companies to not obey U.S. extraterritorial sanctions.

## Spain's Rajoy Testifies In Trial

BY JEANNETTE NEUMANN

MADRID—Spanish Prime Minister Mariano Rajoy testified in court on Wednesday as a witness in a graft trial, focusing attention on the corruption allegations that have plagued his conservative political party and cost him votes.

Lawyers tried to discern what Mr. Rajoy knew about the finances of his center-right Popular Party when he was a senior party official in the early 2000s, the period the trial centers on.

During nearly two hours of testimony, Mr. Rajoy said he had no knowledge of the alleged illegal financing scheme that helped fund the party. Mr. Rajoy responded repeatedly that his responsibilities as a party official had been political, not financial. "I have never dealt with economic matters in the party," he said.

Mr. Rajoy's court appearance complicates the prime minister's efforts to focus Spaniards' attention on the robust economic growth that has taken place on his watch rather than on continuing corruption investigations involving current and former members of his party.

Mr. Rajoy was called as a witness in what is known as the "Gurtel" case and hasn't been accused of wrongdoing. The image of a sitting prime minister testifying in court in a corruption trial, however, was one Mr. Rajoy and his party had sought to avoid. Mr. Rajoy had asked to testify before a three-judge panel via videoconference, but the court rejected his request.

Corruption has been a top concern for Spaniards for several years; they named it as the second-greatest problem facing the country after unemployment in a June survey by Spain's Center for Sociology Research.

Mr. Rajoy has tried to emphasize Spain's economic comeback. The economy grew 3.2% in 2015 and 2016, one of the fastest rates among major eurozone countries. Growth is expected to top 3% again this year. Mr. Rajoy became prime minister in 2011, when Spain was in recession, and was re-elected in 2016 but lost his parliamentary majority. Despite overseeing a weak minority government, Mr. Rajoy has been able to approve the 2017 budget with support from smaller parties.



Protesters demonstrated in Wroclaw on Tuesday against government efforts to replace the entire Supreme Court, a move that prompted an EU threat of sanctions.

## Bloc Threatens Poland Over Court Standoff

The European Union warned it could still pursue unprecedented sanctions against Poland, trying to pressure the government as both sides weigh

### EU Urges Dismissal Of Legal Challenge To Migrant Quotas

Slovakia and Hungary's legal challenge against a European Union program to distribute migrants from Africa and the Middle East more evenly across the bloc should be dismissed, the top lawyer for the European Court of Justice advised, in a decision that is likely to deepen divisions over the EU's response to the crisis.

Bratislava and Budapest, which has been supported by Poland, argued the EU's 2015 decision to introduce a quota system to relocate migrants across the bloc was unlawful.

But the court's top lawyer, Yves Bot, on Wednesday said that quota system was a propor-

tionate response to the crisis and would help Italy and Greece, the two countries that have been at the forefront of the crisis. The court is expected to issue its final ruling on the issue this year.

The EU's plan was controversial in Central and Eastern Europe, which has had little experience of absorbing Muslim migrants. Governments said protecting Europe's borders should come first.

"We continue to interpret the decision on the mandatory resettlement quota as a decision that contravenes European law," Hungarian Minister of Foreign Affairs and Trade Péter Szijjártó said. "The primary task, duty and responsibility of Hungary's government is to protect the security of the country and of the people of Hungary, and accordingly it will continue to

do everything in its power to ensure that illegal immigrants cannot come here," he added.

The Slovak foreign ministry said the opinion isn't binding,

suggesting it could be ignored in the final ruling. However, most court opinions are upheld in the final rulings.

The court case comes two years after the European Commission, the EU's executive arm, put forward a binding plan to distribute across the EU as many as 120,000 migrants who were living in Italy and Greece.

Fewer than 25,000 people have been moved under the EU's plan.

The commission has separately started legal proceedings against Hungary, Poland and the Czech Republic for refusing to accept any asylum seekers under the relocation plan.

—Valentina Pop

decide who appoints judges to lower, criminal courts.

His veto hasn't allayed fears in Brussels. The laws "would have a very significant negative impact on the independence of the Polish judiciary and would increase the systemic threat to the rule of law," the commission's first vice president, Frans Timmermans, said.

The EU has limited room to maneuver in its showdown with Poland. The ruling party, Law and Justice, says the reforms

are needed to purge officials who entered public life during the tainted communist era. Previous warnings have done little to sway the government.

The bloc's most severe punishment—stripping EU voting rights—requires a unanimous decision of all the countries in the bloc, which looks unlikely. It must also weigh how much to criticize the country and face accusations of outsider meddling or to remain silent and take flak for that.

"We will not tolerate the pressure and blackmail of EU officials," it tweeted.

"The EU was designed to shame its members into compliance, but shame is obviously not working for Poland," said Roman Rewald, president of the Lewiatan Mediation Center, a legal institution in Warsaw.

The government remained defiant following the commission's statement. The ruling party said its changes were in line with the Polish constitution.

"We will not tolerate the pressure and blackmail of EU officials," it tweeted.

A majority of Poles oppose the overhaul: In one poll last week, 55% of voters wanted Mr. Duda to veto the bill. But at the same time, the ruling party is Poland's most popular, with about a third of voters behind it. Many are Poles who say they resent the EU's attempts to guilt their nation into becoming a liberal democracy.

The commission said it is ready to launch an effort to punish Poland, which would begin with asking EU governments to formally warn Poland to reverse course.

The process could eventually escalate to a discussion of stripping Poland of its EU voting rights. But while EU governments would need a four-fifths majority for an initial formal warning, sanctioning Poland would require unanimity.

Hungary has already said it would veto measures against Poland, whose vision for what a European democracy should look like is shared by Budapest.

Mr. Duda has called for a revised Supreme Court bill and said this time he would like to help write it. It isn't yet clear if the new bill would also serve to expand government control of the judiciary or help Poland address EU concerns.

"They're determined to push forward on this," said Paul Ivan, senior policy analyst at the European Policy Centre in Brussels.

## WORLD NEWS

# U.S. Raises Pressure On Venezuela

More high officials are sanctioned in bid to get Maduro to cancel vote skirting congress

By JOSÉ DE CÓRDOBA

The U.S. government leveled sanctions on 13 high-ranking Venezuelan officials for alleged corruption, human-rights violations and undermining the country's democracy, days before a scheduled vote for a constitutional assembly that many believe would deal a death blow to Venezuela's democracy.

The officials targeted by the U.S. Treasury on Wednesday include Tibisay Lucena, the head of the country's electoral agency, as well as the chiefs of the Venezuelan Army, National Guard and National Police.

The U.S. also blacklisted the finance chief of state oil firm **Petróleos de Venezuela**; Elías Jaua, a leading politician close to President Nicolás Maduro; and Erick Malpica Flores, a nephew of Venezuela's powerful first lady, Cilia Flores.

Under the sanctions, the officials' U.S. assets are frozen and their U.S. visas revoked. The measures also prohibit U.S. citizens and institutions from doing business with them.

The U.S. government warned that any individuals who become members of the constituent assembly to be elected on Sunday risked being added to the U.S. sanctions list.

"The United States will not ignore the Maduro regime's ongoing efforts to undermine democracy, freedom, and the rule of law," said U.S. Treasury Secretary Steven Mnuchin.

Mr. Maduro responded to the U.S. move with defiance in a broadcast to the nation on Wednesday evening. "We will never kneel, and our vengeance will be our victory on Sunday July 30th," he said.

The newest round of sanctions comes days after U.S. President Donald Trump called Mr. Maduro a "bad leader who dreams of becoming a dictator."

The Trump administration says Mr. Maduro's push to create the assembly—to be tasked with rewriting the constitution—is the final step toward a full dictatorship. "We see July 30th as a critical line that, if crossed, could be the end of democracy in Venezuela," a senior Trump administration official said.

The U.S. put eight Venezuelan Supreme Court justices under similar sanctions in May after the court issued rulings that gutted the country's opposition-led congress. Vice



Demonstrators gathered at a roadblock in Caracas on Wednesday during a strike called to protest President Maduro's government.

President Tareck El Aissami was placed on a U.S. Treasury blacklist in February for allegedly aiding drug traffickers. U.S. authorities have frozen "hundreds of millions of dollars" in assets linked to Mr. El Aissami, a senior U.S. official said Wednesday.

Mr. Jaua, the Venezuelan official in charge of creating the constituent assembly, appeared unmoved. "The Empire's sanctions are an acknowledgment of my 34 years of struggle for national sovereignty and for the poor of this

Earth. We will overcome!" he wrote on his Twitter account.

Mr. Maduro's efforts to convene a constituent assembly are being boycotted by Venezuela's opposition coalition. Once elected Sunday, the assembly is set to become the country's supreme political institution, with power to rewrite the constitution and dissolve the opposition-dominated congress.

The opposition has called a two-day general strike—its second in as many weeks—starting Wednesday in an attempt to stop the constituent assembly.

Mr. Trump and other world leaders have called on Mr. Maduro to abandon the vote, which polls show 80% of Venezuelans oppose. Last week, more than 7.5 million people voted in an unofficial referendum whose results showed overwhelming opposition to creating the new assembly.

Mr. Maduro dismissed that referendum as a nonbinding internal consultation by the opposition, but as the president and his aides move ahead with their plans to hold Sunday's vote, anxiety about the

adverse international reaction has been high inside the Miraflores Presidential Palace, according to people close to the ruling Socialist Party.

Trump administration officials said expanded sanctions on the country's vital oil industry, which provides 95% of Venezuela's foreign exchange, were possible if Mr. Maduro carried out his plans. "All options are on the table," the senior official said.

—*Ian Talley, Kejal Vyas and Anatoly Kurmanov contributed to this article.*

## WORLD WATCH

### EUROPEAN UNION

#### Court Keeps Hamas On Terrorism List

The EU's top court ruled Wednesday that Palestinian group Hamas should be kept on the bloc's terror list, reversing a lower court decision, but said the striking down of a Sri Lankan terror-group listing was appropriate.

The decisions won't have an immediate effect. Both groups were relisted on new grounds by the EU earlier this year and any funds connected to the groups remain frozen. However, the earlier ruling on Hamas in 2014 had added to tensions with Israel and raised questions about the bloc's counterterrorism work.

In the case of Hamas, the European Court of Justice said the lower court's 2014 decision wrongly demanded stronger evidence from EU member states to keep the group on the terror list.

"We welcome the ECJ ruling, which confirmed the legality of Hamas listing in 2010-2014," the EU embassy in Israel said in a statement. "The EU continues to consider Hamas a terrorist organization; measures restricting its activity remain in force."

For the Tamil Tigers, the court said the EU didn't explain why it believed the Sri Lankan group, following its military defeat in 2009, continued to pose a terror risk.

The court therefore confirmed the lower court's decision to an-



SHELLERATION: Children release turtles to the sea on Wednesday ahead of Thailand's King Maha Vajiralongkorn's 65th birthday on Friday, part of a marine-conservation effort.

nul the freezing of Tamil Tiger funds from 2011 to 2015.

—Laurence Norman

### UNITED KINGDOM

#### Economy Grew 0.3% In Second Quarter

Economic growth remained subdued in the second quarter, as a modest revival in consumer spending offset shrinking industrial production, a sign that a hoped-for shift toward export-

led growth remains elusive.

Economists say that businesses—particularly exporters—will need to compensate for consumers squeezed by rising prices if the U.K. economy is to avoid stuttering just as Britain's exit talks with the European Union get underway.

Quarterly growth stood at 0.3% in the April-June period, the U.K.'s Office for National Statistics said, a slight improvement on the 0.2% growth rate of the preceding quarter, but still

less than half the pace of growth at the end of last year.

Proponents of Brexit have suggested that the pound's steep depreciation in the wake of last year's referendum could boost overseas demand for British products, strengthening the manufacturing industry and decreasing the economy's reliance on domestic demand. But so far, the economy has shown little sign of that shift.

—Wiktor Szary and Jason Douglas

him remain alive longer, but ruled that if an agreement couldn't be reached by the parents, Charlie's guardian and the hospital by Thursday at noon, then "matters have to be taken to their very, very sad conclusion."

"It's in Charlie's best interests to be moved to a hospice" and for his artificial ventilation to be removed when his treating team thinks it appropriate, the judge ruled.

The time and place of his death will remain undisclosed until after it has happened, he said.

The attorney for the hospital told the court earlier that Charlie should be moved to the hospice no later than Friday morning.

"The strain on the family and those who are caring for Charlie is simply too much," Fiona Paterson said.

Ms. Yates left the hearing in tears before the judge announced his decision. His father remained at Charlie's bedside during the hearing.

Ms. Yates and Mr. Gard on Monday gave up their months-long fight to take Charlie to the U.S. for experimental therapy after new scans showed his muscular damage was too extensive and the window for treatment to have a chance of success had closed.

## FROM PAGE ONE

# SNAP

Continued from Page One  
visers urged school officials to construct a new chapel.

It is rare to net such a huge return on an initial public offering. In fact, most venture-capital bets fail. Between 1990 and 2010, about 60% of such wagers lost or were losing money, according to investment firm Cambridge Associates. Saint Francis' bet returned more than 2,200 times the initial investment based on Snap's valuation at the time of the IPO.

"We are blessed," Mr. Chiu said in an interview about how Saint Francis will spend the money. "But we don't want to become a cautionary tale."

The school sold two-thirds of its shares, for roughly \$24 million, in the IPO. The rest is subject to a late-July lockup, after which the school is free to sell its remaining shares.

Concerns about stake sales by big investors after the expi-

ration of the lockup period and intensifying competition from Facebook Inc. have weighed on Snap's shares.

The stock on Wednesday fell 3.5% to \$13.40, down 21% from the IPO price, diminishing the value of Saint Francis' remaining holdings.

The investors who advise the school's venture-capital fund warned Mr. Chiu that Snap's shares could be volatile after the IPO.

The school hasn't yet decided what to do when the lockup expires but plans to re-evaluate the rest of its holding with the aim of getting the best price for the remaining shares.

Saint Francis doesn't plan to hold on to its shares long-term, a spokeswoman said. Typically, venture-capital funds sell their shares in listed companies because the funds aren't focused on public markets.

Saint Francis' jackpot almost didn't happen. The school began investing in startups in the '90s at the behest of two parents in the venture-capital in-

dustry. In 2012, the fund they created chose Snapchat at the urging of Barry Eggers, a parent at the school and one of the fund's advisers, who had noticed his children were glued to the app. His firm, Lightspeed Venture Partners, was Snapchat's first investor. The company changed its name to Snap

last year.

The stake quickly became a headache, recalled Kevin Makley, who was the school's president when the investment was made. Early reports suggested people used Snapchat, which became popular because it deleted messages and photos after they were shared, to ex-

change nude photos of themselves—a poor fit with Saint Francis' image.

Saint Francis' fund nearly sold its stake in 2014 for \$5.5 million. At the last minute, an adviser to the school's fund called Mr. Makley to warn against the sale.

After news emerged that Snap was working on an IPO, school officials started realizing how big their payoff could be. Saint Francis, which has 1,750 students in grades nine to 12, sits in one of the wealthiest parts of the country, but the potential payout far outstripped its \$25 million endowment and nearly equaled its \$34.7 million annual operating budget.

Mr. Chiu, Saint Francis' president since 2015, met with other decision makers in February to weigh everything from putting all the money in the school's endowment to spending the full amount on new buildings.

The school decided to place the bulk of the IPO proceeds in

its endowment, where it will be used to bolster financial aid for lower-income families. The school also plans to expand the program to include families with household incomes in the six figures but who are squeezed by skyrocketing housing costs. Tuition next year will cost \$17,980.

Unlike the school's venture-capital fund, the endowment sticks largely to conservative investment strategies.

Some money went to a bonus fund for teachers, who each received \$8,000 on average. The school is now considering plans for a new chapel and classrooms.

Meantime, the school plans to continue its fundraising campaigns, the school's spokeswoman said.

Mr. Eggers said other schools in the area have called him for advice on how to start venture-capital funds similar to that at Saint Francis. He tries to temper expectations: "I don't think you can count on another Snapchat happening."



Saint Francis High School reaped millions from the Snap IPO.

SAIN

T FRANCIS HIGH SCHOOL

## WORLD NEWS

# Cardinal Denies Sex-Abuse Charges

By ROBB M. STEWART

MELBOURNE, Australia—Cardinal George Pell, Pope Francis' finance chief, will plead not guilty to multiple charges of sexual abuse leveled against him in Australia, his lawyer told a court on Wednesday.

During a brief filing hearing, an administrative process in which no plea is expected and the accused isn't required to attend, lawyer Robert Richter, who is representing Cardinal Pell, said that because of the public interest, his client would indicate a plea of not guilty to all charges.

The 76-year-old cardinal sat quietly during the six-minute hearing, where it was decided that the prosecution would serve a brief of evidence to the court in the coming weeks and that Cardinal Pell would return to the Melbourne Magistrates' Court for a preliminary hearing in October.

Cardinal Pell is the highest-level Vatican official to face charges in the sexual-abuse scandal that has beset the Catholic Church during the past two decades.

The decision to indicate a plea was made to "avoid any



Pope Francis' top financial adviser, Cardinal George Pell, said through his lawyer he wasn't guilty.

confusion or doubt" about the cardinal's intentions, Mr. Richter said after the hearing.

In late June, police in southern Victoria state charged Cardinal Pell with multiple counts of sexual abuse involving multiple complainants, alleged to have occurred in Australia decades earlier. Details of the charges haven't been disclosed.

From Rome, before his return to Australia, Cardinal Pell said he was innocent of the charges. Pope Francis granted him a leave of absence to clear his name in court, he said.

The pope told reporters last year that he wouldn't comment on the Pell cases "until the justice system passes judgment," adding, "Once it has

spoken, then I will speak."

The cardinal was escorted in and out of court by almost a dozen police officers and was applauded by several people each time.

A second room was opened to accommodate those unable to get into the packed courtroom so they could watch the proceedings on a video screen.

Outside the court building, a handful of protesters against Cardinal Pell stood among dozens of reporters and cameras.

The next step will be the preliminary hearing, set for Oct. 6, where the judge may give permission to cross-examine witnesses and discuss areas of dispute. That will be followed by another hearing, when the court will decide whether a jury might convict the accused and whether the case should proceed to a higher court.

Cardinal Pell rose through the ranks of the church after being ordained as a priest in 1966, according to the Archdiocese of Sydney.

He was ordained as auxiliary bishop of Melbourne's archdiocese in 1987. In 1996, Pope John Paul II appointed him as the seventh metropolitan archbishop of Melbourne before naming him archbishop of Sydney five years later.

In February 2014, Pope Francis appointed Cardinal Pell prefect of the newly created Secretariat for the Economy at the Vatican. He also sits on the international nine-member Council of Cardinals, which advises the pope on overhauling the Vatican and governance of the world-wide church.

## Beijing Revamps State-Run Companies

BELJING—China is close to completing a long-targeted overhaul of operations at its state-owned enterprises, or SOEs, saying a modernization of their corporate structures will be finished this year.

All major companies owned by the central government, excluding financial and cultural firms, will be transformed into limited-liability or joint-stock companies by Dec. 31, according to a plan released by the State Council, or cabinet, Wednesday.

About 90% of these state-owned companies have completed the restructuring, the cabinet said.

As part of the overhaul, companies are setting up boards of directors to make important decisions, such as those related to hiring and compensation, the State Council said.

However, the ruling Communist Party, which currently appoints senior managers at the SOEs, is expected to maintain a strong influence over decision-making at the companies.

The cabinet said the enterprises must ensure the party's "core leadership" role through their appointments of company officers and establishment of party organizations.

The statement came as the government continues efforts to energize China's often-lumbering state companies and make them more competitive, including through combining some into larger entities.

Ying Wang, a senior director at Fitch Ratings, said the overhaul was an initial step toward increasing efficiency and improving internal controls at state companies.

A party congress to be held this fall is expected to further endorse "mixed ownership" structures allowing state companies to sell stakes to attract private capital—a process already under way.

—Liyan Qi

## Dozens Die in Taliban Attack on Afghan Army Base

By EHSANULLAH AMIRI

KABUL—The Taliban attacked an Afghan army base in southern Kandahar province and killed at least 26 soldiers, the Defense Ministry said, as the insurgent group increases pressure on government forces.

The attack took place as some 60 Afghan soldiers were on duty in Khakrez district, north of the provincial capital Kandahar City, ministry spokesman Mohammad Radmanish said on Wednesday. More than a dozen others were wounded, he said.

Kandahar is the birthplace of the Taliban, and shares a

restive border with neighboring Pakistan. Security in the long-troubled province has deteriorated since most foreign troops withdrew in 2014.

The Taliban claimed responsibility for the assault, saying their fighters had seized military equipment from the base, including Humvees, weapons and ammunition.

It came two days after a Taliban suicide car bombing targeted a minibus carrying government employees in western Kabul, killing 31 people and injuring dozens more.

The Taliban regularly target Afghanistan's military and civilians who work for the gov-

ernment, taking advantage of worsening security.

They have been intensifying assaults throughout Afghanistan, piling pressure on President Ashraf Ghani's government, which this week lost districts in Faryab, Paktia and Ghor provinces.

The U.S. military has in recent months stepped up efforts to back the Afghan government in preventing major territorial losses to the group, dramatically increasing the number of airstrikes it carries out on Taliban positions, as President Donald Trump's administration rethinks U.S. strategy in the country.



An Afghan soldier guarded a military base in Kandahar Wednesday.



## Before You Invest—Know Where They Rank

Introducing the daily Track the Markets feature—a simple, fast and easy way to follow the YTD and current quarter's performance of asset classes across the economic spectrum.

Learn more at [WSJ.com/TrackTheMarkets](http://WSJ.com/TrackTheMarkets)

THE WALL STREET JOURNAL.  
Read ambitiously

## IN DEPTH

# ADVICE

*Continued from Page One*  
consumers and could expand the overall market for advice.

Competitors across the spectrum agree the demand is there. Advice "is big and growing—it's what clients are looking for," said Roger Hobby, executive vice president of private wealth management at Fidelity Investments.

The hunger for help marks a shift from the 1990s, when do-it-yourself investing was in vogue. Back then, the adoption of 401(k) plans moved responsibility for investment choices to company employees just as one of the biggest bull markets in history was boosting individuals' confidence in their investing prowess. Meanwhile, pioneering online brokerage firms made trading inexpensive and convenient.

After internet stocks collapsed in 2000, along with the broader stock market eight years later, many individuals sought help. In the past decade, baby boomers started to retire and wanted technical guidance on drawing down their assets.

The advice industry expanded with the demand. Besides managing people's investment portfolios—handling the trades, not merely suggesting them—some financial advisers also provide help with budgets or tax and estate planning.

### Trillions in assets

The number of advisory firms grew to almost 3,900 in 2017, up from fewer than 750 in 2002, according to a Wall Street Journal analysis of Securities and Exchange Commission data. This universe of firms handles at least \$100 million in assets each and provides both investment management and financial planning to individuals.

As of March 2017, such firms collectively had \$5.5 trillion in assets on which they made investment decisions, the Journal's analysis found. That is about six times as much as in 2002.

Throughout this period, advice fees have largely held steady—typically 1% of assets, with a potential discount for big accounts. One reason the standard held is many clients value aspects of advice that can't always be measured or easily compared.

C. Lansdowne Hunt, 72, of Burke, Va., said he became

more price-conscious after his portfolio fell 31% in the late-2008 stock-market meltdown. So in 2012, he switched to a less expensive adviser, and this year, asked for a discount on its 0.9% fee.

After being rebuffed, Mr. Hunt shopped for a new adviser for his \$1.3 million portfolio at firms including Charles Schwab Corp., TD Ameritrade Inc. and Edward Jones. The former Naval officer and defense-contractor employee concluded his current Virginia advisory firm offers services, such as tax-sensitive investing and stock picking, that might be hard to replicate for a lower cost.

"I couldn't get the exact twin," he said.

Many firms are wagering that other customers will take less, for less.

About two years ago, Vanguard Group, known for serving do-it-yourselfers, started undercutting the financial-adviser industry with an annual advice fee of 0.3%.

Assets in its service, which combines recommendations from computer-driven algorithms with phone, video and email consultations with human advisers, grew to about \$35 billion in the first year and to \$83 billion by end of last month, according to the firm.

Joe McDonald of Titus, Ala., was an early customer. Long a do-it-yourself investor, he decided he needed an adviser after making an ill-timed move into an all-cash portfolio after Barack Obama's 2008 election.

"I pulled out and stayed in cash until 2014, which was a

### 'Robo' advisers tempt young clients with fees as low as zero for the smallest accounts.

terrible mistake," said the 74-year-old retired electrical engineer. "I found I didn't really have the discipline to stick with my own plan."

He thought about hiring a traditional adviser in Florida who charges 1% of assets under management. His wife wasn't comfortable entrusting money with someone she didn't know, he said.

Mr. McDonald said he first invested in a mutual fund from Vanguard in 1983. He liked its 0.3% fee on an account with advice, and moved his roughly \$500,000 in retirement ac-



Financial advisers Ann Gugle, above, and Elyse Foster, below, are both at firms that have reduced the annual fees clients pay.

counts there.

"Expenses don't mean a whole lot if you are making 10% a year," Mr. McDonald said, "but if you are making 2% or 3% a year, they are a real big deal."

At Schwab, assets handled by financial advisers, including those at independent firms that use Schwab's services, now account for more than half of the firm's total assets. In recent years, the discount brokerage firm has added a range of options for those seeking advice, including a "robo" service introduced in 2015 that uses algorithms to build and monitor portfolios.

At Fidelity, assets handled with financial advice, either from the firm or from independent advisers who use its services, have nearly doubled over five years.

Part of the shift is generational, as younger adults appear to trust technology more than what they see as salesmanship. "Kids are saying to their parents, 'Why the hell are you paying so much to your adviser? Is it worth 1% a year to have somebody to play golf with?'" said Joe Duran, chief executive of United Capital Financial Advisers LLC, an investment-management and financial-planning firm that also provides services to advisers.

Independent robo advisers that target younger customers—with fees as low as zero for the smallest accounts—have enjoyed hefty growth. Betterment and Wealthfront say they manage \$9.7 billion and \$7.1 billion in assets, respectively, up from \$5.1 billion and \$3.5 billion a year ago.

Morgan Stanley, UBS Group AG, Wells Fargo & Co. and Bank of America Corp.'s Merrill Lynch, known for providing full-frills service at top rates, are testing or have already launched automated-advice ventures that charge less than their standard fees. The goal is to keep fee-conscious and lower-balance customers.

Some deal makers are buying up traditional financial advisers with an eye toward consolidating and cutting costs, saying the industry has too



many firms with outmoded technology and high overhead.

The first half of 2017 was the most active yet for mergers and acquisitions among financial advisers, according to consulting and investment-banking firm DeVoe & Co.

Until recently, Mr. Schmansky said, he has mainly marketed himself as a fiduciary—someone committed to working in the client's best interests. Now he finds himself in direct competition with Vanguard, Schwab and others that also call themselves fiduciaries. "My key marketing distinction is being eroded by these firms in some ways."

He said he works with a lot of younger investors, and "when I tell them my fee is 1%, they know immediately that Betterment costs less."

### Vanguard's move

Of all the initiatives, Vanguard's is widely cited as the most threatening to the status quo. The firm's size, brand recognition and aggressive pricing will create a challenge un-

like anything independent advisers have seen before, said Michael Kitces, director of wealth management at Pinnacle Advisory Group Inc. in Columbia, Md.—much as Vanguard's index funds have wreaked havoc on the traditional mutual-fund business.

Vanguard's Personal Advisor Services (minimum investment: \$50,000), has gained traction because customers want it, said Karin Risi, head of the firm's retail investor group: "They didn't just want to invest in a fund with us—they were saying they needed more help."

So far, only about 10% of assets in the program comes from clients new to the firm. Advisers and industry analysts say it is only a matter of time before the service starts poaching more clients from competitors.

Vanguard has devoted about 500 financial advisers to its venture, said Ms. Risi. She expects the firm to hire roughly 100 advisers annually for the next several years. Clients with more than \$500,000 get a dedicated adviser, who is a certified financial planner; those with less interact with rotating advisers drawn from a pool, some not yet CFPs.

Many traditional advisers suggest that partially automated services such as Vanguard's provide basic, cookie-cutter advice inferior to what an experienced financial planner can provide. Ms. Risi said the firm's advisers go through "pretty impressive training."

Elyse Foster, an adviser in Boulder, Colo., has taken note. Three years ago, she cut financial-planning fees by an average of 40% at her firm, Harbor Financial Group Inc. It also has invested in technology that allows clients to open accounts online, automatically rebalances portfolios to a target mix of stocks and bonds, and shares software so clients can simulate their own planning scenarios.

"We are aware consumers are more price-conscious and are lowering our fees proactively," said Ms. Foster. "We are trying to stay ahead of the industry."

## Seeking Advice

The number of firms providing investment management and financial planning to individual clients has grown steadily.

### Investment advice firms

4,000 firms

### Assets under management

\$5 trillion



Note: Based on firms with at least \$100 million in total assets under management. Assets charted are those for which the firm, rather than the client, makes investment decisions. Data for 12-month periods ending March 31.

Source: Securities and Exchange Commission

THE WALL STREET JOURNAL.

# ANTS

*Continued from Page One*

These South American arthropods are generally no larger than 6 millimeters and are so commonplace in U.S. southern states that there is an annual festival named after them in Ashburn, Ga.

Nevertheless, since Japan first learned that these insects had arrived by hitching rides on foreign cargo, each new discovery has caused another round of breathless official reports, some of which have described the interlopers as foreign "assassins."

No one is saying fire ants are pleasant. A swarm can consume small animals such as frogs, birds and even young livestock. Their sting is comparable to that of a wasp. In rare cases, an allergic reaction results in swelling or, in extreme situations, death.

To some outsiders, however, this island nation may be making a mountain out of an anthill. "This had to happen sometime," said Adam Cronin, an ecologist at Tokyo Metropolitan University. "The re-

sponse is a bit of the Japanese overreacting to anything that's a bit scary."

Japan's fevered response is partly the result of a government ministry's report that said the ants were responsible for 100 deaths a year in the U.S. The ministry backpedaled on July 18, saying it couldn't verify the death figures and had removed the reference.

Around 100 people die in the U.S. from allergic reactions to insect stings every year, according to the American College of Asthma, Allergy and Immunology, an association of doctors. More than half are from bee and wasp stings. It doesn't provide data on casualties caused by fire ants.

At a park near a Tokyo port where fire ants were found, a group of women playing tennis said they were warning their grandchildren about the invaders. One, Yoshiko Seki, 63 years old, said she wanted the government to import fire-ant detective dogs from elsewhere in Asia but feared they would take too long to arrive. "I am too scared," she said.

After about two dozen fire ants were found in Nagoya in June, sumo wrestlers at a

tournament there last week added sandals when outside the ring, upending their tradition. "Better safe than sorry," said one wrestler.

Yoshiaki Hashimoto, an ant expert at the University of Hyogo in western Japan who helped identify the first specimens, said fire ants were probably in Japan already before the confirmed discoveries.

"The mild panic here is partly due to sensationalism in the mass media, with some reports falsely depicting fire ants as murderous," said Mr. Hashimoto.

Joshua Blu Buhs, author of "The Fire Ant Wars: Nature, Science, and Public Policy in Twentieth-Century America," said worries about non-native animals often reflect more general concerns about human immigrants and changes in national character.

He drew a parallel in Japan's experience with how U.S. fire ant infestations in the 1950s were caught up in fears about communism. Some newspapers at the time referred to fire ants as "the red peril" and "fifth columnists," he said.

tournament there last week added sandals when outside the ring, upending their tradition. "Better safe than sorry," said one wrestler.

Yoshiaki Hashimoto, an ant expert at the University of Hyogo in western Japan who helped identify the first specimens, said fire ants were probably in Japan already before the confirmed discoveries.

"The mild panic here is partly due to sensationalism in the mass media, with some reports falsely depicting fire ants as murderous," said Mr. Hashimoto.

Joshua Blu Buhs, author of "The Fire Ant Wars: Nature, Science, and Public Policy in Twentieth-Century America," said worries about non-native animals often reflect more general concerns about human immigrants and changes in national character.

He drew a parallel in Japan's experience with how U.S. fire ant infestations in the 1950s were caught up in fears about communism. Some newspapers at the time referred to fire ants as "the red peril" and "fifth columnists," he said.

from China were found in the western port of Kobe.

Later, a container that arrived in the port of Tokyo from southern China brought in over 100 fire ants as well as larvae and eggs. Queen ants have since also been identified, raising fears the insects will build nests and are here to stay.

Shares of pesticide makers have surged on the Tokyo Stock Exchange, and one manufacturer started selling ponchos made from industrial-strength material that allegedly protects the wearer from fire ants.

One problem: identifying what is a fire ant and what isn't.

The self-taught expert who writes the "Fire Ant Police" Twitter feed in Japan said he has responded to hundreds of photos sent in of suspect ants.

"I just want to be helpful and relieve a bit of the people's anxiety," he said in an interview. "As of today, I have not yet been sent a picture of something I believe is actually a fire ant."

THE YONHAP SHINHWA/ASSOCIATED PRESS



City workers in Fukuoka checked for fire ants this month near the port. The invasive species has entered Japan on foreign cargo.

Japan is a largely homogeneous nation with tight restrictions on immigration. It has been slowly opening its doors to foreign workers as it faces labor shortages.

At an emergency ant-policy meeting last week, Prime Minister Shinzo Abe told government ministers, "We will exert every effort to prevent the infiltration and settlement of

fire ants." He added, "It is necessary for everyone in the nation to recognize correctly the characteristics of fire ants and address the matter calmly."

Fire ants are one of the most aggressive types of ant and have spread to several countries in Asia. The wave of fear in Japan began when a cluster of fire ants that came in on a shipping container

Koji Everard and River Davis contributed to this article.

# GREATER NEW YORK

## Subway Financing Tiff Escalates

Mayor says state has diverted MTA funds and balks at putting up \$418 million for repairs

BY MARA GAY  
AND MELANIE GRAYCE WEST

The political fight about who should pay for a rescue plan for New York City's beleaguered subway system deepened Wednesday, with state and city officials deadlocked over funding disputes that reach back more than half a decade.

Mayor Bill de Blasio said the city wouldn't contribute additional funds toward the \$836 million plan unveiled by Metropolitan Transportation Authority Chairman Joe Lhota this

week until the state returned the nearly half a billion in funds it has drawn from MTA coffers since 2011.

Mr. Lhota has asked for \$456 million in operating costs and a one-time capital infusion of \$380 million to take on urgently needed repairs, which he expects the MTA to complete in a year's time.

"Why would I want to give up NYC taxpayer dollars, which are not abundant?" Mr. de Blasio said at a news conference. "The state has not reimbursed the MTA for the money it took. Let's do that first."

At an MTA meeting, Mr. Lhota said the city and state needed to be equal partners in funding the immediate subway repairs. He has asked the city to put up half the money in the plan, \$418 million.

"There's a need for partnership between the city and the state to come to the aid of riders," Mr. Lhota said.

The MTA chairman added that he has "yet to hear a specific example" about how the

funds for other uses. "What a coincidence," Mr. de Blasio said.

A spokesman for Mr. Cuomo, who controls the MTA, didn't immediately comment.

Mr. Lhota called the back and forth "silly" and said he has proposed "a fair 50/50 split" between the city and state.

"The Governor has stepped up and agreed to be partner in addressing the problem, and it's time for the mayor to be a part of the solution as well," Mr. Lhota said in a statement emailed to The Wall Street Journal.

Richard Ravitch, a former lieutenant governor who served as MTA chairman in the early 1980s, said the political squabbling about funding the subway, a critical transit system that serves some 6 million riders daily, is disgraceful.

"It's so demeaning to me, that the greatest city in the world should be experiencing this as a political fight between a mayor and a governor. I find it disgusting," Mr. Ravitch said in a phone interview.

The tussle over funding comes while riders are grappling with rising delays. Transit experts say the city's more than 100-year-old subway system is stretched to its limit amid record ridership and years of underinvestment in infrastructure and everyday maintenance.

Mr. Lhota faced questions from the MTA board on Wednesday about the need for more cost savings and new sources of revenue. Board members expressed concerns about future fare increases and additional borrowing for operating and capital costs.

### Funding Gap

MTA's revenue has been rising but so have its expenses.

**Total operating revenue**  
**Total operating expenses after noncash liability adjusted**



Source: Metropolitan Transportation Authority  
THE WALL STREET JOURNAL.

"We have to come up with new, innovative ways to fund this agency," said MTA board member Susan Metzger.

## Cuomo: U.S. Cash Needed for Big Project

BY TED MANN

WASHINGTON—New York Gov. Andrew Cuomo on Wednesday asked the Trump administration to restart efforts to build new rail tunnels beneath the Hudson River, as he urged the White House to spend federal money to fulfill the president's \$1 trillion pledge to rebuild American infrastructure.

Mr. Cuomo, a Democrat, pointed to the stalled rail project as an example where no other funding sources will work.

"If we're going to be serious about infrastructure, which this administration said they were going to be, the money's going to have to come from the federal government," the governor said.

A White House spokeswoman referred a request for comment to the Transportation Department. A spokeswoman for the agency didn't respond to a request for comment.

The administration says it hopes private investors will provide the bulk of the financing for an infrastructure program, supplying upfront cash in exchange for proceeds from sources such as highway tolls and water and sewer fees. The administration says it also would do some direct federal funding of projects, especially in rural areas with less appeal to private investors.

In 2015, the Obama administration said the federal government would pay half the cost of the Hudson River tunnels project, which includes a new bridge and platforms abutting New York Penn Station. The most recent estimates put the cost of the entire project at \$29.1 billion. The Trump administration has yet to signal whether it will stand by that funding commitment.

Alarm is rising among supporters of the project that it might be indefinitely stalled. Despite years of planning and permitting work, progress on the new Hudson River tunnels won't take place until a funding agreement is in place.

On Wednesday, Mr. Cuomo struck an urgent tone. "We're doing the planning work," he said. "I want to hear that we're actually going to fund the tunnel."

## After Decades of Service, Bridge Gets a Lift Out of Town



OUT WITH THE OLD: A barge carrying part of the old Kosciuszko Bridge approached the Brooklyn Bridge on the East River on Wednesday. A new span opened in April.

## Judge's Death a Suicide

BY ZOLAN KANNO-YOUNGS



Judge Sheila Abdus-Salaam, the first African-American woman on New York's highest court, committed suicide earlier this year, the city medical examiner ruled Wednesday.

"The cause of death is drowning," the Office of Chief Medical Examiner said in a statement. "The manner of death is suicide."

Judge Sheila Abdus-Salaam, 65 years old, was found in the Hudson River near West 132nd Street on April 12 with no obvious signs of trauma, authorities said.

Previously, police said Judge Abdus-Salaam's death likely was a suicide, although the official cause hadn't been released. Facts uncovered during their investigation supported the official cause of death, law-enforcement officials said.

Nine surveillance cameras showed Judge Abdus-Salaam walking alone in the area between her Harlem home and Riverbank State Park, which borders the Hudson River. It isn't clear how long she was in the park, but she was shown

there alone shortly before 12:30 a.m. on April 12. Police responded to a 911 call later that day and found her body in the river at about 1:35 p.m.

A senior law-enforcement official said it was likely her body was in the water for most of the time, indicating to police that there was no criminality in the case.

Judge Abdus-Salaam was chosen as an associate justice on the New York Court of Appeals in March 2009.

## L.I. Leaders Call for Changes To Migrant-Youth Program

BY JOSEPH DE AVILA

Ahead of President Donald Trump's planned visit Friday to a Long Island community that has been reeling from violence tied to the Central American gang MS-13, local officials are raising concerns about federal support for migrant children.

Suffolk County has been rocked by 17 murders committed since January 2016 that law-enforcement officials say are tied to MS-13. The Trump administration has attributed the spike in gang-related homicides to weak border security and has pointed to inflows of unaccompanied children fleeing gang violence in Central America.

Rep. Peter King (R., N.Y.) of Long Island called for the unaccompanied-children program to be overhauled in light of ties to the gang. He wants more stringent vetting, with additional follow-ups with the family or friends, known as

sponsors, who care for the minors while they await immigration proceedings. Currently, all sponsors are required to complete a background check.

Congress provided more than \$900 million in funding for the Office of Refugee Resettlement's unaccompanied-children program for the fiscal year that ended in September 2016.

Funding has been cut slightly for the current fiscal year.

Long Island, with a large population of Central American immigrants, has been one of the main destinations for the immigrant youth. There have been 941 unaccompanied children sent to live with sponsors in Suffolk County from October 2016 through May, according to the Office of Refugee Resettlement. That is the fourth-highest amount for any county in the U.S.

Nationally, 33,000 unaccompanied children were apprehended by border patrol between October and the end of

June, according to U.S. Customs and Border Protection. The numbers have been on a decline in recent years after peaking at 68,000 in the year ended September 2014, CBP said.

Organizations that work with unaccompanied children say the Trump administration has unfairly singled out these vulnerable children who are already marginalized in the U.S.

"What we see are young people who are fleeing gang violence who have been targeted for forced recruitment," said Lisa Koop, associate director of legal services for the National Immigrant Justice Center.

Mr. King said the issue is people who commit violent crimes. "That is politically correct nonsense. We are talking about human beings being killed," he said.

Suffolk County Police Commissioner Timothy Sini has called for assistance to schools to help newly arrived youth avoid falling in with gangs.

OYSTER  
PERPETUAL 39



ROLEX

BETTERIDGE

239 greenwich avenue, greenwich, connecticut 203.869.0124

ROLEX® AND OYSTER PERPETUAL  
ARE ® TRADEMARKS.

## GREATER NEW YORK

### PROPERTY WATCH

#### LUXURY MARKET

#### Wave of Sales Gives Hamptons a Boost

The luxury market in the Hamptons regained some of its luster in the second quarter, following an extended period of weak sales, market reports show.

There were 12 sales above \$10 million in the quarter, compared with four in the same period in 2016, according to brokerage Brown Harris Stevens.

Four sales recorded in the quarter topped \$20 million, including an oceanfront former carriage house in Southampton that changed hands for \$31 million in May. In the second quarter last year, two sales topped \$20 million.

"We are seeing more sales at the upper end of the market, something that was lacking last year," said Scott Durkin, chief operating officer at Douglas Elliman Real Estate.

In the overall market, the number of sales rose to their highest level in two years, according to appraiser Jonathan Miller, who prepared a market report for Douglas Elliman.

Sales were up 23% in the second quarter compared with the same quarter last year, he said. The median sales price was up 5.6% to \$1.03 million.

#### HOME SALES

#### Brooklyn, Queens Outpace Manhattan

Home sales and prices increased across New York City during the second quarter, with activity in Brooklyn and Queens far outpacing that in Manhattan.

Manhattan, which remains the most expensive borough, accounted for more than half of the \$13.4 billion in total sales during the second quarter, according to a report by the Real Estate Board of New York.

But other boroughs are gaining. Sales rose 17% in Queens and 15% in Brooklyn in the second quarter compared with the same quarter in 2016. Manhattan sales, lagging behind the rest of the city, were up 6%.

Overall, the report found that the number of homes, including both apartment and house sales, increased 15%.

The report put the median home price at \$630,000 in the city, up 8% from the same quarter last year.

—Josh Barbanell

By JOSH BARBANEL

A farmhouse that dates to the 17th century is being saved from demolition in a tony Bridgehampton neighborhood sprouting new \$8 million mansions with pools and tennis courts.

The house is being prepped to be lifted and moved to a nearby horse farm next month—not by preservationists but by David Walentas, a billionaire New York City real-estate developer who once owned it.

Mr. Walentas, who has had a sometimes stormy relationship with preservation-minded Southampton town officials, said he was driven by a mixture of motives: Nostalgia for the weekend house where he lived for many years, a desire to "do the right thing" and a chance to add a little extra appeal to the remaining 65 acres of a horse farm and polo center he built on a former potato farm in the 1990s.

Mr. Walentas has put the horse farm, which can't be developed, on the market for \$17.995 million.

The house, a sagging sliver of history, has been significantly altered, though it still has its original foundation of locust-timber posts and exposed ceiling joists.

"There was certainly no reason to tear it down. It is part of the history of Bridgehampton," Mr. Walentas said of the house where he and his wife, Jane, lived for well over a decade. "We love old houses. It was the right thing to do," he said.

The residence, known as the "Haines House," dates to 1679, when this section of the Hamptons was first divided into 40-acre lots and settled by colonists, according to a 1916 history of Bridgehampton by James Truslow Adams.

The Haines family built the house and lived there until the early 20th century. It originally was a one-story house with a pitched roof, and a second story was added a century later.

During a renovation after the Haines family sold the house, the year 1679 was found marked in a timber, and beneath that the words "built (or rebuilt) by James



The Bridgehampton farmhouse dating to 1679 will be lifted up and transported in August to the spot below on a nearby horse farm.

Haines 1679," according to an account cited by Mr. Adams.

The house was remodeled several more times, most recently by Mr. Walentas, who redid the interior and added an extension in the rear with a sun room. He also built a pool and tennis court nearby.

Mr. Walentas created an equestrian center, known as Two Trees Farm, in the 1990s, on fields used to grow corn and potatoes. It once extended to at least 114 acres, with two indoor riding arenas, three barns, stalls for about 100 horses, polo fields and a row of eight apartments for staff. For years it was the site of the Mercedes-Benz Polo Challenge, a notable event on the Hamptons social calendar.

In 2008, after a lawsuit against the town, Mr. Walentas won permission to subdivide the property into 18 residential lots, but only if a lot with the remaining 65-acre section of the farm would be permanently preserved.

Eventually, after listing the entire farm including house lots for as much as \$95 million, Mr. Walentas began selling off residential lots and



building houses a few years ago.

Last year, Christopher Burnside, a broker at Brown Harris Steven, sold the lot with the 1679 farmhouse to a New York derivatives trader for \$3.65 million. The buyer planned to keep the farmhouse but changed his mind after discussing plans with an architect.

Mr. Walentas then sprang

into action. He developed a proposal to save the house and move it to a new foundation within the preserved part of the farm.

Alex Forden, a development manager for Two Trees who is overseeing the move, said he noted signs of centuries-old fire damage in the house.

When the old farmhouse is moved it will add living space

of about 2,000 square feet including five bedrooms to the farm site, though its use would be restricted to the owner and agricultural workers.

"I thought it added value" to the farm, Mr. Walentas said, noting that he didn't preserve and move the house to make money. "I am rich enough that it doesn't matter."

## Tribeca Penthouse Expected to Fetch a Record Price



BY CANDACE TAYLOR

A penthouse that is listed for \$65 million at a condominium building being constructed in Manhattan is under contract at a price expected to set a new sales record for downtown, according to the development company.

Benjamin Joseph, executive vice president at Related Cos., the developer, declined to specify the sale price or buyers for the five-bedroom apartment at 70 Vestry.

It is one of two penthouses in the 46-unit Tribeca building, which started sales in April of last year and is expected to be completed in the spring of 2018.

The record for downtown Manhattan is \$50.9 million paid for a unit at Chelsea's Walker Tower in 2014.

Mr. Joseph said the buyers of the 70 Vestry penthouse were attracted to the unit's Hudson River views and outdoor spaces, as well as the

building's privacy; when completed, the Robert A.M. Stern Architects-designed building will have a drive-in courtyard to help shield residents from prying eyes.

High-end residential sales in Manhattan appear to be picking up after a slow 2016. The second quarter saw 316 luxury closings in the borough, up 15.3% from the same period last year, according to a quarterly report from Douglas Elliman Real Estate.

In June, at another Stern-designed Manhattan condo, 520 Park Ave. on the Upper East Side, two units went into contract for more than \$70 million each within a week.

Still, the inventory of new development units for sale in Manhattan is rising, up 3.1% in the second quarter from the prior-year quarter, according to the Elliman report.

The penthouse at 70 Vestry will span about 7,800 square feet on the top two floors, plus a roughly 2,000-square-

foot wraparound roof deck. Several other terraces bring the total outdoor space to approximately 3,700 square feet.

The unit will have a private interior elevator serving all three levels. Plans call for a library, a study and a solarium with a wet bar, as well as four kitchens: indoor kitchens on the first and second floors, in addition to outdoor kitchens on two of the terraces.

The building's other penthouse, which had been listed at \$50 million, went into contract in January.

More than 80% of the units at 70 Vestry have been sold, Mr. Joseph said, noting that the developer has raised prices during the past year. Buyers include Tom Brady and Gisele Bündchen, Mr. Joseph said.

The building also will have a squash court, 82-foot-long indoor swimming pool, a gym with yoga and Pilates studios, a children's playroom, a billiards room and cafe.

## Airbnb, New York Housing Activists Take Spat to State Ethics Agency

By MIKE VILENSKY

Airbnb and hotel unions have sparred for the past year over union-backed efforts to restrict the home-sharing service in New York.

Now the battle is turning to allegations of lobbying violations the two sides say the other committed during the fight over regulations.

On Wednesday, Airbnb took aim at Share Better, a coalition of anti-Airbnb activists, politicians and unions, with a complaint to New York state's ethics agency.

The complaint to the Joint Commission on Public Ethics

alleges that the coalition's political strategy firm, Metropolitan Public Strategies, and its founder, Neal Kwatra, failed to register as lobbyists for work done on behalf of Share Better.

It comes on the heels of three similar complaints this month—two from a union-backed housing activist, and another from Airbnb—all alleging their opponents conducted improper lobbying while fighting for their policy position.

A spokesman for Metropolitan Public Strategies, Austin Shafran, said Share Better is a "branding tool" for the coalition of groups involved and not an of-

ficial organization.

"The groups that fund Share Better as well as Metropolitan Strategies have filed all their lobbying activities appropriately on the city and state level," he said.

New York legislators last year passed a law cracking down on some types of Airbnb rentals in New York. Since then, lawmakers have introduced legislation that would loosen regulations against the service, but it hasn't yet gotten a vote.

Last week, an anti-Airbnb activist who is part of Share Better, Tom Cayler, filed two complaints with the Joint

Commission against the company.

The first accused Kirsten John Foy, a director for the civil rights group National Action Network, of unregistered lobbying for Airbnb.

The second claimed two Airbnb employees had lapsed in their lobbyist filings.

Mr. Foy said Wednesday that he advocated for Airbnb and spoke to elected officials about the service but hasn't lobbied on any specific legislation. Mr. Foy, who was paid for his work on behalf of Airbnb, called the complaint "baseless."

Peter Schottenfels, a

spokesman for Airbnb, said, the claims against Airbnb were merely retaliation for the company's complaints against Share Better and were a

"sham."

The Joint Commission regularly levies monetary penalties against organizations for lob-

bying violations. In June, the agency fined Uber nearly \$100,000 for omissions in its filings of lobbying activity against Mayor Bill de Blasio's administration.

Uber said the omissions were unintentional.

Dick Dadey, an ethics watchdog who runs Citizens Union, expressed concerns about the groups dueling at the Joint Commission, often referred to as JCOPE.

"It appears JCOPE is a battleground in their larger war against each other," Mr. Dadey said. "But both may have legitimate claims, and JCOPE needs to rule on it."

# LIFE & ARTS



THOMAS PITILLI

**IF YOU BUY** an assigned seat at a theater, sports or concert venue, you get the seat you picked. But an assigned seat on an airline is radically different: Every so often, you don't get it, even when you pay extra for it. Premium-seating fees guarantee nothing.

It's happened to families who see their children reassigned rows away from their parents. It's happened to single travelers when airline computers automatically shuffle seats on full flights. And it famously happened to political commentator Ann Coulter, who erupted in a Twitter tirade earlier in July after Delta moved her from a preferred aisle seat to a window seat in the same extra-legroom row. Delta roared back, calling her out for attacking employees and the airline over what was at best a minor inconvenience.

Airlines started letting fliers pay an ancillary fee for a preferred seat, often with extra legroom—in about 2010. But they didn't really change their procedures at airport gates to match the marketing. That means passengers' expectations often don't match up with reality.

Good gate agents are skilled puzzle-solvers who historically have moved people around liberally. They still have wide latitude despite the seat-assignment advance sales. (In Ms. Coulter's case, Delta said an agent made a mistake while trying to help another customer. It refunded her \$30 fee for the preferred seat.)

Agents try to seat families together, take care of VIPs, find seats for high-fare or top-tier fliers and squeeze in passengers from canceled flights. Airlines swap planes for particular trips, triggering shuffling of seats when replacement planes have different seating configurations.

When most seats on a plane

**THE MIDDLE SEAT** | By Scott McCartney

## That Airline Seat You Paid for Isn't Yours

Frustrated fliers discover that paying extra for a preferred seat with more legroom on their flights guarantees them nothing

were similar, passengers knew seat assignments were fluid. But now passengers think they can buy the rights to a specific seat. If 15F costs \$32 extra and you buy it, you think you own 15F for that flight.

Airlines say that legally, you don't. They can sell you one thing and deliver something else because the terms and conditions on seat purchases give them discretion. United and American use the same wording in their terms and conditions: "Seat assignments are not guaranteed." Delta says it can reassign seats, paid or not, "at any time, even after boarding of the aircraft, for operational, safety or security reasons."

Airlines say they attempt to assign the same or similar seat type and location when they make changes. They also try to keep traveling companions together when they are booked in the same reservation. (Tip: If you are traveling together on separate passenger records, call ahead and ask the airline to link the two records.)

Delta says it's encouraging agents to confer with customers

and get consent before making a seating change. American says it's studying ways to address what it recognizes is a source of frustration for travelers.

Doug Greenberg, a co-owner of a San Diego storage business, got separated from his 9-year-old son on a June 24 United flight even though

Travelers also grumble when they have to reach out to airlines for refunds after a switch.

they had confirmed seats together. (His wife and infant were on a separate passenger record.) United substituted a larger plane for a Houston-to-Jamaica leg of their trip and the family was scattered.

When he asked United agents why they seated a child alone when they had the age in the passenger record, the agents blamed an automated system. "This is really just a

complete lack of thoughtfulness for the customer's needs," Mr. Greenberg says. "A 9-year-old should never be taken and seated in another section of the plane."

A United spokeswoman says the airline regrets it was unable to seat the Greenbergs together.

Jim Hatch, a Philadelphia consultant, booked a trip to Tampa, Fla., for himself, his wife and an adult daughter with Down syndrome. He paid extra for preferred seats on American so they'd be sure to sit together. In an emergency, his daughter would need assistance.

It turned out the March flight was switched from an A320 to a smaller A319, and American told him seats would be assigned at the gate. The seats were in the last row, where legroom is tighter, but together. He checked on the return flights a week later and discovered they no longer had any seats on that flight, let alone their paid preferred seats. When seats were assigned, they were not together. A gate agent reseated them to three seats together in the last row again.

"It's tremendously frustrating,"

Mr. Hatch says. American refunded the full cost of the seat fee, \$121, after he complained, and they each got 5,000 miles.

American spokesman Josh Freed says the airline reserves a few seats—often the last row, among others—on all flights for gate agents to assign so they can keep families together after changes like aircraft switches or canceled flights.

Lisa Jadwin of Rochester, N.Y., suffered what she calls a "bait and switch" twice on one round trip to San Francisco on Delta. The college English professor selected flights with available Comfort Plus seats. The seats got changed on one flight west to San Francisco and again on one of her return flights east. No extra legroom; not even a seat assignment on one flight.

Ms. Jadwin's husband, Steve Derne, complained to Delta about his wife's seating shuffle and received an apology, a refund of \$69 for Comfort Plus upgrades and 7,500 miles for her account. He thought a refund should be automatic and quick, not requiring a customer complaint.

Ms. Jadwin says her return trip with a connection in Minneapolis was especially stressful. Not having a seat on the connecting flight meant three hours of wondering if she'd be stranded in the Twin Cities. "They gave no explanation and I had a confirmed seat assignment," she says. "Why does this keep happening?"

Delta says Ms. Jadwin's assigned seats were taken away by an automated process that was attempting to seat several passengers for full flights. On the return to Rochester, the system was actually attempting to upgrade her to first class, a spokesman says, "but ultimately didn't."

### MUSIC

## DONALD FAGEN'S NEW BACKUP BAND

BY MARC MYERS

**DONALD FAGEN** needs to keep busy. Starting Aug. 3, the 69-year-old co-founder of Steely Dan will tour for two months in the U.S. and Japan with the Nightflyers, his newly formed backup band. Like many classic rockers today, Mr. Fagen is hitting the road in part to pay bills once covered by album sales.

"When the bottom fell out of the record business a bunch of years ago, it deprived me of the luxury of earning a living from records," he said. "I don't sell enough albums to cover the cost of recording them the way I like to. For me, touring is the only way to make a living."

Mr. Fagen formed Steely Dan in 1972 with guitarist Walter Becker, pioneering a form of rock that incorporated modern jazz and soul. With Mr. Fagen as lead singer and keyboardist, many of their songs, including "My Old School," "Deacon Blues" and "Hey Nineteen," were odes to hipster subcultures and social outcasts. Albums such as "Katy Lied," "Aja" and "Gauchito"

were the results of long periods in the studio with session musicians. It was an expensive business model given that Messrs. Fagen and Becker stopped performing in 1974 and didn't resume until the 1990s.

In addition to helping financially, Mr. Fagen's coming Nightflyers tour will allow him to expand creatively. "Walter wanted to have a light summer," he said. "Touring alone lets me play songs from my four solo albums and cover other artists' material, which I don't get to do with Steely Dan."

Mr. Fagen also will perform new songs. "One is a noir thing I wrote recently called 'Hardboiled Life.' Another is about '50s film creeps—guys who only went to see foreign films. People who now go to film school, I guess."

Touring without Mr. Becker is nothing new. Mr. Fagen did so for two of his four solo albums, and he assembled a touring band with Steely Dan musicians in 2006. He also performed with Michael McDonald and Boz Scaggs in 2010 and 2012 as the Dukes of September.

Please see FAGEN page A10



Donald Fagen, in purple jacket and green chair, surrounded by four of the five musicians in his new backup band, the Nightflyers, clockwise from left, Will Bryant, Lee Falco, Brandon Morrison and Connor Kennedy.

## LIFE & ARTS

### ART REVIEW

# Political Theory In Artistic Practice

BY PETER PLAGENS

Philadelphia

**THERE'S AN OLD JOKE** about teams of engineers from Germany, Britain and France testing an irrigation system they've installed in a developing country. First, the Germans check the switches and gauges and pronounce them fine. Next, the British turn on the power and give a thumbs-up to the way the water flows through the pipes. Last comes the head of the French team, who steps forward and says, "Ah, but does it work in theory?"

Installed in two off-the-beaten-path galleries in the enormous Philadelphia Museum of Art, "Unlimited: Painting in France in the 1960s & 1970s," a cheerfully austere little exhibition of what might be called French "painting-based" abstract art, demonstrates the Gallic predilection for theory. In the exhibition, theory precedes the work that follows, albeit with a connection as tenuous as the one with the waterworks.

In the 1960s—culminating in 1968's violent "days of May"—the youthful French art world got drunk on ideas garnered from Roland Barthes, Jacques Derrida, Jacques Lacan and Louis Althusser, along with quotations from Chairman Mao. They aimed to dismantle and deconstruct practically everything in the name of revolution. Oddly, the fine art of painting wasn't cast aside wholesale as a retrograde individualist, beauty-fetishizing and money-entwined bourgeois indulgence. Instead, it was reconceived as a candidate for left-wing reinvigoration.

Painters, the thinking went, are manual laborers working alone in bare-bones studios; they're not part of teams of greedy capitalists in Pierre Cardin suits crunching numbers in leather-appointed offices. If they'd just forego traditional oil paints, linen canvas, and the inviolable flat rectangle, it was surmised, they might have a shot at being, as the tract of one politically inclined cohort, Supports/Surfaces, put it, "a coherent group linked to the national and international people's struggle."

Theory in place, artists with such a political outlook could go about reconstituting painting, using such materials as dish towels, shop awnings, printed fabrics, wooden slats and rope. In "Unlimited," the painters (listed here democratically in alphabetical order) are Daniel Buren, André Cadere, Daniel Dezeuze, Noël Dolla, Jean-Michel Sanejouand and



Jean-Michel Sanejouand's 'Toile de bâche à rayures et châssis bois' (1964)

JEAN-MICHEL SANEOUAND/PHILADELPHIA MUSEUM OF ART

Claude Viallat. Despite the difficult attempt, as one of the show's labels says, to "demystify painting," the result is an attractive exhibition that, were it to appear in a serious gallery today, would look utterly hip.

For instance, there's Mr. Sanejouand's "Toile de bâche à rayures et châssis bois" (1964), a clean brown stretcher frame covered only down the middle, with about an empty foot on either side, with awning fabric that's striped in red, dark green, golden yellow and sky blue. The piece is simply, albeit wittily, beautiful.

Mr. Dezeuze's "Flexible Wood Ladder" (1974) is a vertical grid of thin wooden strips hanging from high up on the wall down to the concrete floor, where it rolls in on itself. It's as formally graceful as almost anything the great American sculptor Martin Puryear has produced. And "Square Wooden Bar" (1970) by Cadere, a nominal painting compressed as if by a compacting machine into a tall wooden pole—black but punctuated with glowing cross-stripes of bright color—was carried by the artist in a kind of performance piece into galleries and exhibitions. Merely leaning against a white museum wall almost 50 years after it was made, the work is as elegant as modern art gets.

It's hard to conceive, though, of

a clutch of avant-garde artists whose work has an aesthetic component of any size ever being productively linked to a "national and international people's struggle"; the Russian Constructivists learned that the hard way under Stalin. But that doesn't mean the painters in "Unlimited" were insincere in their political hopes for art. The heat of temporary circumstances, such as the tumult in France in the 1960s, cools down over time, and the art created in that moment ends up re-emerging as simply art.

All of the artists in "Unlimited" save for Cadere, who died in his 40s, are still with us, but only Buren became an international art star. The museum should be commended for mounting this modest exhibition of an under-known tributary of modern art. Not many people, I'd guess, will view it. (It's as hard to find on the PMA's website as it is in its floor-plan.) Those who do see "Unlimited" will get a little jolt, however unintentional, of artistic *joie de vivre*.

#### Unlimited: Painting in France in the 1960s & 1970s

Philadelphia Museum of Art, through Sept. 24

Mr. Plagens is an artist and writer in New York.



Donald Fagen, above right, with Steely Dan co-founder Walter Becker in 1977 and below, performing at the Rainbow Theatre in London in 1974.

## FAGEN

Continued from page A9

But the Nightflyers are a little different. Four of the five musicians are in their 20s, which Mr. Fagen says presents exciting challenges. "These guys are used to jamming, so their spontaneity adds a new kind of energy and looseness to the music. They have a lot of juice."

The idea for the Nightflyers began in 2014 when Mr. Fagen spotted guitarist Connor Kennedy playing with organist Will Bryant, bassist Brandon Morrison and drummer Lee Falco at the annual Bob Dylan Birthday Celebration concert in Woodstock, N.Y. "The following year I performed with them up there and we played a few local gigs," he said. "They also backed my stepdaughter (and singer-songwriter) Amy Helm." Ms. Helm is the daughter of the late Levon Helm and Libby Titus, who is now Mr. Fagen's wife.

Earlier this year, when Mr. Fagen suggested they tour, Mr. Kennedy and the other musicians were ready. "We've always been into Donald's music," he said. "We don't have a jazz background, but we love making the music our own thing."

The Nightflyers were named for Mr. Fagen's 1982 debut solo album, "The Nightfly," which reached #11 on Billboard's album chart and was nominated for seven Grammys.

As the idea of a late-summer tour took hold, Mr. Fagen decided to add a fifth Nightflyer—Zach Djaniakian, a friend of the other band members who sings harmony and plays saxophone and guitar.

Gravitating to Woodstock in the 2000s when they were in their teens, many of the Nightflyers were exposed to folk, bluegrass and rock through a network of musicians from the



moon" and "New Frontier"). The band also took on Steely Dan songs ("Green Earrings," "Bad Sneakers," "Home at Last" and "Dirty Work") and covers of the Rolling Stones' "Beast of Burden" and the Beatles' "I'll Cry Instead." Other cover songs are planned for the tour. "I put Chuck Berry's 'You Can't Catch Me' in a minor key and changed the feel," Mr. Fagen said. "We're also doing the Grateful Dead's 'Shakedown Street.' It's a really nice, funky tune."

Before taking a break, the band rehearsed "Dirty Work." At the end, one of the Nightflyers suggested adding a higher vocalized "oh yeah" to broaden the harmony. Mr. Fagen, seated at an electric Yamaha keyboard, thought it through for a few seconds. "Yeah, that's good," he said. "Let's do that."

### BURNING QUESTION | By Heidi Mitchell

## DOES MUSIC HELP YOU CONCENTRATE?

**CAN LISTENING TO MUSIC** while preparing a presentation or doing homework help you concentrate? One expert, Alexander Pantelyat, an assistant professor of neurology and the co-founder and co-director of the Johns Hopkins Center for Music and Medicine, sounds off on music's relationship to language—and whether background music can help you focus on a task.

### The Mozart Effect

A study published in the journal *Nature* in 1993 showed that listening to specific music can affect spatial task performance, though the reasons remain unclear. The theory was called the Mozart Effect because the researchers used Mozart's Sonata for Two Pianos in D major in their study, which involved 36 students. Several follow-up studies have suggested that Mozart's music may have a small, positive short-term effect on the ability to draw conclusions about objects from limited visual clues. The original studies were on adults; later research included babies. Some of the findings were so popular that in 1998 the governor of Georgia proposed earmarking more than \$100,000 to buy Mozart tapes and CDs for parents of newborns to increase their babies' IQs.

The problem, Dr. Pantelyat says, is that the Mozart Effect hasn't been shown to have clear benefits beyond the 10 to 15 minutes during which subjects in studies were engaged in tasks.

### Could There Be a Slayer Effect?

If you're drawn to a particular type of music, such as classical, you're more likely to focus



better while hearing that rather than a genre you don't like. "If you enjoy heavy metal, you might be more focused when you listen to it," says Dr. Pantelyat, who studies how music can be used as medicine and how musicians should be treated for occupational ailments. However, loud and fast sounds also have been shown to be fairly distracting.

The distractions increase when words en-

ter the picture. "If you add lyrics, you're activating the Wernicke area, where language is processed, and other parts of the temporal lobe, and this may divert your attention or possibly overload the brain's attentional capacity," he says. "Imagine listening to two languages at the same time while working. Of course that's distracting."

Lots of studies have suggested that music

can light up many different parts of the brain. "Music activates as many, if not more, parts of the brain at the same time than any other activity," Dr. Pantelyat says. This includes the nucleus accumbens, the so-called pleasure center; the caudate nuclei, which are involved in movement planning; and the temporal plane, which is in the heart of the Wernicke area.

Around 80% of people process language on the left, or the analytical, side of the brain, Dr. Pantelyat says, and everyone processes music on both sides of the brain. Increased connectivity in the parts of the brain that understand and produce language has been observed in people who studied music for as little time as two years. That may make it harder for those who "speak" the language of music to focus on other language-related tasks—but it may also have other benefits that aren't clear.

"I've been playing violin since I was 7, and I personally find it hard to disengage from actively processing any music analytically, and my colleagues say the same," he says. He finds that music distracts him from work.

### The Work Playlist

Dr. Pantelyat says that if you accept that music can make a person feel happy or sad, then you can see how it can influence attention.

However, the effects of listening to music are highly individual and based on experience and pleasure. When trying to focus, Dr. Pantelyat says, listen to music that you enjoy that doesn't have lyrics or settle for ambient noise: "Just put the pedal to the metal and avoid any other ongoing narrative in the brain."

## LIFE & ARTS

SIGHTINGS | By Terry Teachout

# A Museum Schedules a Fire Sale

Pittsfield, Mass.

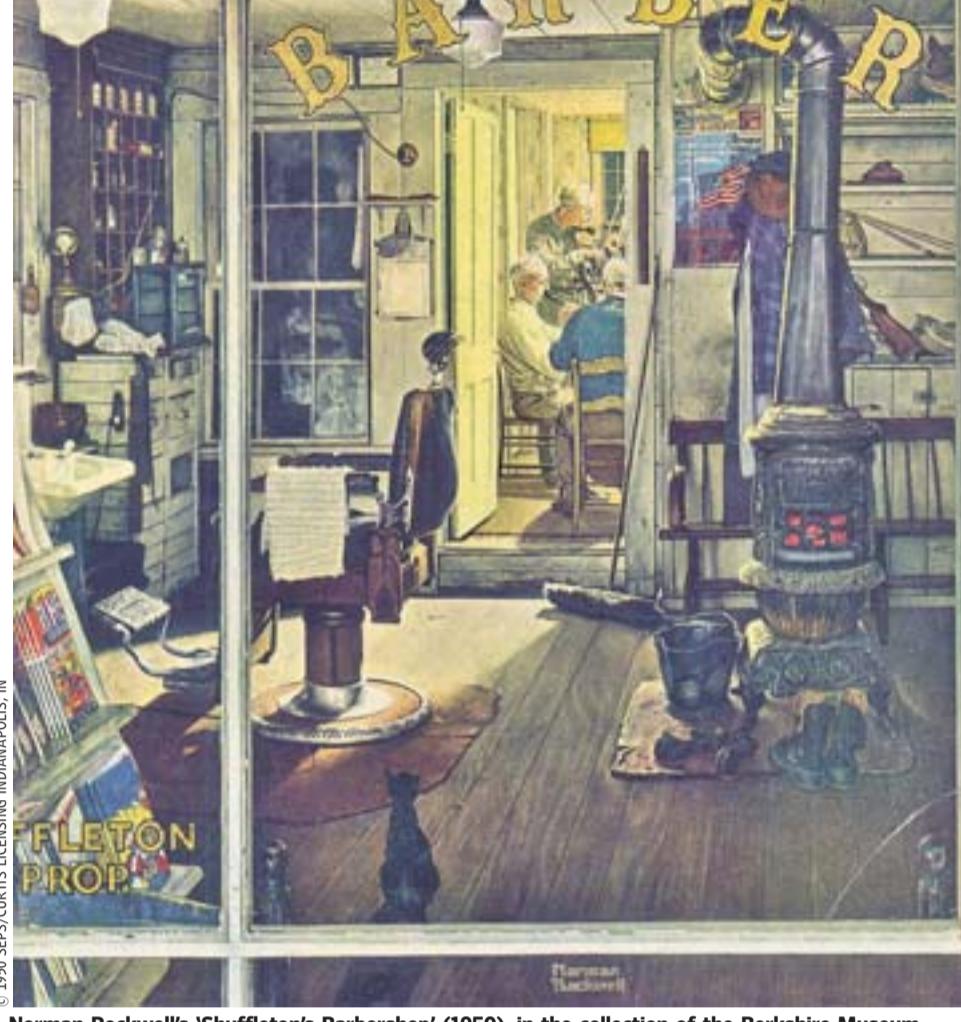
**NORMAN ROCKWELL'S** greatest painting is being hijacked—by the museum that owns it.

"Shuffleton's Barbershop" is a 1950 portrait of three amateur musicians that Rockwell gave to the Berkshire Museum in Pittsfield, Mass., not far from his Stockbridge home. Widely known and loved, the painting is even admired by critics who sneer at the rest of his homey oeuvre. Nevertheless, the museum is putting it on the block, along with a second Rockwell and 38 other works by such major artists as Albert Bierstadt, Alexander Calder and Augustus Saint-Gaudens.

The reason? Van Shields, director of the Berkshire Museum, wants to "reboot" (his word) the institution, transforming it into a museum of science, history and the arts full of up-to-the-minute interactive technology. The price tag is \$60 million—\$20 million to renovate the museum's 1903 building and the rest for a much-needed endowment. The art is being sold to pay the tab because, in the bland language of the museum's press release, it is "deemed no longer essential to the Museum's new interdisciplinary programs." Proceeds will go toward the endowment first, with anything left over directed toward the building costs.

It's not unusual for museums to sell art, but an offloading of this size can't help looking like a fire sale. That's triggered a storm of protest led by Laurie Norton Moffatt, director of Stockbridge's Norman Rockwell Museum, who told the Berkshire Eagle, "To think that selling the art will save the future [of the museum] is simply to push the challenge down the road while diminishing the strength of the institution."

The announcement has also caught the eye of professional bodies. Because art museums are public institutions whose collections are held in trust, strict rules govern the "deaccessioning" (selling) of works from their collections. Rule No. 1 is that art can be sold only to acquire more art, and the Association of Art Museum Directors further stipulates that proceeds may never be used "as operating funds, to build a general endowment, or for any other expenses." Not surprisingly, the AAMD and the American Alliance of Museums issued a joint statement on Tuesday calling the proposed sale "an irredeemable loss for the present and for generations to come."



Norman Rockwell's 'Shuffleton's Barbershop' (1950), in the collection of the Berkshire Museum

The Berkshire Museum, however, is not an art museum per se. A collection of 40,000-odd objects ranging from Hudson River School paintings to mummies and stuffed birds, it's reminiscent of the New England "historical societies" that John P. Marquand described in a novel as charmingly eccentric muddles of "aboriginal arrowheads, muskets, candle molds, foot warmers, pine dressers, Chippendale sideboards, Lowestoft, pewter, and whales' teeth and four-poster beds." Its eccentricity was once part of its charm.

But can an old-fashioned curiosity shop hold its own amid newer outposts like Mass

MoCA and expanded, revitalized institutions like the Clark Art Institute—not to mention the Rockwell Museum itself? Probably not. In any case, the Berkshire Museum has already evolved into something closer to a children's museum, a place where no one goes to see art. When I dropped by on Monday, the big draw was a show called "Guitar: The Instrument That Rocked the World." "Shuffleton's Barbershop" hasn't been on view since 2015.

Sadly, the Berkshire Museum isn't alone in its change of priorities. As public taste continues to shift, more and more museums now see themselves not just as temples of

fine art but also as clean, well-lit community centers where busy people go for casual entertainment and a good lunch.

Small wonder, then, that their permanent collections are coming to be viewed as cash machines. When the University of Iowa was flooded in 2008, a group of legislators proposed that the UI Museum of Art sell Jackson Pollock's "Mural" (1943) to underwrite the cleanup. Fortunately, that didn't happen, but plenty of smaller museums own a few world-class works that could easily be sold off to raise funds for any number of worthy-sounding causes.

I'm unalterably opposed to monetizing museum collections. On the other hand—reluctant as I am to admit it—I fear that "Shuffleton's Barbershop" has no place in a trend-chasing museum of the kind that Mr. Shields hungers to build. If so, then it needs a new home, and there's a better way to get it.

In 2006, Philadelphia's civic leaders joined forces to stop Thomas Eakins's "The Gross Clinic" from being sold to Arkansas' Crystal Bridges Museum by the local medical college where it had hung since 1875. Now it's jointly owned by the Philadelphia Museum of Art and the Pennsylvania Academy of Fine Arts, meaning that a masterpiece by a Philadelphia artist depicting a prominent Philadelphian has remained in the city of its birth.

In response to the controversy over the proposed sale, Mr. Shields told the Berkshire Eagle that "at the end of the day, the board [of the museum] chose this community over national professional associations." Fine—but if he really cares about the community, let him give first dibs on "Shuffleton's Barbershop" to a local museum, thus ensuring that it stays in Rockwell country. Otherwise, it will be hard to escape the conclusion that what Mr. Shields and his board are doing is auctioning off a piece of Pittsfield's soul to the highest bidder.

Mr. Teachout, the Journal's drama critic, writes "Sightings," a column about the arts, every other week. Write to him at [tteachout@wsj.com](mailto:tteachout@wsj.com).

WSJ TALK / EXPERIENCE / OFFER / GETAWAY



## Learn From Master Chefs at Home

From weeknight dinners to holiday feasts, learn from James Beard Award winning chefs with a complimentary online cooking class from Panna. In the comfort of your own kitchen, choose from more than 20 classes and dive into a range of cuisines and topics.

EXCLUSIVE TO WSJ MEMBERS  
REDEEM NOW AT [WSJPLUS.COM/PANNA](http://WSJPLUS.COM/PANNA)

**WSJ+**  
INVITES + OFFERS + INSPIRATION

**PANNA**

# SPORTS

## TENNIS

# DJOKOVIC WILL MISS U.S. OPEN

BY TOM PERROTTA

**AFTER A** disappointing season and increasing pain in his right elbow, tennis star Novak Djokovic said he is done for the year, including next month's U.S. Open.

Djokovic said that the decision came after consulting with several doctors, including a few in Toronto that Djokovic met with the help of Andre Agassi, the former No. 1 American who has been working with Djokovic since May. Djokovic said Agassi agreed that his recent pain has been too much and that he needed a break.

"My elbow is hurt due to excessive playing, and it troubles me constantly when serving, and now when playing forehand as well," Djokovic said. "My body has its limits."

The precise details of Djokovic's elbow woes remain unknown. The pain is clear, as it was at Wimbledon this season, when Djokovic retired in his quarterfinal match. He seemed to have similar struggles in last year's U.S. Open final too, when he lost to Stan Wawrinka.

But Djokovic, who said he will make no more comments on his injury, did not say whether or not he would need surgery to heal properly. Instead, he seems likely to rest and then slowly work on his strokes and health, and then return to competition at the start of 2018. By then his ranking, now No. 4, will have fallen further.

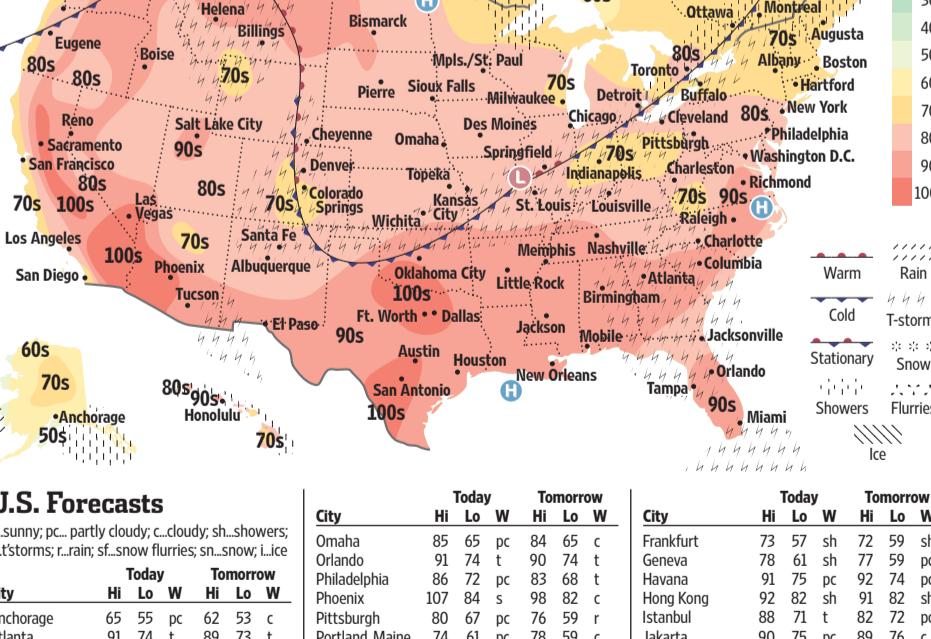
"I will use the upcoming period to strengthen my body and also to improve certain tennis elements that I have not been able to work on over the past years, due to a demanding schedule," Djokovic said. "There is so much I want to do."

Djokovic has another role during his time off, too: Being with his wife, Jelena, when she delivers their second child.

"These are things that fill me with greatest happiness and delight," Djokovic said. "I'm confident I will be ready for start of the new season."



## Weather



## U.S. Forecasts

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

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

City Today Hi Lo W Tomorrow Hi Lo W

Anchorage 65 55 pc 62 53 c

Atlanta 91 74 t 89 73 t

Austin 101 74 s 103 76 s

Baltimore 88 71 pc 81 65 r

Boise 92 67 pc 97 67 s

Boston 77 66 pc 78 63 c

Burlington 79 61 t 74 56 c

Charlotte 89 72 pc 84 69 t

Chicago 82 67 t 80 64 s

Cleveland 81 68 t 77 64 r

Dallas 101 81 s 100 80 s

Denver 84 62 t 88 62 t

Detroit 82 67 t 85 60 sh

Honolulu 87 75 s 87 76 pc

Houston 96 77 pc 98 79 s

Indianapolis 75 68 r 77 58 pc

Kansas City 83 67 t 84 63 pc

Las Vegas 102 85 pc 103 84 pc

Little Rock 97 77 s 89 71 t

Los Angeles 85 67 pc 84 67 pc

Miami 93 81 pc 92 81 t

Milwaukee 77 66 c 76 63 pc

Minneapolis 84 63 s 83 62 s

Nashville 92 74 t 85 69 t

New Orleans 93 76 t 93 76 s

New York City 82 70 c 80 67 t

Oklahoma City 99 73 pc 92 70 c

## International

Today Hi Lo W Tomorrow Hi Lo W

Amsterdam 67 58 pc 68 60 sh

Athens 88 73 pc 88 72 s

Baghdad 117 86 s 119 89 s

Bangkok 89 77 t 89 78 pc

Beijing 85 71 c 83 69 c

Berlin 71 58 c 70 58 sh

Brussels 70 56 pc 69 60 sh

Buenos Aires 74 62 pc 76 62 pc

Dubai 113 97 pc 111 96 t

Dublin 63 53 sh 63 52 sh

Zurich 62 51 sh 62 52 sh



The Chicago White Sox recently promoted Yoan Moncada, who the team acquired in an offseason deal with the Boston Red Sox for pitcher Chris Sale.

## MLB

# A Blueprint for a Brighter Future

The Chicago White Sox have embarked on a scorched-earth rebuild that could set a new standard

BY JARED DIAMOND

**ABOUT THIS TIME** last year, Rick Hahn stood in front of the Chicago media corps and uttered the phrase that could come to define his tenure as White Sox general manager: "mired in mediocrity."

Hahn had used the news conference to announce that the White Sox, a franchise stuck in neutral despite repeated bold attempts to contend, needed a significant change. He also gave baseball on the South Side a memorable slogan.

"Once I finished, our VP of communications said, 'You had to use alliteration? You know that alliteration is going to be what's taken away,'" Hahn said in a recent interview. "Although inadvertent, it was reflective of the conversations I had with others around the organization expressing similar frustrations with annually trying to patch this thing together, instead of trying to build something sustainable for an extended period of time."

Since then, the White Sox have embarked on a scorched-earth rebuild that could set a new standard for how to repair a struggling franchise.

In December, they traded ace Chris Sale to the Boston Red Sox for a package that featured Yoan Moncada, perhaps the sport's best prospect, and Michael Kopech, a pitcher who throws over 100 mph.

A day later, they shipped outfielder Adam Eaton to the Washington Nationals for three more prospects, including former first-round draft pick Lucas Giolito.

Then in the past two weeks, they blew the rest up, swinging deals with the Chicago Cubs and New York Yankees that netted them seven more minor-leaguers in exchange for star lefty Jose Quintana, infielder Todd Frazier and relievers David Robertson and Tommy Kahnle. And there could still be more to come before the July 31 non-waiver trade deadline.

The White Sox, the American League's worst team, have already acquired 15 prospects in trades over the last eight months, including three ranked in the top 12 in baseball by MLB.com. That, coupled with the signing of heralded outfielder Luis Robert, a 19-year-old from Cuba, has turned a unremarkable White Sox farm system into arguably the industry's best—a stunningly rapid turnaround.

The promise of that future has started to arrive. The White Sox promoted Moncada last week to replace Frazier, with others likely to follow in the next year or two.

"We're certainly pleased with how things have started off in this process," Hahn said. "We know it's going to take time, and we know we still have a lot of work to do."

At this point, it's impossible to deny that Chicago's current ap-

proach—one that Hahn and executive vice president Ken Williams advocated for heavily—works.

The Cubs, the reigning World Series champions, and the Houston Astros, the AL's best team, proved as much. Under the direction of progressive, data-driven leaders, both franchises opted to completely dismantle their rosters in order to rebuild from the ground up, enduring several seasons of misery to accumulate talent.

Whether you call it "tanking" or simply a sound strategy, this much seems clear: The most successful rebuilds are the most aggressive rebuilds. Teams that try to tread water down; the ones that survive dive into the water headfirst.

After all, whether the White Sox lose 100 games or 85 games in a given season, the result is the same: They miss the playoffs. At least the 100-loss season leads to a coveted high draft pick, one of the few ways for teams to acquire potential stars before their primes. It's that realization that has made these kinds of rebuilds more prevalent.

Not long ago, the White Sox thought they had the foundation of a championship team already in place. They had a formidable duo at the top of the rotation in Sale and Quintana, a proven closer in Robertson and powerful sluggers in Frazier and first baseman Jose Abreu.

The White Sox felt vindicated when they opened 2016 with a re-

cord of 24-14, but they quickly fell apart, going 54-70 the rest way, prompting their current trajectory.

By the time Hahn dealt Sale and Eaton, Frazier said he knew that if the White Sox didn't jump out to a hot start, "Some things are going to happen." Once Quintana was traded, Frazier recognized it was only a matter of time.

"I said, 'All right, who's next?'" Frazier said. "It was a flip of a coin between a couple guys."

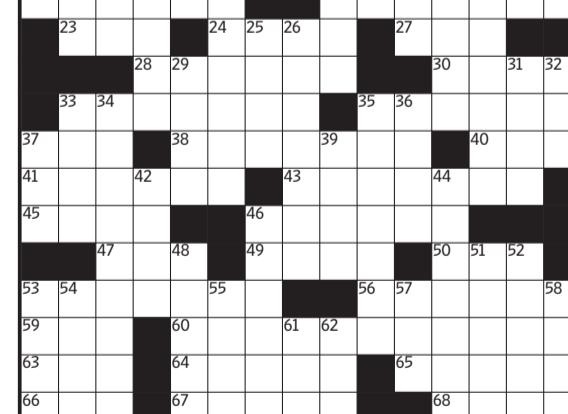
In Hahn's ideal world, the White Sox might have gotten here sooner. He said that there have been other moments where he and Williams proposed a total rebuild, as the team heads toward its fifth straight losing season.

A few years ago, the White Sox fan base might not have been quite so understanding. The same goes for longtime owner Jerry Reinsdorf, who at age 81 is quick to remind Hahn that he "is in a little different position in terms of the patience he has to show in the short term," Hahn said.

The difference now is that fans are more receptive to this approach than ever before, Hahn said, because they "have seen the success of similar such processes around the league."

"We weren't sure how it was going to be received," Hahn said. "Even if, for whatever reason, fans didn't take to it, we believe it's going to be short-term suffering for long-term benefit."

## The WSJ Daily Crossword | Edited by Mike Shenk



### HIGH STANDARDS | By Alice Long

Across	24	Equivalent of four rods	46	Driving-amid-obstacles competition
1 See 50-Across	5	Cause of a shootout	47	Weaken
5 Grounds for a Medal of Honor	28	Switch magazines, say	49	About
10 Stadium surface	30	Clay pigeon launcher	50	Repeated five times, a song by 1-Across
13 Bow in movies	33	Shucker's workplace	53	Spot for MacBook medics
15 Letter three after 57-Down	35	Potter, for one	56	Stud feature
16 It may be shot in the open	37	Ring outcome	59	Put away
17 One can perform a giant swing on it	38	Iron targets	60	Set higher standards, and what you must do five times in this puzzle
19 Words with profit or loss	40	Potent java, slangily	61	Political attack
20 Encourages to misbehave	41	Nonexistence	62	Paleozoic, for one
21 Firefox feature	43	Like much blues music	63	Blot lightly
23 "What'd I tell you?"	45	Neophyte	64	Get on the soapbox

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

### Previous Puzzle's Solution

ACME	TMAN	SCARE
LOAN	ARTY	HUMOR
VANDALISM	OTTER	ATTIRE
EPEE	PEPPERS	SAVANNAHS
ETTE	PARADE	AMOS
SPA	ERGS	BUYER
TAKEADVANTAGEOF	RINGS	BLotto
AURAL	EYER	RAGE
BLotto	SANE	WINDVANES
RANTO	ARIANA	IRWIN
QUIET	ANIL	MOVINGVAN
SENSE	YEAS	ASST

# OPINION

## The Post-Hillary Democrats



WONDER  
LAND  
*By Daniel Henninger*

On climate change, Democrats believe they know to the 10th decimal place that Earth is on the brink of an apocalypse. But by their own admission this week, they don't have a clue about which way the wind is blowing with the American voter.

On Monday the Democrats released something called "A Better Deal," a set of policy ideas to win back voters. Think of it as the party laying down the first quarter-mile of blacktop on its road back to power.

The short version of "A Better Deal" is that they would bust up corporate trusts (Teddy Roosevelt, circa 1902), ramp up public-works spending (FDR, circa the Great Depression) and enact various tax credits (Washington, circa eternity).

The more interesting question here lies in the document's unspoken subtext: How in God's name did we lose a presidential election to . . . him?

In a recent Washington Post interview, one of Hillary Clinton's closest advisers, Jake Sullivan, admits, "I am still losing sleep. I'm still thinking about what I could have done differently." Who wouldn't? What happened Nov. 8 was like losing five Super Bowls in one day.

Hillary Clinton has taken to citing one fact: "Remember, I did win more than three million [more] votes than my

opponent." True, notwithstanding the pesky two-centuries-old Electoral College vote, which she lost.

Here's another fact that still poses a maddening question for many: Donald J. Trump got more than 62 million votes. It wasn't long before Election Day that many political sophisticates wondered how Donald Trump would get 620 votes, much less 62 million—after the McCain slander, the "Access Hollywood" tape, the generalized ignorance.

A conventional explanation for the loss—and we know this because Chuck Schumer conventionalized it last weekend—is to blame her. "When you lose to somebody who has 40% popularity," said Sen. Schumer, "you don't blame other things—Comey, Russia—you blame yourself."

This is rich. It's almost oxymoronic. The reason Democrats lost to *him* is that they had an unelectable candidate. But if both parties were running "unelectable" candidates, then a lot of that day's 138 million voters based their decisions on something more concrete than the personalities of two celebrities.

Hillary Clinton was running as the extension of Barack Obama's two-term presidency. If the Democrats are now throwing her under the bus, Mr. Obama is down there with her.

The Obama presidency was a watershed for the Democratic Party for reasons having little to do with his historic candidacy. Mr. Obama moved his

party significantly to the left, arguably as Ronald Reagan had moved his to the right. But those two buzzwords—left and right—have substantive meaning. In practice, the Obama years constituted an abrupt enhancement of state power. ObamaCare was the tip of the iceberg.

### How in God's name, they wonder, did we ever lose the 2016 election to him?

Barack Obama was as smooth as Bill Clinton was slick, and he used his eloquence to soften the hard edges of the many policy coercions by his Justice, Labor and Education departments and the omnipresent EPA.

In 2016, the Clintons, especially the ex-president, recognized the risks of running on this leftward legacy in a general election. Thus Hillary's efforts to essentially talk and fog her way past that reality.

But Bernie Sanders wouldn't let her. Like Banquo's ghost, Bernie reminded voters for months what the real face of the Democratic Party looked like—the unelectable left.

Yes, some forgotten voters in Pennsylvania, Wisconsin and Michigan tipped the vote to Mr. Trump. But those states turned because millions of more-easily identified voters dumped the Obama Democrats, too.

A total surprise? I'd say

there were at least five canaries in the Democrats' fatal 2016 mineshaft. Any map of the party's famous "blue wall" of electoral votes includes Maryland, Massachusetts, Michigan, Wisconsin and Illinois. What each of those deep-blue states has in common is that their presumably liberal, Democratic voters have elected Republican governors—Larry Hogan in Maryland, Charlie Baker in Massachusetts, Rick Snyder in Michigan, Bruce Rauner in Illinois and Scott Walker in Wisconsin. Throw in Chris Christie in irredeemably blue New Jersey.

Maryland's Mr. Hogan is the benchmark. He won in 2014 because his Democratic predecessor, Martin O'Malley, desperate for revenue, had taxed Maryland's people unto death. Naturally, Mr. O'Malley then ran for the Democratic presidential nomination.

Obama-era Democrats barely admit the states as part of the American system, and they obviously dismissed as irrelevant these GOP governors winning inside blue-wall states.

I almost forgot—the Better Deal. It sounds a lot like the federal spending initiatives in JFK's New Frontier, except for one element: the Kennedy tax cuts of 1964.

In anyone's lifetime, a tax under a Democratic president can go only one way. "Better" would not be the word for it. That, too, is the sort of thing voters would notice when forced to choose between a Democrat and a Trump.

*Write henninger@wsj.com.*

The following day, the president renewed his attacks on his attorney general, tweeting that Mr. Sessions had taken "a VERY weak position on Hillary Clinton crimes (where are E-mails & DNC server) & Intel leakers!" Later, during a Rose Garden presser, Mr. Trump lamented that he was "very disappointed in Jeff Sessions."

**This has been a wild week, even for him.**

**It also ought to be a wake-up call.**

must come from planning and executing a coherent communications strategy that results in a disciplined message and advances the president's agenda. This requires working with the entire White House leadership, the rest of the administration, congressional Republicans and outside allies. It can be done only with consultation, thoughtfulness, collegiality and constant thinking ahead. The communications director's job is complicated even in normal presidencies, which this isn't.

One of Mr. Scaramucci's strengths is his relationship with Mr. Trump. He can assist the president most by using his influence to help Mr. Trump resist his worst impulses. The president could demonstrate that this isn't an impossible hope by ending his public humiliation of Mr. Sessions, which is unfair, unjustified, unseemly and stupid.

Mr. Trump should consider how ugly the next six months will be if he continues attacking Mr. Sessions. If he fires the attorney general, the president will guarantee that every other message is buried under bad press as he deals with the fallout and searches for an acceptable replacement. Senate Democrats would spend months tormenting that person during confirmation proceedings, and even Republican senators would raise tough questions. If Mr. Trump instead makes a recess appointment, a crisis will ensue.

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

For the record, Justice Department rules require Mr. Sessions to recuse himself from any investigation that touches the Trump campaign. Those rules—required by federal law—dictate that no Justice official "shall participate" in an investigation "if he has a personal or political relationship with . . . any person or organization substantially involved . . . that is the subject of the investigation." This is why then-Attorney General John Ashcroft recused himself after the Valerie Plame incident. (I was involved in the matter and had previously been Mr. Ashcroft's campaign consultant.)

Mr. Sessions, a decent and principled man, is doing his best to further the Trump agenda and restore the Justice Department's tattered reputation. That the president is publicly shaming him, heedless of the damage it's causing, shows just how vindictive, impulsive and shortsighted Mr. Trump can be.

This past tumultuous week should wake up the president and all those around him. If Mr. Trump continues this self-destructive behavior, he will drown out his message and maybe even blast his presidency to bits before his first year in office is even out.

*After the election was won, however, King had to push Kennedy to use his powers for the cause of civil rights, and the process was slow. When a ceremony was planned, for September 1962, to honor the 100th anniversary of the Emancipation Proclamation, Kennedy bowed out of an appearance, preferring instead to be in Newport, R.I., for the America's Cup races. And when Mississippi Gov. Ross Barnett, in the same month, brazenly defied the Supreme Court and refused black student James Meredith admission to Ole Miss, the Kennedy Justice Department preferred to bargain with the segregationist holdout behind the scenes. This move reflected the administration's general approach: keep the peace while moving integration ahead at a moderate pace. Kennedy's speech to the nation on the Mississippi resistance was, in King's estimation, disappointingly legalistic, failing to educate the country about the incident's deeper moral truths.*

*By June 1963, however, Kennedy's rhetoric had changed. Mr. Levingston argues that it was the spectacle of Gov. George Wallace, on June 11, blocking the schoolhouse door to black students at the University of Alabama that led Kennedy to act. He instructed his speechwriter, Ted Sorenson, to come up with a major civil-rights address that would be televised live that evening. In those remarks, Kennedy described civil rights as "a moral issue . . . as old as the scriptures and . . . as clear as the American Constitution" and announced his intention to send a civil-rights bill to Congress. Mr. Levingston contends that this speech marked the turning point in Kennedy's evolution on civil rights, whereby the president had now fully "embraced black justice."*

*The arc of Kennedy's moral evolution as presented by Mr. Levingston is perhaps a bit too pat. Kennedy's eventual (though still tempered) embrace of the black freedom struggle may have been a legitimate moral conversion spurred by King and others, or it may have been a political calculation based on the idea that the era of Southern segregationists was waning. The full picture is surely more complicated and less knowable than Mr. Levingston suggests.*

*After a near storybook ending, Mr. Levingston veers off-course with his conclusion. Noting recent high-profile police shootings of African-Americans, he writes that, after the civil-rights movement's great successes, "America has stumbled backward." Today's race problems may be challenging, but to ignore the tremendous progress that has been made since the early 1960s is myopic.*

*Despite this bow to progressive politics, "Kennedy and King" is fundamentally traditional—a book about "great men" in history and their centrality in shaping events. Without slighting the grass-roots civil-rights movement, Mr. Levingston shows how the long-running conversation between King and Kennedy—only rarely conducted face to face—helped pressure segregationists and place civil rights on the Washington agenda. At a time when cynicism about our political system abounds, Mr. Levingston's story reminds us that outsiders can prod those in power toward progress and reform.*

BOOKSHELF | By Vincent J. Cannato

## The Pragmatist And the Reformer

### Kennedy and King

By Steven Levingston  
(Hachette, 511 pages, \$28)

Was John F. Kennedy a champion of civil rights, as much of the public today imagines, or merely a bystander swept up by the movement? Was Martin Luther King Jr. a moderate who sought only a color-blind nation, or was he a socialist seeking a broader, more radical transformation of American society? In his insightful and well-crafted "Kennedy and King," Steven Levingston attempts to bring greater clarity to these questions, illuminating the stories of both men and their complicated relationship during a tumultuous era.

Mr. Levingston's history charts the uneasy dance between the young civil-rights leader and the charismatic Massachusetts politician in the 1950s and '60s. The book begins with parallel biographical sketches of Kennedy and King, whose stories converge during the 1960 presidential race and intertwine over the course of the Freedom Rides, the March on Washington and other dramatic episodes in the campaign for civil rights. Using mostly secondary sources, Mr. Levingston argues that King's leadership nudged a reluctant president to act.

Mr. Levingston makes clear, for example, that it wasn't until the very end of his life that Kennedy, despite becoming "the nation's first civil rights president," developed an emotional feel for the concerns of black Americans. King was imbued with a deep moralism, but Kennedy was ever the pragmatist, always seeking out the optimal political angle. Kennedy knew that, for any Democrat of his era,

a successful run at the White House would mean appeasing white Southern segregationists. Though he eventually voted for the 1957 Civil Rights Act, Kennedy first supported his Southern colleagues' successful efforts to water down the bill. The cloud of those efforts hung over the 1960 presidential race against Richard Nixon. Kennedy faced a difficult balancing act: Southern votes may have been essential to victory, but Kennedy also needed black support in states like New York, Illinois and Pennsylvania. He initially sought to woo baseball great Jackie Robinson away from his traditional support for Republicans, but when Robinson proved cool to the Massachusetts senator's overtures, Kennedy turned to the leading black celebrity of the period: singer Harry Belafonte. It was Mr. Belafonte who informed Kennedy of the importance of King and who brokered a meeting between the two men in June. Kennedy and King left mutually unimpressed.

It wasn't until the eve of the election that Kennedy began to make inroads. When King was jailed in Georgia in October 1960, Kennedy's brother-in-law Sargent Shriver persuaded the Democratic presidential candidate—over the angry objections of Bobby Kennedy—to place a call to King's wife, Coretta. The conversation lasted less than two minutes, but the simple gesture began to change perceptions of Kennedy in the black community. While it was not enough to secure King's endorsement, King's father publicly announced that he was switching his vote from Nixon to Kennedy.

**It was Harry Belafonte who told JFK about the importance of Martin Luther King Jr. When the two leaders met, they were mutually unimpressed.**

After the election was won, however, King had to push Kennedy to use his powers for the cause of civil rights, and the process was slow. When a ceremony was planned, for September 1962, to honor the 100th anniversary of the Emancipation Proclamation, Kennedy bowed out of an appearance, preferring instead to be in Newport, R.I., for the America's Cup races. And when Mississippi Gov. Ross Barnett, in the same month, brazenly defied the Supreme Court and refused black student James Meredith admission to Ole Miss, the Kennedy Justice Department preferred to bargain with the segregationist holdout behind the scenes. This move reflected the administration's general approach: keep the peace while moving integration ahead at a moderate pace. Kennedy's speech to the nation on the Mississippi resistance was, in King's estimation, disappointingly legalistic, failing to educate the country about the incident's deeper moral truths.

By June 1963, however, Kennedy's rhetoric had changed. Mr. Levingston argues that it was the spectacle of Gov. George Wallace, on June 11, blocking the schoolhouse door to black students at the University of Alabama that led Kennedy to act. He instructed his speechwriter, Ted Sorenson, to come up with a major civil-rights address that would be televised live that evening. In those remarks, Kennedy described civil rights as "a moral issue . . . as old as the scriptures and . . . as clear as the American Constitution" and announced his intention to send a civil-rights bill to Congress. Mr. Levingston contends that this speech marked the turning point in Kennedy's evolution on civil rights, whereby the president had now fully "embraced black justice."

The arc of Kennedy's moral evolution as presented by Mr. Levingston is perhaps a bit too pat. Kennedy's eventual (though still tempered) embrace of the black freedom struggle may have been a legitimate moral conversion spurred by King and others, or it may have been a political calculation based on the idea that the era of Southern segregationists was waning. The full picture is surely more complicated and less knowable than Mr. Levingston suggests.

After a near storybook ending, Mr. Levingston veers off-course with his conclusion. Noting recent high-profile police shootings of African-Americans, he writes that, after the civil-rights movement's great successes, "America has stumbled backward." Today's race problems may be challenging, but to ignore the tremendous progress that has been made since the early 1960s is myopic.

Despite this bow to progressive politics, "Kennedy and King" is fundamentally traditional—a book about "great men" in history and their centrality in shaping events. Without slighting the grass-roots civil-rights movement, Mr. Levingston shows how the long-running conversation between King and Kennedy—only rarely conducted face to face—helped pressure segregationists and place civil rights on the Washington agenda. At a time when cynicism about our political system abounds, Mr. Levingston's story reminds us that outsiders can prod those in power toward progress and reform.

Mr. Cannato teaches history at the University of Massachusetts Boston.

By Karl Rove

**E**ven for this dramatic administration, the past seven days have been extraordinary. Start a week ago Wednesday, when President Trump said Attorney General Jeff Sessions "should have never recused himself" from the investigation of Russian electoral meddling, calling the recusal "very unfair." These comments were followed by the unlikely rumor that the Trump legal team would go after Special Counsel Robert Mueller's staff, along with more-plausible suggestions that the president might fire Mr. Mueller.

On Friday, Mr. Trump appointed New York financier Anthony Scaramucci as White House communications director, prompting press secretary Sean Spicer to resign. This all sparked speculation about the standing of chief of staff Reince Priebus and chief strategist Steve Bannon, both of whom allegedly opposed hiring Mr. Scaramucci.

Then on Monday, a Senate panel interviewed White House senior adviser Jared Kushner about a July 2016 meeting with a Russian lawyer. That meeting was organized by Donald Trump Jr., who had received an email saying Russian officials possessed "documents and information that would incriminate Hillary." Young Mr. Trump was told this "very high level and sensitive information" was "part of Russia and its government's support" for his father.

**This has been a wild week, even for him.**

**It also ought to be a wake-up call.**

During this swirl of events, Team Trump portrayed Mr. Scaramucci's appointment as a major reset, saying the president was his administration's best communicator and that he would benefit from delivering more of his message directly. But this is a misdiagnosis of what ails the administration's public relations. The president's job-performance rating has dropped from an even 44% approval and disapproval on Jan. 27 to 40% approval and 55% disapproval this Wednesday, according to RealClearPolitics. Mr. Trump's ratings are sliding because of his own messages and actions, not those of his subordinates.

In addition, although Mr. Scaramucci is an effective, personable advocate for Mr. Trump, his ultimate value

must come from planning and executing a coherent communications strategy that results in a disciplined message and advances the president's agenda. This requires working with the entire White House leadership, the rest of the administration, congressional Republicans and outside allies. It can be done only with consultation, thoughtfulness, collegiality and constant thinking ahead. The communications director's job is complicated even in normal presidencies, which this isn't.

One of Mr. Scaramucci's strengths is his relationship with Mr. Trump. He can assist the president most by using his influence to help Mr. Trump resist his worst impulses. The president could demonstrate that this isn't an impossible hope by ending his public humiliation of Mr. Sessions, which is unfair, unjustified, unseemly and stupid.

Mr. Trump should consider how ugly the next six months will be if he continues attacking Mr. Sessions. If he fires the attorney general, the president will guarantee that every other message is buried under bad press as he deals with the fallout and searches for an acceptable replacement. Senate Democrats would spend months tormenting that person during confirmation proceedings, and even Republican senators would raise tough questions. If Mr. Trump instead makes a recess appointment, a crisis will ensue.

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

By George J. Terwilliger III

**A** critical way of ensuring a crime doesn't pay is for law enforcement to seize the proceeds of drug deals or other illegal activity. This process, called asset forfeiture, is a valued part of a comprehensive criminal-justice program, but proper oversight is needed to prevent abuse.

Last week Attorney General Jeff Sessions restarted the longstanding practice, suspended by the Obama administration in 2015, of allowing state authorities to use federal asset forfeiture procedures. Mr. Sessions also introduced important safeguards to protect innocent people.

Still, critics challenged the practice's reinstatement, citing instances when police wrongly took property from people who turned out to be innocent. The correct response to such concerns, however, isn't to end asset forfeiture but to fix it.

**Forfeiture is a vital tool, and safeguards will prevent abuse.**

Trafficking drugs, firearms and human beings is a means to their enrichment. Gang leaders get the cash but often evade prosecution by remaining distant from the provable dirty work. Taking away their money is therefore as important as seizing their contraband and putting their minions in prison.

At the same time, it's important to protect innocent people from erroneous seizures.

Mr. Sessions's new guidelines say that state or local agencies seeking forfeiture under federal law must demonstrate probable cause within 15 days of the seizure. The sponsoring federal agency must notify the property's owner within 45 days, so he can challenge it, including by going to court. Both of these time lines are twice as fast as required by law. And the probable-cause standard is the same one police have to meet before making an arrest or getting a search warrant.

Mr. Sessions also strengthened oversight for seizures of smaller amounts of cash—\$10,000 or under—and directed greater caution and restraint in forfeiting homes and vehicles. Scrutiny of these types of seizures by Justice Department lawyers will be ratcheted up to prevent and catch any overuse or abuse.

Police generally are careful and conscientious, including with asset forfeiture, which is why wrongful seizures are

&lt;

## OPINION

### REVIEW & OUTLOOK

## Why Jeff Sessions Recused

President Trump lashed out again Wednesday at Jeff Sessions, and his fury over the Attorney General's recusal from the Russia campaign-meddling probe may take the President down a self-destructive path. So this is a good moment to explain why Mr. Sessions felt obliged to recuse himself and why it was proper to do so.

Mr. Trump seems to think Mr. Sessions recused himself in March due to a failure of political nerve after news broke that he had met with the Russian ambassador during the 2016 campaign. Mr. Sessions did recuse himself shortly after that story broke, and the AG didn't help by forgetting to report those meetings during his confirmation hearing.

But Mr. Sessions and his advisers had been considering recusal long before that story broke—and for reasons rooted in law and Justice Department policy.

After Watergate in 1978, Congress passed a law requiring "the disqualification of any officer or employee of the Department of Justice, including a United States attorney or a member of such attorney's staff, from participation in a particular investigation or prosecution if such participation may result in a personal, financial, or political conflict of interest, or the appearance thereof."

The Justice Department implemented this language with rule 28 CFR Sec. 45.2. This bars employees from probes if they have a personal or political relationship with "any person or organization substantially involved in the conduct that is the subject of the investigation or prosecution" or which they know "has a specific and substantial interest that would be directly affected by the outcome of the investigation or prosecution."

This language didn't apply to Mr. Sessions during his confirmation process because he didn't know the contours of the FBI and Justice investigation. But the AG soon learned after he arrived at Main Justice in February that the investigation included individuals associated with the Trump presidential campaign.

Mr. Sessions had worked on the campaign, and he clearly had personal and political relationships with probable subjects of the investigation. These included former National Security Adviser Michael Flynn, former campaign manager Paul Manafort, and potentially others.

James Comey publicly confirmed this on March 20 when he told the House Intelligence Committee that the FBI "as part of our counter-intelligence mission, is investigating the Russian government's efforts to interfere in the 2016

presidential election and that includes investigating the nature of any links between individuals associated with the Trump campaign and the Russian government and whether there was any coordination."

Some legal sages say this means Mr. Sessions did not have to recuse himself because this was a "counterintelligence," not a criminal, probe. But you have to be credulous to think Mr. Comey would ignore potential crimes if he found them in the course of counterintelligence work. Mr. Sessions might have become a subject of the probe because of his meetings with the Russian ambassador.

The AG had no way of knowing where the investigation would lead, and the ethical considerations were serious as the post-Watergate statute makes clear. During his confirmation hearing in January, Mr. Sessions had promised that "if a specific matter arose where I believed my impartiality might reasonably be questioned, I would consult with Department ethics officials regarding the most appropriate way to proceed."

Mr. Sessions fulfilled that promise, and on March 2 he announced that he'd recuse himself "from any existing or future investigations of any matters related in any way to the campaigns for President of the United States" based on the advice of senior career Justice officials. Imagine the media storm if word leaked that Mr. Sessions had ignored his department's ethics officials.

Mr. Sessions's recusal helped Mr. Trump for a time by eliminating an easy conflict-of-interest target for Democrats. The calls for a special prosecutor died down. They only erupted again in May after Mr. Trump fired Mr. Comey and tweeted his phony threat that there might be White House tapes.

We understand Mr. Trump's anger at special counsel Robert Mueller's open-ended Russia probe, and Deputy AG Rod Rosenstein made a mistake in appointing Mr. Mueller, who is close to Mr. Comey and part of the FBI fraternity. Mr. Rosenstein should have selected a more disinterested special counsel, and even now the Mr. Rosenstein should insist that Mr. Mueller investigate Clinton campaign contacts with the Russians, as our colleague Holman Jenkins Jr. has argued.

But Mr. Trump will only compound the problem now if he fires Mr. Sessions and appoints a replacement who fires Mr. Mueller. He will cause multiple resignations and bipartisan talk of impeachment. Mr. Sessions acted honorably in recusing himself, and the President should let him do his job without harassment.

white kid born this spring.

The union claims the goats actually count as subcontractors, and by that anthropomorphic reasoning it's claiming a violation of the school's collective-bargaining agreement.

Though the formal union grievance is exempt from public disclosure, a Local 1668 Facebook post blamed the animals for the fact that nine union members had lost jobs on campus.

WMU's students, who graduate with more than \$26,000 in debt on average, may wish more work could be assigned to animals. Last year the university estimated that by using goats instead of groundskeepers, it could save \$1,350 for each acre cleared. Plus, they're experts in the field.

## Michigan Union to Animal Crew: Hoof It

Much fuss has been made about robots stealing workers' jobs, but at Western Michigan University caprine competition has the goat of the union

representing landscapers. Afscme Local 1668 is moving forward with a grievance after the university deployed a 20-goat crew to clear poison ivy and other weeds from campus this summer.

WMU insists that the goats have not displaced workers. Before the university hired the animals, the wooded areas grew wild. The toxic plants would otherwise require chemical removal, and human workers would risk rashes and thistles, but the goats can eat up to five pounds of tough vegetation a day. The WMU community even got to name the littlest worker, a plucky brown and

Four-footed competition puts the fear of goat into organized labor.

white kid born this spring.

The union claims the goats actually count as subcontractors, and by that anthropomorphic reasoning it's claiming a violation of the school's collective-bargaining agreement.

Though the formal union grievance is exempt from public disclosure, a Local 1668 Facebook post blamed the animals for the fact that nine union members had lost jobs on campus.

WMU's students, who graduate with more than \$26,000 in debt on average, may wish more work could be assigned to animals. Last year the university estimated that by using goats instead of groundskeepers, it could save \$1,350 for each acre cleared. Plus, they're experts in the field.

## ObamaCare's GOP Preservers

The Senate voted 45-55 Wednesday not to repeal ObamaCare with a two-year delay to replace it, and the only consolation for Republicans is the clarity of seeing who voted to preserve and protect rather than repeal and replace.

Congress had passed and sent to Barack Obama's desk a similar measure in 2015, with support from every current Senate Republican except Susan Collins of Maine. This time seven voted no, including Rob Portman of Ohio and Shelley Moore Capito of West Virginia, who aren't up for re-election until 2022 and 2020, respectively. If you're going to renege on your political promises, better to do it early, we suppose.

The repeal failure follows a Tuesday vote in which nine Republicans defeated a package to replace parts of the law and rehabilitate Medicaid, which went down 43-57. Only three Republicans voted against both, or to maintain the undiluted status quo: Ms. Collins, Lisa Murkowski of Alaska, and Dean Heller of Nevada.

In 2015 Ms. Murkowski's office put out an encomium to her many efforts to unwind ObamaCare, which she voted against in 2009. (See nearby.) Ms. Murkowski has co-sponsored bills to delay the individual mandate and to nix the law's "Cadillac tax" on expensive plans. She bragged about her vote to eliminate the medical device tax and published op-eds on the "harmful impacts" of ObamaCare. This was apparently make-work for her staff.

Mr. Heller is the only Republican likely to have a tough re-election fight next year, and this week he made it that much tougher. The Nevedan voted Tuesday to allow debate, which Dem-

ocrats will portray as a vote for repeal. But the GOP voters who helped him eke out a roughly 10,000-vote victory in 2012 will rightly judge the opposite from Wednesday's vote. Don't bet the fortune in the Vegas casinos or on a second Heller term.

Then there's Rand Paul of Kentucky and Mike Lee of Utah, who voted for repeal

and will soon be flaunting their self-styled reputations as the only political saints in Sin City. The reality is that their long refusal to vote for less-than-perfect repeal gave decisive leverage to Senate GOP moderates, who have combined to water down reform.

The practical effect will likely be to squander a historic opportunity to put Medicaid on a sustainable budget and better serve the truly needy rather than able-bodied adults. Can we at least no longer hear lectures from Mr. Paul of the kind he offered in January that we "can absolutely not balance a budget" without addressing entitlements?

The Senate is continuing to debate amendments in a crush of votes, and no one knows what will result. The most likely possibility is a "skinny repeal" that kills discrete features of ObamaCare like the employer and individual mandates and medical device tax. Moving even a "skinny bill" into a conference negotiation with the House is better than nothing, but it is light years from the bold Republican Senate promises of 2015-2016.

The best outcome of Wednesday's repeal vote would have been to send the bill to a Republican President who is willing and even desperate to sign it. But at least voters have clarity about which GOP Senators are willing to ratify President Obama's achievements.

ocrats will portray as a vote for repeal. But the GOP voters who helped him eke out a roughly 10,000-vote victory in 2012 will rightly judge the opposite from Wednesday's vote. Don't bet the fortune in the Vegas casinos or on a second Heller term.

Then there's Rand Paul of Kentucky and Mike Lee of Utah, who voted for repeal

and will soon be flaunting their self-styled reputations as the only political saints in Sin City. The reality is that their long refusal to vote for less-than-perfect repeal gave decisive leverage to Senate GOP moderates, who have combined to water down reform.

The practical effect will likely be to squander a historic opportunity to put Medicaid on a sustainable budget and better serve the truly needy rather than able-bodied adults. Can we at least no longer hear lectures from Mr. Paul of the kind he offered in January that we "can absolutely not balance a budget" without addressing entitlements?

The Senate is continuing to debate amendments in a crush of votes, and no one knows what will result. The most likely possibility is a "skinny repeal" that kills discrete features of ObamaCare like the employer and individual mandates and medical device tax. Moving even a "skinny bill" into a conference negotiation with the House is better than nothing, but it is light years from the bold Republican Senate promises of 2015-2016.

The best outcome of Wednesday's repeal vote would have been to send the bill to a Republican President who is willing and even desperate to sign it. But at least voters have clarity about which GOP Senators are willing to ratify President Obama's achievements.

## OPINION

### REVIEW & OUTLOOK

## Why Jeff Sessions Recused

The AG wasn't weak.  
He was following the  
law and sound advice.

## LETTERS TO THE EDITOR

## Golden State's Medi-Cal Is Not That Golden

Allyria Finley's attack on California's Medi-Cal program leaves out a crucial fact ("Medicaid's Potemkin Health Coverage," op-ed, July 19). According to the California Department of Health Care Services, "More than 80% (10.1 million) of Medi-Cal members in all 58 counties receive their health care through 22 managed care health plans." If doctors are paid too little, then the criticism ought to be with the managed-care plans. By law, Medi-Cal health plans are supposed to ensure "network adequacy." And if there are too many ER visits, then the managed-care plans aren't managing and coordinating care which they are handsomely paid to do. Managed care obviously isn't working in California. The writer should also report the salaries, bonuses, stock options and other perks enjoyed by the insurance-company executives who oversee this failing managed-care experiment. Plan A for all Medicaid reform was to do away with fee-for-service payments and put all the Medicaid patients into managed-care plans. Now that appears to be a failed experiment in California and most other states. So, what is Plan B in the state laboratories of health care reform? Send the patients to Mexico?

BRANT S. MITTLER, M.D., J.D.  
San Antonio

Ms. Finley describes the California Medicaid (Medi-Cal) paradox of massively increased enrollment but at the same time massively declining physician appointments. She attributes this occurrence to the egregiously low physician-reimbursement rates, so that physicians refuse to see Medi-Cal patients. Ultimately the high-cost ER

system of California bears the brunt of this health-care dystopia.

Just as the California Medical Board requires a certain amount of continuing medical-education credits (CME) for licensure, why not require a mandated number of Medi-Cal patient visits as well. This number can be adjusted by the state as necessary every two years, when physicians must renew their license to practice. And as an added incentive (to prevent physician egress from California) the state could provide a nominal bonus for those physicians exceeding the minimum mandate. What's not to like?

BRUCE KLEINMAN, M.D.  
Oak Park, Ill.

The Los Angeles Times article "Medi-Cal's big problem with its own 1%" (July 16) states that "somewhere in California, one child's medical expenses in 2014 totaled \$21 million—a bill covered entirely by Medi-Cal." The article also mentions that 1% of Medi-Cal patients account for 23% of spending.

Cleverly, the reporter uses the word Californians. It is a shame that we cannot break down these numbers based on legal Californians rather than illegal Californians. With open borders and unlimited medical coverage, we will shortly become another Greece.

California isn't alone. According to the same article, "an insurer in Iowa disclosed that a child there with hemophilia had health-care costs totaling \$12 million" this year.

Our country cannot afford to go down this rabbit hole.

LESLIE MARTIN  
Thousand Oaks, Calif.

## Progressives Opposed to Due Process for Men?

Your editorial "Betsy DeVos's Due Process" (July 20) reflects the opinion of many of us in higher education. The Education Department's Office for Civil Rights has been churning out guidelines and "dear colleague" letters to explain and interpret their own regulations for several years, and each of these "interpretations" is more confusing than the last. Those of us who are tasked with the responsibility for student conduct have long believed that the hearings were "tipped in favor of the accuser," but we had no recourse under the Title IX guidelines and dear colleague letters. Conform or have your federal funds cut off.

You also refer to students being found guilty. In campus disciplinary hearings we use the term "found responsible" for violating our standards of conduct—a subtle distinction, but an important one. We don't prosecute crimes, but simply discipline students who violate our rules. Maybe it would solve some of the perceived mystique around campus rapes if survivors were to go to criminal court where the crime can be adjudicated under the rules of due process and the accused may be found guilty or not.

DONALD D. GEHRING, Ed.D.  
St. Simons Island, Ga.

This is America, and due process for the accused is embedded in our culture, not to mention our law.

ROBIN FAWSETT  
Highlands, N.C.

## Working a Summer Job Should Be a College Must

Regarding your editorial "America's Summer Labor Shortage" (July 18): Perhaps it would serve our nation better if summer labor was a requirement of all university students. Sixty years ago a summer job for high-school and college students was the norm. It gave us real-life work experiences which both made us better students and more involved citizens as we matured.

This work experience is invaluable for the student, the diversity it brings to the university campus and to the economy. It avoids the imported "seasonal labor." Work too hard? Hours too long? Really. This is what the current young generation needs instead of being overprotected.

The pay was never that great. One summer working in construction I got the lowest union scale which was more than I earned during the next nine years of medical college, internship and residency. The first-hand lessons learned, including about union shops, was far more important than that low wage.

BOB AUSTIN, M.D.  
Pensacola, Fla.

## Pepper ... And Salt

THE WALL STREET JOURNAL



"Come on, Melanie – it's not a game you know."

In the wake of the warning by Tesla CEO Elon Musk about the coming threat from AI, including his view that powerful technology will "threaten all human jobs" and "could even spark a war," Hollywood is said to be working on a movie that will take advantage of the growing interest in the subject. The working title for the movie is "Planet of the Apps."

THOMAS COFFEY  
Wytheville, Va.

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

## OPINION

# Connect the Dots to Stop Terror Plots

By Adam Klein

**W**hy didn't intelligence agencies prevent 9/11? According to the 9/11 Commission, before the attacks, information from intelligence agencies "often failed to make its way to criminal investigators" at the Federal Bureau of Investigation.

By the summer of 2000, the Central Intelligence Agency already knew that two future hijackers were associates of known terrorists, that both men held visas to enter the U.S., and that one had in fact flown to Los Angeles in March 2000. Unfortunately, the FBI learned of this in August 2001—at which point the men had already made their last, fateful entry into the U.S. With better information-sharing, the FBI might have arrested the terrorists and prevented the 9/11 attacks.

Some members of Congress now propose to erect new barriers against information-sharing within the intelligence community that could make it even more difficult for officials to spot future terrorists before they strike.

### Congressional barriers to information-sharing would heighten the risk of another 9/11.

The proposal would affect Section 702, a 2008 law that allows the intelligence community to collect the communications of foreign intelligence targets when the communications travel across U.S. internet cables or are stored on U.S. servers. This has been an effective counterterrorism tool because foreign targets' messages often touch the U.S. internet infrastructure.



DAVID KLEIN

Foreign targets are not protected by the Fourth Amendment, so the government has the authority to collect their messages under Section 702 without a warrant. But when foreign targets communicate with Americans, those messages are collected as well, raising privacy concerns.

Another key aspect of the privacy debate around Section 702 is what intelligence agencies should be allowed to do with that data. Courts have allowed agencies to search their 702 records for foreign intelligence purposes and, in the FBI's case, for evidence of crime, which sometimes includes searches for information about Americans.

Privacy-minded House members from both parties are now reportedly considering amending Section 702 to bar government officials from searching 702 data for information about an American unless they get a warrant, based on probable cause, from a federal judge.

Reformers have leverage this year because Congress must pass a 702 reauthorization bill before the law sunsets on Dec. 31.

But keeping officials from searching this data would make it more difficult to prevent home-grown terrorist attacks. In 2009 the National Security Agency used 702 to collect emails in which an unknown person in the U.S. asked an al Qaeda member in Pakistan for advice on making explosives. Those emails led the FBI to Najibullah Zazi, a Colorado man with imminent plans to bomb the New York subway system. Catching him saved dozens if not hundreds of lives. If an American appears to be radicalizing, the first thing the FBI should do is check the information already in its database to see whether that person has been in contact with known ISIS or al Qaeda operatives.

Privacy advocates argue that agencies could continue to run these searches as long as they obtain a

warrant. The problem is that database checks are most useful at the early stages of an inquiry, when officials are seeking to determine whether a person of interest has connections to terrorists. At that point, investigators rarely have gathered enough evidence to demonstrate probable cause. For that reason, requiring a warrant will make these queries effectively impossible.

Courts have found that this practice comports with the Constitution. In November 2015, the Foreign Intelligence Surveillance Court held that the Fourth Amendment does not require the FBI to get a warrant before conducting routine database checks, which include some 702 data. The scale of the potential privacy concern also appears small: In 2016 only one FBI search for information about an American in a non-national-security criminal investigation led the FBI to review messages collected under 702.

Congress is right to examine the privacy implications of Section 702; powerful tools require powerful constraints. But members concerned about 702 should focus on bolstering the program's oversight and transparency—by strengthening judicial review and requiring more transparency about how prosecutors use 702 information—rather than creating barriers to information-sharing within the intelligence community.

The 9/11 Commission report taught that "connecting the dots" using the intelligence government agencies already possess is the key to disrupting terrorist plots. With the threat of terrorism still high, let us not forget this lesson now.

*Mr. Klein is a senior fellow at the Center for a New American Security, a bipartisan national-security think tank in Washington.*

## Obama IRS Abuse Should Unite Trump and Sessions

By Jerome Marcus

**P**resident Trump has been feuding this week with Attorney General Jeff Sessions over matters related to last year's campaign. But here's an issue on which Messrs. Trump and Sessions should be able to find common ground: The Justice Department should stop defending Obama administration corruption.

I'm referring to the cases, still on file today, challenging or seeking to expose Internal Revenue Service policies that delayed applications for tax-exempt status from conservative groups. That's viewpoint discrimination, a clear First Amendment violation.

The Obama Justice Department fought these cases intensely. It tried to get them thrown out of court before the plaintiffs had the chance to gather evidence. When that failed, Justice lawyers resisted discovery, to prevent disclosure of documents showing what the Obama administration was really doing.

That's normal behavior for a defendant in a lawsuit. But since Jan. 20, the Justice Department has reported to Mr. Trump, who denounced each of the corrupt policies at issue in these cases.

So why is the department handling the cases as if it were still run by Eric Holder or Loretta Lynch? Because many of the career lawyers who were put on these cases by Obama Justice Department officials continue working on them, with no supervision from this administration. Those lawyers are still doing now what they have always done: fighting as hard as they can to prevent disclosure of what the Obama IRS, and the rest of the Obama administration, was doing to the country.

In one of these cases I represent the plaintiff. Z Street is a pro-Israel nonprofit that educates on Zionism and how to oppose terror. It applied in 2009 for tax-exempt status under section 501(c)(3) of the tax code.

## Unite Trump and Sessions

Hillary Clinton's emails and document-retention policies.

The government lawyers in all these cases are working hard to prevent anyone from finding out what the Obama administration was doing. Cleta Mitchell, who has represented tea-party organizations in the IRS

### Career Justice Department lawyers are still defending the old administration's indefensible positions.

viewpoint-targeting scandal, says Justice Department lawyers "have been stalling, obfuscating and doing all they can in these cases to avoid holding the IRS accountable."

That's true even though all these lawyers now work for President Trump. And it's true even though Mr. Trump knows full well that the

Obama IRS violated the Constitution by discriminating against opposing viewpoints, and that the Obama State Department wrongfully shielded Mrs. Clinton's emails from public view.

Messrs. Trump and Sessions, as well as Deputy Attorney General Rod Rosenstein and Associate Attorney General Rachel Brand, should all be able to agree on this. The executive branch, through the Justice Department, can on its own agree to release the desired information and end these cases, without any permission from Congress or CNN. That would lighten the workload at Justice and shine sunlight on clearly improper Obama policies.

A famous Justice Department lawyer said long ago that "the government wins when justice is done." Now's the time for the Department of Justice to do justice.

*Mr. Marcus is a Philadelphia lawyer.*

## Notable & Quotable: Murkowski

*From a Dec. 3, 2015, press release from the office of Sen. Lisa Murkowski (R., Alaska):*

As the Senate begins to take a series of votes to repeal key provisions of the Affordable Care Act (ACA), U.S. Senator Lisa Murkowski spoke on the Senate floor to lay out how the ACA is drastically harming the people of Alaska. Senator Murkowski referred to specific examples from Alaskans, including families, small businesses, and school districts across the state, who have reached out to share the financial burdens the failed healthcare law is placing on them.

In her speech, Murkowski outlined how in Alaska, the rising healthcare costs have gone too far:

"... This law is not affordable for anyone in Alaska. That is why I will support the bill that repeals the ACA and wipes out its harmful impacts..."

Senator Murkowski has long been an opponent of the Affordable Care Act, recognizing from day one that the one-size-fits-all bill would never work in a rural, sparsely populated state such as Alaska.

**• December 2009:** Senator Murkowski votes against S. 3590, the Patient Protection and Affordable Care Act.

**• May 2013:** Murkowski co-sponsors the Forty Hours is Full Time Act, to redefine full-time employee status within the ACA to the conventional 40 hours workweek.

**• July 2013:** Murkowski and 45 other Senators write a letter to the White House urging the entire healthcare reform law be permanently postponed.

**• September 2013:** Senator Murkowski co-sponsors one year delay for individual mandate.

**• October 2013:** Murkowski votes to repeal the medical device tax on pacemakers, joint replacements, defibrillators, and other items under the ACA.

**• November 2013:** Murkowski co-sponsors the "If You Like Your Plan, You Can Keep It" Act.

**• September 2014:** Murkowski pens an opinion editorial on the harmful impacts of the ACA on Alaskans.

**• January 2015:** Senator Murkowski re-introduces the Forty Hours is Full Time Act, to re-define "full time" employee status within the ACA to the conventional 40 hour workweek.

**• January 2015:** Senator Murkowski co-sponsors the Hire More Heroes Act, to incentivize companies to hire more American veterans by exempting potential employees already receiving health coverage from being counted toward the 50 employee threshold for the ACA's employer mandate.

**• June 2015:** Senator Murkowski responds to the announcement that Premera and MODA were forced to drastically increase premium rates as a result of the "Affordable" Care Act.

**• June 2015:** Senator Murkowski pens an opinion editorial on how the Affordable Care Act has become one of the most ironically named pieces of legislation for Alaska in history.

**• September 2015:** Senators Lisa Murkowski and Dan Sullivan co-sponsored legislation to repeal the Cadillac Tax, which would place a 40% excise tax on high-cost insurance plans.

**• October 2015:** The PACE Act is signed into law, which Senator Murkowski co-sponsored to halt a change of what is considered "small employer" within the ACA.

# Charter Grads Get a Leg Up In College

By Richard Whitmire

**T**he NAACP on Wednesday reported findings from its nationwide "listening tour" on charter schools, and there were no surprises: Charters must be stopped. The National Education Association, even less surprisingly, said the same thing earlier this month in Boston.

The nation's oldest civil-rights organization and the largest teachers union worry about charters for similar reasons. Independently run charters generally don't employ unionized teachers, and they pull students from traditional district schools to which the NAACP is deeply committed. In short, charters disrupt the status quo—for adults.

### The NAACP and NEA have chosen the wrong time to double down on failing traditional schools.

The timing of the intertwined anticharter campaigns, however, may prove awkward because of new data just released by The 74. The data comes from the first cohort of charter students, who are beginning to graduate from college. Here's what we know now that the NEA and NAACP didn't know when they adopted their anticharter positions: Graduates from the top charter networks—those with enough high school alumni to measure college success accurately—earn four-year degrees at rates that range up to five times as high as their counterparts in traditional public schools. These are low-income, minority students from cities such as Los Angeles, Chicago and Newark, N.J. Their college success is going to make bashing charter schools far more challenging for the NEA and the NAACP.

Before this revelation, charter-school gains were largely measured by upticks in student test scores. Critics often wrote them off as meaningless, suggesting that charters abandoned educating kids in favor of "teaching to the test." But now we see that charter school gains in the K-12 years have real-world consequences. Higher test scores, along with a swarm of strategies charter networks employ to make their students more successful after they graduate, lead to actual four-year college degrees.

Roughly half the graduates of Uncommon, YES Prep and the KIPP New York schools—among the biggest and best known charter networks in the country—earn bachelor's degrees within six years. About a quarter of the graduates of the lower-performing charter networks earn degrees within six years. That may not strike wealthy parents as something to brag about. Eighty percent of children from America's wealthiest families earn four-year degrees within six years. But charters primarily serve low-income families, where only 9% of students earn such degrees. Charters make a difference for poor families.

Charter networks are doing something traditional school districts have never considered: taking responsibility, at least in part, for the success of their students after they receive their diplomas. Low-income and traditionally low-opportunity students, nearly all of whom are the first in their families to attend college, need special help: Which courses to sign up for? How many credits to juggle in a semester? How to be the only minority in an all-white class?

There are ways to address all those issues, as charter networks such as KIPP and Uncommon are discovering. And they are more than willing—even eager—to share what they have learned with traditional district schools. That sharing needs to start soon, but the aggressive anticharter stances taken by both the NAACP and the NEA will only make that process harder.

It's difficult to identify an anti-poverty program that has been as successful as charter schools, but don't expect the NAACP or the NEA to acknowledge that. The teachers unions especially are more concerned with the needs of the adults employed by school districts than the welfare of the students passing through them. But the charter movement's success will make defending that position more difficult, especially for governors, legislatures and urban school officials under pressure from parents to open more of these high-performing schools.

*Mr. Whitmire writes "The Alumni" series at The 74 and is the author of "The Founders: Inside the Revolution to Invent (and Reinvent) America's Best Charter Schools."*

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch  
Executive Chairman, News Corp  
Gerard Baker  
Editor in Chief

Matthew J. Murray  
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancey, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards; Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisniewski, Professional News

Paul A. Gigot, Editor of the Editorial Page;

Daniel Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

EDITORIAL AND CORPORATE HEADQUARTERS:  
1211 Avenue of the Americas, New York, N.Y., 10036  
Telephone 1-800-DOWJONES

Robert Thomson  
Chief Executive Officer, News Corp

William Lewis  
Chief Executive Officer and Publisher

DOW JONES MANAGEMENT:

Mark Musgrave, Chief People Officer;

Edward Roussel, Innovation & Communications;

Anna Sedgley, Chief Operating Officer & CFO;

Katie Vanneck-Smith, President

OPERATING EXECUTIVES:

Ramin Beheshti, Product & Technology;

Jason P. Conti, General Counsel;

Frank Filippo, Print Products & Services;

Steve Grycuk, Customer Service;

Kristin Heitmann, Transformation;

Nancy McNeill, Advertising & Corporate Sales;

Jonathan Wright, International

DJ Media Group:

Almar Latour, Publisher;

Kenneth Breen, Commercial

Professional Information Business:

Christopher Lloyd, Head;

Ingrid Verschuren, Deputy Head

DOW JONES  
News Corp

“...the  
most powerful  
TV show  
in America.”  
-The New York Times

FOX &  
friends

EVERY MORNING AT 6AM ET



# BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

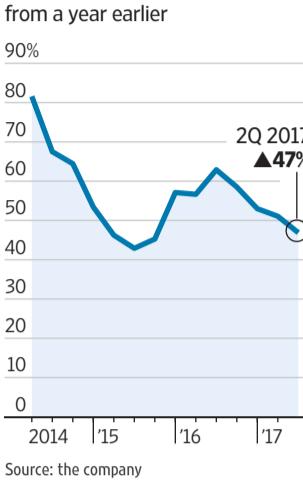
\* \* \* \* \*

THE WALL STREET JOURNAL.

Thursday, July 27, 2017 | B1

## Slowing Down

Facebook's ad revenue, change from a year earlier



# Samsung Soars After Rough Year

By TIMOTHY W. MARTIN  
AND EUN-YOUNG JEONG

up to 61 trillion won from April to June, rising from the prior year's second quarter of 50.94 trillion won.

The South Korean technology giant blew past its previous record quarterly net profit of 8.24 trillion won, which came nearly four years ago as booming smartphone sales drove growth.

In a shift from those days, components such as semiconductors and display panels, sold to competitors such as **Apple** Inc. or **Sony** Corp., account for about 70% of the firm's bottom line.

Samsung's profits were also boosted by strong sales of the Galaxy S8, its first premium smartphone since last year's global recall of the Galaxy Note 7. Samsung said the Galaxy S8 and the larger S8+, which won strong reviews for their sleek design, have outsold its predecessor, the Galaxy S7, in almost all regions.

Operating profit rose 73% to 14.07 trillion, an all-time high, from the 8.14 trillion reported for the same period last year.

The record-breaking results

also position Samsung to top Apple in quarterly profit.

Apple has a projected net income of \$8.2 billion for the three-month period, according to analysts polled by S&P Global Market Intelligence, in what is traditionally a weaker quarter for the world's most valuable company.

Apple, set to launch its 10th-anniversary iPhone, is still projected to notch up larger full-year profit than Samsung.

Samsung Electronics shares are trading near all-time highs and have risen

more than 60% over the past year.

On Thursday, Samsung said it would continue a 9.3 trillion won share-buyback program this year, repurchasing 670,000 common shares and 168,000 preferred shares over the next three months.

Samsung has so far repurchased about 5 trillion won worth of shares.

Less than a year ago, Samsung's potential ascension to the world's most-profitable technology company, even for a singular quarter, would have

Please see PROFIT page B2

## Facebook's Ad Shifts Power Its Earnings

BY DEEPA SEETHARAMAN

**Facebook** Inc.'s news feed is running out of room for advertisements, but the social media giant is making up for it with higher prices and new slots for ads in videos and its messaging apps.

The company on Wednesday said profit spiked 71% in the second quarter. While growth is still rapid, Facebook warned that the number of ads in the news feed—its primary source of revenue—is hitting a ceiling.

Facebook and Google revamped advertising by making digital the dominant platform over the past decade. Google, part of **Alphabet** Inc., and Facebook together accounted for 99% of the online ad industry's growth last year, according to Pivotal Research.

But now both tech giants are trying to figure out the next generation of online advertising.

Google said earlier this week that it is serving up more ads on smartphones and on YouTube, its video platform. While the newer ad formats drove a 52% surge in the number of clicks, they are less lucrative than search ads, Google's legacy business.

Facebook, meanwhile, is looking beyond the highly profitable news feed to the rising consumption of video and its two chat apps, Messenger and WhatsApp, for growth.

Chief Executive Mark Zuckerberg predicted video would become the largest driver of Facebook's business over the next two to three years, while messaging could yield dividends within five years. He added that artificial intelligence could help advertisers figure out which audiences to target on Facebook.

That shift isn't without risk to Facebook. These emerging ad formats don't earn Facebook as much money as ones shown in its news feed, executives said. They also need to build new types of ads that can work outside the standard stream of posts that make up Facebook's news feed and its photo-sharing app Instagram, which together drive nearly all of the company's revenue.

"There are real questions there that we need to manage well," Mr. Zuckerberg said, of the company's embrace of video as a future source of ad revenue. Facebook recently started testing mid-roll ads, which appear at some point during a video on the social network.

Mr. Zuckerberg also showed newfound urgency to cash in on messaging. WhatsApp, he said, is now used by 1 billion people a day. This month, Facebook introduced ads on Messenger, a rollout that will inform how Facebook monetizes WhatsApp, executives said.

"I want to see us move a little faster here, but I'm confident that we're going to get this right over the long term,"

Please see ADS page B2



## Wall Street's New Frontier

Denver and other inland locations draw financial firms and jobs fleeing costly coastal cities



The Denver area's investing sector is expanding at twice the U.S. average. Clockwise from top, a Charles Schwab office, downtown Denver and construction cranes.

By ASJYLYN LODER

Wedged into a rent-controlled two-bedroom apartment near San Francisco's famed Haight-Ashbury neighborhood and already overrun by their son's toys, Kari Droller and her husband weighed having a second child against the skyrocketing costs of a larger home nearby.

Instead, Ms. Droller, managing director of **Charles Schwab** Corp.'s exchange-traded-fund platform, put in for a transfer to Denver, joining a tide of financial professionals who are forsaking high-cost coastal meccas for America's inland cities.

Traditional finance hubs have yet to recover all the

jobs lost during the recession, but the industry is booming in places like Phoenix, Salt Lake City and Dallas. The migration has accelerated as investment firms face declining profitability and soaring real-estate costs.

The market's shift to low-cost passive investing—in which funds aim to match the returns from an index—compounds those difficulties, pushing firms to look for new ways to cut costs.

Charles Schwab is emblematic. Since announcing its relocation strategy in 2013, the company has shrunk its San Francisco headquarters to fewer than 1,300 people, a 45% decrease. Its 47-acre campus south of Denver is now Schwab's largest office, em-

ploying almost 4,000 people. An expanded office in Austin, Texas, will be completed next year, and construction is under way on a new location near Dallas.

"San Francisco is a wonderful place, but unfortunately it's an expensive place from a real-estate standpoint," said Brian McDonald, a senior vice president for Schwab. "So we had to identify other places where we could make things work."

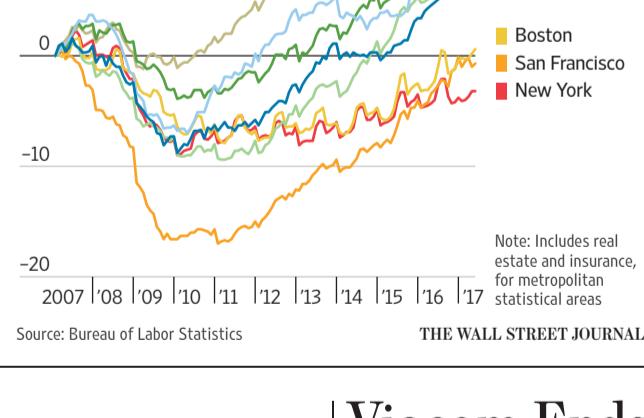
While the finance industry has been relocating entry-level jobs since the late 1980s, today's moves are claiming higher-paid jobs in human resources, compliance and asset management, chipping away at New York City's middle class, said

Please see COSTS page B2

## Outbound

Finance job growth in cheaper cities has outpaced traditional hubs.

Finance jobs, cumulative change since January 2007



Note: Includes real estate and insurance for metropolitan statistical areas

Source: Bureau of Labor Statistics

THE WALL STREET JOURNAL.

## INSIDE



### COCA-COLA ZEROES IN ON NEW DIET SODA

MARKETING, B3

EARNINGS DRIVE STOCKS TO RECORDS

EQUITIES, B11

HEARD ON THE STREET By Paul J. Davies

## Leveraged Loans Too Popular

Imagine just asking for a rate cut on your loan and getting it. That is what is going on in the leveraged-loan market this year.

Investors have been piling into U.S. and European loans for riskier, often privately backed companies. One reason loans are attractive is protection against rising interest rates: Lenders get interest calculated from a base rate linked to central-bank rates, plus a fixed spread. So, when the Federal Reserve raises rates, the interest a loan investor receives goes up, too.

But that doesn't work when borrowers can cut the

spread, and this year that has proved startlingly easy to do. Take **Tipico**, a little-known German gambling group that sold a majority stake to private-equity firm **CVC Capital Partners** last summer. CVC's investment was backed with a €620 million loan (\$722.2 million), which started with an interest rate of 5.5% on top of a fixed minimum 1% rate for Euribor, the market-base rate in Europe.

In March, that loan was repriced to just 3.5% with a minimum for Euribor of zero. With base rates negative in Europe, that amounts to a 3-percentage-point cut in borrowing costs for Tipico less than a year after it first got the loan. CVC also

increased the loan size, first to €700 million, then this month to €890 million.

This was done without lenders getting a penny in fees or compensation for lost interest.

Tipico is a standout case for such a large cut to its interest costs, which started high mainly because Tipico was unknown. But many companies have cut loan costs by 0.5 to 1 percentage point and some, by more.

Loans performed well through the last rate-rising cycle, though less well than high-yield bonds. U.S. loans saw a total return of 12% between mid-2004 and mid-2006, according to S&P Global LCD, when U.S. rates

Please see HEARD page B2

## Viacom Ends Scripps Bid; Discovery Is Lone Suitor

By AMOL SHARMA AND JOE FLINT

Viacom Inc. is out of the running to acquire **Scripps Networks Interactive** Inc., leaving **Discovery Communications** Inc. as the only remaining suitor in talks to purchase the cable TV programmer, people familiar with the situation said.

Viacom, owner of cable TV networks including MTV and Comedy Central, saw promise in combining its youth-skewing networks with Scripps channels like HGTV and Food Network that specialize in

Please see SCRIPPS page B4

◆ Heard on the Street: Enjoy growth while it lasts..... B12

## INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	F
Advanced Micro Devices.....B11	Facebook.....B1,B12
Airbus.....B2	Fiat Chrysler Automobiles.....B3
Akamai Technologies.....B11	Fidelity Investments.....B2,B10
Alphabet.....B1,B4	Ford Motor.....B3,B11
Alpha Financial Advisors.....A8	Foxconn Technology Group.....A1
Amazon.com.....B4,B6,B11	G
American Electric Power.....B6	General Motors.....B3
Anheuser-Busch InBev.....A2,B3	GGP.....B10
Anthem.....B6	GlaxoSmithKline.....B6
Apple.....A1,B1,B4	Global Eagle Entertainment.....B6
AT&T.....B11	Goldman Sachs Group.....B2
B	Harbor Financial Group.....B11
Beijing Shareco Technologies.....B6	Hershey.....B6
Berkshire Hathaway Energy.....B5	HNA Group.....B6
Boeing.....B2,B11	Honda Motor.....B3
BP.....B11	Hon Hai Precision Industry.....A2
British Broadcasting Corp.....B3	I
C	Inverenergy.....B6
Cerulli Associates.....A8	J
Charles Schwab.....A8,B1	Jana Partners.....B6
Chevron.....B11	Janus Henderson Group.....B2
Chipotle Mexican Grill.....B6	JBS.....B6
Coca-Cola.....B3,B11	J&F Investimentos.....B6
CSX.....B5	K
CVC Capital Partners.....B1	Kik.....B10
D	Lampix.....B10
Daimler.....B3	M - N
Discovery Communications.....B1	Macerich.....B10
E	Macy's.....B4
Edward Jones.....A8	Microsoft.....B4
Elliott Management.....B5	NextEra Energy.....B5
Energy Future Holdings.....B5	
Exact Sciences.....B12	
Exxon Mobil.....B11	

## INDEX TO PEOPLE

A	Fritz, Janet.....B2
B	Abbasi, Yousef.....B11
C	Barclay, Jessica Zofnass.....B2
Bechtel, Brad.....B11	Gilvary, Brian.....B11
Buffett, Warren.....B5	Gou, Terry.....A1
D	Cairns, Matthew.....B12
Clayton, Jay.....B10	Gove, Michael.....B3
Cook, Timothy.....A2	Grubbs, Heather.....B2
Coppola, Arthur.....B10	H
de Larouzière, Olivier.....B12	Harding-Rolls, Piers.....B4
Devine, Brian.....B4	Haun, Kathryn.....B10
Draghi, Mario.....B12	Iacobelli, Alphons.....B3
Droller, Kari.....B1,B2	Kaiser, Andrew.....B10
Durbin, Mike.....B10	Lee Jae-yong.....B2
F	Mackey, John.....B6
Faroli, Michael.....B12	O - P
O'Hern, Thomas.....B10	Olsen, John.....B4

## HEARD

Continued from the prior page rose 4.25 percentage points. Meanwhile, high-yield bonds delivered almost 18% total returns, according to the Bank of America Merrill Lynch index.

In the past year, U.S. loans have returned 6% while rates have risen 0.75 percentage point.

Repricing activity is dominating loan markets in the U.S. and Europe. More than \$260 billion of loans were repriced in the first quarter, outstripping loan issuance of \$247 billion, according to S&P Global LCD.

Investors have little power, because loans are repayable without penalty any time after the first six months, typically. That is different from a bond, which has a fixed maturity.

When demand is strong, any investor that declines the lower yield risks seeing another buyer take their place, and many are battling

### Pile-Up

Total assets in U.S. loan funds



Source: Lipper

THE WALL STREET JOURNAL.

to keep their money invested.

However, the more that yields get squeezed, the harder it will be for loan funds to make the returns promised to investors—and the more that investors will realize loans might not be the guard against rising rates they had hoped.

Despite the record quarter, the question hanging over the company's head is the fate of Mr. Lee, Samsung Electronics vice chairman and grandson of the company's founder.

Mr. Lee isn't known as a micromanager, but in South Korea's family-run chaebol system, his signoff is required for overall strategy moves and important decisions.

The Harvard-educated Mr. Lee has tried to modernize the company's opaque and hard-driving culture since his father, Samsung's chairman, became incapacitated with a heart attack in 2014.

He has also pushed the Samsung conglomerate, which spans dozens of enterprises as varied as theme parks and lithium-ion batteries, to slim down and pivot to new areas such as biotechnology.

Per South Korean law, Mr. Lee, 49 years old, can be detained until late August. A verdict is expected from a lower court next month, and Mr. Lee is expected to testify next week in court.

Even without its leader, its chic brand tarnished, the Suwon, South Korea-based firm saw its profit balloon due to voracious demand for its memory chips and flexible displays, mundane products that few consumers even realize are Samsung-made.

More than a decade ago, Samsung began plowing billions of dollars into 3-D NAND semiconductors that can store more content in a small chip, allowing gadgets extra memory capacity. The company also moved aggressively into flexible

## COSTS

Continued from the prior page

Kathryn Wylde, president and chief executive of the Partnership for New York City, a non-profit that represents the city's business leadership.

"This industry isn't just a bunch of rich Wall Street guys," Ms. Wylde said. "It's a big source of employment that's disappearing from New York."

Mass relocations can be messy. Some people don't want to leave big cities. Not all employees are invited to make the move, Ms. Wylde said.

Those who stay behind are often left without a job. For a number of employees, remaining near family outweighs the cost savings of moving to another city, and companies often lose good employees through the process.

When **Partners Group AG** said last year that it would relocate its San Francisco operations to Denver, 60% of its 34 San Francisco employees declined to make the move and had to find jobs elsewhere, according to a spokeswoman.

Still, the trend shows few signs of slowing. Denver's investing sector is expanding at twice the national average, bolstered by the expansion of the exchange-traded-fund industry. **Janus Henderson Group PLC**, which owns VelocityShares ETFs, is based in the tony Cherry Creek neighborhood, while ALPS, one of the largest ETF distributors in the U.S., is near the art museum.

When industry group Women in ETFs opened a new chapter in Denver, the goal was 50 members in the first

year, said Heather Grubbs, a vice president of marketing for **Fidelity Investments**. At the inaugural meeting in January, 135 people signed up.

The Denver region is competing for 12 new finance projects representing 4,000 potential jobs, including a lending firm from San Francisco and a potential 1,200-job expansion by a New York-based firm, said Janet Fritz, spokeswoman for the Metro Denver Economic Development Corp.

On the banks of the South Platte River, not far from where Denver got its start as a gold rush town, financial-services company **TIAA** is renovating its 1,500-person office. After completing a new call center in 2013, Fidelity has expanded its staff near Denver to 800 people. Accounting and advisory firm **Pricewater-**

**houseCoopers** plans to expand its area staff, too. Partners Group expanded its temporary offices as its Denver workforce increased to 80 people, including workers who requested relocation from its

apartment. Jessica Zofnass Barclay has met more than a dozen other "recovering coasts" since moving to Denver in 2013.

The population boom has had some unwelcome side effects. With more than 1,000 people moving to Denver every month, traffic jams routinely clog area highways, and the housing market has become one of the most fast-moving in the country.

While Denver home prices reached a record in June, they are still far below San Francisco. "If you're talking to someone who's been in Denver, they'll say it's getting unaffordable, but if you're coming from San Francisco, the reverse sticker shock is wonderful," Ms. Droller said.

—Paul Overberg contributed to this article.

offices in New York, Houston and overseas.

Erica Escalante, who left New York five years ago and works for Janus Henderson, says she nearly wept when she realized she would have a washer and dryer in her own

## ADS

Continued from the prior page he said during a conference call with analysts.

Facebook's stock was 3.3% higher in after-hours trading, building on a 44% increase since the beginning of the year.

In the second quarter, net income totaled \$3.9 billion, surpassing its larger rival Alphabet, whose bottom line was hit by a fine from European regulators.

Revenue jumped 45% to \$9.3 billion, boosted by a 24% increase in Facebook's average ad price, executives said during the call.

Showing too many ads could turn off the more than two billion people who check Facebook at least once a month.

Today, one of every seven to 10 posts is an ad in Facebook's news feed, said Jan Dawson, senior analyst with Jackdaw Research.

The company is buying original video programming—some shows as long as 30 minutes an episode—that could in turn offer opportuni-

ties for advertising as part of Mr. Zuckerberg's broader desire to transform Facebook into a "video-first" company.

"Video is part of what's going to expand the inventory of ads on Facebook," Mr. Dawson said. "A half an hour of video is potential for more ads."

The mid-roll video ads Facebook has been testing have lower margins than news feed ads, executives said on the call. Facebook shares a portion of the ad revenue with the creator in this model.

The success of ad breaks "will depend both on the ad breaks and on the content," Chief Operating Officer Sheryl Sandberg said in an interview. Many advertisers are still repurposing television ads to use on Facebook.

The television ads "do not work as well as ads that are natively mobile," Ms. Sandberg told analysts Wednesday. Ads that are developed for mobile, Facebook's primary format, are shorter and the brand is mentioned faster than in TV spots, she said.

She compared the strategy to the early days of TV ads when people read ads in front of a microphone on screen.

## ADVERTISEMENT

### Franchising

To advertise: 800-366-3975 or WSJ.com/classifieds

#### FRANCHISE OPPORTUNITIES



#### FRANCHISING OPPORTUNITIES FRESH FROM THE OVEN.

- 4 Dayparts
- Great Brand Awareness
- Sales Mix: Dine-In, Bakery, Carry-Out
- Menu Items That Appeal to Guests of All Ages
- Flexible Real Estate Options (endcaps, conversions, stand-alones)

For more information, visit [www.perkinsrestaurants.com/franchise](http://www.perkinsrestaurants.com/franchise) or call 901-766-6455

©2017 Perkins & Marie Callender's, LLC



THE WALL STREET JOURNAL.

Shares surge 10% as aerospace firm raises full-year profit target, boosts production

By DOUG CAMERON

**Boeing Co.** continues to clamp down on the cost of building jetliners, boosting profits at the world's largest aerospace company and on Wednesday driving its shares up nearly 10%.

The company reported forecast-beating earnings for a fifth quarter in a row on Wednesday. It also lifted its full-year profit target again as it boosts production from an order book of 5,700 aircraft and defense equipment worth almost \$500 billion.

Boeing has emerged from a long stretch beset by problems building new jets such as the 787 Dreamliner, with the smoother launch of new models and a focus on reducing expenses through a mix of thousands of job cuts and more efficient factories.

It is also chasing a bigger share of the market for maintaining aircraft for airlines and military customers, a pursuit that has unsettled relations with some of the suppliers that are crucial to boosting output of its commercial jetliners.

"There's some sense of ner-

### Flight Plan

Boeing shares surged following a strong earnings report and an improved outlook for the year.

#### Profit/loss in billions



#### Share price



Sources: S&P Capital IQ; WSJ Market Data Group

Boeing's cost-cutting efforts helped it generate more than twice as much free cash as analysts were expecting for the latest quarter, prompting a bump to planned stock buybacks. The company is also preparing big pension commitments due over the next four years.

Mr. Muilenburg said free cash flow is expected to rise year on year through the end of the decade. Boeing plans to lift stock buybacks to \$10 billion this year and will return all of its free cash to shareholders in the form of repurchases and dividends.

Boeing reported quarterly profit of \$1.76 billion, or \$2.89 a share, swinging from a year-earlier loss of \$234 million that reflected charges on its commercial and military programs. Revenue fell to \$22.74 billion from \$24.76 billion, as Boeing delivered fewer jets as it transitioned to an upgraded version of the 737 and slowed output of its 777 jetliner.

The company still expects to deliver 760 to 765 jetliners this year, and Mr. Muilenburg said plans to sell aircraft to airlines in Iran next year remain on track. Its order book rose to \$48



## TECHNOLOGY

# Amazon Pushes to Staff Its Expansion

As part of longer-term plan, online retailer girds for holiday rush in tight labor market

BY LAURA STEVENS

**Amazon.com** Inc. aims to fill 50,000 new positions in the U.S. by hosting a giant job fair next week, where it will be making offers on the spot.

The event, scheduled for Aug. 2 in a dozen locations around the country including 10 of its warehouses, shows how Amazon is pushing to make good on its pledge to hire 130,000 full- and part-time employees, as it competes with other logistics companies for hard-to-find workers.

With fulfillment of the hiring pledge, which is targeted for mid-2018, the online retailer's U.S. workforce would swell to around 300,000, compared with 30,000 in 2011.

Still, the current logistics labor market is tight, according to supply-chain industry executives. The crunch is expected to worsen as retailers and logistics companies start preparing for the holiday

shopping season, for which hiring can begin as early as September.

"It's clear people have choices. That is obvious," said John Olsen, vice president of Amazon's world-wide operations human resources. Amazon is counting on competitive wages, benefits and programs like one that pays for tuition to attract job candidates, he said.

Nearly 40,000 of the newly offered jobs are full-time at the company's fulfillment centers, including some facilities that will open in the coming months. Most of the remainder are part-time positions available at Amazon's more than 30 sorting centers. The additions are equal to roughly 14% of the company's world-wide head count as of the end of the first quarter.

Starting wages for the hourly workers vary based on location. For example, a full-time warehouse position starts at \$13 to \$14 an hour in Baltimore, while a similar job near Tampa in Ruskin, Fla., starts at \$11.

Wages have been rising rapidly in the logistics industry as companies increasingly compete for the same workers,



The company aims to add 50,000 jobs in the U.S. fairly soon.

said Brian Devine, senior vice president at ProLogistix, one of the largest logistics-staffing companies in the U.S.

Unemployment rates in some major logistics hubs are lower than they were a year ago ahead of the holiday season, considered the peak period for e-commerce-related employment, when hundreds of thousands of seasonal workers are added to the ranks.

"We continue to order more and more stuff online," Mr. Devine said. "The workers that used to work in the retail stores, now we need those same workers in warehouses."

But because warehouses tend to be grouped together in areas with good access to highways, airports and population, "there aren't enough people to fill all these jobs," he added.

Amazon's warehouse job-fair events, held coast-to-coast, will introduce applicants to current Amazon workers and allow them to tour the warehouse, Mr. Olsen said.

## Retailer's Value Exceeds \$500 Billion

**Amazon.com** Inc. is now valued at more than half a trillion dollars, underscoring how much faith investors have in the e-commerce giant's ability to transform how consumers shop.

On Wednesday, its shares rose 1.2% to a record high of \$1,052.80, boosting Amazon's market value to \$503.2 billion, its first close above \$500 billion. The company is due to report its quarterly results after the closing bell on Thursday.

Amazon's gain this year has come as shares of brick-and-mortar retailers like **Target** Corp. and **Macy's** Inc. have fallen sharply. And Amazon is now valued at more than double the \$237.8 billion market cap of **Wal-Mart Stores** Inc., the world's largest retailer by revenue. Still, some investors have questioned whether the stock market is casting too definitive a vote on the retail shake-out. In recent months, some bargain hunters have snapped up shares of old-line

retail firms.

Amazon shares have taken another leg higher since June 16, when the company announced a \$13.7 billion deal to acquire **Whole Foods Market** Inc. The acquisition would make Amazon a heavyweight in the grocery business, where it has struggled to gain a foothold. Since the announcement, Amazon's market cap has gained about \$31 billion, more than twice the price of the Whole Foods deal.

It took Amazon 210 trading sessions to climb to \$500 billion from \$400 billion, versus 240 days for the prior \$100 billion gain. The \$100 billion rise to \$300 billion took a mere 139 days in 2015.

This year is shaping up to be one in which investors bet heavily that a few technology giants will be the blue-chip companies of the future. Amazon, the fourth-largest S&P 500 company by market cap, is up 40%. **Microsoft** Corp., the third-largest is up 19%, while Google parent **Alphabet** Inc., the second-largest, is up 22%. **Apple** Inc., the biggest, is up 33%.

—Ben Eisen

# Nintendo Signals Supply Difficulties for Switch

BY TAKASHI MOCHIZUKI

**TOKYO**—**Nintendo** Co. kept its sales forecast for the Switch console unchanged despite strong demand, reflecting what analysts said is a supply bottleneck that could hurt the company during the year-end holiday season.

Kyoto-based Nintendo said Wednesday it sold 1.97 million units of the handheld-console hybrid game machine in the April-June quarter and is sticking to its forecast of 10 million for the current fiscal year, which ends next March.

That would bring cumulative sales since the console's March 3 debut close to 13 million, short of analysts' forecasts of more than 15 million by March 2018. Analysts said the April-June sales figure wasn't bad but could have been better if Nintendo had been able to deliver more units. Demand is strong, with game fans in some cases lining up for blocks to get their hands on a Switch.

Some people involved in Nintendo's supply chain said there are manufacturing prob-

lems. A Nintendo spokesman declined to comment on that but said the company is doing its best to make more units.

Piers Harding-Rolls, an IHS Markit analyst, said he still expects Nintendo to beat its annual forecast, "but it all depends on supply into the market."

Since the Switch's introduction, demand has kept rising, thanks to a lineup of popular games such as "The Legend of Zelda: Breath of the Wild" and "Mario Kart 8 Deluxe."

Nintendo plans by the end of 2017 to release more titles for the Switch, including a Pokémon game in September and "Super Mario Odyssey" in October. It started selling "Splatoon 2" last week.

In the April-June quarter, the first of its fiscal year, Nintendo reported an operating profit of ¥16.2 billion (\$144.8 million) on revenue of ¥154.1 billion, a turnaround from a year-earlier loss of ¥5.1 billion as the company phased out its unpopular Wii U console.

Net profit totaled ¥21.3 billion, compared with a loss of ¥24.5 billion.



The company isn't raising its sales forecast for its handheld console despite strong demand. A Switch exhibit in Los Angeles in June.

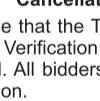
CHRISTIAN PETERSEN/GETTY IMAGES

## ADVERTISEMENT

### The Mart

To advertise: 800-366-3975 or [WSJ.com/classifieds](http://WSJ.com/classifieds)

#### BUSINESS OPPORTUNITIES



**भारतीय रिजर्व बैंक**  
RESERVE BANK OF INDIA  
[www.rbi.org.in](http://www.rbi.org.in)

**Tender for Supply of Currency Verification & Processing Systems (CVPS) on Lease basis**

#### Cancellation of earlier Global Tender Notice

We advise that the Tender Notice dated May 12, 2017 for Supply of Currency Verification and Processing Systems on Lease basis stands cancelled. All bidders for the aforesaid Tender may take note of the cancellation.

#### Issuance of new Tender Notice

Reserve Bank of India, Department of Currency Management, Central Office, Mumbai invites tenders for Supply of Currency Verification and Processing Systems on Lease. The Bid document is available from July 22, 2017 and can be downloaded from the "Tender" section of our website ([www.rbi.org.in](http://www.rbi.org.in)). Last time and date for submission of bids is 1500 hrs. on August 07, 2017

Chief General Manager  
Department of Currency Management

#### BUSINESS OPPORTUNITIES

**LIFE SAVING MEDICAL INFUSION DEVICE FOR SALE \$9MM**  
POTENTIAL WORLDWIDE SALES OF \$5 BILLION, WITH PROFITS OF \$2+ BILLION PER YEAR. PATENTED US AND EUROPE AND WORKING DEVICE IN PLACE. GO TO [WWW.AIRINLINE.COM](http://WWW.AIRINLINE.COM)  
CALL Dr. Green 310-600-5052

**EARN 11% + INVESTING IN 1st MORTGAGES**  
Short Term, High Yield, Low LTV. Secure & Great Monthly Income.  
Call 949-346-1217

#### CAPITAL WANTED

**High Yield 8-12% Fixed**  
\$5.5 Million Capital Needed.  
Loan Participation Minimum \$500K  
Secured by 1st Mortgage  
918-804-8030  
[linthicumangusranchllc@gmail.com](mailto:linthicumangusranchllc@gmail.com)

#### TRAVEL

#### Save Up To 60% First & Business

INTERNATIONAL  
Major Airlines, Corporate Travel  
Never Fly Coach Again!  
[www.cooktravel.net](http://www.cooktravel.net)  
(800) 435-8776

THE WALL STREET JOURNAL

## SCRIPPS

Continued from page B1  
nonfiction and lifestyle programming.

But the media company faced financial constraints and didn't want to overpay for the asset, one of the people familiar with the situation said. Scripps has a market value of almost \$11 billion.

After reviewing bids from both companies, Scripps determined it would prefer to negotiate exclusively with Discovery, the people familiar with the situation said.

A deal would have been a significant pivot by Viacom's relatively new chief executive, Bob Bakish, who in his first months on the job has been focused on stabilizing the company's balance sheet, turning around film operations and emphasizing a set of core cable networks.

Doubling down on the cable TV business would have been viewed as a surprising move by many on Wall Street.

Viacom had more than \$12 billion in debt as of March 31 and is clinging to the lowest-level of investment-grade credit rating, according to Moody's Investors Service, meaning that a deal involving a substantial amount of cash would have risked a downgrade to junk.

The value of Discovery's offer wasn't clear, but it involves a mix of 70% cash and 30% stock, according to one of the people familiar with the situation. The Scripps family, which controls about 92% of the company's voting stock, had indicated an interest in receiving a substantial portion of cash in any transaction.

Negotiations between Discovery and Scripps could take several days, one of the people said. There is no guarantee



For Viacom's chief, Bob Bakish, a deal would have been a significant pivot.

some of the most female-skewing networks on the cable dial, making it a must-buy for advertisers trying to reach women.

In some ways, Viacom and Scripps would have been an odd match. Scripps channels, which also include DIY Network and Travel Channel, function primarily as lifestyle brands aimed at families, homeowners and women, while Viacom's core brands like Nickelodeon and Comedy Central focus more on kids, teens and young adults.

But Viacom was drawn by the benefits of scale. Together, the companies would account for about 18% of TV ratings, on par with conglomerates like Walt Disney Co. and Comcast's NBCUniversal, according to RBC Capital Markets. Viacom could also have injected some of its ad-targeting prowess into Scripps' business and helped the lifestyle networks gain greater carriage overseas.

Before its surprising pursuit of Scripps, Viacom was more focused on unloading noncore assets to raise cash, like the sale of its stake in pay-television channel Epix for about \$600 million. Mr. Bakish also had set out to turn around the struggling Paramount film unit.

Without a merger, investors' attention will once again shift back to those turnaround efforts. The company continues to confront turbulence in the ratings and in its dealings with cable providers. Some of its flagship networks have been put into more expensive tiers by cable companies, reducing their reach. MTV's ratings have shown signs of stabilizing, though they are still down 28% since 2013, while Comedy Central is down nearly 50% over that span, according to Nielsen.

—Sarah Rabil contributed to this article.

#### AVIATION

#### BUSINESS FOR SALE

#### AUTO DEALER FOR SALE

Luxury auto dealer, new and pre-owned vehicles. Sales \$50m/yr. Palm Beach County, Florida.

Please call Laly at (561) 252-2887 for more information!

THE WALL STREET JOURNAL

ADVERTISE TODAY

(800) 366-3975

[sales.mart@wsj.com](mailto:sales.mart@wsj.com)

For more information visit:

[wsj.com/classifieds](http://wsj.com/classifieds)

© 2017 Dow Jones & Company, Inc.

All Rights Reserved.

## BUSINESS NEWS

**Norfolk Southern Wins Customers From Rival CSX**

**Norfolk Southern** Corp. said it is starting to win over customers to its railway amid disruptions at rival **CSX** Corp., where the network is undergoing an overhaul under a new chief executive.

"We have seen some business move over to us," Norfolk Southern Chief Marketing Officer Alan Shaw said on an earnings call Wednesday. "It's a small amount, I'll tell you that, but it's early."

CSX is the midst of change under CEO Hunter Harrison, who joined in March promising to quickly cut costs and implement a network with more precisely scheduled trains. Already, he has closed a number of yards that sort railcars and put thousands of railcars and hundred of locomotives in storage.

The changes have disrupted operations for shippers, some of whom have seen days added to

transit times for cars. Mr. Harrison last week told analysts that shippers need to brace for "a little pain and suffering" amid the changes, which he said will ultimately lead to better service and faster trains.

Norfolk Southern appears to be capitalizing to some degree on the changes at its primary Eastern U.S. rival for long-haul rail shipments.

—Paul Ziobro

**Berkshire Wins a Round In Competition for Oncor**

BY ANDREW SCURRIA

Warren Buffett has won the first round against Paul Singer in the billionaires' competition for one of the largest U.S. power transmission businesses.

A bankruptcy judge said he will consider approval of **Berkshire Hathaway Energy** Co.'s proposed takeover of Texas utility **Oncor Electric Delivery** Co. on Aug. 21. Mr. Singer's **Elliott Management** Corp. had sought a later date, saying it needed more time to raise financing for its rival restructuring proposal.

But lawyers for Oncor's bankrupt owner, **Energy Future Holdings** Corp., argued that extending the timetable could alienate Berkshire and put its \$9 billion all-cash offer at risk. Berkshire had threatened to walk away if the merger agreement, including a \$270 million breakup fee, wasn't approved by Aug. 21.

"We could lose a bird in hand," Energy Future Holdings attorney Chad Husnick said.

The scheduling order issued Wednesday provides Elliott with only a narrow path to victory in the duel for Oncor, the Texas power-transmission business that is considered the crown jewel asset in the Energy Future Holdings bankruptcy. Mr. Singer's hedge fund is

challenging Berkshire's offer with a \$9.3 billion bid, but hasn't yet locked down the capital to finance it. Elliott adviser Roger Wood said he had received nonbinding commitments from investors interested in Oncor at a time of rising utility valuations.

The Aug. 21 date fixed by U.S. Bankruptcy Judge Christopher Sontchi amounts to an 11-day extension for Elliott to persuade an investment consortium to finance its plan.

Berkshire was clear it would walk away, or at least lower its price, if the timetable were lengthened any further, Mr. Husnick said.

The proposed cash deal by Berkshire Hathaway Energy, Warren Buffett's energy unit, also needs approval from Texas regulators overseeing the state's energy infrastructure. Energy Future Holdings plans to return to bankruptcy court in October to seek confirmation of a bankruptcy exit plan that pays off creditors with proceeds from the Berkshire sale.

In between, Berkshire has to nail down support for the buyout from the Public Utility Commission of Texas. Twice before, Energy Future Holdings has won approval of chapter 11 plans predicated on the sale of Oncor, a stable, revenue-generating business 80% owned by

Energy Future Holdings.

Both of those plans failed when regulators rejected the sale terms. Rather than first seeking plan confirmation in bankruptcy court and then asking for the Texas PUC's blessing, Energy Future Holdings this time is putting the Texas regulators first in line to evaluate the buyout.

But the swift timeline sparked objections from Elliott, the largest Energy Future Holdings bondholder, which claims its alternative plan would generate more value for creditors. Meanwhile Berkshire has been busy rounding up support from Oncor's customers and from participants in the Texas wholesale energy markets.

Until June, Oncor was to have been sold to **NextEra Energy** Inc., a Florida power company. NextEra's buyout proposal ran into a regulatory buzzsaw, however, and Energy Future Holdings began talking to others about different exit strategies. That means NextEra is now owed a \$275 million breakup fee that is eating into potential bondholder recoveries.

Energy Future Holdings, the former TXU Corp., filed for bankruptcy protection in 2014 under the weight of tens of billions in debt left over from a boom-era buyout seven years earlier.

ADVERTISEMENT

**Legal Notices**

To advertise: 800-366-3975 or WSJ.com/classifieds

**NOTICE OF SALE****Notice Of Secured Party's Public Sale Of Collateral Under Uniform Commercial Code**

**PLEASE TAKE NOTICE** that on **Tuesday, August 1, 2017, at 10:00 A.M. local time**, West 126th Street Mezz Lender LLC ("Secured Party"), will offer for sale at a public auction, and sell to the highest "qualified bidder," at the office of Cole Schotz P.C., 1325 Avenue of the Americas, 19th Floor, New York, New York 10019, under Section 9-610 of the Uniform Commercial Code as enacted in the State of New York, all of Secured Party's right, title, and interest as a secured creditor of Columbia Lawrence Holdings 1 LLC, a New York limited liability company ("Debtor 1") and Columbia Lawrence Holdings 2 LLC, a New York limited liability company ("Debtor 2," together with Debtor 1, the "Debtors") in 100% of the membership interests in 126 Columbia Tower 1 LLC, a New York limited liability company, and 126 Columbia Tower 2 LLC, a New York limited liability company (collectively, the "Issuer"), pledged to Secured Party by Debtor. The principal asset of Debtor is 100% of the limited liability company interests in the Issuer and certain related rights and property relating thereto (collectively, the "Collateral"). Secured Party is informed and believes that Issuer owns certain real property known as: 402-410, 412-414, 416, 418, 420 and 422 West 126th Street, NY, NY; 429 West 126th Street, NY, NY; 422 West 127th Street, NY, NY; and 423 West 126th Street, NY, NY. This sale will be held to enforce the rights of Secured Party under (i) that certain Mezzanine Loan Agreement dated as of November 19, 2015, and (ii) those

certain two (2) LLC Membership Interest Pledge Agreements dated as of November 19, 2015, executed by Debtor 1 and Debtor 2, respectively, in favor of Secured Party. The sale will be **FINAL** and on an "**AS-IS, WHERE IS**" basis and will be made **WITHOUT REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO TITLE, QUALITY, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, POSSESSION, QUIET ENJOYMENT, OR ANY OTHER MATTER**. Secured Party reserves the right to establish other reasonable bidding procedures and to require potential bidders to reasonably demonstrate their ability to perform and close on the acquisition of the Collateral to the satisfaction of Secured Party. Secured Party reserves the right to credit bid at the auction. Secured Party also reserves the right to adjourn continue, or cancel the auction without further notice. Any parties interested in further information about the Collateral, becoming a "qualified bidder," and/or the terms of the sale should contact Jonathan Cuticelli of Sheldon Good & Company at (800) 516-0015 or [jpcuticelli@sheldongood.com](mailto:jpcuticelli@sheldongood.com). Qualified bidders may obtain a confidentiality agreement by visiting <http://www.SheldonGood.com>. Any prospective bidder must satisfy the requirements to be a "qualified bidder" by no later than 9:00 A.M. local time, on Tuesday, August 1, 2017. The sale will be conducted by Jonathan Cuticelli, Sheldon Good & Company, a New York licensed auctioneer, license No. I387302.

**ADVERTISEMENT****Legal Notices**

To advertise: 800-366-3975 or WSJ.com/classifieds

**BANKRUPTCIES**

UNITED STATES BANKRUPTCY COURT, SOUTHERN DISTRICT OF NEW YORK  
In re **WESTINGHOUSE ELECTRIC** Chapter 11  
COMPANY LLC, et al., Case No. 17-10751 (MEW)  
Debtors. (Jointly Administered)

**NOTICE OF DEADLINE FOR FILING PROOFS OF CLAIM**

TO ALL PERSONS AND ENTITIES WITH CLAIMS AGAINST THE DEBTORS SET FORTH BELOW:

Name of Debtor, Case Number, Tax Identification Number, Other Names  
17-10751, 52-2140933; Case # 2 Years, Westinghouse Electric Company LLC, 17-10751, 06-1548833; Fauske and Associates LLC, 17-10753, 27-1028538; Field Services, LLC, 17-10754, 72-1482550; Nuclear Technology Solutions LLC, 17-10755, 20-2061921; Par Nuclear Holding Co., Inc., 17-10756, 32-0007944; Par Nuclear, Inc., 17-10757, 36-3606586; PCI Energy Services LLC, 17-10758, 37-1589100; Shaw Global Services, LLC, 17-10759, 35-2410436; Shaw Nuclear Services, LLC, 17-10760, 26-1962650; Stone & Webster Asia Inc., 17-10761, 72-1481348, CB&I Stone & Webster Construction Inc., 17-10762, 72-1481673, CB&I Stone & Webster Construction Inc.; Stone & Webster International Inc., 17-10763, 35-2451586; CB&I Stone & Webster International Inc.; Stone & Webster Services LLC, 17-10764, 72-1515448; Toshiba Nuclear Energy Holdings (UK) Limited, 17-10765, TSB Nuclear Energy Services Inc., 17-10765, 52-213484; WEC Energy Systems, Inc., 17-10766, 21-088735; WEC Energy Solutions, LLC, 17-10767, 27-1023129; WEC Energy Services Inc., LLC, 17-10768, 25-1846759; WEC Equipment & Machining Solutions, LLC, 17-10769, 27-1023125; WEC Specialty LLC, 17-10770, N/A; WEC Welding and Machining, LLC, 17-10771, 27-1028771; WECTEC Contractors Inc., 17-10772, 72-0944168; WECTEC Global Project Services Inc., 17-10773, 72-1478572; CB&I Stone & Webster Inc.; WECTEC LLC, 17-10774, 47-5576222; WECTEC Staffing Services LLC, 17-10775, 81-0854135; StaffCo; Westinghouse Energy Systems LLC, 17-10776, 47-5240328; Westinghouse Industry Products International Company LLC, 17-10777, 46-4923909; Westinghouse International Technology LLC, 17-10779, 51-0395961.

On June 28, 2017, the United States Bankruptcy Court for the Southern District of New York (the "Court"), having jurisdiction over the chapter 11 cases of Westinghouse Electric Company LLC and debtor affiliates, as debtors in possession in the above-captioned chapter 11 cases, set forth below, for each Debtor, the date and time for filing of a Proof of Claim, as well as the last date and time for each Debtor to file a Proof of Claim based on prepetition claims against any of the Debtors (the "Governmental Bar Date," or the date on which a Debtor files its proof of claim under section 101(27) of the Bankruptcy Code ("Governmental Units")) to file a proof of claim ("Proof of Claim") based on prepetition claims, including, for the avoidance of doubt, secured claims, priority claims, and claims arising under section 503(b)(9) of the Bankruptcy Code, against the Debtors listed above (the "General Bar Date"); and (ii) establishing **September 1, 2017, at 5:00 p.m. (prevailing Eastern Time)** as the last date and time for each person or entity (including, without limitation, individuals, partnerships, corporations, joint ventures, and trusts, but not governmental units (as defined in section 101(27) of the Bankruptcy Code)) ("Governmental Units") to file a proof of claim ("Proof of Claim") based on prepetition claims, including, for the avoidance of doubt, secured claims, priority claims, and claims arising under section 503(b)(9) of the Bankruptcy Code ("General Bar Date"), or the date on which a Debtor files its proof of claim under section 101(27) of the Bankruptcy Code ("General Bar Date").

If you have any questions relating to this Notice, please contact Kurtzman Carson Consultants LLC ("KCC") at (877) 634-7177 (toll free) or (424) 236-7223 (international toll) or by e-mail at [wsb@kccllc.com](mailto:wsb@kccllc.com) or <http://www.kccllc.net/westinghouse/inquiry>.

YOU SHOULD CONSULT AN ATTORNEY IF YOU HAVE ANY QUESTIONS, INCLUDING WHETHER YOU SHOULD FILE A PROOF OF CLAIM.

**1. WHO MUST FILE A PROOF OF CLAIM.** You **MUST** file a Proof of Claim to vote on a chapter 11 plan filed by the Debtor or to share in any distributions from the Debtor's estates if you have a claim that arose prior to **March 29, 2017**, and it is not one of the types of claims described in Section 2 below. Claims based on acts or omissions of the Debtors that occurred before **March 29, 2017** must be filed on or prior to the Bar Date, even if such claims are not now fixed, liquidated, or certain, or do not mature or become fixed, liquidated, or certain before **March 29, 2017**.

Pursuant to section 101(15) of the Bankruptcy Code and as used in this Notice, the word "claim" means: (a) a right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or (b) a right to an equitable remedy for breach of performance or for which such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unliquidated, disputed, undisputed, secured, or unsecured. Further, claims include

unsecured claims, secured claims, and priority claims.

**2. WHO NEED NOT FILE A PROOF OF CLAIM.** The following persons or entities **are not** required to file a Proof of Claim on or before the applicable Bar Date, solely with respect to the claims described below:

(1) any person or entity whose claim is listed on the Schedules; provided that (i) the claim is **not** listed on the Schedules as "disputed," "contingent," or "undisputed"; (ii) the person or entity does not dispute the amount, nature, and priority of the claim; and (iii) the person or entity does not assert that the claim is an obligation of the specific Debtor against which the claim is listed in the Schedules;

(2) any person or entity whose claim has been paid in full;

(3) any person or entity that holds an equity security interest in the Debtors, which interest is based exclusively upon the ownership of common or preferred stock, membership interests, partnership interests, or warrants, options, or rights to purchase, sell, or subscribe to such a security or interest; provided that if any such holder asserts a claim (as opposed to an ownership interest) against the Debtors (including a claim relating to an equity interest or the purchase or sale of such equity interest), a Proof of Claim must be filed on or before the applicable Bar Date pursuant to the Procedures;

(4) any holder of a claim allowable under section 503(b) and 507(a)(2) of the Bankruptcy Code as an administrative expense (**other than** a holder of a section 503(b)(9) claim);

(5) any person or entity that holds a claim that heretofore has been allowed by the Court or entered on or before the applicable Bar Date (or, if any such claim is still outstanding, the date on which the Court has allowed the claim); provided that the Court has allowed the claim under section 101(15) of the Bankruptcy Code and nothing in this order shall require any holder, letter, order of credit issuer, or agent, or trustee to file a proof of claim with respect to the DIP Facility or otherwise modifies the relief granted by the final order of the Court approving the DIP Facility and allowing the claims and obligations thereunder (ECF No. 565);

(6) any holder of a claim for which a separate deadline has been fixed by this Court;

(7) any Debtor having a claim against another Debtor in these Chapter 11 cases; or

(8) any person or entity who has already filed a Proof of Claim with the Clerk of the Court or KCC against any of the Debtors with respect to the claim being asserted, utilizing a claim form that substantially conforms to the Proof of Claim Form or Official Form No. 410.

This Notice is being sent to the persons and entities that have had some relationship with or transacted business with the Debtors but may not have an unpaid claim against the Debtors. The fact that you have received this Notice does not mean that you have a claim or that the Debtors or the Court believe

that you have a claim against the Debtors.

**YOU SHOULD NOT FILE A PROOF OF CLAIM IF YOU DO NOT HAVE A CLAIM AGAINST THE DEBTORS.**

**THE FACT THAT YOU HAVE RECEIVED THIS NOTICE DOES NOT MEAN THAT YOU HAVE A CLAIM OR THAT THE DEBTORS OR THE COURT BELIEVE THAT YOU HAVE A CLAIM.**

**3. EXECUTORY CONTRACTS AND UNEXPIRED LEASES.** If you hold a claim arising from the rejection of an executory contract or unexpired lease, you must file a Proof of Claim based on such rejection by the later of (i) the Bar Date, and (ii) such date as the Court may fix, which date shall not be less than 30 days following the date of entry of an order approving the rejection of such executory contract or unexpired lease, or you will be forever barred from doing so. The Debtor may agree in writing to extend the Bar Date to a later date for any holder of a claim. Notwithstanding the foregoing, if you are a party to an executory contract or unexpired lease and you wish to assert a claim with respect to unpaid amounts accrued and outstanding as of **March 29, 2017** pursuant to such executory contract or unexpired lease (other than a rejection damages claim), you must file a Proof of Claim for such amounts on or before the Bar Date unless an exception identified above applies.

**4. WHEN AND WHERE TO FILE.** Except as provided for herein, all Proofs of Claim must be filed either (i) electronically through KCC's website located at <http://www.westhouseenergy.com> or <http://westinghouseunder.kccllc.net/westinghouseunder>, under the link entitled "Proof of Claim" based on such rejection by the later of (i) the Bar Date, and (ii) such date as the Court may fix, which date shall not be less than 30 days following the date of entry of an order approving the rejection of such executory contract or unexpired lease, or you will be forever barred from doing so. The Debtor may agree in writing to extend the Bar Date to a later date for any holder of a claim. Notwithstanding the foregoing, if you are a party to an executory contract or unexpired lease and you wish to assert a claim with respect to unpaid amounts accrued and outstanding as of **March 29, 2017** pursuant to such executory contract or unexpired lease (other than a rejection damages claim), you must file a Proof of Claim for such amounts on or before the Bar Date unless an exception identified above applies.

**5. WHEN AND WHERE TO FILE.** Except as provided for herein, all Proofs of Claim must be filed either (i) electronically through KCC's website or the Court's website as of **March 29, 2017** (using the range selector to select "Bar Date" and the "Bar Date Order" button) or (ii) by mail to the Debtor's address listed above the "Bar Date" or "Bar Date Order" button on the Court's website as of **March 29, 2017** (using the range selector to select "Bar Date" and the "Bar Date Order" button on the Court's website as of **March 29, 2017**).

**IF YOU ARE ASSERTING A CLAIM AGAINST MORE THAN ONE DEBTOR,** SEPARATE PROOFS OF CLAIM MUST BE FILED AGAINST EACH SUCH DEBTOR AND YOU MUST IDENTIFY ON YOUR PROOF OF CLAIM THE SPECIFIC DEBTOR AGAINST WHICH YOUR CLAIM IS ASSERTED AND THE CASE NUMBER OF THAT DEBTOR'S BANKRUPTCY CASE. A LIST OF THE NAMES OF THE DEBTORS AND THEIR CASE NUMBERS IS SET FORTH ABOVE.

Your Proof of Claim form must **not** contain complete social security numbers or taxpayer identification numbers (only the last four digits), a complete birth date (only the year), a name of a minor (only the name of the minor), or a financial institution account number (only the last four digits of such financial account).

## BUSINESS NEWS

# Whole Foods Extends Sales Slide

Streak now stands at two years after 1.9% same-stores decline; CEO notes late burst

BY HEATHER HADDON

**Whole Foods Market** Inc. said Wednesday that comparable sales fell again in the latest quarter, extending a streak going back two years as the natural grocer faced up to tougher competition.

Same-store sales fell 1.9% during its fiscal third quarter ended July 2, compared with a year ago. Whole Foods plans to sell itself to **Amazon.com** Inc. and has promised to reverse the sales losses by the end of its current fiscal year in September.

John Mackey, the company's chief executive and co-founder, said same-store sales turned positive in the last three weeks of July. "Our comparable store sales improved," Mr. Mackey said.

The company's stock closed Wednesday at \$41.81, compared



The company reported earnings several hours ahead of schedule.

with the \$42 a share purchase price from Amazon. The merger would be the third-largest retail tie-up in the U.S. since 1995, according to Dealogic.

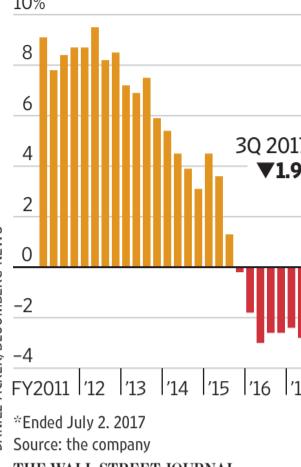
Whole Foods reported several hours ahead of schedule after a J.P. Morgan Securities

LLC analyst released some of the company's earnings numbers in a research note.

A Whole Foods spokeswoman said an earnings table was inadvertently posted on the company's website while testing its "functionality." It was removed minutes later.

### Still Wilting

Whole Foods' comparable store sales, change from previous year



\*Ended July 2, 2017

Source: the company

THE WALL STREET JOURNAL.

ings fell to 33 cents from 37 cents. Earnings-per-share and same-store sales beat forecasts.

Earlier this year, Whole Foods faced demands from activist investors to explore a sale and replace its board, among other issues. Mr. Mackey forged the deal with Amazon in part because the company saw that partnership as more favorable than contending with the activist demands, according to a corporate filing.

Investors are expected to vote on the deal Aug. 23. Hedge fund **Jana Partners** LLC fund sold its nearly 9% stake in Whole Foods last week for a profit of roughly \$300 million.

Roughly a dozen members of Congress have called for a close review of the Whole Foods-Amazone deal. The Consumer Watchdog group is lobbying the Federal Trade Commission to block it on allegations that Amazon's pricing discounts are misleading. An Amazon spokesman said those assertions "are flat out wrong."

—Laura Stevens contributed to this article.

# Anthem Warns of Further ACA Cuts

BY ANNA WILDE MATHEWS

**Anthem** Inc. said that if it doesn't quickly get more certainty about the future of the Affordable Care Act exchanges, it will likely further pull back its planned participation for next year, a threat that adds to the pressure on Senate Republicans as they struggle to pass health-care legislation.

The big insurer, speaking during its second-quarter earnings call Wednesday, emphasized that it needed answers about the future of federal payments that help reduce out-of-pocket costs for low-income ACA exchange-plan enrollees. Chief Executive Joseph R. Swedish said that without greater clarity, particularly around the cost-sharing payments, "we will need to revise our rate filings to further narrow our level of participation." He added that the insurer may make decisions "in a relatively short period of time" and in September at the latest.

Overall for the second quarter, Anthem reported a profit of \$855.3 million, or \$3.16 a share, compared with \$780.6 million, or \$2.91 a share, a year ago. Excluding items, the company earned \$3.37 a share, compared with \$3.33 a year ago. Analysts polled by Thomson Reuters had expected \$3.23 in earnings per share. Premium rate increases and growing enrollment also drove up operating revenue 4.3% from last year to \$22.2 billion. Anthem also boosted its full-year outlook.

On its pharmacy-benefit business, Mr. Swedish said the insurer's bidding process for a new contract "has further validated our expectation to be able to lower our pharmacy costs by more than \$3 billion annually." He said Anthem is still looking at a "hybrid" model that would have it work with an outside vendor while controlling aspects of the process.

—Cara Lombardo contributed to this article.

## Glaxo Hones R&D Focus to 4 Diseases

BY DENISE ROLAND

**GlaxoSmithKline** PLC axed more than 30 drug-research projects to focus on four key disease areas, in a push by new Chief Executive Emma Walmsley to sharpen the company's research-and-development operations.

U.K.-based Glaxo said Wednesday it will now focus its research on respiratory diseases, HIV and other infectious diseases, cancer and immunoinflammatory conditions.

The company plans to pour more investment into 16 drug candidates that it believes stand the best chance of becoming big sellers, while shelving 13 drug-development programs and around 20 early-stage research projects.

Glaxo's low research productivity is viewed as a fundamental

problem by investors, who have been stung by some high-profile failures in recent years.

Glaxo until now has had a very broad research pipeline, unlike many peers that have pruned their own pipelines. Ms. Walmsley said that spreading its bets too thinly had hurt Glaxo's competitive edge, but that research investment would stay roughly the same overall.

The biggest research area to face the cut is rare diseases, which Ms. Walmsley's predecessor, Andrew Witty, had highlighted as promising. Glaxo said it was deciding how best to unload these projects, which include research into new gene therapies that recently produced a cure for children born with a rare immune-system condition known as "bubble-boy disease."

## SWEET! Hershey Profit, Dividend Get Fatter



MIKE SEGAR/REUTERS

**Hershey** Co. reported second-quarter profit rose by 39% and beat analysts' estimates, and the candy company announced an increase in its quarterly dividend.

Earnings for the latest quarter rose to \$203.5 million, or 95 cents a share, from \$146 million, or 68 cents, a year earlier.

Adjusted earnings per share

were \$1.09, compared with the FactSet consensus of 90 cents. Hershey also raised its dividend by 6% to about 66 cents on common stock.

—Emma Court

## BUSINESS WATCH

### CHIPOTLE MEXICAN GRILL Subpoena Issued Over Outbreak

**Chipotle Mexican Grill** Inc. said it received a subpoena related to a recent norovirus outbreak in Virginia.

The disclosure of the grand jury subpoena related to the outbreak that sickened more than 135 patrons at a Sterling Chipotle came in a regulatory filing.

The subpoena is part of an investigation related to a series of outbreaks in 2015, a Chipotle spokesman said. The probe is being conducted by the U.S. Attorney's Office for the Central District of California, in conjunction with the Food and Drug Administration's Office of Criminal Investigations.

—Julie Jargon

filing, comes after JBS's owners this year admitted to paying millions of dollars to politicians in exchange for favors. JBS's parent, **J&F Investimentos**, agreed to pay more than \$3 billion in penalties.

—Luciana Magalhaes

### AMERICAN ELECTRIC POWER Investment Set In Wind Farm

**American Electric Power** Co. said Wednesday that it will spend \$4.5 billion to develop one of the largest single wind farms in the U.S. and a related 350-mile transmission line.

When complete, the 2,000-megawatt project in the Oklahoma Panhandle would also be one of the largest single purchases of renewable energy by a utility company. AEP said it had a deal with **Invenergy** to purchase the project.

—Russell Gold

### HNA GROUP

### Deal for U.S. Stake Falls Through

Chinese conglomerate **HNA Group** Co.'s planned \$416 million

purchase of a stake in a Los Angeles-based in-flight entertainment company has collapsed, the companies said.

**Global Eagle Entertainment** Inc. and HNA affiliate **Beijing Shareco Technologies** Co. terminated the deal because they couldn't get approval from the Committee on Foreign Investment in the U.S. before a deadline set in their investment agreement, Global Eagle said in a filing.

—Julie Steinberg

### PAYPAL HOLDINGS

### User Growth Reaches Milestone

**PayPal Holdings** Inc. said Wednesday that new milestones reached in user growth and payment volume helped boost its second-quarter profit by 27%.

The San Jose, Calif.-based payments company reported a quarterly profit of \$411 million, or 34 cents a share. That compares with a profit of \$323 million, or 27 cents a share, in the same period of 2016. Excluding certain items, its per-share earnings rose to 46 cents, above the estimate of analysts polled by Thomson Reuters.

—Peter Rudegeair

### Borrowing Benchmarks | WSJ.com/bonds Money Rates

Key annual interest rates paid to borrow or lend money in U.S. and international markets. Rates below are a guide to general levels but don't always represent actual transactions.

Inflation			
June index level	Chg From May 17	Latest	Week ago
1.1800	1.1800	1.2000	0.3300
1.3125	1.3125	1.3125	0.5625
1.1100	0.9700	1.1600	0.2000
1.1500	1.1700	1.1700	0.2800
1.1700	1.1800	1.1900	0.3000
Federal funds			
Effective rate	1.1800	1.1800	1.2000
High	1.3125	1.3125	1.3167
Low	1.1100	0.9700	1.0867
Bid	1.1500	1.1700	1.2000
Offer	1.1700	1.1800	1.2000
International rates			
Latest	Week ago	-52-Week High	Low
0.980	0.955	0.980	0.160
1.180	1.050	1.180	0.250
1.130	1.105	1.130	0.395
Treasury bill auction			
4 weeks	0.980	0.955	0.980
13 weeks	1.180	1.050	1.180
26 weeks	1.130	1.105	1.130
Prime rates			
U.S.	4.25	4.25	3.50
Canada	2.95	2.70	2.95
Japan	1.475	1.475	1.475
Secondary market			
Fannie Mae	30-year mortgage yields	3.492	3.865
30 days	3.548	3.492	2.808
60 days	3.578	3.519	2.837
Other short-term rates			
Latest	Week ago	-52-Week high	low
Call money	3.00	3.00	2.25
U.S. government rates			
Discount	1.75	1.75	1.00
Commercial paper (AA financial)			
90 days	1.26	1.24	1.26
Open Implied Rate	0.59	0.58	0.59
DTCC GCF Repo Index Futures			
Treasury Jly	98.885	0.005	7261
Treasury Aug	98.880	0.005	3086
Treasury Sep	98.885	unch.	2011
Notes on data:			
U.S. prime rate			
is the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks, and is effective June 15, 2017.			
Other prime rates aren't directly comparable; lending practices vary widely by location.			
Discount rate is effective June 15, 2017.			
DTCC GCF Repo Index			
Treasury			
MBS			
Value			
Latest Traded			
High			
Low			
DTCC GCF Repo Index Futures			
Treasury Jly	98.885	0.005	7261
Treasury Aug	98.880	0.005	3086
Treasury Sep	98.885	unch.</	

## MARKETS DIGEST

### EQUITIES

#### Dow Jones Industrial Average



Bars measure the point change from session's open

Current divisor: 0.14602128057775

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

#### S&P 500 Index



Bars measure the point change from session's open

Current divisor: 0.14602128057775

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

#### Nasdaq Composite Index



Bars measure the point change from session's open

Current divisor: 0.14602128057775

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

#### Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.		
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	Standard & Poor's	500 Index	MidCap 400	SmallCap 600
Industrial Average	21742.70	21683.29	<b>21711.01</b>	97.58	<span style="color: green;">▲ 0.45%</span>	21711.01	17888.28	<b>17.5</b>	9.9	<b>8.6</b>		
Transportation Avg	9527.43	9413.34	<b>9484.12</b>	-5.36	<span style="color: red;">-0.06</span>	9742.76	7648.44	<b>20.6</b>	4.9	<b>4.0</b>		
Utility Average	722.68	714.34	<b>722.59</b>	6.73	<span style="color: green;">▲ 0.94%</span>	737.51	625.44	<b>2.5</b>	9.5	<b>9.1</b>		
Total Stock Market	25736.95	25655.20	<b>25679.11</b>	-13.14	<span style="color: red;">-0.05</span>	25692.25	21514.15	<b>14.8</b>	10.3	<b>7.6</b>		
Barron's 400	662.01	658.30	<b>658.79</b>	-3.14	<span style="color: red;">-0.47</span>	661.93	521.59	<b>20.4</b>	9.5	<b>7.3</b>		

#### Nasdaq Stock Market

Nasdaq Composite	6432.38	6416.30	<b>6422.75</b>	10.57	<span style="color: green;">▲ 0.16</span>	6422.75	5046.37	<b>25.0</b>	19.3	<b>13.0</b>
Nasdaq 100	5954.38	5939.17	<b>5950.73</b>	20.09	<span style="color: green;">▲ 0.34</span>	5950.73	4660.46	<b>26.5</b>	22.4	<b>14.5</b>

#### Standard & Poor's

500 Index	2481.69	2474.94	<b>2477.83</b>	0.70	<span style="color: green;">▲ 0.03</span>	2477.83	2085.18	<b>14.4</b>	10.7	<b>7.8</b>
MidCap 400	1793.21	1775.98	<b>1776.69</b>	-15.24	<span style="color: red;">-0.85</span>	1791.93	1476.68	<b>14.7</b>	7.0	<b>8.1</b>
SmallCap 600	876.30	869.33	<b>870.23</b>	-5.83	<span style="color: red;">-0.67</span>	876.06	703.64	<b>16.8</b>	3.9	<b>9.7</b>

#### Other Indexes

Russell 2000	1452.02	1441.25	<b>1442.28</b>	-8.11	<span style="color: red;">-0.56</span>	1450.39	1156.89	<b>18.3</b>	6.3	<b>8.0</b>
NYSE Composite	11985.19	11956.41	<b>11964.91</b>	-0.81	<span style="color: red;">-0.01</span>	11965.72	10289.35	<b>11.4</b>	8.2	<b>2.9</b>
Value Line	534.21	531.17	<b>531.40</b>	-2.22	<span style="color: red;">-0.42</span>	533.62	455.65	<b>10.6</b>	5.0	<b>2.4</b>
NYSE Arca Biotech	4051.61	4022.03	<b>4043.10</b>	16.02	<span style="color: green;">▲ 0.40</span>	4075.95	2834.14	<b>21.4</b>	31.5	<b>13.7</b>
NYSE Arca Pharma	535.29	532.76	<b>533.97</b>	-1.41	<span style="color: red;">-0.26</span>	554.66	463.78	<b>-3.1</b>	10.9	<b>1.0</b>
KBW Bank	97.17	95.53	<b>95.77</b>	-0.99	<span style="color: red;">-1.02</span>	99.33	66.90	<b>40.6</b>	4.3	<b>10.2</b>
PHLX® Gold/Silver	86.74	82.88	<b>86.13</b>	2.57	<span style="color: green;">▲ 3.08</span>	112.86	73.03	<b>-19.9</b>	9.2	<b>-5.4</b>
PHLX® Oil Service	136.99	133.45	<b>134.80</b>	-0.72	<span style="color: red;">-0.53</span>	192.66	126.75	<b>-15.7</b>	-26.7	<b>-23.5</b>
PHLX® Semiconductor	1119.69	1108.51	<b>1115.35</b>	12.76	<span style="color: green;">▲ 1.16</span>	1138.25	755.73	<b>43.9</b>	23.0	<b>21.8</b>
CBOE Volatility	9.66	8.84	<b>9.60</b>	0.17	<span style="color: green;">▲ 1.80</span>	22.51	9.36	<b>-25.2</b>	-31.6	<b>-8.9</b>

\$Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

#### Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. 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	% chg	After Hours	High	Low
Facebook CIA	FB	10,659.8	171.55	5.94	<b>3.59</b>	173.44	158.00	
SPDR S&P 500	SPY	6,544.2	247.51	0.08	<b>0.03</b>	247.60	247.28	
Van Eck Vectors Gold Miner	GDX	5,816.3	22.88	0.04	<b>0.18</b>	22.91	22.84	
British Amer Tobacco ADR	BTI	5,170.0	68.70	...		69.32	68.61	
Bank of America								

# COMMODITIES

[WSJ.com/commodities](http://WSJ.com/commodities)

## Futures Contracts

### Metal & Petroleum Futures

	Contract						Open interest
	Open	High	hi lo	Low	Settle	Chg	
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.	2,8300	2,8815	▲	2,8300	2,8690	0.0285	800
July	2,8425	2,9055	▲	2,8230	2,8720	0.0255	148,917
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.	1244.80	1247.40	1244.80	1249.00	-2.70	19	
July	1250.30	1263.40	1243.20	1249.40	-2.70	108,669	
Aug	1252.90	1266.60	1246.60	1252.50	-10.30	30,319	
Oct	1256.20	1269.80	1249.40	1255.60	-2.90	275,683	
Dec	1260.00	1272.80	1253.50	1259.10	-2.90	16,281	
Feb'18	1264.20	1278.50	1260.20	1266.00	-2.90	8,090	
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.	864.00	865.00	864.00	867.90	5.95	7	
Sept	857.20	868.20	850.65	862.90	5.95	29,595	
Dec	852.30	862.00	845.35	857.65	6.95	3,773	
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.	929.30	929.30	928.60	919.50	-9.40	6	
Oct	929.40	934.70	919.30	922.70	-9.10	63,821	
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.	16.400	16.610	16.365	16.415	-0.082	73	
Sept	16.465	16.680	16.280	16.459	-0.083	146,757	
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.	48.51	48.87	48.01	48.85	0.86	621,693	
Sept	48.64	48.98	48.04	48.85	0.83	173,495	
Oct	48.76	49.11	48.20	48.99	0.80	121,973	
Dec	48.88	49.24	48.43	49.11	0.74	336,227	
June'18	49.34	49.59	48.79	49.49	0.51	124,777	
Dec	49.64	49.89	49.17	49.78	0.38	170,465	
<b>NY Harbor Usd (NYM)</b> -42,000 gal.; \$ per gal.	1,5776	1,5977	1,5672	1,5953	0.0268	25,468	
Sept	1,5819	1,6019	1,5712	1,5959	0.0265	132,562	
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.	1,5959	1,6020	1,5810	1,6173	0.0211	24,946	
Sept	1,5781	1,5974	1,5593	1,5944	0.0224	130,026	
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu.	2,944	2,965	2,895	2,924	-0.20	17,700	
Sept	2,930	2,951	2,883	2,914	-0.17	317,611	
Oct	2,962	2,984	2,918	2,952	-0.11	189,467	
Nov	3,041	3,059	2,998	3,032	-0.08	86,755	
Jan'18	3,281	3,299	3,243	3,275	-0.07	122,519	
April	2,850	2,853	2,821	2,838	-0.04	104,336	

### Agriculture Futures

<b>Corn (CBT)</b> -5,000 bu.; cents per bu.	368.50	373.25	366.00	372.75	4.00	526,274	
Sept	382.00	386.25	379.25	386.00	3.75	562,248	
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.	284.75	290.00	280.50	288.50	6.50	1,378	
Dec	280.00	290.00	280.00	287.75	7.25	4,961	
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.	980.00	991.00	973.25	988.75	7.25	39,430	
Nov	990.50	10,025.00	984.50	10,002.50	7.50	348,382	
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.	317.90	321.30	314.40	319.80	1.50	21,043	
Dec	324.40	327.90	320.50	326.50	1.60	161,089	
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.	33.49	33.87	33.38	33.73	.23	31,996	
Dec	33.97	34.36	33.84	34.21	.24	174,000	
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.	1228.50	1235.50	▲	1226.50	-2.50	8,292	
Nov	1252.50	1258.50	▲	1249.50	-2.50	1,188	
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.	476.00	481.00	473.00	477.50	3.75	176,010	
Dec	501.00	505.75	498.50	502.75	3.75	139,331	
<b>Wheat (KC)</b> -5,000 bu.; cents per bu.	474.00	480.50	▲	472.25	475.50	2.75	109,357
Dec	500.75	507.50	▲	499.50	502.50	3.00	79,444
<b>Wheat (MPLS)</b> -5,000 bu.; cents per bu.	717.50	734.00	712.75	730.00	12.50	26,848	
Dec	726.00	744.25	722.25	740.00	13.00	33,889	
<b>Cattle-Feeder (CME)</b> -50,000 lbs.; cents per lb.	146,900	148,425	144,925	146,475	-0.05	22,159	
Sept	147,675	148,900	145,700	147,075	-0.07	16,707	
<b>British Pound (CME)</b> -\$62,500; \$ per £	1,3039	1,3112	1,3009	1,3103	.0058	413	
Sept	1,3052	1,3147	1,3021	1,3117	.0057	197,972	
<b>Swiss Franc (CME)</b> -CHF125,000; \$ per CHF	1,0537	1,0560	1,0458	1,0528	-.0020	44,590	
Dec	1,0596	1,0603	1,0521	1,0591	-.0020	366	
<b>Australian Dollar (CME)</b> -AUD 100,000; \$ per AUD	.7938	.8008	▲	.7877	.7973	.0035	607
Sept	.7931	.8008	▲	.7873	.7969	.0035	129,912
Dec	.7924	.7989	▲	.7865	.7960	.0035	1,943
March'18	.7979	.7949	▲	.7865	.7952	.0036	218
<b>Mexican Peso (CME)</b> -MXN 500,000; \$ per MXN	.56640	.56640	.56640	.56640	.05655	.00047	64
Aug	.56640	.56640	.56640	.56640	.05655	.00047	64
<b>Euro (CME)</b> -\$125,000; \$ per €	1,1658	1,1752	▲	1,1625	1,1715	.0053	1,638
Sept	1,1680	1,1773	▲	1,1646	1,1736	.0052	439,453

### Currency Futures

<b>Japanese Yen (CME)</b> -\$1,250,000; \$ per 100¥	.8937	.9010	.8921	.8991	.0046	426	
Sept	.8959	.9025	.8933	.9004	.0046	233,403	
<b>Canadian Dollar (CME)</b> -CAD 100,000; \$ per CAD	.7992	.8054	▲	.7975	.8015	.0019	550
Sept	.8002	.8062	▲	.7979	.8019	.0018	170,996
<b>British Pound (CME)</b> -\$62,500; \$ per £	1,3039	1,3112	1,3009	1,3103	.0058	413	
Sept	1,3052	1,3147	1,3021	1,3117	.0057	197,972	
<b>Swiss Franc (CME)</b> -CHF125,000; \$ per CHF	1,0537	1,0560	1,0458	1,0528	-.0020	44,590	
Dec	1,0596	1,0603	1,0521	1,0591	-.0020	366	
<b>Australian Dollar (CME)</b> -AUD 100,000; \$ per AUD	.7938	.8008	▲	.7877	.7973	.0035	607
Sept	.7931	.8008	▲	.7873	.7969	.0035	129,912
Dec	.7924	.7989	▲	.7865	.7960	.0035	1,943
March'18	.7979	.794					

# 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, ISE 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 26, 2017

Net

Stock Sym Close Chg

Stock Sym Close Ch

## BANKING & FINANCE



The Shops at Crystals at CityCenter in Las Vegas. The owners of the highest-quality malls are now feeling the pain from woes in the retail industry.

# Goldman Expands Lending Business

By LIZ HOFFMAN  
AND SARAH KROUSE

Millions of Americans who want to borrow up to \$25 million have a new potential lender: **Goldman Sachs Group Inc.**

A new partnership with **Fidelity Investments** announced Thursday will enable the Wall Street firm to offer securities-based loans to roughly six million accounts managed by broker-dealers, family offices and wealth advisers that use Fidelity's technology. Goldman currently offers such loans to fewer than 12,000 ultrawealthy clients of its private bank.

The move enables Goldman to gain access to millions of potential borrowers at a time the bank has been trying to lend more. It is the latest attempt by a firm known for its investment banking and trading to reach Main Street customers without a network of brick-and-mortar branches.

The centerpiece of the action is a new online platform, called GS Select, that will offer loans of between \$75,000 and \$25 million, with borrowers' portfolios of stocks and bonds serving as collateral, the companies

**Securities-backed loans are a booming business on Wall Street.**

said Thursday. Goldman's software can analyze the holdings and make a decision within a day about how much to lend and on what terms.

Fidelity, meanwhile, gains another offering for the 3,850 wealth managers and brokers on its platform. Those firms use Fidelity to house, trade and manage their customers' assets.

Securities-backed loans are a booming business on Wall Street, as brokerages search for ways to offset falling trading commissions. Merrill Lynch parent Bank of America Corp. had \$40 billion in such loans on its balance sheet at the end of last year, up 140% from 2010. Morgan Stanley's customers had \$30 billion in these loans, more than double from 2013.

These loans can generate needed cash without triggering taxes for borrowers or forcing investors to sell higher-yielding investments. Borrowers often take such loans to pay taxes, remodel homes and refinance more-expensive loans.

Critics say they sometimes aren't clearly explained and can saddle savers with unnecessary debt.

Goldman currently offers securities-backed loans to clients of its private bank, where they account for more than half of the unit's \$29 billion in loans outstanding. But with fewer than 12,000 clients—versus, for example, Morgan Stanley's 3.5 million—the demand is limited. Fidelity's network represents six million accounts that could become Goldman borrowers, although the Goldman loans won't be available to Fidelity's own retail brokerage or wealth-management clients.

Fidelity won't make money on the loans, according to Mike Durbin, head of Fidelity institutional product. Instead, they are another way to retain customers.

The partnership is the first of several Goldman expects to strike, said Andrew Kaiser, head of Goldman's private bank.

Small wealth advisers and independent broker-dealers are good fits because they aren't already connected to a bank, he said.

Goldman hasn't historically been a major lender, an area it left to commercial-banking rivals. But it has been embracing loans over the past few years to replace declining revenue in core businesses like trading.

Marcus, the online platform it launched last fall to make small personal loans, has lent more than \$1 billion. Goldman is also building a robo-advisor to attract consumer clients, according to people familiar with the effort.

# Mall Executives Take Cut in Pay

Compensation tied to stock at retail REITs wanes with the sector's performance

By PETER GRANT

Turbulence in the retail sector is hitting executives working for the top mall companies where it hurts: in their wallets.

Senior management teams at the country's largest mall owners, including **Simon Property Group Inc.**, **GGP Inc.** and **Macerich Co.**, are taking cuts to their compensation as they navigate an industry beset with struggling retailers and increasing competition from online shopping.

The slide in compensation among retail landlords is un-

usual in the corporate world. Executives at companies in other sectors are less likely to feel the pain of a rough patch because their pay isn't as closely tied to stock performance. But the real-estate investment trust industry is ahead of most other sectors in designing pay plans to align the interests of shareholders and management, according to Jeremy Banoff, a senior managing director with FPL Associates LP, a compensation-consulting firm that focuses on the real-estate industry.

Indianapolis-based Simon, the country's largest mall owner with stakes in more than 325 properties, took the rare step of eliminating stock grants tied to the company's long-term performance for top executives, according to

its proxy statement filed with the Securities and Exchange Commission.

Simon did this because of "the challenging business conditions in the retail industry that the company is facing," according to the proxy statement. A spokeswoman for Simon declined to comment beyond what was written in the filing.

Executives at other big mall owners suffered because their compensation is tied to the performance of their share prices, which have been hammered during the past 18 months as investors have fled the sector.

Macerich Chief Executive Arthur Coppola had a target compensation package—including base salary, annual incentive and other benefits—potentially valued at \$12

million in 2016.

But because the company's stock price dropped, Mr. Coppola was on track to receive only \$5.7 million of that, according to the company's proxy filing.

"That's the way the stock plans are structured," said Macerich Chief Financial Officer Thomas O'Hern. "When the stock is down, we suffer from a compensation standpoint."

The retail sector was facing problems even before the e-commerce revolution. Rampant development left the U.S. with far more malls than it needed by the time the last recession hit. A decade later the country is still considered "overstored" and Americans are doing more than 8% of all shopping online, creating enormous headaches for mall

owners.

Space has emptied as big retailers like Macy's Inc., J.C. Penney Co., Bebe Stores Inc. and Sears Holdings Corp. have closed stores across the U.S.

Until now most of the pain has been suffered by the lower-quality malls, which have taken the greatest hits to occupancy and rents. More of these properties are being sold at steep discounts or going into default.

But the cuts in compensation show that the pain is now spreading to the owners of the highest-quality malls. These popular malls, usually in higher-income areas, have done a good job thus far of keeping rents and occupancies from falling and replacing closing stores with new tenants, according to analysts.

# State Street Falls Short in Bid for Women Directors

By JUSTIN BAER  
AND JOANN S. LUBLIN

Roughly 400 publicly traded American companies with no women on their board ignored a request to make a bigger effort on gender diversity when approached by one of the largest asset managers in the world.

Index-fund giant State Street Global Advisors, which oversees more than \$2.5 trillion in assets, had pledged in March to throw its weight behind the issue this year. The company found 468 U.S. companies among its stock holdings that lacked a single female board member. Of that group, the Boston-based firm said about 400 companies failed

and preference for experienced chief executives. But there also has been limited pressure from big institutional investors.

State Street hopes to change that picture.

Primarily a manager of exchange-traded funds and other passive investments, the firm reviewed companies within the Russell 3000 Index in the U.S., the U.K.'s FTSE 350 and S&P/ASX 300 in Australia. State Street, which owns a combined 3,500 stocks in those three indexes, said it contacted a total of 476 companies in those countries.

Health-care companies were the worst-performing group, accounting for about a quarter of those with no women on their boards.

2020 Women on Boards, an organization that is working to bring better boardroom gender diversity, praised State Street's action this proxy season.

The votes set an example for "companies that may talk about diversity but don't take action," the group's president, Malli Gero, wrote in an email.

State Street is among the largest passive-fund managers in the world—a sector that is amassing significant governance power as investors pour billions into lower-cost index-tracking funds such as ETFs. Since those investments are through passive vehicles, it doesn't have the ability to simply sell shares in a company. Instead, the firm has used its voting power to bring about change.

Fellow passive-investment giant BlackRock Inc. backed eight shareholder proposals this spring promoting gender diversity. In five of those instances, the money manager voted against the nominating committee chairman's re-election.

"We are an engagement-first company," said Rakhi Kumar, head of asset stewardship as State Street Global Advisors.

Boards have been slow to add women for various reasons, including their infrequent turnover

"Our plans have not changed

# Gold Takes Its Cue From the Fed



NARONG SANGLAK/EUROPEAN PRESSPHOTO AGENCY

**STILL PRECIOUS:** Gold prices reversed losses Wednesday after the Federal Reserve kept interest rates unchanged. The central bank signaled concern about lower inflation. A gold shop in Thailand.

# Coin Firms Shrug Off Scrutiny

By PAUL VIGNA

Some companies planning sales of digital coins said they wouldn't be deterred by the Securities and Exchange Commission's plans to restrain the hot, new fundraising method, possibly setting up a showdown with U.S. regulators.

On Tuesday, the SEC made its first public comments on the topic of initial coin offerings. These digital tokens issued by startups have exploded in popularity this year, raising more than \$1 billion from investors. But the tokens are only loosely defined, raising significant questions about what investors are buying and how they should be regulated.

Digital currencies such as bitcoin fell sharply after the SEC report Tuesday, but largely stabilized Wednesday. Bitcoin and ether were both down about 1% on Wednesday. Some of the largest coins affiliated with the offerings rose, with EOS moving 3.2% higher, and Qtum rising 0.6% as of late afternoon in New York, according to Coinmarketcap.com.

"Our plans have not changed

in light of the SEC's report," said **Kik**, a Toronto-based firm that operates a messaging app and is planning a coin offering. It hasn't determined a start date.

Kik said its token will have a "consumptive use...and we believe that distinguishing this functionality takes us out of the purview" of what the SEC would consider a security.

That question will be front and center for many coin offerings, since being registered as a security brings a higher level of financial disclosure and scrutiny than many purveyors of the tokens aren't interested in.

"We seek to foster innovative and beneficial ways to raise capital, while ensuring that investors and our markets are protected," SEC Chairman Jay Clayton noted in a release accompanying the SEC's report.

Many of the startups using the coin offerings have popped up in recent years to support and expand distributed ledger technology, also known as blockchain. Several of the companies Wednesday said they expected the SEC's guid-

ance and that it wouldn't affect their plans to raise money through a coin offering.

"We have the exact same views as the SEC, and this doesn't change anything for us," said George Popescu, the co-founder and chief executive of **Lampix**, which makes data-management tools. The firm has a coin offering scheduled to begin Aug. 9. Mr. Popescu said Lampix already structured it to meet SEC guidelines.

It isn't clear what the SEC's next move will be. In its report, the SEC looked at one specific token offering, called the DAO, which in 2016 raised about \$150 million of the digital currency ether. The SEC said that the DAO fit the test of a security, but that it was choosing not to pursue enforcement. It rather put the onus on the companies, and investors, to make sure they were adhering to securities regulations.

If this was a warning, the next step could be to bring an enforcement action against a firm involved with coin offerings. "Make no mistake, it will come," tweeted Kathryn Haun, a former federal prosecutor.

Marcus, the online platform it launched last fall to make small personal loans, has lent more than \$1 billion. Goldman is also building a robo-advisor to attract consumer clients, according to people familiar with the effort.

## MARKETS

# Big Oil Urged to Show Discipline

Investors want companies to avoid budget-busting projects of the past

BY SARAH KENT

Three years into an oil-price slump, investors want the world's biggest oil companies to do something they have historically struggled with: maintain some financial discipline.

The companies are under pressure to show they are continuing to move on from budget-busting projects once common in the **COMMODITIES** industry, as they head into second-quarter financial disclosures that begin Thursday with Royal Dutch Shell PLC and Total SA.

Shell, Total and peers such as Exxon Mobil Corp. and Chevron Corp., which both report earnings Friday, have reined in spending through an oil-market downturn during which crude prices fell from \$114 a barrel to \$27 a barrel and remain about \$50 a barrel. Those efforts paid off in the first quarter, when the companies returned to billion-dollar profits after years of losses or anemic earnings.

Now, said Jags Walia, senior portfolio manager at Dutch pension-fund manager APG Asset Management, "there's no room to take your foot off on capital discipline."

"I think that would be quite unforgivable," said Mr. Walia, whose fund invests in several large oil companies, including Exxon, Shell and BP PLC.

It is a call for big oil companies to keep their businesses steady in a tricky financial environment.

International oil prices were up nearly 10% in the second quarter from the same time



Energy companies must keep spending on exploration, development and acquisitions to replace pumped oil. A Shell facility in Russia.

last year. But prices are still likely too low for many companies to cover spending and dividends with cash or break even. At the same time, the companies have to keep finding new oil to replace the barrels they are pumping. That means spending money on exploration, development and acquisitions.

BP, which reports earnings Tuesday, faced criticism from investors and analysts after a flurry of acquisitions inflated its investment plans for 2017 and pushed up the oil price at which the company could break even to \$60 a barrel. The company's shares declined

4% after the February announcement. It has since said it is working to drive down its break-even oil price to between \$35 to \$40 a barrel by 2021.

It isn't just BP: The number of new projects approved this year across the industry is expected to creep up to between 20 and 25 from just 12 in 2016, according to Edinburgh-based consultancy Wood Mackenzie.

The oil companies declined to comment ahead of their earnings reports.

But they have moved to tackle the challenges. BP's costs are down 40% since 2013 and it has vowed to maintain a

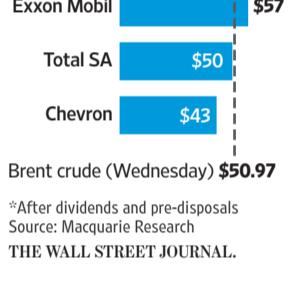
budget cap of \$17 billion a year out to 2021.

When BP reported first-quarter results in May, Chief Financial Officer Brian Gilvary said the company intended to deliver on promises to increase cash flow and dividends in coming years by "maintaining strict discipline within our financial frame and staying focused on delivering returns."

Exxon's capital spending last year was \$12 billion lower than in 2015, though it has crept higher this year. The company says it is focusing a chunk of its firepower on shale developments that start to generate cash quickly.

### Cash Crunch

Estimated 'break even' oil price for 2018, in dollars a barrel\*



Brent crude (Wednesday) \$50.97

\*After dividends and pre-disposals

Source: Macquarie Research

THE WALL STREET JOURNAL.

# Treasurys Rebound As Dollar Takes a Hit

BY SAM GOLDFARB

U.S. government-bond prices bounced back from a sell-off the day before and the dollar slid after the Federal Reserve kept interest rates steady but signaled more concern about a recent slowdown in inflation.

Bonds rallied Wednesday after the central bank held course and officials issued a statement that some investors and analysts said offered few surprises.

**MARKETS** Among relatively few updates to their previous statement, officials said they could start shrinking the Fed's large portfolio of bonds "relatively soon," as opposed to "this year."

Fed officials also said inflation measures "are running below" their 2% target instead of "somewhat below" target, a tweak analysts said indicated slightly more concern about recently tepid inflation data and was supportive of bond prices but hurt the dollar.

The yield on the 10-year Treasury note dropped to 2.285% from 2.328% Tuesday, recovering after its largest one-day increase in nearly five months. Yields fall when bond prices rise.

Late in New York, the WSJ Dollar Index fell 0.6% to 86.14, snapping a two-day winning streak, and was down against the euro, yen and pound.

"There were some minor tweaks to the statement that lean to the dovish side," said Brad Bechtel, a currency strategist at Jefferies. "The market was anticipating that the statement would be completely unchanged."

With no press conference or new economic forecasts Wednesday, investors were focused on the statement for fresh clues on whether the weaker inflation trend will upset the Fed's plans for raising rates one more time this year.

Investors now see a roughly 44% chance that the Fed sticks to its plans to raise rates again in 2017, according to CME Group Inc. data. That is down from 52% earlier in the day.

Expectations that U.S. rates will remain lower typically weigh on the dollar by encouraging investors to buy higher-yielding currencies. The dollar on Wednesday also fell sharply against emerging-market currencies, sliding roughly 1% against the Mexican peso, Brazilian real and Turkish lira.

This week's swings are just the latest in a series for the bond market.

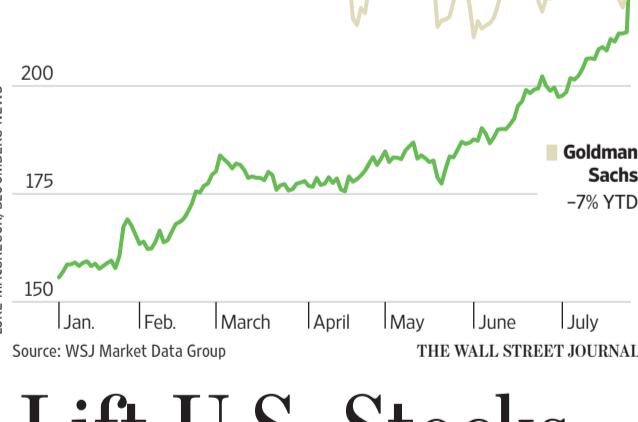
Treasurys sold off sharply at the end of June amid signs that some central banks were poised to start scaling back stimulus programs. They then rallied as central-bank officials in the U.S. and Europe turned a spotlight on soft inflation, suggesting they would be cautious in tightening monetary policy. Inflation is a main threat to government bonds, eroding the purchasing power of their fixed returns.

In addition to the Fed meeting, traders were keeping an eye on Washington, where the Senate is proceeding with an effort to overhaul the health-care system.

Some investors see the legislative maneuvering as a test for whether Congress can ultimately pass tax cuts, which could lead to higher bond yields by boosting inflation. Passing tax cuts could also force the government to issue more bonds, further weighing on the prices of outstanding Treasury debt.

### Liftoff

Boeing surpassed Goldman Sachs Group as the priciest stock in the Dow Jones Industrial Average.



Source: WSJ Market Data Group

THE WALL STREET JOURNAL.

# Euro Hits Highest Level Against Franc Since 2015

BY BRIAN BLACKSTONE

ZURICH—The euro hit its highest level on Wednesday versus the Swiss franc since the Swiss National Bank

abandoned its currency ceiling in early 2015, providing a reprieve for the SNB, which has spent vast sums on capping the currency's strength.

Brighter prospects for the eurozone economy and expectations that the European

Central Bank will soon begin winding down its asset-purchase program have boosted the euro against a broad basket of currencies, including the U.S. dollar and franc.

The exchange rate is particularly important for Switzerland as an export-dependent economy. A big share of its exports goes to the eurozone and a weaker franc will make its goods cheaper there. It will also ease pressure on the SNB to intervene in currency markets.

The SNB has accumulated

around 700 billion francs (\$735 billion) in foreign currency reserves through its efforts to weaken the Swiss currency, though its reserves have stabilized in recent months.

The euro traded at 1.1159 francs Wednesday afternoon in New York after fetching as much as 1.1176 earlier in the day. This is the highest level since the SNB stunned financial markets by dropping the franc ceiling on Jan. 15, 2015.

The cap was announced in

September 2011, when the SNB said it would intervene in markets to keep the euro from weakening below 1.20 francs. When it dropped the peg, the euro dived against the franc and has only slowly recovered since then.

The franc is still relatively strong. It remains about 7% higher against the euro than it was when the franc ceiling was in place. It has also strengthened in recent weeks against the dollar.

The SNB still maintains a deeply negative deposit rate

in the hope of reducing the attractiveness of Swiss assets to global investors.

The franc typically strengthens in times of global economic and political uncertainty due to Switzerland's wealthy economy, low debt and stable political system.

The franc's surge in 2015 led to concerns that Switzerland's economy would buckle. It has avoided recession, albeit with only modest growth, and has maintained a high trade surplus.



Shares of Boeing jumped 9.9%, their largest one-day percentage increase since October 2008.

By AMRITH RAMKUMAR AND RIVA GOLD

U.S. stock indexes climbed to fresh records after corporate earnings continued to beat Wall Street expectations.

The Dow Jones Industrial Average, S&P 500 and Nasdaq Composite posted all-time highs on the same day for the first time since July 19.

Stocks stayed steady after Federal Reserve officials voted unanimously to leave interest rates unchanged and signaled that the central bank could start shrinking its balance sheet "relatively soon"—a decision that was widely expected by investors and analysts.

"The Fed has done such a

clear job in communicating some of their short-term and long-term goals," said Yousef Abbasi, global market strategist at JonesTrading Institutional Services. "At this point, earnings take over and start to dominate," he said.

The Dow Jones Industrial Average advanced 97.58 points, or 0.5%, to 21711.01.

The S&P 500 inched up 0.7 point, or less than 0.1%, to 2477.83 and the Nasdaq Composite added 10.57 points, or 0.2%, to 6422.75. Both indexes set records on consecutive days with earnings season at one of its busiest points.

With the Fed's commentary suggesting the central bank will keep rates low for now, investors say U.S. stocks should keep eking out gains, provided that earnings continue to be

supportive.

Roughly one-third of the S&P 500 has reported results so far, with 75% of the companies beating earnings estimates as of Wednesday afternoon, according to FactSet. Companies that have reported so far have posted 8.7% growth in earnings per share from the same quarter a year earlier, a higher figure than analysts projected entering reporting season.

Boeing shares led the Dow industrials higher following the company's quarterly earnings report, jumping \$20.99, or 9.9%, to a record \$233.45—their largest one-day percentage increase since October 2008.

The aerospace giant added roughly 144 points to the blue-chip index after beating profit

expectations and raising its guidance for the year. With its advance, Boeing vaulted past Goldman Sachs Group to become the priciest stock in the Dow.

After releasing results, shares of AT&T rose 1.81, or 5%, to 38.03—the stock's best day since March 2009. Advanced Micro Devices shares climbed 65 cents, or 4.6%, to 14.76. Shares of Coca-Cola added 50 cents, or 1.1%, to 45.74, the stock's largest advance in more than two months.

Ford Motor fell 21 cents, or 1.9%, to 11.06, however, after the company revised its guidance. Akamai Technologies declined 7.79, or 14.6%, to 45.49, making it the worst performer in the S&P 500.

Amazon.com shares rose

12.93, or 1.2%, to a record of 1,052.80 giving the e-commerce giant a market value above \$500 billion for the first time, according to FactSet, ahead of its earnings Thursday.

Government bonds rose, with the yield on the 10-year U.S. Treasury note edging down to 2.285% from 2.328% on Tuesday. Yields fall as prices rise. The WSJ Dollar Index, which measures the U.S. currency against 16 others, fell 0.6% after trading up before the Fed's statement.

Elsewhere, the Stoxx Europe 600 added 0.5%. Australia's S&P/ASX 200 rose 0.9% after Australian inflation figures were weaker than expected but the Australian central bank dismissed a need to change its stance. Early Thursday, the index was up a further 0.3%.

### AUCTION RESULTS

Here are the results of Wednesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

### TWO-YEAR FRNS

Applications \$51,311,189,600  
Accepted bids \$16,525,444,600  
noncompetitively \$8,347,200

Bids at clearing yield accepted 61.06%

Cusip number 9128282M1

The floating-rate notes, dated July 31, 2017, mature on July 31, 2019.

### FIVE-YEAR NOTES

Applications \$91,047,660,000  
Accepted bids \$37,457,038,900  
noncompetitively \$37,326,800

Auction price (rate) 0.8075% (1.884%)

Interest rate 1.875%

Bids at clearing yield accepted 12.57%

Cusip number 9128282P4

The notes, dated July 31, 2017, mature on July 31, 2022.

# MARKETS

## Draghi's 'Whatever' Pledge Bore Fruit

Speech marked end of sovereign-debt crisis but produced varied effects, slow recovery

By MIKE BIRD AND CHRISTOPHER WHITTALL

Five years ago, European Central Bank chief Mario Draghi took the stage in London to give the speech that ushered in the beginning of the end of the Continent's sovereign-debt crisis.

Several features of the financial panic that had characterized the previous two years began to subside almost immediately after he spoke. But five years later, the economic performances of the bloc's members are hugely varied, and the recent recovery has been painfully slow.

On July 26, 2012, Mr. Draghi offered his assurances that the ECB wouldn't allow the eurozone to collapse, with one key sentence standing out: "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro and believe me: It will be enough."

The speech signaled the ECB's announcement a week later that it could conduct "outright open market operations," buying unlimited eurozone government bonds from investors to reduce their yields and preserve the eurozone.

The reaction in eurozone government-bond markets was rapid. Yields on the bonds of the most-fragile economies began to fall: Spanish and Italian 10-year bond yields dropped 1.5 percentage points over the rest of 2012.

It was "the inflection point," said Charles Zerah, a fixed-income fund manager at asset manager Carmignac. Mr. Draghi's speech bought time for European politicians to put in place bailout funds and begin to fix the Continent's ailing banking system, he added.

As a result, "we started to

### Eurozone's Turning Point

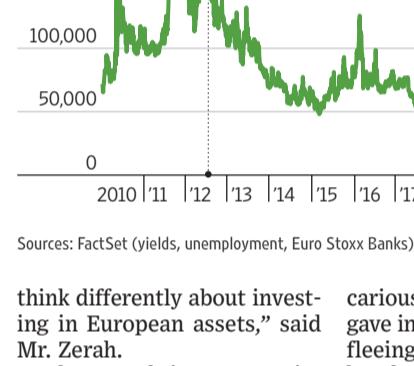
Five years after Mario Draghi's speech ushered in the end of the region's sovereign-debt crisis, the recovery has remained painfully slow as performance by bloc members varies.

#### Yields on 10-year government bonds



The price of insuring European corporate debt slumped after the speech.

#### Itraxx Europe, annual cost to insure \$10 million in debt



Sources: FactSet (yields, unemployment, Euro Stoxx Banks); IHS Markit (Itraxx Europe)

think differently about investing in European assets," said Mr. Zerah.

The speech is seen as pivotal to reducing the risk of a eurozone breakup. With a promise to intervene in pre-

carious debt markets, the ECB gave investors a reason to stop fleeing from Europe's riskier bonds.

Perceptions that a country would exit from the eurozone in short order never returned

to the heights that they reached in the summer of 2012. (And the ECB has never used the "outright" tools it developed.) But neither did markets revert to the prefinancial crisis era, when Greece bor-

rowed at roughly the same cost as Germany.

The ECB doesn't want to go back to the days of "artificially low" borrowing costs, said Olivier de Larouzière, head of interest rates at Natixis Asset

"Whatever it takes" was a defining moment for the market, the turning point in terms of fighting the crisis, when the redenomination risk was priced out of government bonds," said Matthew Cairns, senior strategist at Rabobank.

"But even now," he said, "growth has really yet to pick up to the levels that the ECB would like to see it at."



THE WALL STREET JOURNAL.

## HEARD ON THE STREET

Email: heard@wsj.com

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

## Facebook's Growth Story at Risk

Facebook is as popular as ever. That may be making it a little harder for it to impress its friends.

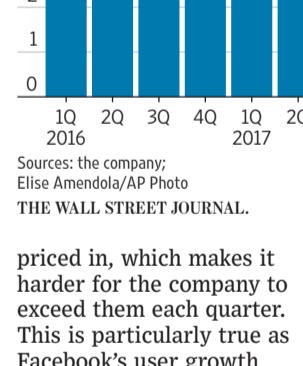
The social-networking giant on Wednesday reported second-quarter earnings and revenue that exceeded analysts' expectations. Its monthly active user base exceeds two billion people.

Some 66% of Facebook's monthly active users continue to visit it daily. But while 45% top-line growth from a year earlier and 24% growth in average revenue per user would be impressive for almost any company, those figures represented Facebook's slowest growth since the third quarter of 2015. Growth in daily and monthly active users also slowed sequentially.

The slowdown matters because Facebook's shares have shot up 44% since the beginning of the year, outperforming its Big Tech peers. High expectations already are

### Worthy Friends

Facebook's average revenue per user



priced in, which makes it harder for the company to exceed them each quarter. This is particularly true as Facebook's user growth slows. New users tend to come from outside the U.S., which makes them less valuable from the standpoint of advertising.

The dynamic—and the fact



that Facebook plans to stop inserting more ads in users' feeds—heightens the pressure on the company to generate more revenue from existing users with new ad formats, including video. It also must begin generating revenue from its Messenger and WhatsApp platforms.

Facebook started showing

ads in Messenger this month, and Chief Executive Mark Zuckerberg said Wednesday that he wants the company to move faster on monetizing the two apps. But Chief Operating Officer Sheryl Sandberg emphasized that it was still early days for generating revenue from Messenger.

Facebook did cheer investors when it narrowed the range of its expectations for full-year operating-expense growth to 40% to 45% from a previous 40% to 50%. It also said that full-year capital expenditures would come in at the lower end of its prior guidance of \$7 billion to \$7.5 billion.

Based on the number of questions from analysts Wednesday about generating revenue from its Messenger app, Facebook needs another big platform to drive its next leg of growth. Until then, its stock-price performance could hit a slow patch.

—Miriam Gottfried

## Investors May Feel Left Out of Fed Plans

Can the Federal Reserve take away the punch bowl from the stock market without taking it away from the economy?

The Fed left rates steady at the conclusion of its two-day policy meeting Wednesday and, given worries about low inflation, investors are doubtful another rate increase is coming this year. But the central bank doesn't seem to have any qualms about starting to run down the stock of Treasury and mortgage securities it accumulated in the wake of the financial crisis. It said it plans to do that "relatively soon"—a signal that it could start shrinking its portfolio after its September meeting.

It seems the Fed is making its rate decisions contingent on what inflation does, but that it is happy to go forward with its plan as long as the job market continues to do well, says J.P. Morgan Chase economist Michael Feroli. It is a mystery why.

One possibility is that it wants to get the balance-sheet process under way before Chairwoman Janet Yellen's term ends in January, helping to make any successor's move into the job

smoother. But the Fed also may be mindful of differences in how rate increases and portfolio reductions might affect the economy.

When the Fed raises rates, it increases banks' borrowing costs and can make them less willing to extend credit. But when it starts reducing its balance sheet, it will increase the supply of Treasury and mortgage securities on the market, placing upward pressure on their yields. That will make them more attractive relative to stocks and bonds and could reverse an easing in market conditions that has come despite the Fed's rate increases. This has the Fed worried. Indeed, minutes of its June meeting showed that some policy makers were concerned that investor complacency amid high valuations "could lead to a buildup of risks to financial stability."

For investors, whether financial markets are an element in the Fed's thinking is beside the point: For whatever reason, it isn't letting low inflation get in the way of its balance-sheet plan. That could make markets challenging. —Justin Lahart

## OVERHEARD

A new diagnostic test is flying off the shelves. **Exact Sciences** reported second-quarter revenue of \$57.6 million on Tuesday afternoon, thanks to strong growth in its signature product, Cologuard. The company reported more than 135,000 completed tests using Cologuard, which screens for colorectal cancer in patients with an average risk profile.

Using Cologuard is less invasive than a traditional colonoscopy,

but the method does come with its own hassles. Patients need to ship a stool sample to the company's testing center, which analyzes the sample and provides the result to the patient's physician.

Those results have shareholders beaming. The stock was up 6.2% at Wednesday's close and has tripled so far this year.

It is less clear whether mail carriers are happy.

## PayPal Should Tout Its Secret Weapon

Investors are pleased for now with PayPal's strategy of doing more for less. But with the payment company's shares priced for perfection, it may need to start showing some new tricks soon.

The company's second-quarter results were basically an encore performance. Total payment volume handled by the company rose 23% from a year earlier, similar to the growth rate it has managed over the previous several quarters. The amount of revenue earned per transaction fell for at least the ninth consecutive quarter, though, to 2.58%.

This is partly due to the growth of peer-to-peer transfers on PayPal's Venmo platform, which are free for

### Paying Up

PayPal's forward price/earnings ratio



users. Large merchants that start accepting PayPal payments also are paying a lower average rate. In addition, PayPal's profit margin per transaction is falling as more users link their PayPal accounts to credit cards that charge the company fairly

high interchange fees. Investors don't care. They are focused on the company's volume growth, driven by the shift to online and mobile shopping. PayPal's shares have surged by more than 30% since its previous quarterly report, bringing its valuation to a rich 29 times forward earnings. That is well above the stock's average multiple of 24 times since it was spun off from eBay in 2015.

This rally was aided by Vantiv's \$10 billion deal for U.K. payment processor Worldpay, which put new focus on the payments sector.

Worldpay's main attraction was its global e-commerce business, which processes payments for online mer-

chants.

PayPal's own Braintree