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What's News

Business & Finance

Google parent Alphabet posted sales and profit surpassing analysts' estimates, a sign the company's strength in online ads will help offset the impact of new EU regulations. **A1**

◆ **Home sales slumped** in the second quarter despite what was likely the strongest period for U.S. growth in years, the latest sign that the expansion faces headwinds. **A1**

◆ **Fannie Mae's CEO** is slated to leave the mortgage-finance giant by year's end, a move that comes at a time of uncertainty about its future. **A2**

◆ **Government-bond** prices fell world-wide, roiled by reports that central banks could be about to take another step back from easy-money policies. **B11**

◆ **The S&P 500 rose** 5.15 points to 2806.98, led by financial stocks. The Dow shed 13.83 points to 25044.29. **B11**

◆ **Nike is raising salaries** for more than 7,000 employees and changing how it awards bonuses to its global staff as part of a broad compensation overhaul. **B1**

◆ **Fiat Chrysler said** its European operations chief resigned, adding to the turmoil at the firm after Marchionne's sudden departure. **B1**

◆ **Cooperman told clients** of his Omega hedge fund that he would be returning their capital and turning his firm into a family office. **B10**

◆ **Whirlpool cut** its profit outlook as it booked a charge on its European operations and said it wouldn't be able to offset the effect of steel tariffs with higher prices. **B3**

World-Wide

◆ **The Trump administration** exchanged threats with Iran, turning to a longstanding security concern and a top foreign-policy focus of the president's key supporters. **A1**

◆ **Trump is considering** revoking the security clearances of six former senior national security officials, including former CIA Director Brennan. **A4**

◆ **Hackers working for** Russia claimed hundreds of victims last year in a campaign that put them inside the control rooms of U.S. electric utilities, federal officials said. **A3**

◆ **The administration** is advancing a plan to freeze fuel-economy standards for new cars and trucks, and to escalate its fight against California. **A2**

◆ **Trump's legal team** has submitted a counteroffer to Mueller on a possible interview with the president. **A4**

◆ **The EU is cautiously** betting on its top official, Juncker, to dissuade Trump from escalating the trans-Atlantic trade fight. **A5**

◆ **North Korea has begun** dismantling its main satellite launch facility, an apparent confidence-building measure by Pyongyang. **A6**

◆ **Authorities identified** the gunman who opened fire on a busy Toronto street Sunday, killing two people and injuring 13 others. **A5**

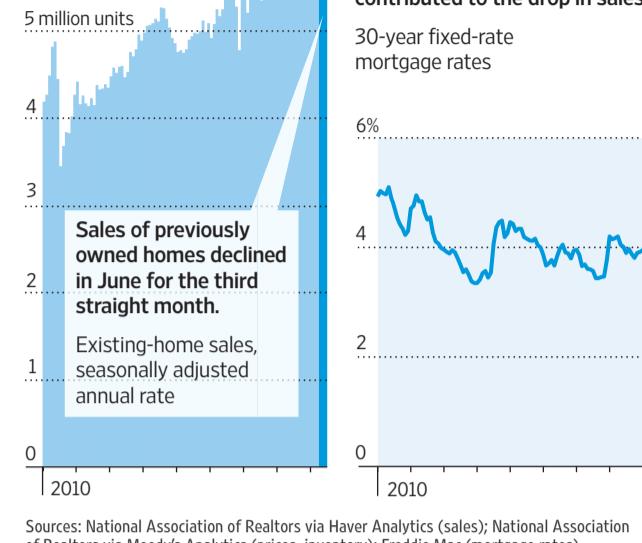
◆ **The Senate voted** overwhelmingly to confirm Wilkie as the new secretary of Veterans Affairs. **A2**

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Housing Developments



Rising mortgage rates have contributed to the drop in sales...

30-year fixed-rate mortgage rates

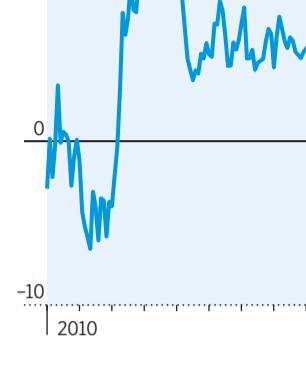
Sales of previously owned homes declined in June for the third straight month.

Existing-home sales, seasonally adjusted annual rate

Sources: National Association of Realtors via Haver Analytics (sales); National Association of Realtors via Moody's Analytics (prices, inventory); Freddie Mac (mortgage rates)

...while home values have continued to increase...

Median sales price of existing homes, change from a year prior



...due to low inventory.

Available homes for sale, by months supply



THE WALL STREET JOURNAL.

Google Blasts Through Hurdles

Parent Alphabet posts strong quarter despite \$5 billion EU fine; shares keep rising

BY DOUGLAS MACMILLAN

Google's advertising machine keeps racing ahead even as regulators try to construct new guardrails to curtail the internet giant's global dominance.

Alphabet Inc., Google's parent, reported sales and profit surpassing analysts' estimates on Monday, a sign the company's strength in online ads will help offset the impact of sweeping new European regulations for online privacy and perceived abuses of its position in the market.

The results highlight how even while Silicon Valley's leading tech firms are ensnared in a range of controversies, the underlying businesses are mightier than ever.

Shares of Google rose to \$1,285.84 in after-hours trading, reaching an all-time high.

Advertisers have shrugged off negative headlines surrounding Google and tech rival

Please turn to page A6

◆ Heard on the Street: Results soothe cost worries..... B12

Home Sales Extend Slump Despite Economic Strength

BY LAURA KUSISTO AND SHARON NUNN

Home sales slumped in the second quarter despite what was likely the strongest period for U.S. growth in years, the latest sign that the economic expansion faces headwinds.

Existing-home sales slipped 0.6% in June from the previous month to a seasonally adjusted annual rate of 5.38 million, the National Association of Realtors said Monday. Compared with a year earlier, sales in June declined 2.2%.

Home sales have now declined on an annual basis in five of the first six months this year, a worrying trend since housing is considered a crucial indicator of overall economic health, economists say.

By a number of measures, the economy looks to be accelerating after a long stretch of subpar growth. Economists are forecasting U.S. growth to exceed 4% for the second quarter when numbers are released on Friday. Jobless claims are falling, and corpo-

rate profit growth continues to look strong.

But weakness in the housing market could muddy the picture. Housing contributes about 15% to 18% of gross domestic product. Existing-home sales help drive other sectors of the economy. Consumer confidence and home-improvement spending, construction and mortgage lending tend to suffer when home sales slump.

"The housing market led the general economy out of the recovery and now it's leading" it toward a slowdown,

said Zillow Senior Economist Aaron Terrazas.

Mortgage-application volume decreased 2.5% in the week ending July 13, compared with a week earlier, including a 5% decline in purchase applications, according to an index put out by the Mortgage Bankers Association last week.

New home construction, which is the major driver of housing-related employment, has also struggled lately. Housing starts declined 12.3% Please turn to page A2

Highflying Medical Firm Falls to Earth, Its Sales Questioned

Practices at MiMedx, a skin graft maker, included channel stuffing, ex-workers say

Just last year, MiMedx Group Inc. was a health-care star. The maker of surgical and tissue-graft products had dazzled investors with five straight years of over 50% sales growth, boosting its market value to near \$2 billion. That its products helped veterans heal combat wounds made the story even better.

By Gretchen Morgenson, Joseph Walker and Charley Grant

running the company.

A Wall Street Journal review of company emails, court documents and internal complaints, plus interviews with current and former employees, paint a picture of a company seeking to grow at almost any cost.

Several former employees alleged that MiMedx sometimes shipped more skin grafts than had been ordered and booked them as sales, a practice known as channel stuffing.

One ex-employee said for some tissue implants, a MiMedx sales rep in California recorded inaccurate dates and surgeons' names and improperly listed recipients as John or Jane Doe.

In February the Journal reported that MiMedx hadn't reported payments made to doctors who use or promote its products, despite a federal law requiring most drug and medical-device makers to disclose payments or gifts to doctors. The company said its products were exempt from the rule.

MiMedx provided employees with a way to report issues that troubled them. Eight ex-employees said they were fired after they spoke up.

In response to a list of questions about company Please turn to page A8

Boat in Missouri Tragedy Is Brought to Surface



SALVAGE MISSION: The U.S. Coast Guard on Monday supervised the successful raising of the duck-style tour boat that sank last week in near-hurricane-force winds on a Missouri lake, killing 17 people. **A3**

Trump and Iran Leader Swap Taunts as Sanctions Loom

BY JESSICA DONATI AND NANCY A. YOUSSEF

WASHINGTON—The Trump administration exchanged threats with Iran, turning to a longstanding security concern and a top foreign-policy focus of President Donald Trump's key supporters.

In a Twitter message addressed "To Iranian President Rouhani," Mr. Trump wrote: "NEVER, EVER THREATEN THE UNITED STATES AGAIN

OR YOU WILL SUFFER CONSEQUENCES THE LIKES OF WHICH FEW THROUGHOUT HISTORY HAVE EVER SUFFERED BEFORE."

The tweet late Sunday night appeared to refer to comments by President Hassan Rouhani warning the Trump administration against continuing hard-line policies against Iran.

"America should know that peace with Iran is the mother of all peace, and war with Iran is the mother of all wars," Mr.

Rouhani said earlier. The comments were tougher than usual for the Iranian president, who is seen in the Iranian context as a moderate.

Iranian officials on Monday warned they would retaliate against any U.S. military action.

Mr. Trump's threat wasn't accompanied by any U.S. military Please turn to page A5

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SPORTS, A12



RISKS IN BEING TOO MUCH OF A TEAM PLAYER

LIFE & ARTS, A9

Economists Struggle With Word Economy

* * *

Tired of paper inflation, academics demand brevity

By BEN LEUBSDORF

A backlash is building against inflation—the kind showing up in economics journals.

The average length of a published economics paper has more than tripled over the past four decades, and some academics are sick of wading through them. At this year's American Economics Association conference, Massachusetts Institute of Technology professor David Autor compared a 94-page working paper about the minimum wage to "being bludgeoned to death with a Nerf bat" and started a Twitter hashtag, #ThePaperIsTooDamnedLong.

"It was a very good paper," Mr. Autor said in a later interview, but it set him off because it represented the "logorrhea of our current state of scholarship."

Let's get to the point: Economists want economists to

talk less. The AEA announced last year it would launch a journal dedicated to publishing only concise papers, at least by economists' standards—nothing longer than 6,000 words, or about 15 double-spaced pages. (For comparison, this article is a svelte 958 words.)

"Certainly not all papers should be short," said MIT economist Amy Finkelstein, founding editor of what's being called

Please turn to page A8

U.S. NEWS

U.S. Presses Bid to Ease Emissions Rules

By TIMOTHY PUZO

President Donald Trump's administration is advancing a plan to freeze fuel-economy standards for new cars and trucks, and to escalate its fight against California's power to set regulatory standards for the entire U.S. auto market, according to people familiar with the matter.

The new rules, which could be released as early as this week, would halt plans to keep raising requirements for efficiency. The increases had been set up by a collaboration between California and former President Barack Obama's regulators as a way to address climate change.

The Trump administration's plan would eliminate gradual increases in fuel-efficiency

standards for vehicle model years 2022-2025 that would have aimed to bring the figure to roughly 36 miles per gallon in real-world driving by 2025, based on complex government calculations averaged out over all vehicles sold.

One obstacle to that plan is California, which holds exemptions allowing it to impose emissions standards more stringent than those applied by the federal government. California has already sued to stop the Trump administration, and the auto industry has lobbied both sides to strike a deal that would avoid a rift that leaves the country with two sets of rules. Instead of pursuing a deal, the plan spearheaded by the Transportation Department and the Environmental Protection Agency



The plan sets up a fight over California's stricter standards.

tries to eliminate or override California's authority.

Other states also follow California's lead and its regulatory influence has grown as

the federal government and since then has effectively set regulatory standards for the broader market.

Many Trump advisers have criticized the state's autonomy, claiming California has overstepped its legal authority in order to push an environmental agenda. The White House is now approving a plan to end California's ability to set its own rules, a plan that California has already sued the administration to stop.

The auto industry, worried about prolonged uncertainty or potentially facing two dueling sets of rules that raise manufacturing costs, has asked the White House to compromise with California.

The administration's latest step effectively ends any chance of a deal.

California is intent on fighting to maintain the ability to set standards for cars sold in its jurisdiction, and is likely to challenge in court each step the administration takes to advance its plan. The retirement of Supreme Court Justice Anthony Kennedy—and the nomination of conservative Judge Brett Kavanaugh to replace him—has emboldened some in the administration to push a more confrontational challenge against California, according to a person familiar with the administration's thinking.

Mr. Trump, in his May meeting with auto executives, had directed his cabinet officials to pursue a deal with California. But a series of meetings since then were limited largely to introductions.

Building Set for Demolition Collapses in Miami Beach, Injuring One Person



DEBRIS PILE: Emergency responders converged on the scene Monday. The high-rise building was being torn down so a new condominium tower could be constructed.

Fannie CEO to Leave, Adding to Uncertainty

By LAURA KUSISTO AND NICK TIMIRAO

Fannie Mae's chief executive is slated to leave the mortgage-finance giant by year's end, creating a question mark about who will lead an important part of the housing market at a time of uncertainty about its future.

Timothy J. Mayopoulos, a financial-services lawyer who as CEO helped lead the turnaround of Fannie from the depths of the financial crisis, will remain chief executive until the end of the year and yield the president title to David Benson, Fannie's chief financial officer.

Fannie said Monday it is searching for a new CEO and that Mr. Mayopoulos hasn't announced what he will do next.

The new CEO will be taking over an organization "without a clear political future," said David Stevens, president and chief executive of the Mortgage Bankers Association. "It's going to be a challenging time going forward."

Mr. Mayopoulos, 59 years

old, helmed Fannie as the company stabilized from the worst losses of the housing downturn and has repositioned the company to remain central to the functioning of U.S. mortgage markets.

But it remains in limbo because neither Congress nor the Trump administration has advanced a legislative or administrative overhaul of Fannie and its smaller sibling, Freddie Mac. Both companies, which together guarantee nearly half of U.S. mortgages, have been under government conservatism since the crisis.

Mr. Mayopoulos joined Fannie Mae when its future was even more in question and helped lead it to relative political and financial stability. He started as the company's general counsel in April 2009 and later added the position of chief administrative officer. He became CEO in June 2012 and took a hefty pay cut as a result of administrative restrictions related to the government's backstop of the company.

Maria Armental and Andrew Ackerman contributed to this article.

Home Sales Weakness Continues

Continued from Page One

In June from the prior month, according to the Commerce Department. That was the largest monthly percentage drop in about a year and a half, driven by construction declines in all regions of the U.S. for almost all types of housing.

Realtors say some buyers have grown weary of the run-up in prices, especially after mortgage rates increased.

Brook Hogan, a real-estate agent in Portland, Ore., said she has seen signs that consumers are growing more cautious, especially at the higher end of the market. "It's definitely slowing. Buyer confidence is a big deal," she said.

Jessica Aebersold, a 30-year-old who works at a company that rents photo booths, said she and her husband took three weeks to sell their Seattle-area home—in a town where multiple offers in a single weekend had been more the norm.

Ms. Aebersold said she, too,

expected the home to sell in the first weekend, but the day the house was listed, four others went up in the neighborhood. It took three weekends before they received a cash offer \$30,000 below the asking price.

CORRECTIONS & AMPLIFICATIONS

Paterson, N.J., was misspelled as Patterson in a Review article Saturday about bucket lists.

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

"I don't know if people are getting scared," she said. "I was just very surprised that we didn't sell right away."

Weakness in the housing market is the latest sign that a nine-year-old economic expansion faces challenges, such as the new tariffs that have increased the prospect of a trade war between the U.S. and China or Europe.

The pace of growth and fears that trade tension could bring inflation have also raised expectations that the Federal Reserve will be more aggressive in raising interest rates.

Traders in the federal-funds futures market now believe there is a near certainty that the Fed will raise short-term rates at least once more this year, and a better than 60% chance of two or more rate increases, according to CME Group.

Some buyers have tired of the run-up in prices, especially since rates increased.

Any interest-rate increases could further depress home sales. "One of, if not the most, rate-sensitive sectors in the economy is housing," said Torsten Slok, chief international economist at Deutsche Bank Securities.

The average interest rate on a 30-year fixed-rate mortgage already has risen to 4.57% in June from 4.03% in January, according to Freddie Mac.

By increasing the monthly cost of owning a home, higher mortgage rates force some buyers to seek out less expensive properties. They can push those at the bottom out of the market altogether.

More notably, they may act as a disincentive for current owners, who enjoy historically low mortgage rates, to sell and lose that rate.

While rising mortgage rates typically help slow price

growth, the lack of inventory has meant that prices have continued growing much faster than wages and inflation, compounding affordability concerns. The median sale price for an existing home in June hit a new all-time high of \$276,900, up 5.2% from a year earlier, according to NAR.

The slowdown in sales was concentrated at the bottom end of the market, indicating that affordability concerns are a major contributor to the slow spring selling season. Sales of homes priced at \$100,000 to \$250,000 fell 7.1% in June, compared with a year earlier, while sales of homes between \$750,000 and \$1 million grew 6%, according to NAR.

Strong price growth also indicates that there is still robust demand for homes, and that if inventory continues to increase, the market could regain momentum in the latter half of the year.

Still, some 40% of home sales each year take place in the critical spring selling period of March through June. Even if sales pick up later in the year, they are unlikely to fully make up the lost ground.

"I don't think the housing-market sky is falling," said Ralph McLaughlin, chief economist at Veritas Urbis Economics. "The fact that the price growth remains strong leads me to believe this isn't a cyclical issue, at least just yet."

After a long stretch where economists have blamed a lack of inventory for this year's lackluster housing-market performance, there are recent indications that the trend is beginning to reverse. But that suggests demand may be waning as buyers take longer to purchase, leaving properties on the market longer.

There were 1.95 million existing homes available for sale last month, up 4.3% from the prior month and 0.5% from a year ago. That is the first yearly inventory increase since the middle of 2015, according to Lawrence Yun, the trade group's chief economist.

The Senate voted overwhelmingly Monday to confirm Robert Wilkie as the new secretary of the Department of Veterans Affairs.

Mr. Wilkie, a longtime Defense Department official, was confirmed in an 86-9 vote.

As the VA chief, Mr. Wilkie will run a department with more than 350,000 employees and a nearly \$200 billion budget.

The VA referred request for comment to the White House. President Donald Trump said in a statement that he applauds the confirmation. In a tweet late Monday he added, "Robert will do a great job for our Vets."

—Ben Kesling

NEW MEXICO

State Fails At-Risk Students, Court Says

The state of New Mexico failed to provide at-risk students a proficient public education and has until next year to address shortcomings, a state district court ruled in a yearslong case filed by civil rights groups.

Plaintiffs alleged the state didn't adequately fund public schools nor provide programs and services needed to ensure students are "college, career and civic ready," particularly students who are low-income, Native American, English-language learners and those with disabilities.

Attorneys for plaintiffs in the consolidated case filed by the Mexican American Legal Defense and Educational Fund and the New Mexico Center on Law and Poverty also contended that students lacked access to social and health services, including tutors.

The state plans to appeal the ruling. New Mexico Education Secretary Christopher Ruszkowski said in a statement that "unfortunately, the judge missed the boat with this ruling." He added that "education spending in New Mexico is now at an all-time high" and the state is "seeing significant student achievement gains."

—Tawnell D. Hobbs

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U.S. NEWS

Russia Hacks Its Way Into U.S. Utilities

DHS says networks of trusted vendors were penetrated, leading to plants' control rooms

BY REBECCA SMITH

Hackers working for Russia claimed hundreds of victims last year in a giant and long-running campaign that put them inside the control rooms of U.S. electric utilities where they could have caused blackouts, federal officials said. They said the campaign likely is continuing.

The Russian hackers, who worked for a shadowy state-sponsored group previously identified as Dragonfly or Energetic Bear, broke into supposedly secure, "air-gapped" or isolated networks owned by utilities with relative ease by first penetrating the networks of key vendors who had trusted relationships with the power companies, said officials at the Department of Homeland Security.

"They got to the point where they could have thrown switches" and disrupted power flows, said Jonathan Homer, chief of industrial-control-system analysis for DHS.

DHS has been warning util-

Blackouts could have been caused, Homeland Security officials said.

ity executives with security clearances about the Russian group's threat to critical infrastructure since 2014. But the briefing on Monday was the first time that DHS has given out information in an unclassified setting with as much detail. It continues to withhold the names of victims but now says there were hundreds of victims, not a few dozen as had been said previously.

It also said some companies still may not know they have been compromised, because the attacks used credentials of actual employees to get inside utility networks, potentially making the intrusions more difficult to detect.

Experts have been warning about the Russian threat for some time.

"They've been intruding into our networks and are positioning themselves for a limited or widespread attack," said Michael Carpenter, former deputy assistant secretary of defense, who now is a senior director at the Penn Biden Center at the University of Pennsylvania. "They are waging a covert war on the West."

Russia has denied targeting critical infrastructure.

Mr. Homer said the cyber-attack, which surfaced in the

U.S. in the spring of 2016 and continued throughout 2017, exploited relationships that utilities have with vendors who have special access to update software, run diagnostics on equipment and perform other services that are needed to keep millions of pieces of gear in working order.

The attackers began by using conventional tools—spear-phishing emails and watering-hole attacks, which trick victims into entering their passwords on spoofed websites—to compromise the corporate networks of suppliers, many of whom were smaller companies without big budgets for cybersecurity.

Once inside the vendor networks, they pivoted to their real focus: the utilities. It was a relatively easy process, in many cases, for them to steal credentials from vendors and gain direct access to utility networks.

Then they began stealing confidential information. For example, the hackers vacuumed up information showing how utility networks were configured, what equipment was in use and how it was controlled. They also familiarized themselves with how the facilities were supposed to work, because attackers "have to learn how to take the normal and make it abnormal" to cause disruptions, said Mr. Homer.

Their goal, he said: to disguise themselves as "the people who touch these systems on a daily basis."

DHS is conducting the briefings—four are planned—hoping for more industry cooperation. One thing the agency is trying to learn is whether there are new infections, and whether the Russians have figured out ways to defeat security enhancements.

In addition, DHS is looking for evidence that the Russians are automating their attacks, which investigators worry could presage a large increase in hacking efforts. "To scale, they're eventually going to have to automate," Mr. Homer said.

"You're seeing an uptick in the way government is sharing threats and vulnerabilities," said Scott Aaronson, a cybersecurity expert for Edison Electric Institute, the utility industry trade group. He said information sharing and penetration detection have gotten much better since the Dragonfly attacks began.

It isn't yet clear whether the hackers used their access to prepare the battlefield for some future, devastating blow, investigators said. For example, many experts fear that a skilled technician could use unfettered access to change some equipment's settings. That could make them unreliable in unexpected ways, causing utility engineers to do things that would result in extensive damage and potentially lengthy blackouts.



Jason McMillan, who was paralyzed in the Oct. 1 shooting attack in Las Vegas, speaks out Monday at a news conference in California.

Las Vegas Victims Take On MGM

BY ZUSHA ELINSON

Survivors of the Las Vegas massacre on Monday sounded off on the lawsuits filed against them by **MGM Resorts International** that seek to shield the company from liability in the attack.

The company owns the Mandalay Bay Resort & Casino where gunman Stephen Paddock fired onto a crowd of concertgoers from a room on the hotel's 32nd floor, killing 58 and injuring hundreds last October.

MGM earlier this month sued survivors of the deadliest shooting in modern U.S. his-

tory, as well as relatives of the deceased, in an effort to protect itself from potentially significant legal claims. The company's legal maneuver seeks to put the battle over liability for the massacre in federal court.

"It's not only insulting, it enrages me to think that this company can just try to skip out on their responsibility and liability for what happened," said Jason McMillan, who was paralyzed from the waist down in the attack and has been sued by MGM.

Seated in a wheelchair, Mr. McMillan, a sheriff's deputy from Riverside County, Calif., held his face in his hand as he

described being shot—and unable to move—at the country music concert on Oct. 1.

"I rarely ask for help and I love helping other people," Mr. McMillan said at a news conference in Newport Beach, Calif., on Monday with other survivors. "I couldn't help anybody."

Mr. McMillan said that MGM's suit brought up bad memories.

Debra DeShong, a spokeswoman for MGM, said it was "heartbreaking to hear these personal accounts of an unspeakable tragedy. No one wins from endless litigation and it will not change the fact that



Police stand guard along the street outside the music festival on the night of the massacre.

one person is responsible for this horrendous act of violence and he took his own life rather than face justice."

Ms. DeShong said that "getting everyone in the same court, is the best and fastest way to resolve these cases."

Numerous lawsuits have been filed against MGM for alleged lapses, including failing to notice the shooter was stockpiling weapons in his suite. Ms. DeShong said the company filed actions against people who have retained attorneys and either have sued or threatened to sue. Plaintiff attorneys have filed suits in both state and federal court that could take years to resolve, she said.

The company argues in its case that a federal law—the Support Anti-Terrorism by Fostering Effective Technologies Act, or SAFETY Act—protects it from liability stemming from the massacre.

Passed in 2002, the law says that "sellers" of antiterrorism technology, such as security companies like the one hired to handle the Las Vegas concert, may be held responsible for mass attacks, but that buyers of such services, like the entertainment company, are shielded from liability claims, according to MGM's lawsuits.

Mr. McMillan, the sheriff's deputy, hasn't filed a lawsuit against MGM but is exploring his legal options, said Mark Robinson, a lawyer representing him.

Duck Boat Raised From Missouri Lake

BY JOE BARRETT

The U.S. Coast Guard on Monday supervised the successful raising of the duck-style tour boat that sank Thursday evening in near hurricane-force winds on a Missouri lake, killing 17 people.

The boat appeared largely intact with holes in its canvas top and some side windows still in place, according to footage of the raising Monday morning. Orange life vests hung intact from the top of the boat.

The boat's design, with a

cover over the hull and windows on the sides, has been criticized by safety experts for making it difficult for passengers to exit in an accident. It was unclear whether the boat's cover had come apart in the accident or might have been ripped open by rescue workers.

Coast Guard officials declined to comment on the state of the boat, pending further investigation by the National Transportation Safety Board.

None of the 31 people

amphibious vehicle, was wearing a life preserver, according to an incident report filed Saturday by the Missouri State Highway Patrol.

The NTSB is investigating how the tour operator, Ride the Ducks Branson, which is owned by Ripley Entertainment, used weather information provided by a private service to determine to proceed with the cruise. The first 911 calls about the sinking came in at 7:09 p.m. Thursday, officials said, about half an hour after the National Weather Service issued a severe thun-

derstorm warning for the area.

"The real objective is going to be what kind of information was on hand when they went out" and how the decision was made to proceed with the tour, said National Transportation Safety Board Member Earl Weener in a news conference Saturday night. "This was a squall that came up rather suddenly."

In addition to the NTSB probe, the Missouri State Highway Patrol has launched a separate criminal investigation into the accident, officials said.

Full Docket for Judge Overseeing Migrant Family Reunifications

BY JACOB GERSHMAN

It's a busy time for U.S. District Judge Dana Makoto Sabraw.

On Friday in San Diego, he presided over jury deliberations in a criminal case against a man trying to prove he isn't an illegal alien from Mexico but a California-born American citizen. And on Monday, Judge Sabraw oversaw jury selection in an Apple Inc. patent dispute.

Those matters come on top of what is by far the biggest case of his career: the legal effort to reunite thousands of migrant parents and their children.

Last month, Judge Sabraw made national headlines when he granted an injunction commanding the Trump administration to put an end to its practice of splitting up undocumented, asylum-seeking families streaming into the U.S. from Mexico and Central America. He gave immigration authorities 30 days to identify

all the separated children living in federally run shelters and release them to their mothers and fathers after checking criminal records and verifying parentage.

As the clock has ticked toward the July 26 due date, the 60-year-old Republican has assumed an unusual role for a judge, simultaneously playing watchdog, enforcer and motivational coach in making sure his demands are met.

Two or three times a week, he has summoned Justice Department immigration lawyers for status updates. Transcripts of the hearings reflect his reputation as a judge who maintains calm and order.

When a Health and Human Services official involved with the reunification stated in a filing that the agency couldn't meet his time frame without putting children at risk, his reaction was less fury than disappointment.

"The document reads as if the children were simply re-united in order to meet the

court's deadline," he said, adding that the short window was no excuse for not doing DNA testing and background checks prior to releasing the children. "It is not appreciated, and the government can do a lot better."

But after being reassured on Monday of last week that

reunifications could be done safely and swiftly, he praised the lawyers. "I think we have accomplished a great deal today," he said. "So much of the court's involvement can be rendered unnecessary just through communication and working through these things."

Judge Sabraw joined the federal court in California's Southern District in 2003 as an appointee of President George W. Bush after stints as a municipal and state judge in San Diego County.

It isn't the first time he has refereed controversial litigation. In 2016, he upheld a California law prohibiting school parents from opting out of vaccination requirements.

"He clearly knew the ins and outs of every case before him," said Dorit Rubinstein Reiss, a professor at the University of California, Hastings College of Law who wrote about that case and spent a day in his courtroom. She said he posed "thought-provoking questions" with a "matter-of-fact delivery" that helped ease tensions in the room.

Judge Sabraw's biggest setback on the bench came in 2014, when a federal appeals court overturned a drug conviction, finding he had "abused [his] discretion" when he brushed off a complaint

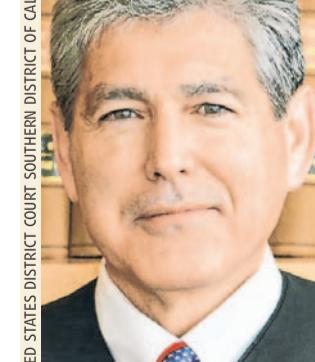
from the defendant of deceptive trial tactics on the part of the prosecutor.

At the time of his 2003 Senate confirmation, Judge Sabraw was among about a half-dozen Asian-Americans on the federal bench; now they number around 40. He is the son of a Japanese mother and French Canadian father who immigrated to the U.S. as a child and served in the Army during the Korean War. His parents met in Japan, where his father was stationed.

The couple settled in the Sacramento Valley in the 1950s after landlords refused to rent to them in San Francisco.

From his father and neighbors, Judge Sabraw acquired what may be his greatest passion: bird hunting.

He has pursued grouse, quail and pheasant through grasslands and plains across the country, accompanied by two English setters, a black Labrador and his two best friends, a court administrator and an intellectual-property lawyer.



Dana Makoto Sabraw

- 60 years old.
- Serves on the U.S. District Court for the Southern District of California in San Diego.
- Appointed by President George W. Bush in 2003.
- Ordered the Trump administration to stop separating children from undocumented parents seeking asylum.
- Set a deadline of July 26 for thousands of migrant children to be reunited with their families.

U.S. NEWS

Partisan Divisions Over Trump Are Growing

**CAPITAL JOURNAL**

By Gerald F. Seib

From the moment he rode down the escalator at his eponymous Fifth Avenue skyscraper to announce his candidacy three years ago, President Donald Trump has divided Americans.

But the Trump Divide is growing wider and deeper.

As Mr. Trump moves from controversy to controversy, views of the president, pro and con, are hardening, with supporters embracing him more enthusiastically and detractors growing more feverish in their opposition. The middle ground, never very populous, now looks as sparse as a flower bed in February.

At this point, it is hard to see what would reverse this trend. Certainly Mr. Trump

seems disinclined to give ground to his detractors in hopes of winning them over. Rather, he often seems to do the reverse—show that he is prepared to antagonize them further.

After an eruption of criticism over his unwillingness to publicly criticize Russian President Vladimir Putin at their Helsinki summit meeting this month, for example, Mr. Trump backtracked slightly—but then promptly slammed into forward gear again by inviting Mr. Putin to another summit in the U.S. this fall. If that left his critics sputtering, well, that seems to be the way Mr. Trump likes them.

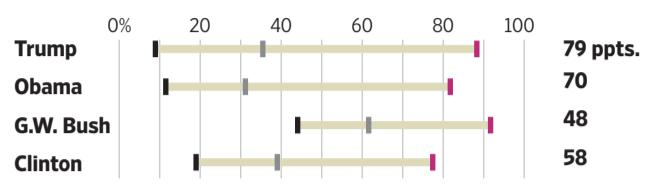
Trump supporters seem more willing to give him wide berth, even on policy moves—on immigration, Russia or trade—on which they harbor doubts. “The more Mr. Trump gets criticized by the media, the more his base seems to rally behind him,” says Democratic pollster Fred Yang.

All of these trends can be seen in a new Wall Street Journal/NBC News poll, conducted by Mr. Yang and Republican Bill McInturff and

Stark Divide

The gap between how much the president's party and the opposing party approve of the president is greater now than in recent memory.

Presidential approval by party affiliation
as of July of the second year



Source: WSJ/NBC News telephone polls most recently of 900 registered voters conducted July 15–18; margin of error: +/- 3.27 pct. pts.

THE WALL STREET JOURNAL

their firms. In the survey completed late last week, voters overall gave Mr. Trump a 45% job-approval rating, a notch higher than the previous month, and the highest of his presidency. And that was at the end of a two-week period of exceptional turmoil, even by Trump standards.

The president's job approval remains low by historical standards at this stage of his term. Still, what is striking is the solid support Mr. Trump is now winning inside his own camp. A remarkable 88% of self-identified Republicans say they approve of the job he is doing.

Mr. Trump clearly is supported by Republicans who actually question some of his most controversial policies. Even as Mr. Trump is working overtime to build a warm relationship with Mr. Putin, only 8% of GOP voters say

ing, the highest share within a president's own party at this stage of a presidency since President George W. Bush's standing after the 9/11 terrorist attacks.

The share of Americans who say they strongly approve of Mr. Trump's job performance rose to 29%, the highest mark so far.

Mr. Trump clearly is supported by Republicans who actually question some of his most controversial policies. Even as Mr. Trump is working overtime to build a warm relationship with Mr. Putin, only 8% of GOP voters say

they have a positive view of the Russian leader.

At the same time, though, the strength of those pro-Trump feelings is more than matched by the intensity of anti-Trump sentiments. Some 52% of voters overall disapprove of the job he is doing, and a stunning 44% say they strongly disapprove.

And the gap between Republican and Democratic views has never been wider; indeed, it is the widest partisan gap ever found in the Journal/NBC News survey. A mere 9% of Democrats say they approve of the job he is doing. Eight in 10 Democrats say they strongly disapprove.

Who is left in the middle, uncertain what they think of a President Trump? Precious few. Asked their feelings about Mr. Trump personally, a mere 9% of all voters said they are neutral.

Here's the most intriguing question about this picture: How is Mr. Trump able to hold on to support among his base in climate that even many of them acknowledge is chaotic and disconcerting?

For starters, it is impossible to discount the extent to which a strong economy

buys Mr. Trump support and forbearance. Politically, steady job growth can paper over many other doubts, though that also means economic deterioration would be especially dangerous for the president.

The core Trump support group always has combined those drawn to him for economic reasons (a belief the global economy and its rules are stacked against them), as well as those who are drawn to him for cultural reasons (feeling that Mr. Trump shares their view that society's elites, immigrants and liberals are combining to hijack their traditional lifestyle).

It is sometimes hard to tell whether Trump backers are with him more for economic or cultural factors—though Stephen Bannon, his presidential campaign chairman and populist political guru, says the distinction isn't important: “To the populist/nationalist movement, the economic is cultural,” he says.

In any case, the line separating Trump lovers from Trump haters, never hard to find, seems to be growing brighter.

President Weighs Pulling Clearances From Ex-Officials

BY VIVIAN SALAMA

WASHINGTON—President Donald Trump is considering revoking the security clearances of six former senior national security officials, the White House said Monday, moving to punish them for comments purportedly politicizing the investigations into Russian interference in the 2016 election.

“Making baseless accusations of improper contact with Russia or being influenced by Russia against the president is extremely inappropriate,” said White House spokeswoman Sarah Sanders, without specifying.

The threat, which national security analysts described as unprecedented, prompted concerns it was an effort by the president to silence critics.

“An enemies list is ugly, undemocratic, and un-American,” said Rep. Adam Schiff (D., Calif.), ranking member of the House Intelligence Committee.

Ms. Sanders told reporters that the administration is looking at the clearances of former Central Intelligence Agency Director John Brennan, former Federal Bureau of Investigation Director James Comey, former Director of National Intelligence James Clapper, former director of the National Security Agency and the CIA Michael Hayden, former national security adviser and U.N. Ambassador Susan Rice and former FBI Deputy Director Andrew McCabe.

A spokeswoman for Mr. McCabe, who was fired from the FBI two days shy of his retirement in connection with information he provided to a Wall Street Journal reporter ahead of the 2016 election, said his “security clearance

officials retain clearance after leaving government is longstanding, national security officials and analysts said.

Having a security clearance doesn't automatically afford a former official access to information. Rather the former official must have a need to know information on which he or she is briefed, analysts said.

“There really isn't that much precedent of removing clearance of former national security officials unless they are indicted or convicted of some criminal offense,” said Evan Lesser, president of ClearanceJobs, a career website.

A spokeswoman for Mr. McCabe, who was fired from the FBI two days shy of his retirement in connection with information he provided to a Wall Street Journal reporter ahead of the 2016 election, said his “security clearance

was deactivated when he was terminated, according to what we were told was FBI policy.”

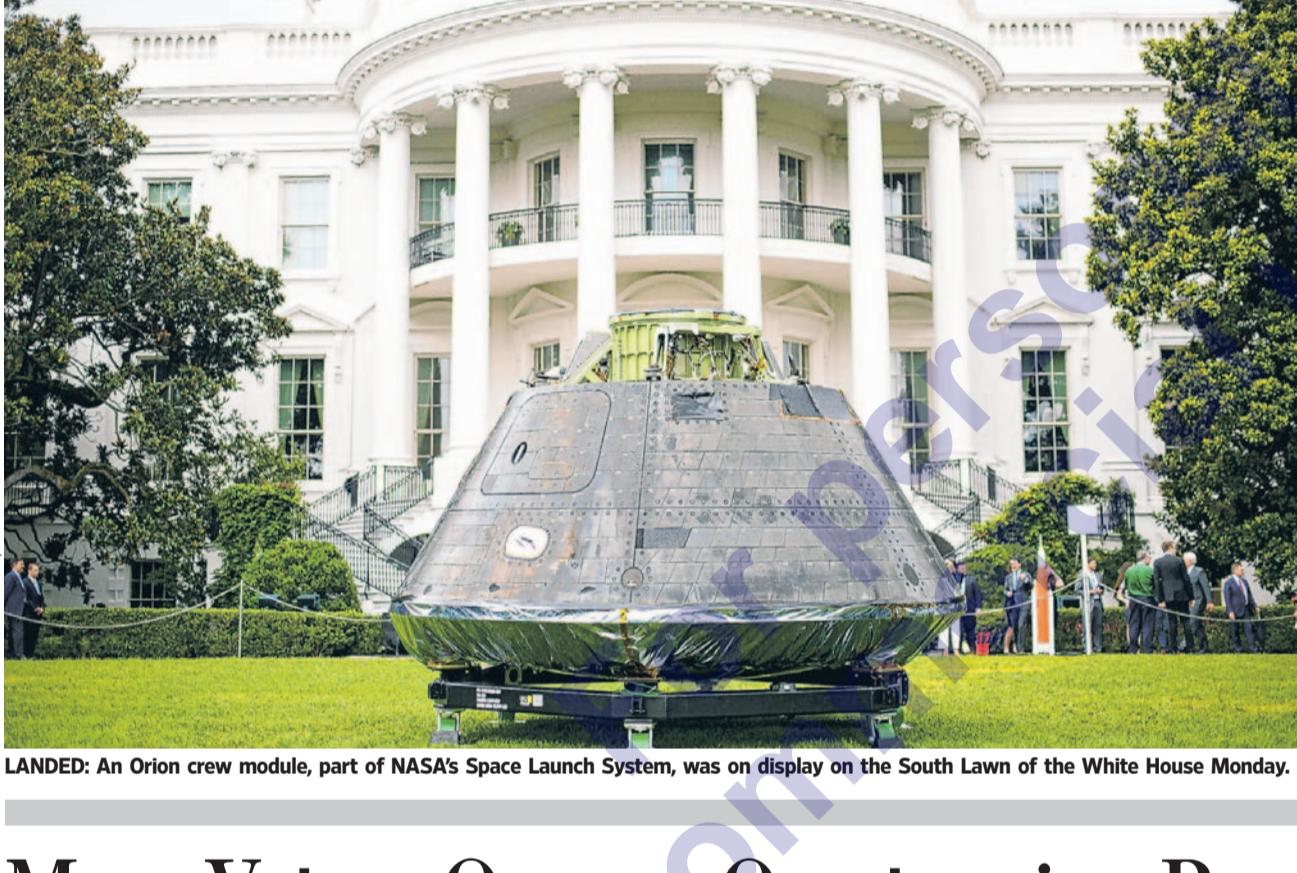
Benjamin Wittes, a Brookings Institution scholar and sometime spokesman for Mr. Comey, said he no longer had a security clearance. Mr. Comey was fired by Mr. Trump in 2017 and has been highly critical of the president, in a book and in other venues.

Mr. Hayden, who maintains a security clearance, told The Wall Street Journal that he is occasionally called on to provide his view on national security matters but he doesn't attend classified briefings.

Mr. Clapper, on CNN, said, “This is kind of a petty way of retribution for speaking out against the president.”

—Nancy A. Youssef and Dustin Volz contributed to this article.

Piece of Space Program Enters Washington's Orbit

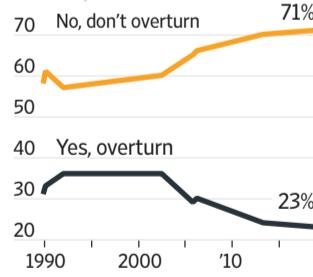


LANDED: An Orion crew module, part of NASA's Space Launch System, was on display on the South Lawn of the White House Monday.

More Voters Oppose Overturning Roe

BY MICHAEL C. BENDER

Gap Widens
By 3-to-1, those polled don't think the 1973 landmark abortion case giving women a constitutional right to an abortion should be overturned.

Should Roe v. Wade be overturned?

Source: WSJ/NBC News telephone polls most recently of 900 registered voters conducted July 15–18; margin of error: +/- 3.27 pct. pts.

THE WALL STREET JOURNAL

She was confirmed by the Senate on a vote of 68-31, with nine Senate Republicans backing her.

Mr. Kavanaugh's nomination has animated Democratic politicians mentioned as potential presidential candidates in 2020 much more than Democratic senators facing competitive re-election battles this year.

The night of his nomination, Sen. Kirsten Gillibrand (D., N.Y.) was the first speaker at a rally opposing his nomination. Sen. Elizabeth Warren of Massachusetts sent a fundraising email within minutes after the pick was announced telling supporters she would vote against his nomination.

“Brett Kavanaugh was chosen because conservatives are confident that he would overturn Roe v. Wade,” Ms. Warren wrote in the email.

A record 71% of voters said they were opposed to overturning Roe v. Wade, the 1973 ruling that recognized abortion as a woman's constitu-

tional right, including 59% who said they felt strongly on the matter, the poll found. Meanwhile, 23% said that overturning the ruling would be a good idea. That gap between opponents and supporters of reversing the Roe decision has been widening since 1991, according to poll results.

Mr. Kavanaugh's nomination comes as 50% of voters, a record high in the WSJ/NBC poll, said they approve of the job the Supreme Court is doing. That is due largely to a surge of positive feelings from conservatives and others in the core of the Republican Party, according to the poll.

The poll also found a rise in the number of voters who said they prefer pro-choice candidates, 44%, compared with 26% who said they preferred abortion-rights opponents. That gap of 18 percentage points has grown from a 15-point spread in 2015, and just a 3-point gap in 2005, according to the Wall Street Journal/NBC News poll.

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WORLD NEWS

Top EU Official Aims to Calm Trade Fight

Bloc hopes Juncker, in U.S. visit, can dissuade Trump from imposing additional tariffs

By VALENTINA POP

BRUSSELS—The European Union is cautiously betting on its top official, Jean-Claude Juncker, to persuade President Donald Trump not to escalate the trans-Atlantic trade fight.

Appeals from European leaders have failed to dissuade Mr. Trump from imposing tariffs on imports of steel and aluminum and threatening new ones on cars, but officials say they believe Mr. Juncker's blunt speech and disdain for protocol has won some begrudging respect from the U.S. leader.

During a White House visit slated for Wednesday, the European Commission president will focus on arguing the EU is Washington's friend, not foe, as Mr. Trump has labeled the bloc, he said.

Officials are braced for the unexpected—including the possibility that Mr. Trump will raise unrelated issues, such as

On the Table

The U.S. and European Union have a lot at stake as leaders meet this week to discuss trade. Both are heavily reliant on each other for exports. **Top destinations for merchandise exports, by share, 2017:**



Sources: U.S. Census Bureau; European Commission

Iran, after he assailed the country in an all-caps tweet early Monday. The EU supports the 2015 Iran nuclear deal, from which Mr. Trump withdrew the U.S. in May.

When Mr. Trump announced tariffs in March, Mr. Juncker promised EU retaliation by declaring "we can also do stupid." At a meeting of the Group of Seven large economies in June, Mr. Trump repeatedly called Mr. Juncker a "brutal killer," several people in the room said, because of what Mr. Trump considers unfair EU trade policies and fines on U.S. tech companies.

At the G-7 summit in Can-

ada, Mr. Juncker avoided other leaders' attempt to sway Mr. Trump, considering it futile, his aides said. Mr. Trump invited Mr. Juncker to the White House at the meeting.

Mr. Juncker's toughness has fostered a personal rapport, EU officials said. White House officials didn't respond to requests for comment on Mr. Trump's view.

"I am going there upbeat and relaxed," Mr. Juncker said last week. He acknowledged limited success in swaying Mr. Trump, but pledged to hammer away at data. "It's not about fake news, it's about objective facts."

Since the G-7, Mr. Juncker illus-

trated his pro-American outlook with the story of his father being liberated from a prison camp by American soldiers at the end of World War II, after being forced into the German army, the official said.

Mr. Juncker's task could be complicated by recent criticism and even calls for his resignation after video aired of him having trouble walking at a gala dinner at the recent North Atlantic Treaty Organization summit in Brussels. The footage sparked speculation he was drunk, which he denied.

Mr. Juncker has said he suffers from sciatica, a nerve condition that affects his legs.

In an attempt to keep discussions in Washington focused on economics, Mr. Juncker plans to warn of harm to the U.S. from an escalating trade fight, officials said. Last week, he promised EU countermeasures if Mr. Trump proceeds with car tariffs.

The EU's ambassador to Washington, David O'Sullivan, said countermeasures could target almost one-fifth of total U.S. exports to the EU, valued at nearly \$300 billion, or 100 times the countermeasures the

EU imposed in response to the metals tariffs.

"Juncker is not naive," one EU official said. "He knows that what Trump announces on Twitter happens."

Mr. Trump first met Mr. Juncker in May 2017, at a small gathering in Brussels. Soon after, a comment by Mr. Trump, that "the Germans are bad, very bad" to the U.S. because of their trade surplus in cars, leaked to the German press. Mr. Juncker at a press conference days later in Italy played down Mr. Trump's remark, acknowledging the leak was accurate.

Mr. Trump later pulled Mr. Juncker aside to chastise him for discussing a confidential conversation, EU officials said. Mr. Juncker retorted that the remarks had been confirmed by Mr. Trump's then-economic adviser, Gary Cohn, on the sidelines of the same event.

Mr. Juncker's willingness to rebut Mr. Trump "left a certain impression" that he would stand up for the EU, a senior EU official said.

—Laurence Norman in Brussels and Rebecca Ballhaus in Washington contributed to this article.

THE WALL STREET JOURNAL

Ethnic Turkish Star Quits Germany's Soccer Squad

BY BOJAN PANCEVSKI

BERLIN—A fierce debate about identity and integration is escalating in Germany following the resignation of an ethnic Turkish soccer star from the national team over what he deemed "racism and disrespect."

Mesut Ozil, born in Germany to Turkish immigrant parents, was one of the most prominent players on a celebrated national squad that won the 2014 World Cup. His decision to quit, laid out on Twitter on Sunday evening, is dominating national news, reflecting the tension gripping the country since the 2015 migration crisis brought one million asylum seekers to Germany and fueled a surge in far-right politics.

Germany's soul-searching coincides with a wider discussion sparked on the soccer field about what it means to be European, notably in France, where a team of players of mostly immigrant origin sailed to victory in this year's World Cup.

The 29-year-old soccer star, who also plays for England's Arsenal team, accused soccer authorities and some media

and politicians of racism after facing months of criticism for meeting Turkish President Recep Tayyip Erdogan, a controversial figure in Germany because of his crackdown on political opponents.

Mr. Ozil and fellow player Ilkay Gundogan met Mr. Erdogan in May at a hotel in London for a photo session in which they gave their jerseys to the Turkish leader. Mr. Gundogan, also a German citizen, wrote on his jersey "for my president, with great respect."

The meeting took place during the campaign for June general elections in Turkey.

It ignited a heated discussion about the loyalty of national-team players with immigrant roots, spilling over into a broader debate in the country of 82 million—including more than three million Turks—about the role of Islam and whether immigrants can be truly German. Top politicians have embraced migrant communities in recent years, but Chancellor Angela Merkel's decision to open the doors to thousands of asylum seekers has ratcheted up tensions.

Mr. Ozil had been the sub-



Mesut Ozil gave his national team jersey to Turkish President Recep Tayyip Erdogan in May.

ject of a similar, if less heated, controversy when he refused to sing the German national anthem on the soccer field.

"I have two hearts, one German and one Turkish....For me, having a picture with President Erdogan wasn't about

politics or elections. It was about me respecting the highest office of my family's country," Mr. Ozil wrote.

He said politicians and commentators were expressing their "previously hidden racist tendencies" and added that he

would have such a picture taken again. "Whether it had been the Turkish or the German president, my actions would've been no different," Mr. Ozil wrote.

The soccer star also aimed vitriol at one of his sponsors, the car maker Daimler AG,

which, he said, withdrew its support. Daimler said it was looking into the allegations.

But his harshest criticism was reserved for Reinhard Grindel, the president of the German soccer association, or DFB.

"In the eyes of Grindel and his supporters, I am German when we win, but I am an immigrant when we lose," he wrote.

DFB said it regretted the resignation, but rejected the claims of racism.

Political reaction to Mr. Ozil's decision was divided. A spokeswoman for Ms. Merkel said the chancellor "appreciates him very much."

But others were more critical. "With all respect for the family roots, national players must be ready to accept criticism when they allow themselves to be used for election campaigning," said the government's integration commissioner Annette Widmann-Mauz.

Germany and Turkey have been locked in a diplomatic dispute since Berlin rejected Mr. Erdogan's bid to hold election rallies in the country. The majority of Turks in Germany who voted in recent polls supported Mr. Erdogan.

behavior to join our pressure campaign," Mr. Pompeo said.

He has drawn parallels to the administration's "maximum pressure" policy on North Korea, which has been subjected to sanctions intended to force it to give up its nuclear arsenal and ballistic missiles. In Iran's case, U.S. measures would include pressure on countries to reduce their purchases of Iranian oil to zero, with very few case-by-case exemptions.

Mr. Trump's Sunday tweet was similar to a threat he made to North Korea in front of reporters last August—"fire and fury like the world has never seen."

A month later, North Korean leader Kim Jong Un responded, "I will surely and definitely tame the mentally deranged U.S. dotard with fire."

The escalating rhetoric could push Iran to seek to gain more leverage over the U.S. before entering into any kind of talks, said Trita Parsi, president of the National Iranian American Council, a Washington-based advocacy group. It would be a mistake, Mr. Parsi continued, to compare the problems of Iran and North Korea because U.S. allies in the Middle East were unlikely to act as brokers.

WORLD WATCH

CANADA

Police Identify Man In Toronto Shooting

Authorities identified the gunman who opened fire on a busy Toronto street Sunday as a 29-year-old man named Faisal Hussain. He killed two people and injured 13 others, police said.

Police declined to speculate about the shooter's motives. His family issued a statement saying their son was struggling with severe mental-health challenges, including psychosis and depression.

All told, the gunman shot 15 people, killing an 18-year-old woman and a 10-year-old girl, and injuring 13 others, police said. The gunman was killed in a shootout with police officers.

The victims ranged in age from 10 to 59 years old, said Detective Sgt. Terry Browne, who is leading the investigation. Some are suffering from "life-changing injuries," he said, but declined to elaborate.

Mr. Hussain's family issued an email statement offering their "deepest condolences to the families who are now suffering on account of our son's horrific actions."

Toronto shootings have surged in recent years. Police recorded 228 shootings this year as of July 22, an 11% rise from last year.

—Jacquie McNish and Vipal Monga

GREECE

At Least 20 Killed As Wildfires Rage

Gale-fanned wildfires raged through holiday resorts near Greece's capital, killing at least 20 people by early Tuesday and injuring more than 104, including 11 in serious condition.

Greece sought international help through the European

Union as the fires on either side of Athens left lines of cars torched, charred farms and forests, and sent hundreds of people racing to beaches to be evacuated by navy vessels, yachts and fishing boats.

Winds reached 50 mph as authorities deployed the country's entire fleet of water-dropping planes and helicopters to give vacationers time to escape.

Military drones remained in the air in the high winds to help officials direct more than 600 firefighters below.

—Associated Press

SYRIA

Damascus Condemns Rescuers' Evacuation

The government condemned a multilateral operation to evacuate hundreds of rescue workers from the country as a "criminal process" intended to destabilize Syria.

Authorities have described the civil defense search-and-rescue group, popularly known as the White Helmets, as a terror organization.

The group rose to prominence as it filmed its operations to rescue civilians from Syrian government airstrikes in the country's war. The government alleges the group stages videos.

Russia has accused the group of staging chemical weapons attacks on civilians and blaming them on the government.

On Saturday, more than 400 rescuers and family members were evacuated through Israel to Jordan. Syria called it a "smuggling operation" that was evidence of a Western conspiracy to overthrow the government.

The White Helmets have financial backing from the U.S., the U.K. and other nations.

—Associated Press

Trump Escalates Iran Taunts

Continued from Page One

tary preparations. The U.S. military has been gradually easing its posture in the Middle East region in recent months, reflecting what Pentagon officials said was a drop-off in unsafe or provocative Iranian acts toward ships traveling through the Strait of Hormuz since late last year. As of Monday, the Pentagon hadn't begun to move any U.S. forces or shift military posture near Iran.

White House spokeswoman Sarah Sanders dismissed suggestions from some Democrats that the president was trying to distract from his political troubles at home, including negative reaction to his report during his meeting with Russian President Vladimir Putin last week in Helsinki.

"The president is responding to Iran and he's not going to allow them to continue to make threats against America," she told reporters Monday. "If anyone's inciting anything, look no further than to Iran...The president has the ability, unlike a lot of those in the media, to focus on more than one issue at a time."

John Bolton, the national security adviser, reiterated the president's warning on Monday.

"President Trump told me that if Iran does anything at all to the negative, they will pay a price like few countries have ever paid before," he said.

Secretary of State Mike Pompeo, in an address in Los

Angeles on Sunday, castigated Iran's clerical leaders and called on other countries to join the U.S. campaign of pressure and sanctions against the Islamic Republic.

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WORLD NEWS

Firms Gear Up To Cash In on North Korea

Hopes rise for access to a market of 25 million people, though large obstacles remain

By JONATHAN CHENG

SEOUL—Some of South Korea's biggest companies, along with law firms and a cottage industry of business consultants, are eyeing potential opportunities in North Korea, one of the world's most difficult business environments.

After months of rapprochement—including summit meetings between North Korean leader Kim Jong Un and South Korean President Moon Jae-in, and one between Mr. Kim and President Donald Trump—hopes are rising for more open access to North Korea, a country of 25 million people with vast mineral reserves and lots of cheap labor.

Samsung C&T Corp., the de facto holding company of South Korea's biggest and best-known conglomerate, created a North Korea task force in May, staffed by an executive and three managers.

Samsung's construction arm, which has built some of the world's tallest skyscrapers and is building subway lines in Singapore and Riyadh, Saudi Arabia, sees opportunity in the North as economic growth

slows in the South.

The Samsung task force is following global developments related to North Korea, attending forums and seminars on economic cooperation between the Koreas and looking at potential areas for opportunities, a spokesman said.

It is still early days: The most stringent sanctions placed on North Korea remain in effect, and progress toward the country's nuclear disarmament remains fragile. U.S. Secretary of State Mike Pompeo was optimistic after meeting with North Korean counterparts this month—despite North Korean accusations of “gangster-like tactics”—but he warned last week against any slackening in sanctions enforcement.

South Korea's President Moon has said any economic incentives and inducements can come only after North Korea has followed through on its promise of denuclearization.

Shin & Kim, a Seoul law firm that worked on one of the most ambitious inter-Korean economic projects before it was scuttled two years ago, has seen an uptick in interest in North Korea investment this year as diplomacy has picked up steam.

In recent days, the firm has been talking to South Korea's unification, trade, and land-and-infrastructure ministries,



North Korea has vast mineral reserves and cheap labor. A conveyor belt moves beer at the Taedonggang Brewery in Pyongyang, DITA ALANGKARA/ASSOCIATED PRESS

and making presentations to companies such as the Hyundai conglomerate, says Cho Yong-joon, a partner at Shin & Kim.

Shin & Kim had represented three major South Korean companies—steelmaker Posco, state-owned Korea Railroad Corp. and family-controlled shipping company Hyundai Merchant Marine Co.—in the Rajin-Khasan rail-and-port infrastructure venture on the North Korea-Russia border, which was intended to bring Russian coal to South Korea, until the South Korean government canceled the project two years ago.

This month, South Korea's

presidential office sent an 11-member team to the North Korea-Russia border to look into the stalled project and other opportunities for economic collaboration.

A crop of business consultants, many of them boasting longtime relationships in North Korea, have stepped up to offer their services to would-be investors in the North.

“Everybody I've spoken to is aware that it's too soon for investment, but knowing that, if things change in the next year, they want to be the first ones to get in,” says Mike Spavor, a Canadian who has lived in both Koreas and who has ac-

companied retired basketball star Dennis Rodman to Pyongyang to meet with Mr. Kim.

Mr. Spavor, whose nonprofit Paektu Cultural Exchange is organizing a trip to a North Korean trade fair in August, lists seafood trading, manufacturing, textiles, infrastructure, tourism and real estate as areas of interest for prospective businesspeople.

Sanctions aside, many of the concerns that bedevil investments in frontier markets loom over North Korea, including restrictions on repatriation of profits, potential seizure of assets and uneven enforcement of laws.

At the Kaesong Industrial

Complex, a joint business park that combined South Korean capital and North Korean labor just north of the inter-Korean border, 124 South Korean businesses were left with losses and some of their assets stranded after the Seoul government shut down the complex in 2016 amid increased tensions.

Tony Michell, a British business consultant who until 2009 operated a full-time office in Pyongyang that helped companies find business prospects there, said inquiries and referrals have been on the rise.

“We envision doing it again, when legally possible,” Mr. Michell said.

For Tokyo Games, Heat is a Worry

By ALASTAIR GALE

TOKYO—A city near the capital reported Japan's highest-ever recorded temperature of 106 degrees, as a heat wave that is scorching the nation raises concerns about the health of athletes and spectators at the Summer Olympics in 2020.

Authorities have reported at least 23 deaths related to the high temperatures, including one woman who was found collapsed in a field north of Tokyo on Monday. Nine high-school students were sent to a hospital with heat-related symptoms after attending a baseball game in southern Japan that was part of the annual national summer tournament.

While it is rare for temperatures to top 100 degrees in Japan, they often exceed 90 degrees during the summer months, which are also very humid. The Japan Meteorological Agency said the record temperature was recorded in the city of Kumagaya, about an hour northwest of Tokyo by train, at midafternoon on Monday. The previous record, which was marginally lower, was set in 2013 in southern Japan.

The burst of extreme heat, which has been going on for more than a week, has rekindled questions about the tim-



Tokyo pedestrians try to keep cool. A record temperature was recorded northwest of the capital. NATSUKI SAKAI/AFLO/IZUMI PRESS

ing of the next Summer Olympics, due to run from July 24 to Aug. 9, 2020. When Tokyo last hosted the Games, in 1964, they were held in October to avoid the heat. But International Olympic Committee rules now require host cities to stage the Games in July and August.

Since 1964, average July-to-August temperatures in Tokyo have risen several degrees, as heat radiating off asphalt and buildings as well as coming out of car exhausts and air conditioners stays trapped at night, a so-called

urban heat island effect.

This month, the head of an IOC inspection team said the organizers would consider all options to limit the impact of Tokyo's summer heat on the Games.

Since then, start times for some events have been moved earlier in the day—including the marathon—which will begin at 7 a.m. instead of 7:30 a.m.

Local authorities are looking into other measures, such as paving sidewalks that reflect less heat and planting larger trees to provide more

shade.

“We certainly need to make sure there is medical attention available. And it's spectators as well as athletes that we have to take care of,” John Coates, chair of the IOC Coordination Commission for Tokyo 2020 said at a press conference this month.

The next soccer World Cup, in Qatar in 2022, was moved to the end of the year because of concerns about the summer heat. Stadiums there are also set to get state-of-the-art air conditioning.

Pyongyang Begins To Raze Rocket Site

North Korea has begun dismantling its main satellite launch facility, an apparent confidence-building measure by Pyongyang amid concerns about the nation's slow progress on shutting down its nuclear weapons programs.

By Jonathan Cheng in Seoul and Michael R. Gordon in Washington

New satellite images published Monday by North Korea-focused website 38 North showed Pyongyang was razing its rocket-engine test stand and a related building at the Sohae Satellite Launching Station, the country's primary launch site for rockets since 2012.

The move, which hasn't been announced by North Korea's state media, is an apparent follow-through on a promise that President Donald Trump said was made to him during his June 12 summit meeting in Singapore with North Korean leader Kim Jong Un.

In the six weeks since that meeting, concerns have grown about North Korea's sincerity in fulfilling its pledges as part of the detente—particularly following delays by North Korea in returning the remains of U.S. soldiers killed in the Korean War, the most immediate of the four points agreed to in the Singapore statement.

The moves to dismantle facilities at Sohae, on the northwest coast, in contrast, “represent a significant confidence-building measure on the part of North Korea,” said Joseph Bermudez, an analyst for 38 North.

Mr. Bermudez, relying on commercial satellite imagery from July 20 and 22, said that given the progress of the activity, the dismantling had likely begun in the past two weeks.

“These facilities are believed to have played an important role in the development of technologies for the North's intercontinental ballistic missile program,” Mr. Bermudez said of the rocket-engine test stand and a related building.

Some experts played down the value of dismantling activity at Sohae by the regime.

In addition to the long lag between the summit and the activity at Sohae, it isn't clear that Pyongyang's dismantling of the engine test stand is irreversible, said Vipin Narang, a nuclear expert and associate professor of political science at the Massachusetts Institute of Technology.

The overall importance of the Sohae missile site has also likely diminished for Pyongyang, Mr. Narang added, since North Korea, apparently satisfied with its missile design, had shifted to mass production last year.

their data and target ads to them.

The privacy law may have even benefited Google by making its offerings more appealing than those of smaller players in the market.

“It was a safe choice to buy [advertising] using Google's tools and inventory,” Mr. Wiener said.

It's too early to tell whether the EU's findings against Google's use of Android will force the company to change its business deals. The regulator ordered Google to stop forcing Android handset makers to bundle Google's Search and Chrome apps on devices that also include the Google Play store for third-party apps, a ruling which could give handset makers leverage to extract payments from Google to pre-install those apps.

Asked about whether Google sees any changes to its Android business, Chief Executive Sundar Pichai said he is working “to find a solution above all that preserves the tremendous benefits of Android to users.”

Android, which is free to handset makers, “creates more choice for everyone, not less,” Mr. Pichai said.

Alphabet Has Strong Quarter

Continued from Page One

Facebook Inc., which for months has grappled with criticism about its data privacy practices. Facebook is expected to report a sharp increase in revenue when it reports second-quarter results Wednesday as companies continue to buy ads on the social-media site and its Instagram unit.

“Between Google and Facebook, the two of them keep share of an industry that doesn't grow as much as they are,” said Pivotal Research analyst Brian Wieser.

Google is expected to control 31% of the global ad market this year, down slightly from 31.7% in 2017, according to estimates from eMarketer.

The company on Monday said its second-quarter profit fell 9% to \$3.2 billion because of a \$5 billion fine levied last week by the European Union,

which said Google has abused the dominance of its Android mobile operating system. Android is used by more than 80% of the world's smartphones. Google said it is appealing the charges.

Excluding a charge for the fine, the company reported per-share earnings of \$11.75, compared with a year-earlier figure of \$8.90 and the consensus analyst estimate of \$9.66, according to FactSet.

Revenue, excluding traffic costs paid to partners, rose 25% from a year earlier to \$26.4 billion. Analysts were expecting \$20.9 billion, according to FactSet.

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“Google continues to be an online ad business that's a fantastic business,” said Sean Stannard-Stockton, a portfolio manager at Ensemble Capital, which owns shares in Google. “It is unbelievably steady for a business of this size.”

One closely watched measure in the company's earnings reports is how much Google is paying to maintain its leadership position in the ad market, especially as more users shift to mobile phones.

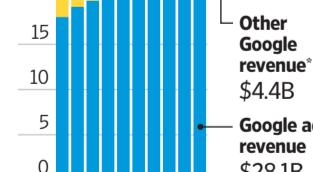
Google pays fees to smart-

Adding Up

Google maintained its leadership position in the ad market as its parent company, Alphabet, surpassed analysts' second-quarter estimates.

Ad revenue continues to soar...

Alphabet's segment revenue



*Other Google revenue includes hardware, cloud and app-store sales

Sources: the company (revenue); FactSet (daily closes); WSJ Market Data Group (after hours)

phone partners, such as Apple Inc., to be the default search engine on smartphones. Payments to those distribution partners rose 49% in the second quarter, and now account for 13% of the revenue generated by the company's website traffic. That is down slightly from 13.2% in the first quarter, marking the first sequential decline for this important measure in three years.

... propelling Alphabet's stock price to a new all-time high.

Stock performance



After-hours trading high: \$1,285.84

Google's capital expenditures nearly doubled to \$5.5 billion from a year earlier, as the company spends on workers and infrastructure to maintain its lead in emerging technologies.

The biggest increase in spending was on research and development and on boosting the ranks of technical workers, Chief Financial Officer Ruth Porat said Monday on a call with analysts. Alphabet has 89,000

employees, an increase of 4,000 from the first quarter.

As Google faces more pressure from regulators, investors are worried that new laws and restrictions will impede its growth. In addition to the fine related to Android, European regulators this year began enforcing a new privacy regulation forcing Google and other internet companies to get consent from web users to collect

their data and target ads to them.

The privacy law may have even benefited Google by making its offerings more appealing than those of smaller players in the market.

“It was a safe choice to buy [advertising] using Google's tools and inventory,” Mr. Wiener said.

It's too early to tell whether the EU's findings against Google's use of Android will force the company to change its business deals. The regulator ordered Google to stop forcing Android handset makers to bundle Google's Search and Chrome apps on devices that also include the Google Play store for third-party apps, a ruling which could give handset makers leverage to extract payments from Google to pre-install those apps.

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THE WALL STREET JOURNAL.

GLOBAL FOOD FORUM

Explore key risks and opportunities
shaping the global business of food

SEPTEMBER 27, 2018 | NEW YORK, NY

On September 27, The Wall Street Journal will bring together leaders in agribusiness, food production, consumer products, economics and government to focus on how changing consumer tastes, new technology, global competition and other forces are transforming this critical sector of the economy. Join our Global Food Forum audience and leaders from the top companies in the sector. The organizations below are just a sampling of our 2016 and 2017 participants.

915 Labs | Accenture | AeroFarms | AgFirst Farm Credit Bank | AgriCapital | Agrivida | Agrocobán | AgroFresh | AgTech Accelerator | Ahold Delhaize | AIB International | Alantra | Algenol Biotech | Alico | American Farm Bureau Federation | AMERRA Capital Management | Analog Devices | Animal Agriculture Alliance | Anterra Capital | Apio | Applied Invention | Aqua Spark | Archer Daniels Midland | Arrell Food Institute at the University of Guelph | Arrowhead Beef | ASPIRE Beverage Company | Australia and New Zealand Banking Group | Australis Aquaculture | Bank of America | Barclays | Beaver Creek Ranch | Bellisio Foods | Berjé | Beyond Meat | Bimbo Bakeries USA | Biotechnology Innovation Organization | BiOWiSH Technologies | Blackland Capital Partners | BMO Harris Bank | Bojangles' Restaurants | Bunge | Calysta | Campbell Soup | Cargill | The Center for Food Integrity | Chew | Chobani | CHS | Clara Foods | Clear Creek Farm | Clear Labs | The Climate Corporation | Closed Loop Capital | CoBank | Conagra Brands | Corn Refiners Association | Country Partners Cooperative | Cultivating New Frontiers in Agriculture | Dairy Farmers of America | DBL Partners | Deloitte | Devault Foods | Dietz and Watson | District Ventures Capital | Diversigen | DLA Piper | DowDuPont | DuPont | Earthgreen Products | Edlong Dairy Technologies | eMeals | Environmental Defense Fund | The Equity | EY | fairlife | FamilyFarms Group | Farmers Pride | Farmland Partners | Farmstead | Federal Agricultural Mortgage Corporation | Federal Farm Credit Banks Funding Corporation | Feeding America | Finke Farms | Firmenich | Floratine Products Group | FMC | Food Future | Food Marketing Institute | Foster Farms | Foundation for Food and Agriculture Research | Freshly | FultonFishMarket.com | Gelson's Markets | General Mills | GEOSYS Intl | Givaudan Flavors | Glanbia | Golden State Foods | The Good Food Institute | Grain Craft | Griffith Foods | Grocery Manufacturers Association | Guckenheimer | The Hain Celestial Group | Hancock Agricultural Investment Group | HarvestPlus | The HAVI Group | HEB Grocery | Hershey | Highland Family Farms | Hormel Foods | The Humane Society of the U.S. | Illinois Farm Bureau | Ingredion | Innovation Center for U.S. Dairy | International Farming | International Food Information Council | J.S. Ferraro | KEEN Growth Capital | Ketchum | Kroger | Kuli Kuli | Lamb Weston | Land O'Frost | Land O'Lakes | Larsen & Toubro | LG Corporation | Local Roots Farms | Lopez Foods | Louis Dreyfus | LT Foods Americas | Mars | The Maschhoffs | McDonald's | McKinsey | Memphis Meats | Merck | Michigan Department of Agriculture | Mission Foods U.S. | Mitsui | Modern Meadow | Mosa Meat | Munchery | Mutima Capital | National Aquarium | National Association of State Departments of Agriculture | National Pork Board | Nestlé | Newman's Own | NGEN Partners | Nima | Nomura Securities | Noosa Yoghurt | North American Meat Institute | North Castle Partners | NSF International | Olam International | Orange County Produce | Oregon Farm Bureau | Paine Schwartz Partners | Panera Bread | PAR Technology | Peapod | Pennsylvania Department of Agriculture | PepsiCo | Perdue Farms | Peri & Sons Farm | Pete and Gerry's Organics | Phibro Animal Health | Pinnacle Foods | Piper Jaffray | PMMI | Quirch Foods Company | Rabobank | RBC Capital Markets | Ready Pac Foods | Reily Foods | Reiter Affiliated | ReposiTrak | Retail Ready Foods | S2G Ventures | Sample6 | Sapient Global Markets | Sargent Foods | Schwan's | Scoular | Sensient Technologies | Shanghai Farms | Siggi's Dairy | Simple Mills | Smithfield Foods | Social Capital | Soft Robotics | South Carolina Department of Agriculture | Southeastern Grain | Spoon University | Starbucks | Strassburger Steaks | Sun Capital Partners | Sustainable Insight Capital | Swander Pace Capital | Teays River Investments | Tecumseh Poultry | Thomas Foods Intl | Tilia Holdings | Trace Genomics | Trader Joe's | Tyson Foods | U.S. Bank | U.S. Department of Agriculture | U.S. Farmers & Ranchers Alliance | U.S. Food and Drug Administration | U.S. Trade Representative | Unilever | Valent BioSciences | Virox Technologies | Walmart | Waycrosse | Weber Shandwick | West Liberty Foods | White Oak Pastures | Wish Farms | World Economic Forum | The Yield Lab | Zoetis | Zume Pizza

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IN DEPTH

Economists Demand Brevity

Continued from Page One

American Economic Review: Insights. "But on the other hand, not all papers should be long."

She noted that seminal 1950s papers by Paul Samuelson and John Nash took only a few pages to convey findings on public goods and game theory; both men later won the Nobel Prize in economics. Some journals today seem wary of publishing such quick reads.

"If you want to publish a paper in a top journal, even if you think you have one key insight that can be conveyed succinctly, the referees are not going to take it," Ms. Finkelstein said.

Between 1970 and 2017, the average length of papers pub-

lished in five top-ranked economics journals swelled from 16 pages to 50 pages, according to an analysis by University of California, Berkeley economists Stefano DellaVigna and David Card.

Longer papers can include more-robust statistical analysis, engage in multifaceted arguments or address complex topics. Some economists speculate paper inflation is also the product of the laborious peer-review process, in which other economists act as referees and read drafts, then demand any number of additions before publication.

"That would all be fine if it was costless to write papers and costless to read papers," Mr. Autor said. "But neither of those are true."

It isn't unusual for economists to include similar points made with several different data sets, lengthy reviews of past research, multiple appendices with technical details and page after page of Greek letter-laden formulas that require,

well, a Ph.D. to understand.

"It's bad for everybody," said Katharine Anderson, an economist at Carnegie Mellon University. "It's bad for the authors because it takes years to put together a paper that anybody would consider publishing. It's bad for referees because you have to read a 40 to 60 page paper that might be total crap."

As for the actual audience, she said, "reading a paper is a real commitment at that point."

One issue, she said, is that the norm in economics is for each paper to make a number of different points, all of which need to be supported and verified, while other academic fields have a higher tolerance for papers making one or two key observations.

Economists also tend to write

defensively, including redundant material even in early versions of papers to head off possible quibbles that might come up during the review process, said Samuel Bazzi, an economics professor at Boston University.

From an early stage of an academic career, "it becomes pretty clear that you need to check off a pretty long list of items to really convince people that the way you're interpreting your results is indeed the right way to do it,"

Mr. Bazzi said.

That is more or less what happened with the 94-page working paper that Mr. Autor critiqued at the AEA conference in January. When you're trying to anticipate possible criticisms on a controversial topic like the minimum wage, and situate

your research in the deep existing literature on the subject, it "quickly adds up to a long paper," said University of Massachusetts-Amherst economist Arindrajit Dube, one of the paper's co-authors. Mr. Dube said that paper is now in the process of being revised ahead of publication—including acting on a request to make it shorter.

The trend toward longer papers makes some in the field worry they lack an outlet for important research findings that don't run 40 or more pages. In 2015, Princeton University economists Anne Case and Angus Deaton published research on rising death rates for middle-aged white men. Their six pages in the Proceedings of the National Academy of Sciences set off a national debate over possible links between mortality and economic distress, and "there was a lot of discussion about whether a paper like that, sent to a standard economics journal, would have had

a chance to get published," said University of Chicago economist Anil Kashyap.

Ms. Case said they felt their findings on mortality "would find a more natural home" and reach a broader audience in the science-focused journal.

At the time, Mr. Kashyap was serving on an AEA committee tasked with evaluating the group's stable of academic journals, which includes the influential American Economic Review. He said the idea of a new destination for shorter papers quickly gained traction, leading to the new journal.

Economists can't turn back the clock to a less-loquacious era, he said. "But I do hope, if this journal does work, it will put some pressure on the other journals to not be so nitpicking."

The first issue is set to come out next summer, but authors are already excited. Ms. Finkelstein said the new journal is on track to have more than 600 submissions for its first year.



Mary Armstrong, above left, and Tom Tierney, above right, told of being fired not long after they complained about certain practices at MiMedx, a tissue-graft maker led until this month by Parker "Pete" Petit, below. The company is doing an internal investigation.



CLOCKWISE FROM LEFT: LAURA BUCKMAN FOR THE WALL STREET JOURNAL; LANA PANTIN-LINSMAN FOR THE WALL STREET JOURNAL; CNBC

Short sellers

The company responded to some criticisms in the past, confronting short sellers who have mounted an attack on its stock. In a rebuttal it once had on its website, MiMedx said the channel-stuffing allegation came from people who misunderstood its operations or from fired and disgruntled former employees. The rebuttal now is gone from the site. MiMedx said it no longer intends to post responses because of its investigation.

Besides that inquiry, MiMedx said earlier this year the Securities and Exchange Commission and the Justice Department were reviewing some of its practices. The Department of Veterans Affairs has said it is, too.

No one has suggested MiMedx's products are faulty. "The company is operating its business as usual as it continues to grow, invest in its product pipeline, and focus on serving healthcare providers and their patients," MiMedx said, adding it has no debt.

Mr. Petit, a well-known health-care entrepreneur, is a large presence in his home state of Georgia who has donated generously to his alma mater. At Georgia Tech, he funded a professorial chair for engineering in medicine, endowed the Petit Institute for Bioengineering and Bioscience and helped fund a biotechnology building that bears his name. Last August he donated \$10 million to the athletics program at Georgia State, which named its football stadium for him.

Mr. Petit served as finance chairman of Donald Trump's presidential campaign in Georgia in 2016 and is a longtime friend of Tom Price, President Trump's first Health and Human Services secretary.

MiMedx, based in Marietta, Ga., took off in 2011 after it acquired a seller of placenta-based treatments meant to heal wounds more quickly.

The raw materials come from placentas donated by women who have given birth by caesarean section. The company takes the amniotic membrane—the thin, moist tissue that protects the fetus—and processes it into wound patches or grinds it into a powder that can be applied topically or by injection. MiMedx's amniotic-membrane products are generally considered to be safe and of good quality, said Robert Kirsner, director of the University of Miami Hospital Wound Center.

Products made from human tissue didn't need Food and Drug Administration approval for marketing so long as the tissue wasn't significantly altered in processing and performed the same basic function it had in the donor. Last November, however, the FDA said some products of the type MiMedx sells do require agency approval. MiMedx has three years to meet the new guidelines and will have the expense of clinical trials.

Meantime, sales reps faced pressure from managers for higher volume, said former employees. "What else can u ship by end of month?" said one message to a former employee. "Need all u can put in today up to \$100k if possible," it said.

"I still have PTSD from the amount of calls I'd get asking what my numbers were going to be for the month," said

MiMedx indicated in June its results going back to 2012 will have to be restated.

Mary Armstrong, a former MiMedx account executive in Texas. She said superiors would tell her "I need you to hit this number."

In one instance, MiMedx sales records show the company recorded a shipment of 135 oversized skin grafts to a Las Vegas plastic surgeon's office, which former employees said is way beyond the 10 or so smaller pieces in a typical physician order. The shipment was recorded at 8 p.m. on Sept. 29, 2016, just before the end of a quarter.

No one in the surgeon's office had ordered the goods, according to a former employee of the office.

The surgeon refused to pay

for the grafts, which were billed at about \$270,000 and shipped to a FedEx Corp. office for pickup, the former office employee said.

A FedEx receipt reviewed by the Journal said the shipment was picked up the next day by someone representing the surgeon. The former surgeon's-office employee said no one from the office collected the goods.

The former employee said that, when shown a security video from the location, he recognized the person who had signed for the pickup as a representative for a company that did business with MiMedx. The former employee said the surgeon chose not to pursue the matter with police.

MiMedx's top executives were asked by the doctor's office about this sequence of events and couldn't satisfactorily explain it, the former surgeon's-office employee said.

The allegation was among those MiMedx told the Journal it wouldn't address because of its internal investigation.

Ms. Armstrong, the former MiMedx account executive, said in 2016 she complained to executives, including Mr. Petit, about what she considered improprieties, such as third-party distributors appearing to overcharge hospitals for MiMedx products.

Mr. Petit told her he would fix the problem, but the activi-

ties continued, she said. She said she soon was fired for what the company called performance reasons.

A Journal question about Ms. Armstrong was among those Mr. Petit addressed. He said Ms. Armstrong "never told me anything that I recall."

MiMedx said in its written statement it "has taken a number of actions to promote accountability and strengthen oversight, including management's development and implementation of measures to improve MiMedx's accounting, corporate compliance and internal control practices." Last week it named a new chief compliance officer from out-

side the company.

VA hospitals and clinics were crucial to the company's revenue growth, said former employees. The U.S. government accounted for more than a fifth of MiMedx's revenue, by one analyst's estimate. A spokesman for the VA's Office of the Inspector General declined to comment on MiMedx, citing an investigation by the IG.

Many VA hospitals do business with MiMedx on a consignment basis, meaning the company sends them products and is paid only when the VA uses some of them. Storing voluminous merchandise on VA shelves became a challenge, former MiMedx employees said. "We would find ways to hide it," said one.

An August 2017 email received by regional sales directors said consignment inventory outstanding just in the Southwest region was worth some \$34 million. For perspective, that was equal to more than 10% of reported sales companywide in the previous year.

Several former employees said that at times, near the end of a quarter, the company would book as sales some of the goods sent to hospitals on consignment but not yet used.

The F.D.A. requires that details of medical use of human tissue—the donor and the recipient—be recorded. MiMedx documents reviewed by the Journal show that in one hospital, tissue recipients were repeatedly recorded by a sales rep as Jane Doe or John Doe. Also, MiMedx records didn't match the hospital's own records in various ways, such as listing a different doctor and incorrect implant date.

Jennifer R. Scott, a former MiMedx regional sales director, said she saw mislabeling of surgical implants as wound-care uses, which are more highly reimbursed.

She said she was fired after

identifying the improprieties to her superiors. Ms. Scott, who is known as Robyn, recently sued MiMedx, alleging accounting irregularities under the Sarbanes-Oxley law, seeking damages for lost wages and earning capacity. The company declined to comment on the suit, filed in federal court in Dallas, and didn't answer a question from the Journal about the labeling.

MiMedx says it encourages employees to speak up if they see problems at the company. "Management MiMedx Style," posted on the company website, said Mr. Petit personally oversaw what was called a "Dear Pete" program for lodging complaints, and "no employee will be reprimanded or harassed in any way for using this system."

Some former employees described a different "Dear Pete" experience. In a detailed letter to Mr. Petit and the board in January, Tom Tierney, a former regional sales director for surgical products, cited what he called a "mind-boggling level of sales and accounting irregularities," which he called part of a "win at all cost" company culture.

Just over a week later, he was fired, Mr. Tierney said. He said he was accused of giving company information to outsiders, which he denied.

During about 18 months at the company, Mr. Tierney said, he warned top management that some sales reps were falsifying inventory reconciliations—recording tissue grafts as being at one hospital when they actually had been redistributed. He said he also told executives some sales reps were improperly advising doctors how to maximize reimbursement on MiMedx products.

Mr. Petit said he responded "quite thoroughly" to an earlier letter from Mr. Tierney that raised questions about company accounting, seeking more details. Mr. Petit said that when Mr. Tierney didn't respond—including to calls from company auditors—he concluded the employee had no specific information.

Mr. Tierney disputed that account, saying he provided specific examples on several occasions.

Whistleblower

Mr. Tierney said he has filed a whistleblower complaint with the SEC and spoken with the agency. The SEC declined to comment. If the SEC were to bring an action against MiMedx that resulted in monetary sanctions, Mr. Tierney might stand to collect a financial award under the agency's whistleblower program.

On June 7, when MiMedx convened an investor call and disclosed it would need an extensive restatement of financial results, Mr. Petit said the business performance "remained strong."

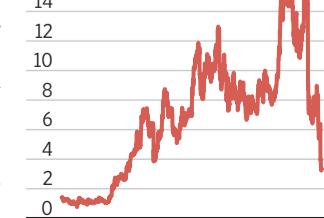
He was out as CEO and chairman within a month, in early July. The company described the departure of Mr. Petit, who remains on the board, in part as a result of audit-committee findings that haven't been made public.

The day after Mr. Petit's departure, a Georgia Tech alumnus emailed the university's president, Bud Peterson, asking him to remove Mr. Petit's name from the biotech building. Mr. Peterson declined, according to an email reviewed by the Journal.

Such an action "would be premature at best!" he wrote.

Deep Cut

Shares of MiMedx, a maker of tissue grafts for surgery and wound care, have plunged since questions were raised about its sales practices.



Source: FactSet

THE WALL STREET JOURNAL

GREATER NEW YORK

NYPD Number-Crunchers Fight Crime

Civilian analysts help link crime sprees that straddle several neighborhoods

BY ZOLAN KANNO-YOUNGS

They're New York City Police Department crime fighters who don't carry a gun or a badge. When they clock in, they log on to a computer and pore over spreadsheets with a key statistic in mind: One of every seven crimes in the city is part of a pattern.

For the past year, 100 civilian crime analysts have been connecting the dots on crimes, from violent robberies to stolen cellphones. The analysts, who were hired by the NYPD last year as part of a push to better scrutinize crime data at the neighborhood level, work behind the scene in each of the city's 77 precincts, combing police reports for details that might tie multiple crimes to the same criminals.

Commanders, often unable

to link crime sprees covering several neighborhoods because they are focused on their own precincts, use the findings to target their resources, police say.

"Even as recently as a year ago, there was a lot of counting by hand and there was a lot of siloed databases," said Chief of Crime Control Strategies Lori Pollock. "I'm seeing patterns more readily recognized. It's a couple educated clicks and they're coming up with things we wouldn't have had."

In June, one of the NYPD's analysts, 40-year-old Kendall Perez, noticed five larceny investigations involving vehicles in Queens. He reviewed the crimes on his computer and noticed that each one occurred between 10 p.m. and midnight, and the victim was a taxi driver.

A deeper look showed the perps were targeting cellphones in the vehicles. Mr. Perez informed his supervisor, who deployed more officers to patrol at that time and be on the lookout specifically for taxis. They made an arrest



Crime analyst Benjamin Goldy works at NYPD headquarters.

within days.

This spring, when a captain on the Upper West Side noticed a surge in shoplifting in his jurisdiction, he directed his crime analysts to categorize the petty-theft data to "larceny per capita," or per store. The captain found that the thefts were concentrated in Duane Reade locations. He told the commander of the Upper East Side, who deployed more personnel to stores there.

The NYPD is slowly embedding analysts into specialty squads, as well. Chief of Detectives Dermot Shea, who is conducting a "top-to-bottom" review of the Special Victims Division after reports of understaffing in the adult sex crimes unit, recently said an analyst was added to the division.

The analysts are paid between \$51,000 and \$90,000 and come with credentials

such as an economics degree from Cornell University and Ph.D.s in various subjects.

Before the analysts were hired, Ms. Pollock said patrol officers were working as analysts. Most of them spent their days entering data. Now, those officers are back on the street.

"Criminals don't think within precinct boundaries or borough boundaries, city boundaries or even state boundaries. So we can't think like that," Ms. Pollock said. "This has enabled people to have an idea. You wouldn't want an idea before because it might be arduous and you might not be able to do it."

Chuck Wexler, executive director of the Police Executive Research Forum, a group that aims to improve policing, said the NYPD stood out in the law-enforcement community by hiring the civilian analysts.

While the Chicago Police Department last year teamed up with the University of Chicago Crime Lab to gain 25 analysts, most police departments around the country

focus on hiring more uniformed officers, he said.

"When departments are forced to cut back, the first people to be cut are civilians," Mr. Wexler said. "Attracting highly talented civilians and paying them competitive salaries can be daunting for some cities."

The analysts also are counted on to raise awareness of new crime trends.

Benjamin Goldy, an analyst based in the NYPD's headquarters in lower Manhattan, has been looking at tens of thousands of crimes during the past five years in which the perpetrators drove cars with out-of-state license plates.

"Not something you can do by hand," said Mr. Goldy, who also is in a Ph.D. program at the University of Huddersfield in the U.K. The project could give a hint at where out-of-state criminals are most often coming from, he said.

"We're solving crimes by sitting at our desks," Ms. Pollock said. "The information is there."



Members of the Transport Workers Union showed up at Cynthia Nixon's news conference to express support for Gov. Andrew Cuomo.

Nixon Denounces State of Subway

BY LARA KORTE
AND PAUL BERGER

Shouting over the roar of subway cars in a Manhattan station, gubernatorial candidate Cynthia Nixon on Monday criticized fellow Democrat Gov. Andrew Cuomo, saying he failed to improve the city's transit system and wasted millions of dollars on beautification projects for car tunnels.

Earlier Monday, MTA Chairman Joseph Lhota issued a

the Brooklyn-Battery and Queens-Midtown car tunnels.

The article said the money could have been spent to improve the subway system rather than on the tiles, which are the official color scheme of New York.

Earlier Monday, MTA Chairman Joseph Lhota issued a

Gov. Cuomo's rival accused him of wasting funds on beautification projects.

statement refuting the article, calling it "factually inaccurate." Mr. Lhota said the Federal Emergency Management Agency allocated the funds specifically for tunnel repair after superstorm Sandy, and the money couldn't be used for other improvements.

Ms. Nixon also criticized the governor for recent data showing that the subway sys-

tem's on-time weekday performance hasn't improved since last year, when Mr. Cuomo declared a state of emergency after a string of major service disruptions and a derailment that injured dozens of riders.

The MTA launched an \$800 million short-term turnaround plan last summer to reduce delays and disruptions. It included measures such as hiring as many as 2,700 new workers and expediting signal repairs and track maintenance.

At a regularly scheduled MTA board meeting Monday, subway officials pointed to data showing the plan, which is still being rolled out, is working. Subway cars are breaking down less often and customer wait times on platforms and on trains are gradually improving, they said.

The authority's subway chief, Andy Byford, highlighted weekday on-time performance for June, in which 68% of trains reached their final destination within five minutes of their scheduled arrival time, up from 62% of trains in June

2017. Still, according to the data, the 12-month rolling average for weekday on-time performance through June 2018 was 64%, unchanged from last June.

A spokeswoman for Mr. Cuomo called Ms. Nixon's statements "fiction" and said the governor had taken many measures to improve the transit system.

"Gov. Cuomo single-handedly revived congestion pricing and passed the first phase of Fix NYC, which includes a dedicated revenue stream to fix the subways and full funding for the Subway Action Plan," she said.

About a dozen members of the Transport Workers Union Local 100 showed up at Ms. Nixon's news conference on Monday to demonstrate their support for Mr. Cuomo.

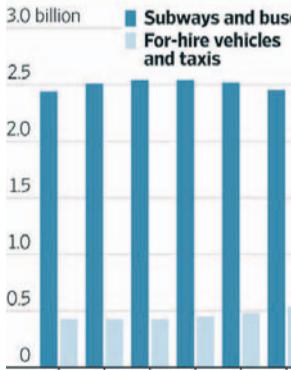
"There's an unprecedented amount of maintenance and repair work taking place, thanks in large part to the additional funding Gov. Cuomo has secured," Tony Utano, the union's president, said in a statement.

Between 2016 and 2017, total for-hire vehicle and taxi ridership grew 13.1%, Mr. Mulligan said. That growth was "strikingly similar" to the reduction in subway and bus ridership during the same period, he added.

Uber accounts for most of

City Movement

Annual New York City ridership



Source: Schaller Consulting's "Making Congestion Pricing Work" via Metropolitan Transportation Authority

THE WALL STREET JOURNAL.

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MANHATTAN

Many Buildings Still Closed After Blast

More than half of the 49 Manhattan buildings shuttered since a steam-pipe explosion rained asbestos on them last week remain closed Monday as workers continue to clean and check each one for debris and damage, New York City officials said.

Thursday's blast forced the closure and evacuation of 49 buildings near Fifth Avenue and 21st Street. While city workers have cleaned the exterior of most of the shuttered buildings, only 17 have fully reopened, according to officials.

At least 10 buildings were contaminated by asbestos and would have to be cleaned before they would reopen.

The city said the explosion displaced at least 500 residents. It's not clear how many of them have returned to their homes.

"It's a painstaking process, and we know it takes time," said Joseph Esposito, the commissioner of the city's Emergency Management office, at a meeting Monday for affected business owners. Mr. Esposito said he hoped the number of reopened buildings would double by Tuesday to at least 34.

—Katie Honan

IMMIGRATION

Cuomo Pardons Seven Facing Deportation

Seven people who faced deportation because of crimes committed years ago were pardoned Monday by New York Gov. Andrew Cuomo, a Democrat.

The seven individuals include a mother of three, a grandfather and a man battling cancer. All seven had minor, nonviolent convictions that in some cases date back decades, but their criminal records made them targets for deportation, Mr. Cuomo said. The pardons, he said, would make it harder for federal immigration officials to continue deportation proceedings.

—Associated Press

Daily News Will Cut 50% of Its Editorial Staff

By LUKAS I. ALPERT

The New York Daily News announced that it would cut its editorial staff by half as part of a major restructuring to address "significant financial challenges" the Big Apple tabloid has faced for years.

The steep cuts come less than a year after the nearly century-old city institution was acquired by Chicago-based Tronc Inc. for \$1 and

the assumption of debt and pension liabilities. At the time, the deal gave the company a presence in the three largest media markets in the country.

Since then, Tronc has undergone broad changes, including the sale of its former flagship publication, the Los Angeles Times, and the attempted exit of its leading shareholder, Michael Ferro.

In a staff memo, the paper said the cutbacks were aimed

at making the news operation more digitally focused with a greater emphasis on breaking news. "The decisions being announced today reflect the realities of our business and the need to adapt an ever-changing media environment," the memo read.

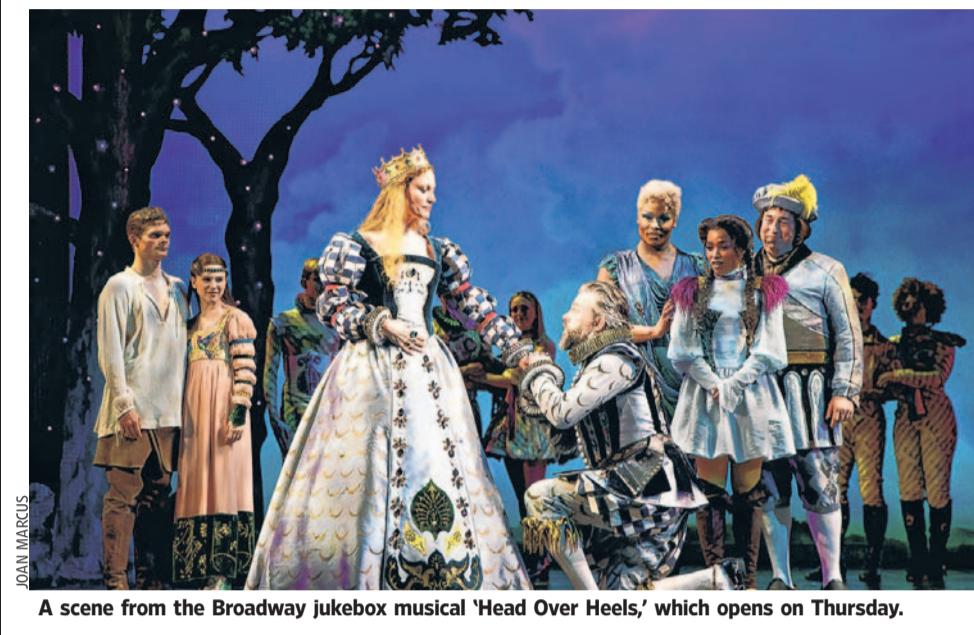
Before the cuts, the paper had an editorial staff of about 100, meaning roughly 50 people lost their jobs, a Tronc spokeswoman said. Among the

hardest-hit departments were the sports and photo desks and the paper's research library. Numerous metro reporters and editors also were let go.

The Daily News has struggled financially for years as readers and advertisers have moved away from print to online. In 2016, the Daily News reported a loss of \$23.7 million, according to a regulatory filing Tronc made when closing the deal last November.

Both New York City Mayor Bill de Blasio and New York Gov. Andrew Cuomo expressed concern about the impact of such sweeping cuts on the civic good in the city.

"This will undoubtedly devastate many households and hurt an important New York institution," the governor said in a statement. The mayor urged Tronc to consider selling the publication rather than make the cuts.



A scene from the Broadway jukebox musical 'Head Over Heels,' which opens on Thursday.

Go-Go's Box Office Blues

By CHARLES PASSY

"Head Over Heels," the Broadway jukebox musical featuring songs by the all-female rock band the Go-Go's, is looking more like a no-go at the box office.

The show, which has been running in previews for the past month and opens on Thursday, has grossed \$1.3 million to date, or just 36% of its potential take, according to figures supplied by the Broadway League, the trade group that tracks the industry. For the seven-day period ended this past Sunday, it posted grosses of \$284,400, a figure that put it behind every other

show on Broadway that had a full week's run.

The weak sales are something of a surprise, given the popularity of the Go-Go's, whose hits include "We Got the Beat," "Our Lips Are Sealed" and "Vacation." On top of that, the show garnered positive notices in its run in San Francisco earlier this year. And it boasts star power behind the scenes: Gwyneth Paltrow is one of the show's lead producers.

Still, theater-industry experts say "Head Over Heels" may be hampered by its story and structure. While its music may be of relatively recent vintage, the show is an Elizabethan-style romp based upon "The Arcadia," a prose work from the 16th century.

As a result, the show may be having trouble appealing to those who are simply Go-Go's fans, said Chris McKittrick, a writer with Daily Actor, a website that covers the performing arts. "It's going through something of an identity crisis," he said.

Producers declined to comment about the show's grosses to date, though a spokeswoman for the musical noted that the past week's sales were lower because of several complimentary tickets made available to the press.

Group Sues Over Yeshiva Exemption

By MAYA SWEDLER

An advocacy group filed a lawsuit Monday alleging that a recently amended New York state law that relaxes educational standards for ultra-Orthodox Jewish schools is unconstitutional.

In the lawsuit, Young Advocates for Fair Education, a nonprofit organization that seeks to bring secular education standards to ultra-Orthodox schools, known as yeshivas, argues that the measure violates the Constitution's First Amendment by granting special treatment to yeshivas.

The suit, filed in U.S. District Court in Brooklyn, names as defendants New York Gov. Andrew Cuomo, Education Commissioner MaryEllen Elia and Regents Chancellor Betty Rosa. The legislature passed the measure as part of the state budget in April. Mr. Cuomo signed it into law on April 12.

"Hasidic students deserve the education that is constitutionally guaranteed to them by the state of New York," Naftuli Moster, the advocacy group's founder, said at a Monday news conference. He alleges that some yeshivas don't prepare students for the broader world.

State guidelines require private schools offer a "substantially equivalent" education to

that of public schools, and charge school districts with enforcing the standard. The Felder Amendment, named for state Sen. Simcha Felder, exempts certain schools—nonprofit institutions that offer bilingual programs and long school days—and puts the commissioner of the New York State Education Department in charge of evaluations.

Mr. Felder has said the

The suit says Hasidic pupils deserve an education on par with that of other students.

amendment was intended to help parents choose the education their children receive.

The amendment's parameters for exemption from existing state guidelines are so specific that the new standards can only be applied to ultra-Orthodox schools, according to Eric Huang, legal counsel to the advocacy group.

Emily DeSantis, a state Education Department spokeswoman, said it doesn't comment on litigation. A representative for Mr. Felder didn't respond to a request for comment.

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LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

You Could Be Too Much of a Team Player

Offices demand collaboration like never before, but you can hurt your organization by not saying no enough to requests for help

AMID A SWEEPING workplace trend pushing collaboration, some people are finding they play a little too well with others, causing stress and overwork.

When you hear the phrase "bad team player," you might think of someone who refuses to collaborate. But you can also hurt your organization if you burn out trying to accommodate every co-worker's request or attending more meetings than you can keep up with. This can stem from a basic inability to draw boundaries or an ego-driven desire to look like an office MVP.

Many white-collar employees who in the past would have worked side-by-side with a few colleagues now spend 85% of their time collaborating with multiple teams of co-workers via meetings, email, conference calls or instant messaging, often across several time zones, research shows.

The volume and diversity of collaborative demands on employees have risen 50% in the past decade, says Robert Cross, lead author of an eight-year, 28-employer study on the topic. Researchers used surveys, email analysis and interviews to identify the most efficient collaborators, or high performers who wasted the least time—their own or others'.

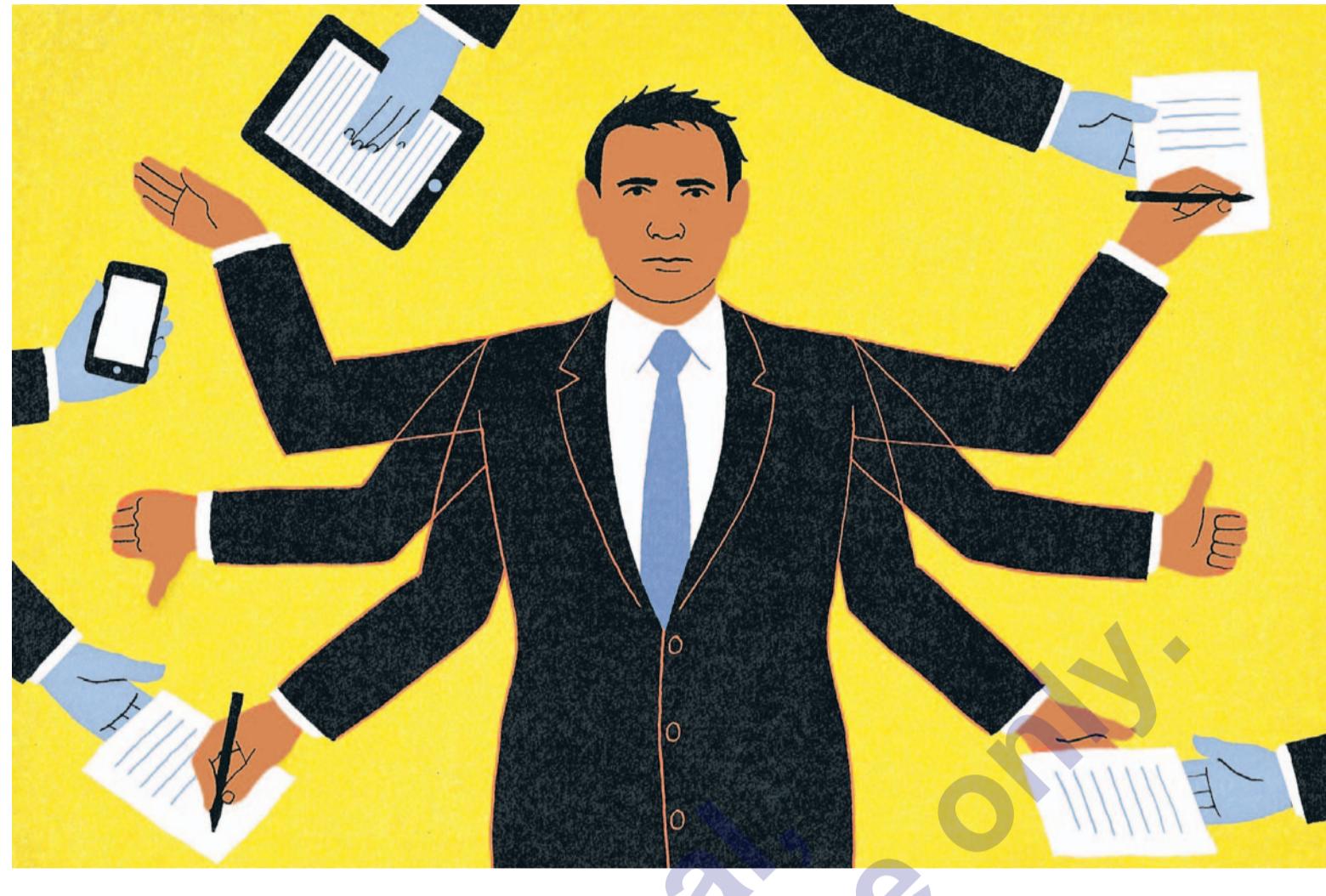
"It shocked me to see how overwhelmed people are today," says Dr. Cross, who has been doing workplace research for 20 years, formerly at the University of Virginia and now at Babson College in Babson Park, Mass., where he is a professor of global leadership.

The research shows that the trend toward collaboration has turned some personal qualities that might be strengths in other settings into weaknesses at work. A desire to help others, a need to feel in control on the job or even a wish to be seen by colleagues as an expert on a particular topic can cause people to say yes to nonessential work, says Dr. Cross, whose research has been used in training programs at Ford Motor Co., Booz Allen Hamilton Holding Corp., General Electric Co. and other employers.

He calls these habitual responses "identity drivers," because they often strengthen one's self-regard or status among co-workers. They also prevent employees from putting on the brakes when their workloads mount.

Employees can learn to notice situations that trigger a knee-jerk response, such as a request for help from a colleague. It's fine to help co-workers with important problems when you know you're the best person to do so. But if you never say no, Dr. Cross says, "you become the path of least resistance for anybody who needs help."

One of the 200 employees interviewed for the study was a hard-charging manager for a tech company. Her Achilles' heel was the



FROM TOP: JAMES STEINBERG; RACHAEL WEAVER

good feeling she got from helping colleagues, making her the go-to person for anyone struggling to solve a problem. That left her so exhausted that her health suffered and she eventually resigned. After learning to set boundaries on her next job and refuse tasks that would extend her workday into evenings or weekends, she began to thrive again.

Juggling competing priorities can frustrate employees who need to feel in control of their work. Some respond by doubling down and trying even harder to manage all the details, thinking, "I'm the only one who can do it right," Dr. Cross says.

Kieran Tie of Denver likes feeling in control of his work. On a former job, he enjoyed creating software and seeing how it helped customers. But when he moved on to a new job as a product manager overseeing several engineering teams, he felt overwhelmed.

"I was pulled in many different directions," Mr. Tie says. He felt he



Kieran Tie burned out on a job trying to collaborate with too many colleagues on too many projects.

should be able to keep all his projects on-time and under-budget, and blamed himself when he couldn't. And when he applied the only solution he knew—working harder—he became so exhausted that he had to quit. He's now self-employed as a content-marketing consultant and is writing a book about his experience with burnout.

Employees need to be wary of indulging FOMO, or the fear of missing out on something interesting that might be happening elsewhere. FOMO motivates people to say yes to attending meetings they could easily skip.

Others say yes to tasks that enable them to showcase their expertise, thinking, "I want to be seen as the go-to person, the expert," says David Sylvester, director of global learning and development at Booz Allen and a longtime participant in Dr. Cross's research. As that reputation spreads, the time demands can become overwhelming.

Overload is also caused by employers who pile on too much work, of course. But the splintering of demands that marks a collaborative workplace also requires employees to develop some nuanced skills—such as the ability to set aside important tasks for more important ones.

Even a desire for closure, which can be an asset when it drives you toward worthwhile goals, can be a drawback. Complex collaborative projects often require employees to tolerate ambiguity as they creep through stage after stage of development.

"You can't be too worried about getting the right decision, as there are always big unknowns," one executive told researchers. "The key is to make a roughly right decision, move ahead" and adapt as more in-

formation becomes available.

The good news: Changing just a few behaviors can regain 18% to 24% of the time you spend collaborating, Dr. Cross says.

That requires staying focused on your most pressing job goals. At Ford, one executive has started blocking out a few minutes each morning for mindfulness meditation, to help him focus on his intended priorities that day, says Julie Lodge-Jarrett, Ford's chief talent officer.

85%

Office workers spend 85% of their work time collaborating with colleagues.

Give yourself permission not to answer every email. Set up planning tools that help you ward off nonessential demands.

Drawing on Dr. Cross's research, Microsoft recently added features to its Outlook email that nudge users whose calendars are filling up with meetings to block out time for focused work. To figure out which meetings to skip, Dr. Cross says, look back four months on your calendar to see which of the meetings you attended were actually essential.

ART & AUCTIONS

CHRISTIE'S SALES SOAR IN STRONG ART MARKET



Christie's 'Reclining Nude With Magnolias' went for over \$80 million, boosting Christie's sales in the first half of 2018.

BY KELLY CROW

BOLSTERED BY a robust U.S. economy and newly wealthy overseas buyers, Christie's International sold \$4 billion of art during the first half of 2018, up 35% from the year-earlier period and representing a new six-month high mark for the London-based company.

Christie's said on Monday that it auctioned \$3.6 billion in art, up 28% from the first half of last year. The house additionally sold \$390.3 million of art in privately brokered deals, more than double its year-ago results. Its online-only art sales rose 50% to \$377 million.

Rival Sotheby's said it auctioned \$2.8 billion in art over the same period, up 12% from a year ago. Both houses said their six-month totals represented sales through June 30. Sotheby's will release its consolidated sales, which include private art sales, on Aug. 6.

The art market is on a hot streak, and collectors also buoyed sales elsewhere in the industry. Phillips said it auctioned \$517 million during the first half of the year, up 61% from a year earlier. Invaluable, an online-auction plat-

form that works with more than 5,000 smaller houses and galleries, said its \$194 million in live-auction sales for the first half represented a 29% bump from last year, with sales climbing for everything from antique furniture to wine.

"I'm amazed at the depth of this global market right now," said Guillaume Cerutti, Christie's chief executive. Eighty-four percent of Christie's offerings found buyers this spring, he said, exceeding its 81% sell-through rate in 2017. The steady buildup suggests collectors feel increasingly confident to vie for lower-priced pieces, not just name-brand trophies.

Christie's said a fifth of its sales came from the \$835 million estate sale of David Rockefeller and his wife, Peggy. More than 85,000 people attended touring exhibitions of the estate, and every single piece sold—a rare feat in the industry.

Of the 55 artworks Christie's sold this spring for more than \$10 million, 15 came from the Rockefeller sales in May. They included a \$115 million Picasso, an \$84.7 million Monet, and an \$80.8 million Matisse.

The Rockefeller estate was a

Please turn to page A10

LIFE & ARTS

FASHION | By Ray A. Smith

A 'Drop' to Make You Shop



FROM LEFT: DAVID PRUITT/BFA (2); GETTY IMAGES; BURBERRY

TO GET CONSUMERS into their stores more often, mainstream fashion brands including Alexander Wang, Burberry and Public School are putting out new items more frequently, with "drops" of merchandise as often as 12 times a year, instead of the usual two to four.

The tactic—a hot concept in fashion today—Involves more than just releasing new clothing more often. Designers typically promote a "drop" with lots of marketing hype on social media and limit the offerings so that items sell out.

The strategy follows a playbook perfected by influential streetwear brands like Supreme, Palace Skateboards and Nike. These brands, popular with millennials, have created buzz, long lines and a sense of urgency around releases of limited-edition products for short windows of time. Traditional designer brands and retailers are trying to whip up this kind of excitement at a time when, outside of streetwear, many consumers are choosing to spend on electronics or travel instead of fashion.

The goal: "Someone coming into the store knows there's going to be something there they didn't see a month ago, and they're going to come back," says Lisa Gersh, chief executive of Alexander Wang, which will soon start delivering new merchandise to stores 10 times a year instead of four.

Designers generally aren't planning to increase the overall amount of merchandise they make each year, but are releasing it in smaller quantities more frequently.

Alexander Wang will put out part of a new collection in October, and parcel out additional drops in November, December, February and March. In May, it will put out part of another new collection, followed by more in June, July, August and September.

The move reflects shoppers' changing habits. "People used to go in the beginning of a season and buy their wardrobe for their season," Ms. Gersh said. "Now it's more common for a customer to say, 'I'm going out this weekend, I need a dress' on a Thursday."

The fashion industry has faced pressure to speed up its metabolism for years. Traditionally, designers released two big collections a year. In the mid-aughts, designers began adding one or two more drops of merchandise. But the clothing still stayed on racks for months.

Meanwhile, fast-fashion retailers like Zara were quickly turning out reinterpretations of runway looks. And the rise of social media beamed images of runway designs instantly around the world, immediately dating the industry's usual six-

month wait to get runway looks in stores. Some labels, including Burberry, Tom Ford and Ralph Lauren tried "see now, buy now" collections that made merchandise available right after runway debuts, with mixed results.

Some fashion executives warn that drops, while buzzy, aren't a panacea for the industry's ills. Louis Vuitton's menswear line did a collaboration with Supreme that sparked a sales frenzy last year. But Vuitton CEO Michael Burke says that "Supreme"-like drops, for us, is not a fundamental business model."

Mr. Burke believes that simply changing the timing of merchandise won't fix a troubled brand. "If you're having a problem with traffic in your stores or fundamental problems, a drop is not going to solve it," he says.

Heather Gates, a graduate student from Brooklyn, N.Y., who likes brands such as Marni and Everlane, said more frequent deliveries of merchandise wouldn't necessarily make a difference to her.

"It would very much depend on whether or not 'new' items really looked distinctively different from whatever had been available previously," she says. Here's how three brands are rethinking their approach:

Burberry
Burberry plans to move to a system of frequent deliveries beginning in September, after designer Riccardo Tisci's debut collection for the British fashion house is revealed at its fashion show in London Sept. 17. Pieces from that collection will be available in a series of "instant drops"—where the designer may keep the exact release date a surprise to try to generate more excitement—in stores and online. Later releases could be as often as once a month.

A collaboration with British designer Vivienne Westwood will also be released with a drop strategy. Mr. Tisci, who joined Burberry as its chief creative officer in March, is familiar with streetwear and its merchandise-delivery tactics, having incorporated street influences in his previous job as Givenchy's creative director.

Public School
In December, Public School, a New York-based label whose mix of streetwear, tailoring, sports influences and avant-garde silhouettes has earned it lots of industry buzz, announced it was converting its business to a direct-to-consumer model. In a few weeks, it will launch an e-commerce site, followed by the opening of a "Public School space" where consumers can buy clothing or "be immersed in Public School's world," said co-founder Dao-Yi Chow.

Releasing new clothing more frequently is a big part of the strategy. A new batch of merchandise "definitely" will come out monthly, if not sooner sometimes, said co-founder Maxwell Osborne. Previously, Public School released new items four times a year.

Entireworld
Designer Scott Sternberg, who rose to fashion industry darling status in the aughts with his preppy-meets-hipster label Band of Outsiders, describes his latest venture, launched online in April, as nonbasic basics. For now he sells on Entireworld's website and Gwyneth Paltrow's Goop, but plans to eventually sell in physical stores.

Entireworld plans a delivery schedule that includes five drops during its first year that operate on a "cycle meant to trigger desire at different points of the year," Mr. Sternberg says. The first delivery, in April, was of core pieces including socks, underwear, T-shirts, and camisoles, followed by "thematic" releases like "May Gray/June Gloom," consisting of three men's items and three women's items made out of gray recycled cotton.

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Christie's Sales Rise

Continued from page A9
marketing bonanza that Christie's won't likely replicate every year, but Mr. Cerutti said some Rockefeller bidders appeared to migrate to the company's other auctions, lifting its May sales to \$961 million, up 14%.

For its part, Sotheby's sold the most expensive artwork of the season, Amedeo Modigliani's \$157.2 million "Reclining Nude."

Among the individual categories, Christie's sold \$900 million in contemporary art. It also sold \$1.8 billion of impressionist and modern art, American art, modern British art and Latin American art.

After a couple of years of declining sales in old master paintings, Russian art and 19th-century art, Christie's may have reached a plateau. Sales in that category inched up to \$82.4 million.

One of the few categories that struggled this season was Asian art, with Christie's sales down 49% to \$368.4 million. Mr. Cerutti said Asian collectors' shifting tastes account for the decrease, with at least 60% of the money spent by Christie's Asian clients this spring going toward art in other categories.



Christie's sold Picasso's "Young Girl With a Flower Basket" for \$115 million this year.

Christie's said 27% of its buyers were new to the house, most of them hailing from the U.S. or Europe. Mr. Cerutti said Christie's plans to develop stronger ties with new collectors, regardless of geography, adding that "future growth of the market" will likely center on Asia.

The art market tends to quiet down in late July and August but will get tested anew at fall sales in London, Hong Kong and New York.

SPORTS



Ryan Lochte's ban is until July 2019.

SWIMMING

LOCHTE HIT WITH BAN

BY RACHEL BACHMAN

U.S. Olympic swimming star Ryan Lochte, still dealing with legal fallout from an incident during the 2016 Rio Olympics, has accepted a 14-month sanction from the U.S. Anti-Doping Agency for getting an intravenous injection in May. He was caught by a photo he posted on his own Instagram account.

Lochte isn't accused of doping—the I.V. contained "vitamins you can buy at CVS or Walgreens," his agent, Jeff Ostrow, said. But using an I.V. outside of a medical emergency or without permission violates U.S. anti-doping rules.

The sanction means Lochte will miss the next swimming world championships and could complicate his attempt to compete in another Olympics in 2020.

"Obviously it's a step back," said Ostrow, noting that Lochte would miss the USA Swimming national championships that start this week in Irving, Calif. "He said it does throw a wrench in things."

On May 24 an image of Lochte, the second-most decorated Olympic swimmer of all time behind Michael Phelps, receiving the I.V. treatment was posted on his Instagram page. The image has since been deleted.

A subsequent investigation by USADA, with which Lochte cooperated, found that he received an intravenous infusion of permitted substances at an infusion clinic in a volume greater than 100 ml in a 12-hour period without a therapeutic use exemption, also known as a TUE. Ostrow explained that Lochte's wife and child were ill at the time and that Lochte, run down from swimming training, underwent the I.V. treatment in an effort to boost his immune system.

The World Anti-Doping Agency prohibits the infusions because they can be used to mask performance-enhancing drugs and because they could encourage athletes to shed dangerous amounts of water weight.

Lochte's 14-month period of ineligibility began on May 24 and will end in July 2019. That means he'll miss next year's world championships, which run July 12-28 in Gwangju, South Korea. The U.S. Olympic trials are scheduled for June 2020, and Ostrow said Lochte will continue to train and is "100% going to be in Tokyo 2020," site of the next Summer Games.

Lochte, who turns 34 on Aug. 3, has won 12 Olympic medals, second in the world to Phelps's 28.

During the 2016 Rio Olympics, Lochte claimed that he and three other U.S. swimmers were robbed at gunpoint while spending a night on the town. A contradictory story soon emerged that at least one of the swimmers damaged property in a gas-station restroom before being confronted by armed security guards.

Lochte apologized, but Brazilians and Americans expressed outrage at his initial accusation. The U.S. Olympic Committee and USA Swimming suspended him for 10 months, forcing him to miss the 2017 world championships.

A battle in Brazilian courts is ongoing. Lochte has been charged with false communication of a crime. The crime is punishable with one to six months in jail, or a fine. Ostrow, also Lochte's lawyer, said he's not guilty because the police approached Lochte. "If he went to them, it would be a different story," Ostrow said.

But last month, a high court in Brazil allowed the case against Lochte to continue, saying that when officials questioned him at his hotel he confirmed media reports about the incident. That, the court said, "led to an [undue] investigation."

The designated hitter is now ubiquitous in nearly every level of baseball—except the National League

BY JARED DIAMOND

Washington

AFTER STRIKING out on three pitches in his first major-league at-bat late last month, New York Yankees reliever Dellin Betances made a startling admission: Until that night, he hadn't picked up a bat since graduating high school, which meant he stood only a slightly better chance facing major-league pitching than any random person off the street.

The image of Betances flailing away at home plate inspired plenty of laughs in the Yankees' dugout. But it also brought baseball's fiercest debate back to the forefront, reigniting a conversation that could reshape the game's future: Should pitchers hit at all?

Important people across the sport envision a reality before too long where they don't.

"The game improves when you have professional hitters facing professional pitchers," Houston Astros right-hander Charlie Morton said. "That's what people want to see."

There appears to be more willingness than ever to consider adding the designated hitter—arguably the most controversial rule in history—to the National League, a decision that would send purists into convulsions.

The players certainly would support it and have for decades, no doubt in part because it would create 15 additional jobs and extend the careers for defensively challenged veterans. Union chief Tony Clark said Tuesday that the universal DH is "gaining momentum" among players, adding that they "are talking about it more than they have in the past."

Commissioner Rob Manfred's recent public comments have reflected the sensitivity of the issue. In June, he called the universal DH "a continuing source of conversation" and said that "the dialogue actually probably moved a little bit" at the quarterly owners meetings. After Clark expressed support for standardizing the DH, Manfred walked those comments back somewhat, saying "The most likely outcome remains the status quo," citing a hesitation to eliminate the NL game forever. Any change would likely happen as part of collective bargaining be-



Rangers pitcher Bartolo Colon loses his helmet. Pitchers have a combined batting average of .113 this season.

tween the owners and union.

Either way, this much seems clear: Pitchers can't hit. At all. They entered Monday with a combined batting average of .113, the lowest on record and down from .139 a decade ago. They strike out in nearly 42% of their plate appearances, the most ever, and walk just 3% of the time, compared to about 4% in 2008. Therefore, a vast majority of the time, pitchers don't just create an out, they produce what Washington Nationals hitting coach Kevin Long described as a "noncompetitive at-bat."

"There's a reason they're in the big leagues, and it's not because of their hitting," Long said. "They're not going to put the time and effort into their hitting."

Like Betances, most pitchers enter the major leagues with little hitting experience, with the DH now ubiquitous in nearly every level of baseball around the world. Only Japan's Central League and MLB's National League still force pitchers to bat among prominent baseball leagues. "That," Nationals

ace Max Scherzer said, "is why I have a high-school swing."

In fairness, Scherzer, sells himself short. Since joining the Nationals in 2015, he owns the second-highest batting average among qualified pitchers, trailing only Arizona's Zack Greinke—a whopping .201.

But generally, organizations don't want pitchers concerning themselves with hitting, fearing injury to some of their most valuable financial investments. Following Betances' at-bat, Yankees manager Aaron Boone said his heart "skipped a beat" watching him swing, adding, "I'm in favor of this DH thing."

"I don't want their pitching and their talent to be affected by having to do something they're really not comfortable doing," Astros All-Star righty Gerrit Cole said.

The universal DH has found a staunch ally from an unlikely source: relief pitchers, who insist that NL baseball doesn't fit with modern bullpen usage and even puts them at risk.

They say that because of the pitcher's spot in the lineup and frequent pinch hitting, they warm up, sit down and warm up again considerably more than their AL counterparts. Nationals righty Brandon Kintzler said that in the NL, relievers warm up without actually entering the game as often as three times a week, which taxes their arms. He claimed that NL relievers get hurt more often.

The numbers back up their assertion. Since 2010, NL relievers have spent 17% more days than AL relievers on the disabled list, according to Stats LLC.

For sure, the DH debate will continue to rage, whether or not the NL adopts it.

Scherzer, one of the most creative and thoughtful players in baseball, thinks he has a solution.

"I would love to see if we could come up with some type of crazy proposal where there's a DH and the pitcher hits," he said. "My crazy idea is you hit 10, and the pitcher doesn't count as an out."

Well, consider it a start.

TOUR DE FRANCE | By Jason Gay

An Awkward Battle at the Top



It's awkward.

No matter what they say, how they handle it, how diplomatically they offer happy talk of camaraderie and strategic "cards to play," it's awkward. There is a week left in the Tour de France, and the top two cyclists—the two men with the best chance to win—are on the same dang team.

(Look, I know a lot of you think I write too much about cycling, but hang with me here. This is a zesty situation worth following. Would you prefer me to write about NBA free agency? Another Trump vs. NFL showdown? I'd rather get hit in the head with a grapefruit.)

OK, back to the Tour. In first place at the moment is Geraint Thomas, a veteran Welsh rider who's never won an event as big as the Tour, but currently holds the yellow jersey as race leader. In second place—just a minute and a half behind—is Thomas's Team Sky colleague, the four-time Tour de France winner, Chris Froome.

I can't lie: this kind of scenario irritates a lot of cycling fans. Team Sky, the sport's richest and most fearsome outfit—imagine the Golden State Warriors crossed with the Death Star—is once again dominating the biggest race on the calendar. (If they take this one, Sky will have won six of the last seven Tours.) One team having such a grip isn't good for business. (Sky sponsor 21st Century Fox and The Wall Street Journal share common ownership. They've never asked me to join the team.)

At the same time, Thomas vs. Froome is a delicious interoffice battle as the race climbs into the decisive Pyrenees. Why is it so delicious? A couple of things:

Thomas traditionally rides for Froome. He won't now.

Tour teams usually have a clear chain of



Team Sky's Chris Froome, left, with teammate and race leader Geraint Thomas

command: there's a leader, and then a string of support riders whose job it is to protect him (literally, as in shielding him from the wind) and drive the pace and make it difficult for the competition. With its handsome budget, Sky can afford the best support riders around, none bigger than Thomas, who would be the top dog almost anywhere else.

But there was a ripple this year. Froome chose to ride another big race, the Giro d'Italia, in May, which threatened to wear him out before the Tour. He was also facing a possible suspension due to a test for an elevated level of an asthma drug (he was cleared in early July). So Thomas prepped like the potential Sky leader—to be ready to roll, in case Froome wasn't. Now, Thomas is riding the best race of his life, with a chance of a career-making victory, and he's supposed to morph back into a support rider? That's a cruel ask—and it isn't going to happen, as long as the yellow jersey is his.

Froome won't ride for

Thomas. Probably. The 33-year-old Froome might not be terribly popular in France, but he's assembling one of the great résumés in sports history. He could stand down and become Thomas's surrogate, but he's been Sky's undisputed leader for more than a half decade. Taking a back seat would be really, really weird—and Froome surely assumed those days were over after he rode in support of Sky's Bradley Wiggins at the 2012 Tour, a race observers think Froome was strong enough to win himself.

The super-awkward part is that, in order to win, Froome has to hope Thomas falters in the Pyrenees (not out of the realm of possibility, since Thomas is in uncharted territory), or worse, he's got to attack Thomas in one of the final mountain stages, and try and gain back some of that minute and a half he's behind. You might think that's akin to sabotage. I think it could be fascinating.

What's best for Team Sky?

Rampant success has not endeared

Sky to the crowds at this Tour—both Thomas and Froome have been booed during stages, and there was an incident on Alpe d'Huez where a fan put a menacing hand on Froome. Some of this is standard dominance fatigue (like the way people hate the NFL Patriots), some is hangover from Froome's asthma drug saga, some of it is Sky's wealth and occasionally imperious attitude—on Monday, Sky boss Dave Brailsford wondered why fans in Spain and Italy were nice to his team, but France isn't. "It just seems to be a French thing," Brailsford said. "A French cultural thing, really, that's it."

An embarrassment-of-riches situation is not unheard of in the Tour—Sky went through it with Froome and Wiggins; Astana had a leadership kerfuffle in 2009 with Lance Armstrong and Alberto Contador; Greg LeMond feuded with his teammate Bernard Hinault. Froome winning would be historic, but Thomas probably would be the better play—a fresh winner.

Dutchman Tom Dumoulin can save everybody the trouble. The Sky intersquad is so zesty, it's easy to ignore that there are non-Sky cyclists with a legitimate chance of wearing the winner's yellow in Paris next Sunday. The biggest threat is the current third-place rider, Dumoulin of Team Sunweb. Dumoulin's won a Grand Tour (the 2017 Giro), he's a world champion in the individual time trial (important, with a huge time trial in the penultimate stage), and he's just 11 seconds behind Froome.

Here's the good news: with a week left, we don't know who's going to win the race. That's not to say the 2018 Tour has been a thrill ride—Sky's ability to control the pace has sucked a lot of life out of the event—but the overall situation is still vague and messy. And messy can be fun.

OPINION

Abolish the FISA Court

MAIN STREET
By William McGurn

On the gentle summer evening that was last Saturday night, the Justice Department finally made public the October 2016 application for a warrant to spy on Carter Page, a former Trump campaign official. The application's release kicked off a furious effort by Democrats and their allies in the press to gaslight the American people into disbelieving what they could read with their own eyes. Yet notwithstanding all the sound and fury, its 412 pages—even in redacted form—largely vindicate the principal object of Democratic attack, California's GOP Rep. Devin Nunes.

Back in February, Republicans on the House Intelligence Committee, led by Mr. Nunes, issued a report stating that the Steele dossier, compiled by a former British spy, was "an essential part" of the application for a warrant on Mr. Page under the Foreign Intelligence Surveillance Act. In this Mr. Nunes was supported by former FBI Deputy Director Andrew McCabe, who testified to Congress that without the Steele dossier there would have been no warrant.

The Nunes report further claimed the FISA application didn't inform the judge that the Steele dossier was paid for by the Democratic National Committee and the Hillary Clinton campaign. Here too

Mr. Nunes has been proved right. True, the application includes a convoluted reference to the FBI's "speculation" that "Source #1" (Christopher Steele) was hired to dig up information to "discredit Candidate #1's campaign" (Mr. Trump's). Surely a more honest way of presenting the facts would be as follows: *The campaign and party of Candidate #2 (Hillary Clinton) paid Source #1 to produce a dossier to discredit her rival, Candidate #1.*

Lost in the competing narratives, meanwhile, is the larger FISA scandal. The Page warrant confirms that a FISA court effectively insulates those who deploy the most formidable powers of the federal government from the consequences of what should be an extraordinary decision: spying on a fellow American.

Like so many other bad ideas, the Foreign Intelligence Surveillance Act comes out of the 1970s. Senate hearings led by Idaho Democrat Frank Church exposed controversial domestic spying on Americans. Along with the general antipathy toward all things Nixon, it led Congress to enact FISA in 1978 and Jimmy Carter to sign it into law.

In the decades since, the nation has become accustomed to having oversight and accountability that should be imposed by the people's elected representatives fobbed off on special counsels, inspectors general and the like. We forget what a break FISA marked

with our history, under which only the president, as commander in chief, was understood to have the power to surveil American citizens without warrants to gather foreign intelligence to protect the nation. The new idea aimed to temper that power by introducing another branch, the judiciary, into this process.

The introduction of judges shields the executive branch from accountability.

As even the redacted version of the document released this weekend ought to make clear, a FISA court is no guarantee against surveillance abuse. To the contrary, it can invite questionable assertions of this extraordinary power because no one is ever really on the hook. In this case, instead of vetting Mr. Steele's specific allegations, the FBI got away with deeming him "reliable" because they'd found him credible in other cases.

Perhaps the redacted material includes some verification of Mr. Steele's claims. But so far there's no hard evidence, and Mr. Page hasn't been charged with anything. Is this really the way an intelligence agency should declare an American citizen "an agent of a foreign power"?

When President Trump tweeted Monday morning that it was "looking more & more

like the Trump Campaign for President was illegally being spied upon," the common rejoinder was four judges had signed off on it.

Now ask yourself: Would Deputy Attorney General Rod Rosenstein (who signed one of the renewal applications) and others be so quick to put their names on something like this if they didn't have a FISA judge to give them cover?

The argument is not new. Just before FISA became law, a Yale law professor wrote a prophetic article in these pages about the abuses to come. His name was Robert Bork, and among his worries were that judges would show undue deference to intelligence agencies, that congressional committees wouldn't be able to summon judges to explain their warrant approvals, and, above all, that giving courts the last say would have "the effect of immunizing everyone, and sooner or later that fact will be taken advantage of."

In the short term, Mr. Trump would serve himself better by forgoing tweets about witch hunts and instead ordering the declassification of documents that would show the American people just what the Justice Department and the FBI did in 2016. In the longer term, Congress should consider getting rid of FISA courts altogether. Because without judges to hide behind, executive officials who order spying on their fellow citizens will have to own those decisions themselves.

Write to mcgurn@wsj.com.

BOOKSHELF | By Jonathan Karl

Speaking For Himself

The Briefing

By Sean Spicer
(Regnery, 278 pages, \$28.99)

Early on a Saturday morning in January 2017, the day after the inauguration, Sean Spicer got his first phone call from the White House operator—the president was on the line. "Sean, have you seen the news?" The president had seen a panel discussion on television comparing the size of the crowd at his inauguration with the size at Barack Obama's. Mr. Spicer was getting his kids out of bed and hadn't planned on giving his first briefing until Monday, but he answered the call of duty. And there began Mr. Spicer's tenure as one of the most widely scorned press secretaries in history: a briefing on Saturday afternoon during which he scolded the press corps, spat out false statements and left the podium without taking questions.

With more than a year to reflect on that moment, Mr. Spicer, in his memoir "The Briefing: Politics, the Press, and the President," comes to a novel conclusion about what happened that day. "I had wrongly assumed I knew what Donald Trump wanted," Mr. Spicer writes. "Instead of bringing the White House press corps to heel, he had wanted a polished, nuanced argument defending his position"—that is, that Mr. Obama's crowd was not bigger than his. "Every time the president had checked in with me, I had said like a good soldier, 'We're on it, Mr. President.' Instead, I should have talked with him more and understood exactly what he wanted me to do."

Actually, there was another option: He could have told the president it is a mistake to spend his first day on the job obsessing over something as trivial as crowd size and, further, that there is no way to make a "polished, nuanced argument" defending a position that is demonstrably untrue. Mr. Spicer's book is much like his tenure as press secretary: short, littered with inaccuracies and offering up one consistent theme: Mr. Trump can do no wrong.

Mr. Spicer has not been well served by the book's fact checkers and copy editors. He refers to the author of the infamous Trump dossier as "Michael Steele," who is in truth the former chairman of the Republican National Committee, not the British ex-spy Christopher Steele. He recounts a reporter asking Mr. Obama a question at a White House press conference in 1999, a decade before Mr. Obama was elected. There are also some omissions: He writes about working for Rep. Mark Foley (R., Fla.), who he says "knew how to manage the news cycle. And on top of all that, he was good to staff and fun to be around." He never gets around to mentioning that Mr. Foley later resigned in disgrace for sending sexually explicit messages to teenage boys working as congressional pages.

In praising the president, Mr. Spicer deploys an army of metaphors. At various points, he describes Mr. Trump as a rock star, an inflatable ball in a swimming pool (he pops up whenever someone tries to take him down), the Energizer Bunny and, finally, a unicorn on a high wire. Seriously. "His high-wire act is one that few could ever follow," Mr. Spicer writes. "He is a unicorn, riding a unicorn over a rainbow."

Donald Trump's first White House spokesman compares the president to a rock star, the Energizer Bunny and a unicorn.

Mr. Spicer's book is light on insider detail of what was going on in the White House during his tumultuous time as press secretary. In fact, he spends the first third of the book recounting his rise through Washington politics, when he truly was an amiable and well-liked spokesman for a long list of Republicans. It is not a résumé of a Trump true believer. He did a stint as a spokesman for the U.S. trade representative, where his job was to champion the very trade deals that Mr. Trump vilifies, and later for the RNC, at a time when party officials were quietly trying to prevent Mr. Trump from winning the Republican nomination.

Another theme of "The Briefing" is the malevolence of "the media," which he describes as a "herd" that "closes ranks." He lashes out at Politico, which did a lot of reporting on the paranoia and infighting within Mr. Spicer's White House communications team. "Politico, in my opinion, was the anchor that dragged down media standards."

There is much that can be fairly criticized about the news media in the Age of Trump, but Mr. Spicer's effort here falls flat. He annihilates straw men, writing: "In the minds of many in the press, the First Amendment is solely about them and their rights. In reality, it's about all of us and our ability to express ourselves." Who, exactly, believes that the First Amendment applies only to the press—or that the White House press secretary doesn't have First Amendment rights?

On the president's decision to boycott the White House Correspondents' Dinner in 2017, Mr. Spicer writes: "True to form, some in the media started to buy into the notion that by not going to a dinner, we were somehow assaulting the First Amendment." As a member of the White House press corps, I never heard anybody say that skipping the dinner was an assault on the First Amendment. Calling the press the enemy of the people, threatening to change libel laws, branding legitimate stories as fake, maybe. But skipping the dinner? No.

While Mr. Spicer never second-guesses his former boss, he does go after the president's favorite social-media tool. "Twitter is not glue," he writes. "It is a solvent. It is breaking us down." Without taking issue with a single Trump tweet, he adds: "We can't settle for just keeping up with the lowest common denominator [sic] on Twitter."

Mr. Spicer takes issue with the question I put to him at his first official White House briefing: "Is it your intention to always tell the truth from that podium, and will you pledge never to knowingly say something that is not factual?" The question, a version of which I also asked Obama press secretary Josh Earnest, was prompted by Mr. Spicer's error-filled statement on the inauguration crowd size two days before. Mr. Spicer felt that, by asking the question, I was branding him a liar.

"Rarely do reporters have their integrity questioned the way Jonathan questioned mine," he writes. That—coming from the former spokesman for a president who routinely accuses reporters of making things up and betraying their country—is quite a statement.

Mr. Karl is chief White House correspondent for ABC News.

GLOBAL VIEW
By Walter Russell Mead

We hear too much about Vladimir Putin these days and not nearly enough about the actual forces reshaping the world. Yes, the Russian president has proved a brilliant tactician. And, President Trump's fantasies aside, he is a ruthless enemy of American power and European coherence. Yet Russia remains a byword for backwardness and corruption. Its gross domestic product is less than 10% that of the U.S. or the European Union. With a declining population and a fundamentally adverse geopolitical situation, the Russian Federation remains a shadow of its Soviet predecessor.

Add up the consequences of Mr. Putin's troops, nukes, disinformation campaigns, financial aid to populist parties—and throw in the power of his authoritarian example. Russia still does not have the ability to roll back the post-1990 democratic revolution, overpower the North Atlantic Treaty Organization, or dissolve the EU.

The West is in crisis because of European weakness, not Russian strength. Some of the Continent's difficulties are well known. France foolishly imagined the euro would contain the rise of a newly united Germany after the Cold War. In fact it has propelled Germany's unprecedented economic rise

while driving a wedge between Europe's indebted South and creditor North. The Continent's so-called migration policy is a humanitarian and a political disaster. Berlin's feckless approach to security has left Europe's most important power a geopolitical midget, lecturing sanctimoniously while others shape the world. Meanwhile the EU's Byzantine government machinery grinds at an ever slower pace, creating openings for Mr. Putin and Turkish President Recep Tayyip Erdogan. Europe's weakness invites authoritarian assertion in the borderlands.

Another failure of equal consequence still is not widely understood: the failure to integrate the countries of Central and Eastern Europe into Western prosperity and institutional life. The world's 10 fastest-shrinking countries are all in Eastern Europe: Bulgaria, Croatia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Serbia and Ukraine. All expect to see their populations shrink at least 15% by 2050.

For the enterprising and mobile, there is good news; between three million and five million Romanians live and work in other EU countries, enjoying opportunities they could not find at home. But for those who cannot or do not wish to move on, life can be hard. Almost 30 full years after the fall of communism, more than one-fourth of Romanians live on less than \$5.50 a day. Across Romania, less than half of households have an internet connection, and only 52% have a computer.

Romania and Bulgaria—where living standards are lower than in Turkey—are exceptionally poor. Conditions are better elsewhere, but the gap between prosperous European countries like Germany and postcommunist states like Poland remains immense. Poles on average earn only a third as much as Germans. The rural, eastern parts of Poland are

poorer still. Conditions in ex-Soviet countries like Armenia, Belarus, Georgia and Ukraine are even worse. Corruption is rampant, with weak institutions unable to stop it.

The hubris that led so many in the West to believe that Europe had entered a post-historical paradise is fading. A clearer if darker picture has emerged. Swaths of Central and Eastern Europe will not smoothly and painlessly assimilate into the West. If voters in these countries lose faith that Western ideas and institutions can improve their lives, the political gap between East and West will widen. When the EU is more preoccupied with internal divisions, it is less able to respond effectively to Russian moves.

President Trump is right that much of the trans-Atlantic relationship needs to be rethought. He is right that Germany asks too much and offers too little for the current relationship to be sustainable. He is right that the European Union has worked itself into a political crisis, and that the Continent's errors and illusions strengthen Mr. Putin's hand.

But if the president thinks Mr. Putin's Russia can serve as the linchpin of a new American security strategy, he is overestimating Russia's capacity, misreading Mr. Putin's goals, and underestimating the importance of the trans-Atlantic alliance. Moscow is a sideshow. To protect American prosperity and security, Mr. Trump most needs to strike a deal with Berlin.

An Online Mob's Faulty Transmission

By Andy Ngo

Portland, Ore. You might have seen the image last week of President Trump being beheaded, ISIS-style, displayed on a Portland window. "This is a Company called Total Performance Torque Converters," someone tweeted, along with the photo and the transmission shop's address and phone number. It went viral.

What happened next was predictable. Hundreds of people swarmed the shop's phone lines, Facebook, Yelp and Google pages with vitriol and threats. But the MAGA mob targeted the wrong establishment. The source of the offending image was One Grand Gallery, a tenant of Total Performance. It's part of a show titled "F— You Mr. President," featuring vulgar anti-Trump artwork from more than three dozen artists. One image showed Mr. Trump with a Hitler mustache, another with his

face smeared with feces. I went Wednesday to Total Performance and met Mark Abolofia, the 66-year-old landlord, mechanic and U.S. Air Force veteran. He told of receiving a barrage of phone calls when he arrived Tuesday morning, shortly after the tweets went viral. He'd seen the art the

Total Performance Torque Converters didn't depict Trump being beheaded.

night before. Mr. Abolofia, who is Jewish, found the Hitler comparisons especially tasteless. Some of his relatives survived the Holocaust.

Mr. Abolofia doesn't have a storefront; he's a wholesaler, and the phone is vital to his business. Blissfully unaware of social media's ability to supply an unending source of rage,

he kept answering, hoping it would be a customer. Facebook and Twitter users eventually began circulating the correct phone number and address. The owner, Jordan Chan-Mendez, responded to his threats by quickly removing the offending artwork and clearing the gallery. By Tuesday evening, almost all traces of the installation and its curator were gone.

This incident highlights the danger of social-media mobbing to innocent people like Mr. Abolofia. In March, Kachka, a Jewish-owned Russian restaurant in Portland, was smeared as being sympathetic to Nazis when it refused to kick out a patron wearing a Luftwaffe shirt. Deavon Snode, the offended patron, shared a photo of the man on Facebook along with her account of the story. It went viral, siccing digital mobs of so-called antifascists on the business.

Social-media mobs are often on the left, but last week's

incident illustrates that the right can do it too. The explicit beheading artwork displayed at the One Grand Gallery is a stunt meant to provoke. The image is unoriginal, borrowing heavily from comedian Kathy Griffin's 2017 photo-stunt in which she posed holding a bloody decapitated head resembling Mr. Trump. She initially apologized but later used similar imagery to promote her current tour.

Conservatives can't expect to be taken seriously when they mock social-justice warriors for taking the bait from provocateurs like Milo Yiannopoulos if they are going to engage in the same behavior when someone like Mr. Chan-Mendez pulls a stunt like this.

And lost in all this tit-for-tat social-media mobbing is any consideration for business owners and other innocent bystanders.

Andy Ngo is an editor at Quillette.

OPINION

REVIEW & OUTLOOK

The FBI's FISA Faults

The FBI over the weekend finally released its Foreign Intelligence Surveillance Act applications for warrants against former Trump aide Carter Page, and now we know why the bureau resisted disclosure. Even in heavily redacted form, the applications confirm that the FBI relied on dubious partisan evidence to justify its warrant and withheld relevant information from the court.

The applications also vindicate the criticism of the FBI's surveillance requests that were laid out in February by House Intelligence Chairman Devin Nunes. The committee's findings were based on a review of the FISA applications, which were still classified at the time. The main Nunes claim was that the FBI made the Steele dossier—which was commissioned by the Clinton campaign and Democratic National Committee—"an essential" part of its initial application. The FISA documents confirm this.

More than half of the first FISA application's 66 pages are devoted to technical matters and a history of Russian electoral interference. Of the roughly 25 pages that focus on Mr. Page, much of it reports his dealings with Russians, his response to the news that he was under investigation, and a largely redacted conclusion.

The guts of the application is titled "Page's Coordination With Russian Government Officials on 2016 U.S. Presidential Election Influence Activities." This is the FBI's evidence section, and, though heavily redacted, it looks to be almost entirely dossier-related.

Its opening paragraph says that the "FBI has learned that Page met with at least two Russian officials" on a trip to Russia in 2016 and that it got this information from an "FBI confidential human source (Source #1)," who is dossier author Christopher Steele. Most of what is unreddacted that follows details the dossier's claims about these Russian meetings, with further reference to "Source #1."

This is important given that FBI assistant director Bill Priestap told Congressional investigators in October 2017 that the FBI's efforts to corroborate the dossier were still in their "infancy" at the time of the first application. Months later former FBI Director Jim Comey referred to the dossier as "salacious and unverified." To date no investigator has offered public proof of the dossier's most damaging claims. Yet on the basis of an uncorroborated document commissioned by a rival presidential campaign, the FBI accused a U.S. citizen of being an "agent of a foreign power" who should be wiretapped.

Mr. Nunes also reported that the FBI did not inform the FISA court that the dossier and trusted "source" (Christopher Steele) were paid by the Clinton campaign. And sure enough, nowhere do the FISA applications mention the words Clinton, Democratic National Committee, Fusion GPS (the Clinton-financed oppo research firm that hired Mr. Steele), or Fusion co-founder Glenn Simpson.

The documents show the bureau relied heavily on the Steele dossier.

Several convoluted footnotes refer to "Source #1" (Mr. Steele) and a "U.S.-based law firm" (Clinton firm Perkins Coie), as well as an "identified U.S. person" (Mr. Simpson) who was "likely" interested in discrediting Mr. Trump. These obscure references are quickly followed by another footnote in which the FBI says that, despite that motivation, it is confident that "Source #1" is "credible." So the FBI was vouching for this partisan source.

It's true that the first application doesn't mention any names. But it does refer to "Candidate #1" (who is clearly Donald Trump), "Candidate #2" (Hillary Clinton) and "Political Party #1" (Republicans). The FBI had an obligation to tell the court that the dossier and its "credible" source had been retained and paid for by "Candidate #2" and "Political Party #2" (Democrats), but it didn't. By the way, Mr. Comey signed three of these applications, yet he claimed on his recent book tour that he "still" didn't know who paid for the dossier.

The FISA documents also confirm that the FBI cited a Sept. 23, 2016 story in Yahoo News to buttress its Steele dossier information with the court—even though Mr. Steele was also the source for the Yahoo News story.

Democrats insist that the FBI used the Yahoo story only to describe Mr. Page's response to the investigation, not for corroboration. The applications show otherwise. The FBI cites the Yahoo News story after its dossier-evidence section, noting that the story said that "intelligence reports" and a "well-placed Western intelligence source" had also made claims like those in the dossier. But the "reports" were the dossier, and the "Western intelligence source" was Mr. Steele.

* * *

Our media friends are dismissing all this as no big deal because they say Mr. Page's history of personal Russian dealings justified his surveillance in any case. Yet so far no one has produced evidence that Mr. Page was anything but an innocent abroad who liked to boast about his contacts. He certainly was a minor figure in the Trump campaign.

And that still doesn't justify the FBI's use of uncorroborated partisan smears as part of its application. At best the FBI appears to have played fast and loose with the facts to stretch the ethical boundaries of the FISA statute. At worst the FBI dissembled to target a man because they wanted to unleash a counterintelligence campaign against a presidential campaign. Either one tarnishes the FBI's reputation.

Democrats and their media allies won't admit any of this because they are invested in the narrative that Russian meddling elected Donald Trump. But two years of investigation later we're still waiting to see evidence of that. What the FISA applications show is that the FBI did abuse its surveillance powers. There's still more to learn, and Mr. Trump should declassify and release everything that can be safely disclosed.

Dumb Idea of the Week

Sometimes we wonder what kind of discussions take place inside the Trump White House. On Monday press secretary Sarah Sanders disclosed that President Trump may revoke the security clearances of six former officials who have criticized him. When someone came up with that idea, did everyone on the staff shake their heads and say, "yeah, that'll show 'em?"

Someone should have said, "That's a dumb idea. It will make us look petty, and it won't accomplish anything."

Ms. Sanders said the Administration is looking at the clearances of former CIA Directors John Brennan and Michael Hayden, former FBI Director James Comey, former Director of National Intelligence James Clapper, former National Security Adviser Susan Rice and former FBI Deputy Director Andrew McCabe.

These officials don't still work for the gov-

Revoking clearances is petty. Here's a better idea.

ernment, though perhaps revocation might affect a consulting contract. But the idea, which was raised by Senator Rand Paul on the weekend regarding Mr. Brennan, won't stop their criticism. It's merely an act of political retribution.

If Mr. Trump wants to do something more consequential, and in the public interest, he'll ask his Administration to find the person who leaked in early 2017 that former National Security Adviser Michael Flynn had been wiretapped by U.S. spooks as he talked with the Russian ambassador to the U.S.

That was a truly nasty leak given that Mr. Flynn was probably "unmasked," in spy parlance, by Obama officials. Americans whose conversations show up incidentally in U.S. wiretaps of foreigners are supposed to have their names redacted. That leak was a real injustice to hold someone responsible for.

Pompeo's Iran Truth-Telling

Donald Trump's all caps Twitter warning Sunday night to Iranian President Hassan Rouhani not to "THREATEN" the United States or suffer severe consequences gathered all the media attention on Monday. Which is too bad, because Secretary of State Mike Pompeo delivered a speech Sunday that deserved more notice for speaking the truth about Iran.

Mr. Pompeo explained at the Reagan Presidential Library how the Iranian regime's zeal to spread Islamic revolution has led its leaders to direct funds to "terrorists, dictators and proxy militias" rather than to the welfare of ordinary Iranians, and he called out Tehran's corruption by name and example.

Consider Interior Minister Sadeq Mahsouli's "lucrative construction and oil trading contracts" with Iranian Revolutionary Guard Corps-linked (IRGC) companies. Or Grand Ayatollah Makarem Shirazi, the "Sultan of Sugar," whose business has generated more than \$100 million. Or Supreme Leader Ayatollah Ali Khamenei's "own personal, off-the-books hedge fund called the Setad, worth \$95 billion," which is untaxed and serves as a "slush fund for the IRGC."

The President's tweet distracts from a better speech.

"Iran is run by something that resembles the mafia more than a government," he said.

Mr. Pompeo also offered support to Iran's protesters, declaring "The United States hears you; the United States supports you; the United States is with you." His words will reach ordinary Iranians, given that millions use technology to evade censors to hear news from foreign sources. Mr. Pompeo also announced that the U.S. Broadcasting Board of Governors will soon launch a "24/7 Farsi-language TV channel" for Iranian viewers. Good idea.

The Secretary also called on other nations to join the U.S. "pressure campaign" against Tehran. Mr. Pompeo's message is aimed especially at Middle Eastern and European allies that would rather profit from business with Iran. The French in particular might mull Mr. Pompeo's message after an Iran-backed bomb plot on a pro-democracy rally near Paris was recently foiled.

Mr. Pompeo and U.N. Ambassador Nikki Haley are laying out a comprehensive and nuanced case for Mr. Trump's campaign against Tehran's misrule that will get Iranian attention far more than blustery tweets.

LETTERS TO THE EDITOR

Politics Have Already Entered the Boardroom

Phil Gramm and Mike Solon's "Keep Politics Out of the Boardroom" (op-ed, July 19) criticizing the role of large index managers misrepresents State Street Global Advisors' core investment mission. We engage with companies not to force arbitrary political or social "values" on them, but rather to promote long-term value for millions of investors saving for the future in a world that has become increasingly obsessed with the short term. Unlike our active strategies, where we can sell a company when we disagree with management, in our index-based strategies we represent quasi-permanent capital. Our fiduciary obligation is to maximize the probability of attractive long-term returns for those who invest with us.

We have created a strategic engagement program that raises material issues with boards, including ESG concerns that might impact companies' ability to generate sustainable returns. We carefully select the issues, based on rigorous research identifying their materiality for investment performance. We seek maximum transparency around our views, the research underpinning them and our voting intentions through our thought leadership and conversations with both boards and our clients, who are demanding greater clarity around these issues.

While we will use the analytics provided by proxy advisers, we never outsource our proxy voting decisions. Far from injecting politics into boardrooms, we believe our focus on active

stewardship and long-term value in a rapidly changing world is more important than ever for ensuring healthy public markets, resilient economic growth and shared prosperity. This is the future of long-term investing.

CYRUS TARAPOREVALA
President and CEO
State Street Global Advisors
Boston

Vanguard has developed something called an Investment Stewardship program. The program brochure goes to great lengths to highlight Vanguard's advocacy for trendy issues such as board gender targets, board diversity targets, sustainability reporting and climate risks. Traditional concerns, such as executive pay, board experience, conflicts of interest and unequal voting-share classes, are included but not highlighted.

Vanguard seems to be seeking to immunize itself against curious regulators and others looking at legal issues surrounding its proxy voting by signing up with nonprofit and nongovernmental organizations to allow it to prominently display their logos.

All the Vanguard material reminds me of an article in Foreign Policy from Feb. 21 of last year: "Saving the World, One Meaningless Buzzword at a Time," about how the corporate world has turned human rights into a theater of meaningless programs, conventions, meetings and training courses.

STEPHEN WEEKS
Houston

Cell-Grown Meat Is Better for All of Nature

Growing crops to feed animals so we can eat meat is an extraordinarily inefficient production method, so it is encouraging to see that another conventional meat company has invested in clean meat ("Cell-Grown Meat Gets New Funding," Business & Finance, July 17). The technology involves growing real meat directly from cells.

Of course, with greater efficiency comes greater profit. I'm sure major U.S. meat processors and their counterparts in Israel, Switzerland and Germany don't mind that clean meat will be better for the environment and won't require the routine use of antibiotics, but their investment decisions are guided by profitability. If there could be a stronger endorsement of clean meat, I don't know what it would be.

BRUCE FRIEDRICH
Co-founder and executive director
The Good Food Institute
Washington

So aware are we now of the abusive nature of factory and industrial

Hemingway's Ambulance Service in Better Perspective

Regarding Robert R. Garnett's "A Lost Love Gave Us Hemingway's Spare Prose," op-ed, July 7: According to Arlen J. Hansen's well-researched "Gentlemen Volunteers: The Story of American Ambulance Drivers in the Great War, August 1914—September 1918," Ernest Hemingway saw active duty from June 4 to July 8, 1918, half of which time was spent in the ambulance corps. His section near Vincenza, Italy, was relatively inactive and it is likely that he drove an ambulance only once or twice, at the most.

He earned his war medals as a canteen runner, riding a bicycle to the front line with cigarettes and chocolate. It was in this role that he was wounded. In fairness to other volunteer ambulance drivers, it is important not to overstate Hemingway's role.

SUSAN STEIN
Omaha, Neb.

When the Point of War Was Achieving a Swift Victory

After reading Dorothy Rabinowitz's "War, Vividly Rendered" about the Smithsonian Channel's "The Pacific War in Color: The Enemy Underground" (Life & Arts, July 13), I came up with another title, "What a Difference a War Makes." Our current and recent (going back to Vietnam) military efforts contrast sharply with the invasion of Saipan (and all of World War II). There were no restrictive rules of engagement, no conferring with attorneys and far less concern with collateral damage. The war was fought to emphatically defeat the enemy. Nowadays, victory isn't even on the agenda; containment perhaps, but not victory.

SAMUEL FRAZER
Fort Myers, Fla.

The reason the Palestinian refugee problem has never been solved is that the surrounding Arab states don't want it to be solved. They prefer to keep them poor and stateless to justify their continued conflict with Israel.

MARTIN WASSERMAN
Palo Alto, Calif.

Pepper ... And Salt

THE WALL STREET JOURNAL



"How can I be here?
I didn't believe in any of this stuff."

OPINION

To Beat Trump, Get a Grip

By Ted Van Dyk

Democrats are determined to remove President Trump from office in 2020—or before, if that becomes possible. If precedent holds, he can be unseated in 2020 by a candidate perceived as his opposite: experienced, serious, knowledgeable about policy. If Democrats attempt to rush the process, amid current charges that Mr. Trump is a “traitor” and Russian agent and that his Supreme Court nominee is an extremist, they will further energize their take-it-to-the-streets wing but alienate all but partisan Northeast and Pacific Coast voters.

The present political and media rage over Mr. Trump’s alleged sell-out to Vladimir Putin is an overreach. Any damage done at their recent summit pales compared with the effects, for instance, of the earlier Yalta Summit at which Stalin got

Democrats won’t win in 2020 by calling him a ‘traitor’ and doubling down on identity politics.

a dying President Franklin D. Roosevelt to cede him Eastern Europe, or the Khrushchev-Kennedy Vienna Summit, which led to the Cuban Missile Crisis, Berlin Crisis and a huge buildup of U.S. ICBM forces and budget. Mr. Trump stumbled in Helsinki, but stumbles do not amount to treason.

Democrats and some media are now calling for Mr. Trump’s impeachment, presuming that a post-November Democratic House majority would bring such a vote. But it is a risky strategy that would polarize Americans deeply. The case against him would have to be airtight and based on indisputable fact. Otherwise



Mr. Trump would be strengthened rather than harmed.

Democrats should take a fresh look at why and how Mr. Trump won the 2016 election. The party’s national leadership claims it was because of support from white supremacists, religious nuts, nativists, misogynists and Latino-haters. This is a failure to recognize what actually happened. President Trump was the consequence—not the cause—of a nationwide loss of confidence in all of the American establishment: political, media, cultural, business, financial. Sen. Bernie Sanders played on similar sentiments on the Democratic side and, had he known his potential sooner, could have won his party’s nomination.

Most voters knew before the election that Mr. Trump was a crude, freewheeling, womanizing egotist, a man who very well might finance his ventures with money from sketchy sources. They discounted all those negative factors because he was so obviously different from the establishment candidates in whom they had lost trust. Think about it: In one campaign, Mr. Trump polished off the Bushes, the Clintons, and even Ted Cruz. Voters did not

love Mr. Trump; they rejected the other guys.

So where does that leave Democrats? A writer at the Washington Post recently put together a list of the top Democratic presidential contenders for 2020. Ranked first, not surprisingly, was Mr. Sanders, given his strong 2016 showing. Also near the top was former Vice President Joe Biden, who relates well to middle-American voters. But most of the rest of the contenders take an angry, accusatory line toward Mr. Trump. Leading the pack were Sens. Elizabeth Warren and Kamala Harris, from Massachusetts and California, respectively, where bashing the president earns cheers from the party faithful.

Shrill attacks and identity politics got a strong start during Bill Clinton’s two presidential terms. Under fire on multiple fronts, the Clinton White House took an aggressive posture toward critics, asserting that it was just “fighting back.” Democrats repeated that pattern in President Obama’s 2012 campaign. They labeled Mitt Romney, a temperate former governor of Massachusetts, as anti-woman, antigay, antiblack, anti-Latino,

anti-immigrant and a tool of big finance. That theme worked so well that Democrats repeated it in congressional races two years later. Now the beat goes on, only stronger, against Mr. Trump.

There are some basic misapprehensions here. Most voters see abortion and gay rights as accepted issues and wonder why Democrats present them as threatened. They do not see racism as on the rise or the country as moving back toward Jim Crow. On the contrary, they see several decades in which the barriers to equal opportunity, legal or otherwise, have been steadily dismantled. They do worry about the problems of big-city neighborhoods: violence, drug use, broken families, unemployment, daunting dropout and incarceration rates. But they see little evidence that “white privilege” is the cause. They like immigrants and refugees but generally believe everyone should take a legal path to citizenship.

National security and the economy are the two principal issues in any presidential campaign. The Trump record in both those realms should be critiqued by Democrats. They should, in turn, offer credible alternative policies. If they do, and their presidential candidate seems reasonable, Democrats can reclaim the White House in 2020 not through a constitutional crisis but through a free election and with a popular mandate.

My own guess: By 2020, Mr. Trump will have fatigued the public. Voters will be turned off by him, just as they were in turn by the Johnson, Nixon and Carter presidencies. They will want to see another face on their TV sets. The danger is that Democrats by then may have fatigued the public even more.

Mr. Van Dyk was active in Democratic national policy and politics for 40 years. He is author of “Heroes, Hacks and Fools” (University of Washington Press, 2007).

Zero Tariffs? There's a Precedent

By Bill Lane

If President Trump is serious about using current tensions to usher in an era of free, fair and reciprocal trade, there is an approach that has worked. It won’t excite the president’s political base or dominate the news cycle, but the strategy has the potential to calm markets, encourage economic growth and create a lasting legacy.

On April 7, 1988, Caterpillar CEO George Schaefer made a simple, straightforward proposal in a letter to U.S. Trade Representative Clayton Yeutter. He set the stage by pointing out that “tariffs on Caterpillar-type products are generally 2 to 2.5 percent in the United States . . . 4 to 10 percent in other developed countries . . . and, over 15 percent in most developing countries.”

Schaefer’s remedy was to the point, with no caveats: “To correct these inequities, we would propose that tariffs on earthmoving, construction, and material handling machinery, and engines be completely eliminated—worldwide.”

If Trump is serious about free and fair trade, he should follow the example of Caterpillar in 1988.

To make clear that this proposal was no ruse, he added: “You should know that in some markets—and with some products—tariffs actually provide immediate benefit to Caterpillar. But, in the long run, we’re confident that our employees, customers, and investors are best served when we’re allowed to compete in a totally open market.”

That was it. No threats, no theatrics, no hidden intentions of gaming the system. Mr. Yeutter embraced Caterpillar’s Zero Tariff proposal.

Others joined the bandwagon. John Deere proposed that agriculture machinery be added to the list. International Paper insisted that paper be added. A Zero Tariff Coalition was organized and championed by Caterpillar and International Paper’s legendary Washington representative, Lyn Withey. By the time the General Agreement on Tariffs and Trade Uruguay Round was concluded in 1994, the zero-for-zero list also included pharmaceuticals, steel, toys, beer, distilled spirits, furniture, as well as medical and mining equipment.

The country coverage was broad. Caterpillar machines destined for Europe, Japan, Canada, South Korea and several other countries were no longer subject to tariffs. U.S. customers benefited from lower prices and better quality.

During 2011, before the World Trade Organization Doha Round collapsed, a Schaefer successor, Doug Oberhelman, tried a Hail Mary pass to expand Zero Tariff coverage to China, India, Brazil and others. Unfortunately, though the European Union was on board and China hinted at interest in an expanded Zero Tariff proposal, others, including the U.S., had grown tired of the WTO process, and the effort came up short.

In a perverse way, Mr. Trump may have set the table to accomplish what proved impossible seven years ago. The level of anxiety about trade is at an 89-year high. But what’s surprising is the response to the plethora of new U.S. tariffs. While the tit-for-tat retaliation was expected, few predicted the rush to lower tariffs on non-U.S. imports. The Trans-Pacific Partnership with its zero tariffs went ahead without U.S. participation. Japan and Europe agreed to eliminate tariffs on each other’s products. Canada, Mexico and Australia seem to have an endless appetite for new free trade agreements. Even China is slashing tariffs on imports, except those made in America.

Before the U.S. becomes even more of a tariff fortress by imposing a 20% levy on European and Japanese cars and apparently all Chinese products, it may be time to harness this newfound global appetite for zero tariffs.

Instead of escalating what is becoming a U.S. vs. world trade war, the administration could use the current international anxiety to achieve an effective global zero-tariff accord. Even more impressive—given Mr. Trump’s skill set—I believe he could accomplish it in a year, though less ambitious agreements took nearly a decade or failed completely.

After all, raising U.S. tariffs is relatively easy, as one needs only to convince Americans to pay more. Getting other countries to eliminate their tariffs is much harder. But history has demonstrated it is possible.

Mr. Lane was Caterpillar’s global governmental affairs director and co-chairman of the Zero Tariff Coalition.

Is Brett Kavanaugh Bad for the Jews?

By Liel Leibovitz

When the Anti-Defamation League was established in 1913, its mission was clear: “To stop, by appeals to reason and conscience and, if necessary, by appeals to law, the defamation of the Jewish people.” The ADL’s credo has changed a bit since—it now aspires to an “ever-more just society”—but it still presents itself as the nation’s primary watchdog against anti-Semitism. With nearly 2,000 hate crimes against Jews last year, the most in more than two decades, the group could—sadly—still have its hands full with the challenges of its original mission.

Which is why it was so dismaying to see the ADL release a statement denouncing Judge Brett Kavanaugh minutes after President Trump announced his nomination to the Supreme Court. The ADL complained of Judge Kavanaugh’s “demonstrated hostility to reproductive freedom” and worried that his “judicial record does not reflect the demonstrated independence and commitment to fair treatment for all that is necessary to merit a seat on our nation’s highest court.”

Why would a group dedicated to fighting anti-Semitism engage in this sort of partisan warfare? The answer lies with the group’s CEO, Jonathan Greenblatt, who succeeded Abe Foxman in 2015. A former junior aide in the Clinton White House and special assistant to President Obama, Mr. Greenblatt has frequently steered the ADL into the murky waters of party politics.

In March 2017, when hundreds of Jewish communal institutions received bomb threats, the ADL found a culprit in the Trump administration’s supposed embrace of the far right. “We’re in unprecedented times,” Oren Segal, director of the league’s Center on Extremism, said at a press conference convened to discuss the bomb threats. “White

supremacists in this country feel more emboldened than they ever have before because of the public discourse and divisive rhetoric.”

That’s true enough, but the threats turned out to be the work of a mentally unwell Israeli teenager.

The Anti-Defamation League loses sight of its mission and turns toward Democratic partisanship.

Far from chastened, Mr. Greenblatt doubled down on partisanship. “The impact is still the same,” he said. “The emergence of the ‘alt right’ and the rising levels of abuse they perpetrated during the campaign against Jews and other minorities is despicable.”

Four months later, the ADL published “Naming the Hate,” a guide

designed to identify the most menacing anti-Semites in America. It profiled 36 people—all of them on the right.

It’s obvious why the list includes Andrew Anglin, proprietor of the neo-Nazi website the Daily Stormer. It’s less obvious why it wouldn’t also include bigots like Joy Karega, the Oberlin professor who blamed Jews for 9/11, or Linda Sarsour, the Women’s March organizer who has celebrated Rasmea Odeh, a Palestinian terrorist convicted of murdering two Israelis, or the organizers of Chicago’s Dyke March, who last year expelled Jewish marchers holding up rainbow flags emblazoned with the Star of David. I posed this question to the ADL at the time and received no answer.

You hardly have to be a national organization dedicated to fighting anti-Semitism to realize that the threats to Jews these days come as fiercely from the left

as they do from the right. When anti-Israeli activists slip fake eviction notices under the dorm-room doors of Jewish students at New York University, and a popular progressive running for California’s Assembly hails Louis Farrakhan, it is crucial that any watchdog rise to address bigotry no matter its partisan origins.

By focusing increasingly on the battles of the Democratic Party, and by weighing in on matters far removed from its traditional mandate, the ADL is leaving American Jews behind. The dangers we face these days are real, as the ADL itself is quick to report. We need a principled organization committed to meeting threats wherever they arise and practically positioned to do so, not another feeble voice in the hallelujah chorus of progressive dogma.

Mr. Leibovitz is a senior writer for Tablet Magazine and a co-host of its podcast, “Unorthodox.”

Iranian Terror on European Soil

By Hossein Abedini

Hossein, have you heard the news about the plot to bomb the gathering?” My colleague asked me as I walked into the office on Monday, July 2. He was talking about the grand meeting of the Iranian opposition, hosted near Paris the previous Saturday by the National Council of Resistance of Iran. A shiver went down my spine as I flashed back to 28 years ago in Istanbul.

In midafternoon on March 14, 1990, I was being driven to the Istanbul airport. Suddenly, a car blocked our path. Another car pinned us in from behind, and two strange men jumped from the front car with guns.

I opened the car door and rushed at

them, carrying only a small briefcase. One man fired nine bullets, the other’s gun jammed. They fled. I struggled to survive for four months, including more than 40 days in a coma at Istanbul’s International Hospital.

I was attacked in Istanbul in 1990. An attack in Paris was foiled this month.

A few days after the attack, state TV in Tehran announced—falsely—that Mohammad Mohaddessin, chairman of NCRI’s Foreign Affairs Committee, had been killed in Istanbul. It became evident that the attackers had meant to target him, not me. Nevertheless, Tehran tried several times to finish me off while I was in the hospital. On one occasion, agents disguised themselves as Turkish police; on another, they pretended to be friends coming to visit.

Those plots were foiled, but many other victims were not as lucky. The human-rights activist Kazem Rajavi was fatally shot in Geneva that same year, and several Kurdish activists were killed in the two years thereafter. A German court four years later implicated the most senior officials in Tehran.

Little has changed. Last month Belgian authorities arrested two Belgian nationals of Iranian descent on their way to that Paris gathering, which was attended by tens of thousands of people and hundreds of dignitaries from the U.S., Europe and the Middle East. The Iranian-Belgians had more than a pound of the powerful explosive TATP and a detonator. As a result of close cooperation of Belgian, French and German authorities, a major terror

plot in Europe was thwarted with a few hours to spare.

Separately, German police arrested Assadollah Assadi, an Iranian diplomat based in Vienna. According to German federal prosecutors, Mr. Assadi, the station chief of the Iranian Ministry of Intelligence and Security, was the mastermind of the bombing plot. He had ordered the Belgians to attack the rally, and had handed them the explosives at a June meeting in Luxembourg. He was arrested on a European warrant as he was rushing back to Austria, where he enjoyed diplomatic immunity.

On July 10, a senior U.S. State Department official underscored that the plot to bomb the Paris opposition rally was only the most recent example of Iran using diplomatic cover to plot terrorism in the heart of Europe. So why are European governments remaining silent in the aftermath? One wonders how far they are willing to go to appease the theocracy ruling Iran.

Europe should realize that it can’t conduct business as usual with a state that has institutionalized terrorism as statecraft. The embassies and agencies of the ayatollahs’ regime are centers of terrorism and espionage. European countries should expel the regime’s diplomats and intelligence agents and disclose all details of the foiled terror case to the public. Only by these means can the world cripple the Iranian regime’s terror machine—which would be good for the world, the region and Iran itself.

Mr. Abedini is a member of Parliament in exile of the Iranian resistance and belongs to the Foreign Affairs Committee of the National Council of Resistance of Iran.

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OPINION

WORLD NEWS

Church Becomes a Target in Nicaragua

Priests seek refuge as violence spreads to institution that sought to broker peace

BY JOSÉ DE CÓRDOBA

MONIMBÓ, Nicaragua—The Rev. César Augusto Gutiérrez delivered an impassioned plea to a Madrid radio station last week as hundreds of elite police and paramilitary forces stormed his parish in a hail of bullets.

"They are defiling the churches," Father Gutierrez said before breaking down in tears as he pleaded for international support. "The government is killing us."

He described how neighborhood youths in Monimbó, the heart of what has become a national movement of resistance to President Daniel Ortega, confronted the onslaught with stones and homemade rockets from behind street barricades.

"They can't keep governing over a pile of the dead," he said.

For more than three months, Mr. Ortega has set loose his forces on Nicaraguans who have rebelled against his government, after what started as local protests against a tax increase turned into a national movement. More than 300 people have been killed, most of them opponents of Mr. Ortega, human-rights groups say.

The Catholic Church, the oldest and most prestigious institution in Nicaragua, has been on the front lines. Clergy have been assaulted and at least 10 churches have been attacked, shot at, looted or defiled during the past three months, mostly by government-allied paramilitary groups, clerics said.

After protests broke out in April, the church—at Mr. Ortega's request—agreed to mediate a national dialogue to try to resolve the crisis.

On Thursday, the president shifted course, railing against the church before tens of thousands of supporters in a speech marking the 39th anniversary of the triumph of his Sandinista revolution over dictator Anastasio Somoza.

Jabbing his hands into the air, Mr. Ortega said the bishops were allied with opponents seeking a violent coup.

"Many churches were used as barracks to store ammunition and bombs and to use as bases to attack and assassinate," he said, as the crowd chanted support. "The opposition is in league with Satan, and the bishops should exorcise them."

Clerics saw the speech as a signal from Mr. Ortega that he was broadening his crackdown. All of Nicaragua's bishops have been threatened since the speech, said Bishop Rolando Álvarez of Matagalpa, in the north of the country.

"We have many priests who have taken refuge," he said. "I dare say that all priests, or practically all, fear for their lives."

The day after the speech, the government abandoned a



Azucena López, top, weeps for her son Erick Jiménez, killed when pro-Ortega groups attacked protesters in Monimbó. Bottom left, paramilitaries in Monimbó after government forces moved on protesters last week. Bottom right, Father Raúl Enríquez celebrates Mass in Managua after police attacked his church.



JUAN CARLOS FOR THE WALL STREET JOURNAL (3)

church-brokered deal to help rescue some 200 youths who had escaped Mr. Ortega's police and paramilitary forces. The students had fled into the countryside after the government retook Monimbó.

"He doesn't like our position of defending victims and denouncing violent acts and assassinations," said Bishop Carlos Herrera of Jinotega, in northern Nicaragua.

Mr. Ortega and the Sandinista movement have been at odds with the Catholic Church for much of their long, intertwined history. Although a few priests influenced by leftist "liberation theology" played key roles in his first years in office, Mr. Ortega clashed with the Nicaraguan hierarchy and with Pope John Paul II. The late pope, in a famous incident,

wagged his finger at a priest in the Sandinista government at Managua airport in 1983.

In 2014, the Nicaraguan Bishop's Conference called for democratization as Mr. Ortega, who has been president since 2007 and previously held the office from 1985 to 1990, took control of congress, courts and electoral authorities. The president has abolished term limits and used state institutions to destroy any serious opposition.

The recent protests, which took the nation by surprise, began in April after Mr. Ortega raised taxes to rescue an insolvent social security system. College students leading demonstrations against the increase in the capital, Managua, were confronted by Mr. Ortega's police forces and their allies.

Dozens of protesters were

killed in a response that unleashed a national backlash. For a time, protesters took over entire cities and blocked the nation's main roads.

In recent days, Mr. Ortega has retaken much of the territory he lost in the first weeks of protests. He has passed a law allowing terrorism charges against protesters and those who financially support them.

The government violence has been widely condemned, and the U.S. has sanctioned officials close to the president. But Mr. Ortega has been defiant, asserting the government would strengthen its "self-defense mechanisms."

Attacks on the Church increased in ferocity this month. On July 13, paramilitaries wearing ski masks shot up the parish house and Church of Divine

Mercy in Managua. There were more than 100 protesters inside, many of them university students who had sought refuge. Two people were killed and 10 wounded in the 15-hour siege.

"We were all on the floor, the lights were out, we were all terrified," said the Rev. Erick Alvarado. Two days later, Bishop Abelardo Mata of the diocese of Estelí was attacked by a mob as police looked on at a road checkpoint.

The mob shot explosives at his car, breaking the windshield and puncturing its tires. Msgr. Mata managed to take refuge in a house, and was later taken to safety after an intervention by diplomats.

"They were shooting to kill," said a witness.

Although the Catholic Church in Nicaragua, as in all Latin America, has lost faithful to

evangelical churches, it has remained a respected institution in Nicaragua because it has been close to the country's poor and, under Mr. Ortega, outspoken in the defense of justice.

On Friday, the Church of Divine Mercy, which withstood attack by paramilitaries, was overflowing with worshipers, most middle-class Nicaraguans. A priest read from the exorcism prayer of St. Michael the Archangel, who in Catholic teaching led legions of angels to do battle against Lucifer and his hosts, vanquishing them into the abyss.

In the overflow crowd outside the church, Félix Benavides, a driver, said he was there to show his solidarity with the church and the bishops. "We are here to back the bishops," he said. "We think worse days are coming to Nicaragua."

Philippine Region Nears Autonomy

BY JAKE MAXWELL WATTS

The Philippines moved closer to passing a law meant to end decades of conflict in the country's south, though a bout of political infighting interrupted the ratification process.

The law establishing a self-governing region in a Muslim-majority swath of the country's south would uphold the government's end of a peace agreement with one of Asia's most durable separatist movements and pave the way for thousands of fighters to put down their weapons.

But after winning approval early Monday by the Senate, the bill hit a last-minute snag in the House of Representatives, which adjourned without a vote amid reports of a challenge to House leadership—shortly before President Rodrigo Duterte's annual State of the Nation address.

The House is still widely expected to pass the Bangsamoro Organic Law if and when it has an opportunity to vote. Mr. Duterte said during his speech that "this administration will never deny our Muslim brothers and sisters the basic legal tools to chart their own destiny." He promised to sign the law within 48 hours.

While less robust than



Canteen workers in Quezon City watch President Rodrigo Duterte deliver the State of the Nation address.

many Muslims had hoped, the proposed law would create an elected parliament and administration in Muslim-majority areas of the southern island of Mindanao and nearby islands, providing a region of about four million people control over many government functions, including education, courts and taxes, although not分离。

It will go to a vote in the designated regions this year before elections are held and a new government is formed.

Governance experts and former advisers to the peace process said the next test will

be whether the region can hold a free and fair election that puts in place a government capable of addressing deep divisions within the region.

Although a peace agreement with the largest group, the Moro Islamic Liberation Front, was signed in 2012, lingering frustrations have made the region a hotbed for extremism and armed separatists.

Mohagher Iqbal, a Front leader and spokesman, said that while the group hasn't made a formal decision on whether to accept the law and join the political process, "at

this point in time, all indications are pointing towards one thing, and that is probably acceptance of the deal."

The group's leaders have repeatedly warned that delays to the new law raised the risk that younger, more-radical elements could abandon the peace process to join with violent extremist groups that are still fighting government troops in the mountainous, tropical jungles of the south.

The new region would supersede an earlier autonomous region, which provided a lesser degree of self-governance in a similar area.

Gunmen in North Iraq Attack Official Building

BY ISABEL COLES AND ALI NABHAN

BAGHDAD—One person was killed after three gunmen broke into a local government building in Iraq's northern city of Erbil, in a rare attack inside the semiautonomous Kurdish region that officials blamed on "terrorists."

No group claimed responsibility for the attack early Monday, which ended after Kurdish security forces stormed the building, killing the lightly armed assailants after several hours of clashes. The militants took two hostages, one of whom was rescued by Kurdish security forces. The other, a person whose job it was to make tea for government workers there, was killed.

All three attackers were from Erbil, a local official said, highlighting the threat of homegrown militancy in a region the U.S. counts among its closest allies in Iraq and the Middle East. The Kurdish region, which has its own security forces, has largely insulated itself from the violent conflict that has plagued the rest of Iraq since 2003.

The latest major attack there was in 2015, when Islamic State targeted the U.S.

consulate in Erbil with a car bomb. That was also carried out by local Kurds.

The U.S. launched its first airstrikes against Islamic State in the summer of 2014 to prevent the militants from overrunning Erbil, where many foreign companies have a presence. It then backed the Kurdish Peshmerga forces in the war against Islamic State, helping them capture a swath of territory in northern Iraq.

Some Kurds, however, joined Islamic State, and other Sunni militant groups have previously found support in the region.

As the war against Islamic State came to a close last year, the Kurds made a bid for independence from Iraq by holding a referendum, which the U.S. opposed. Iraqi forces responded by driving the Kurds out of nearly all the territory they had captured during the war, including oil fields accounting for around half of the region's revenue.

That has deepened economic hardship in the region and increased anger against the region's secular ruling parties, which have led the region for decades and are accused by many Kurds of corruption and nepotism.

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, July 24, 2018 | B1

About 10% of staff will get salary boost in effort to address pay-equity concerns

BY SARA GERMANO

Nike Inc. is raising salaries for more than 7,000 employees after an internal pay review and changing how it awards annual bonuses to its global staff, part of a broad overhaul of compensation at the sportswear giant.

The changes, announced

Monday in an internal memo, are the latest example of efforts by Nike management to address concerns about pay equity and reshape the company's culture, which was jolted this spring by complaints of inappropriate workplace behavior and an executive purge.

Nike counts more than 74,000 employees around the world. Of those, 10% will receive competitive-pay adjustments in the coming weeks to ensure equity of compensation between the same job functions around the world, ac-

cording to the company.

The company said the changes seek to ensure "more competitive pay" and to "support a culture in which employees feel included and empowered."

Those expected to receive salary adjustments include both men and women and employees across "all levels, geographies, functions, and brands," a Nike spokeswoman said. The adjustments will begin in August and will be annualized over the balance of the fiscal year, which began June 1.

Nike also will change how it determines annual bonuses for staff that are eligible, the memo stated. Instead of receiving a bonus based on a mix of factors, including individual and team performance, employees will be measured against a companywide earnings target starting this fiscal year.

Bonuses awarded under the new bonus plan will be tied to Nike's budgeted earnings before interest and taxes for the year, the spokeswoman said.

Eligible employees will continue to have individual bonus

targets, such as 10% or 20% of their annual compensation, but the level that gets paid will be uniform. Going forward, the memo states, the bonus pool "will measure success based primarily on companywide performance."

Experts say a large-scale overhaul of a global company's compensation structure is unusual.

"Typically rather than a huge overhaul, [companies] do things little by little, make a change here and see how it goes," said Lydia Frank, vice

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Fiat Loses European Chief Amid Turmoil

BY CHESTER DAWSON AND MAX BERNHARD

DETROIT—Fiat Chrysler Automobiles NV on Monday said its European operations chief resigned, adding to the turmoil at the car maker after the sudden departure of longtime Chief Executive Sergio Marchionne.

The company said Alfredo Altavilla, who oversaw its operations in Europe, Africa and the Middle East, is leaving to pursue other professional interests. His departure follows that of Mr. Marchionne, who was replaced as CEO over the weekend because of deteriorating health.

The moves come as top executives met Monday in Turin for a regularly scheduled meeting, according to people familiar with the matter.

One issue immediately confronting the company is a trade rift between the U.S. and its main trading partners, which has led the Trump administration to impose tariffs on aluminum and steel. The White House also has threatened tariffs on imported vehicles and parts, a proposal opposed by most auto makers and dealers, who say it would threaten jobs and raise costs.

Fiat Chrysler has said little on the issue, and new CEO Mike Manley's grasp of supply-chain management and public policy is unknown. Mr. Marchionne, who met with President Donald Trump at the White House as recently as May, will be missed on this type of "diplomatic front" for his skills as a negotiator, Barclays said in a research note published Monday.

Another major test for his successor will be retaining or finding replacements for key executives on the company's senior management team.

Mr. Altavilla had been a candidate to succeed Mr. Marchionne, according to industry analysts and company insiders. Instead, the top job went to Mr. Manley. He was one of Mr. Marchionne's top lieutenants since 2009 and most recently ran the auto maker's Jeep SUV and Ram truck brands—two of the com-

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Highflying Small Caps Vulnerable to Tariffs

BY DANIELLE CHEMTOB

Investors have pushed U.S. small-cap stocks to record highs while seeking a haven from tariff-related tensions, but the popular trade is beginning to appear vulnerable.

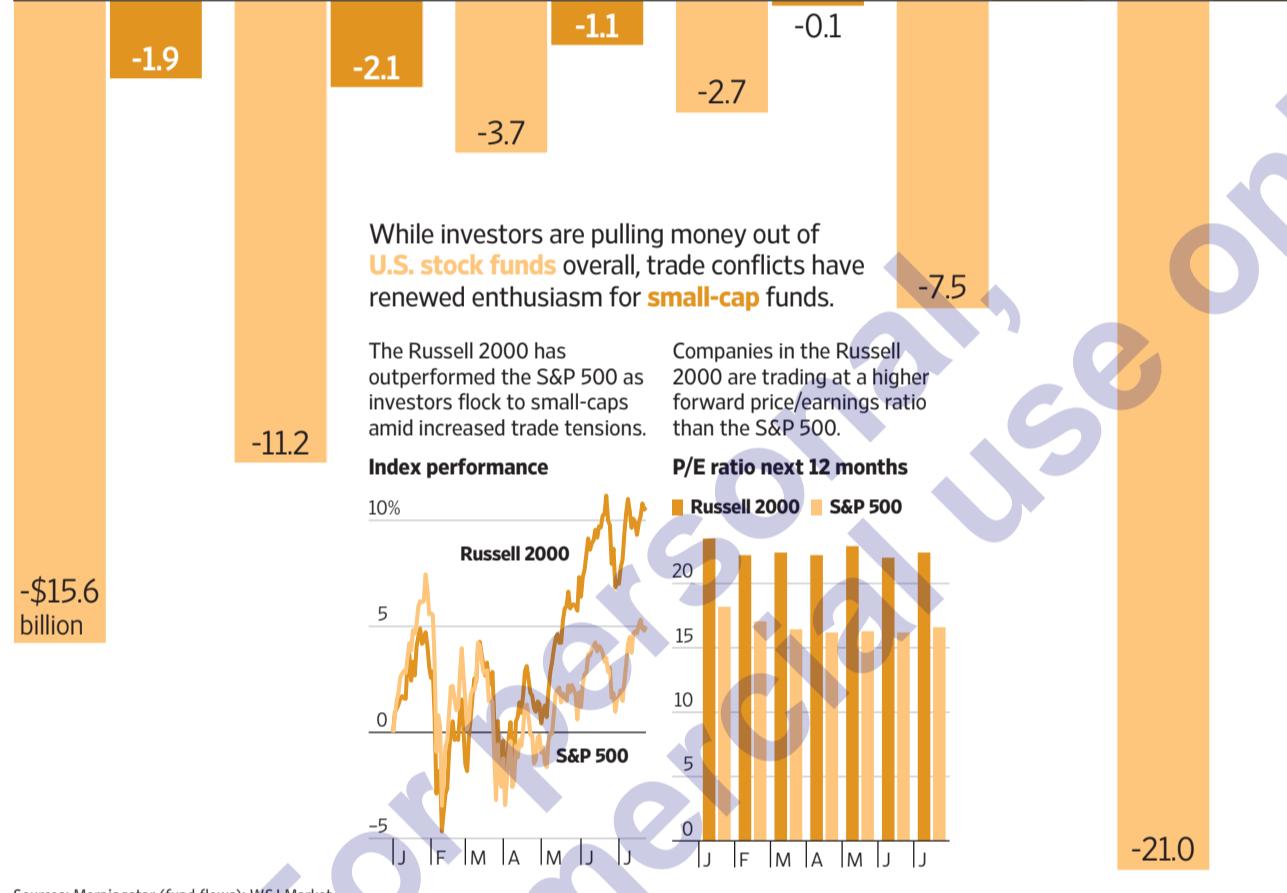
More than \$4 billion poured into mutual funds and exchange-traded funds that track small caps in May and June alone, while U.S. stock-focused funds as a whole have suffered billions of dollars of outflows every month this year, according to data from Morningstar LLC.

That influx of cash has helped propel the Russell 2000, an index that tracks shares of smaller companies, up 11% this year, compared with the S&P 500's 5% gain. The index is still trading near record levels, but some analysts warn that strong corporate earnings and economic data are masking the tariffs' potential negative impact on small businesses.

At least half a dozen small, domestically focused companies, including motor-home manufacturer **Winnebago Industries** Inc., lighting firm **Acuity Brands** Inc. and agricultural machinery maker **Art's Way Manufacturing Co.**, have said the recent tariffs imposed on steel and aluminum and a host of other Chinese goods threaten to disrupt their businesses.

"Right now, all this is muted because the U.S. economy happens to be growing very strongly," said Mary Lovely of the Peterson Institute for In-

Monthly fund flows, 2018 ■ U.S. equity ■ Small-cap



Sources: Morningstar (fund flows); WSJ Market Data Group (index performance); FactSet (P/E ratio)

ternational Economics. "Longer out, this is going to affect consumer spending and more importantly it's going to affect investment in the U.S."

Much of the stock market's recent rally has been driven by momentum-based trading

when investors pile into assets—like small caps and technology stocks—that already have made big gains. That type of investor demand can quickly evaporate, leaving the market vulnerable to a selloff, analysts say.

Small-cap stocks have become relatively expensive as a result of the rally. The Russell 2000 was trading at a forward price/earnings ratio of 22.4 as of Friday, compared with the S&P 500's 16.6.

"You're overpaying for a

company that's considered safe," said Jeff Holzmann, managing director at Lintoo, an international real-estate in-

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HEARD ON THE STREET | By Spencer Jakab

Boom Times Coming For Oil-Field Services

You can never be too rich or too thin, but is it possible for business to be too good?

That appears to be the case, at least temporarily, for the world's three leading oil-field-services firms. **Halliburton** rounded out the trio's reports on second-quarter results Monday morning, and its stock promptly sold off by 8% in early trading.

About 2½ years after oil prices hit their cyclical

trough, the sector should be thriving. Yet while there was impressive sales growth and plenty of upbeat commentary from executives, investors in Halliburton, **Schlumberger** and **Baker Hughes**, a GE Company still await the payoff.

Since the beginning of 2017, the world's leading oil exporters have succeeded in slashing inventories and boosting oil prices while production forecasts for the booming U.S. shale patch have repeatedly been revised higher. The global natural-

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Private Pension Wipes Out Investors

BY JEAN EAGLESHAM

Scott Kohn, a 64-year-old felon, ran a company from a Nevada strip-mall mailbox that investors claim took them for more than \$100 million in losses.

Mr. Kohn's company, Future Income Payments, appears shut, according to court filings. His investors are likely to be wiped out, according to lawyers representing them, who plan to sue scores of firms that sold Future Income products as soon as this week. At least 25 states have taken enforcement actions or are investigating the company, it said in April.

The blow-up shines a light on the boom in opaque private markets, to which investors have flocked in the hope of doing better than they can in traditional stock and bond markets. Private-market products, including the ones offered by Future Income, are frequently sold by financial advisers. Sales targets are often retirees looking to beat the anemic returns on bonds and other savings products.

Future Income essentially sold investors other people's pensions. Mr. Kohn's firm would find workers entitled to pension payments and temporarily buy the rights to those payments—effectively lending the beneficiaries money against their future pension income in what is called a "pension advance." Then, Future Income would sell the rights to investors for a lump sum.

But Future Income's apparent collapse has left investors stranded. The company is no longer collecting the pension money that funds its own payments to investors, according to court documents. Mr. Kohn couldn't be reached for comment. It isn't clear if he has a lawyer.

JC and Mary Barb of Hemet, Calif., say their financial adviser Kevin Kraemer persuaded them to invest some \$78,000 with Future Income last year. "He came to us and said, 'Hey we can make some more money on your money,' [and] sold us this new deal," said Mrs. Barb, a 66-

year-old retired postal worker. Her husband, a 63-year-old retired teacher, said the money "was to be a big help to us in our retirement and now it's not there, it's gone," Mr. Kraemer declined to comment.

Unlike publicly traded investments, there are few rules on how pension advances can be sold or by whom. "They illustrate the problems with the financial services industry selling opaque, high-commission private investments," says Joe Peiffer, a New Orleans-based plaintiffs' lawyer representing some purchasers of Future Income's products. "We have clients who were ad-

vised to cash in their pensions and refinance their homes to buy these things."

In a letter sent to investors in April, Mr. Kohn said his company was suffering from "intense regulatory pressure and legal expense," and investors had been told there were "no guarantees [they] would receive all payments." Future Income didn't respond to emails, and its phones appear to be down. Christopher Jones, a lawyer representing the company over a civil investigation by the Consumer Financial Protection Bureau, didn't respond to requests for Please turn to page B2

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Oil-Field Services Look Solid

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gas market has stabilized, too, after being hit by worries about oversupply.

The three companies have put in a total performance since the beginning of 2017 of negative 22%, or some 50 percentage points below the S&P 500. By contrast, during the year and a half leading up to July 2014, the end of the most recent oil boom, they rallied 89% on average. Expectations were too high at the start of the current upturn. Analysts' consensus forecast for combined 2018 earnings per share for the group has dropped 39% since February 2017, according to FactSet.

Part of the problem is that the world's hottest oil patch, U.S. shale, faces shortages of truck drivers, railcars and fracking materials.

Such market tightness is normally wonderful for oil-field services companies, but a lot of the rewards are flowing to others such as truck drivers scoring raises and big signing bonuses. Meanwhile, the big, sophisticated, largely international projects in which all three companies specialize suffered sharp cutbacks after the oil bust.

Now that is finally changing, making all three companies more interesting.

Schlumberger chief Paal Kibsgaard, for example, said it has "been quite a while since we were able to kind of talk as optimistically about the international market as we can now."

Meanwhile, hot North American areas like the Permian Basin, while they will keep growing, are entering a period of slower growth as pipeline capacity rushes to catch up with the increase in output.

The sweet spot for the industry was delayed, but it is nearly here. Investors should take advantage of the sector's temporary weakness before it gets priced in.

BUSINESS NEWS

Whirlpool Cuts Its Earnings Outlook

BY AUSTEN HUFFORD

Whirlpool Corp. on Monday trimmed its full-year profit outlook as it booked a large charge on its European operations and said it wouldn't be able to offset the effect of steel tariffs with higher prices for consumers.

The Benton Harbor, Mich., appliance maker swung to a second-quarter loss after booking \$747 million in charges on its European business and paying \$114 million for an antitrust settlement in France, wiping out the benefits of higher prices pushed through to counter the effect of tariffs on imports of steel, one of its largest costs.

Whirlpool said it has struggled to integrate its 2014 purchase of Italy's Indesit Co. and faced economic and operational issues, as the company worked to gain more exposure to Europe's appliance market. The total consideration paid was \$1.4 billion in aggregate, net of cash. The asset impairment represents about half of the original purchase price.

The surprise charge follows a series of upbeat earnings reports by other U.S. manufacturing companies. Whirlpool shares fell more than 8% in after-hours trade.

Total sales fell 3.9% to \$5.14 billion. They were down 4.5% from a year earlier after excluding currency changes.

Hasbro Investors Breathe Easier

Share price jumps 13% as toy maker's results help ease fears over closure of Toys 'R' Us

BY KIMBERLY CHIN

Hasbro Inc. shares rose 13% Monday after the toy maker reported better-than-expected quarterly results, easing concerns about any impact from the recent closure of retailer Toys "R" Us.

While the company's sales and earnings fell year-over-year, strong performances by fantasy games Dungeons and Dragons and Magic: The Gathering helped to ease the lost business from the Toys "R" Us liquidation.

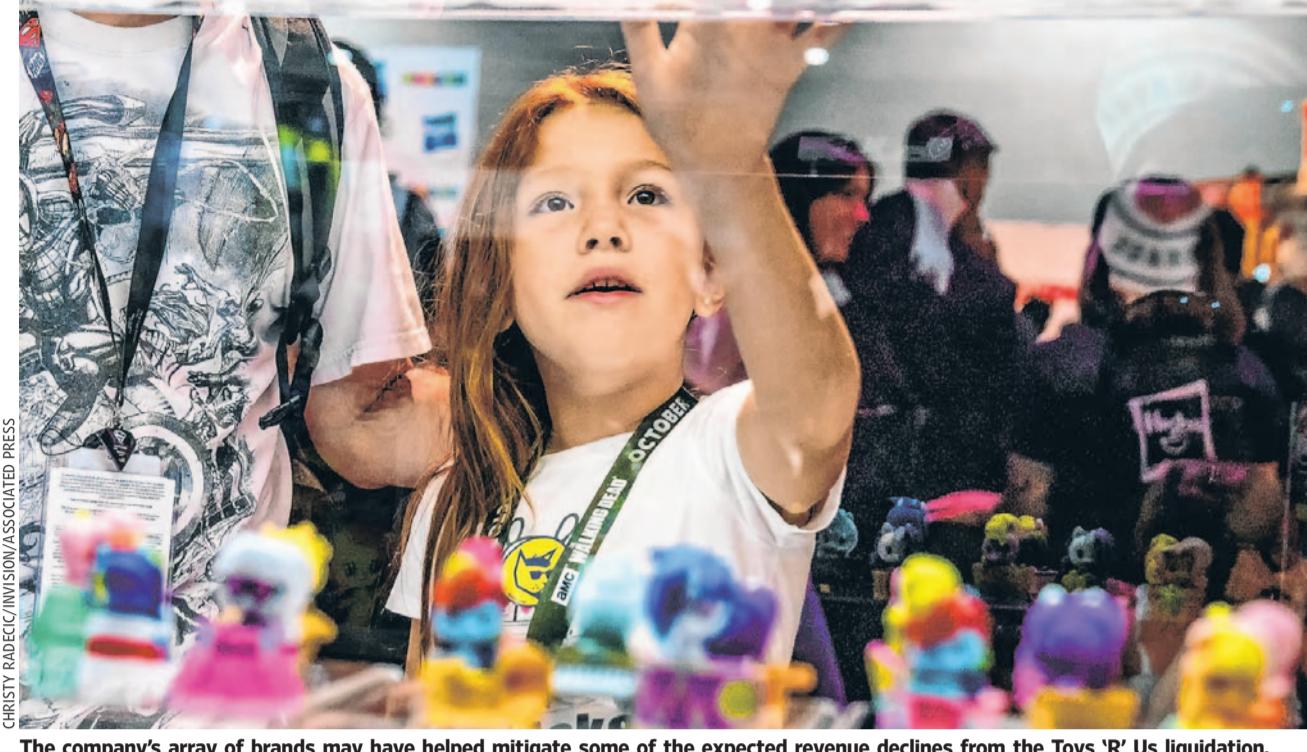
"Dungeons and Dragons continues to deliver revenue growth as fans re-engage with this brand, and it attracts new players," Chief Executive Brian Goldner said on the company's earnings conference call.

Hasbro, based in Pawtucket, R.I., is betting that retailers will seize on the apparent hole left behind by the toy-store chain.

The company plans to launch new online exclusive products with retailers such as Walmart Inc., Target Corp., Alibaba Group Holding Ltd., JD.com Inc. and Amazon.com Inc., Mr. Goldner said.

"We don't expect to recapture all of the lost revenue in 2018, but by 2019, we should have moved beyond Toys "R" Us," Mr. Goldner said.

The retailer's more than



The company's array of brands may have helped mitigate some of the expected revenue declines from the Toys 'R' Us liquidation.

700 U.S. stores were officially closed in late June.

Shares of Hasbro closed Monday at \$106.04 and now have risen 17% this year.

Mr. Goldner told analysts that several games made their debuts this year, including those where the company took a "fast-to-market" approach in development.

The company also plans several products tied to movie franchises such as "Transformers," Marvel's "Avengers" universe and "Star Wars."

"Star Wars" will probably look similar to a year ago," Mr. Goldner said. "The days

of surging in a movie year and shrinking in a nonmovie year are probably behind us.

Instead, it just becomes a really strong contributor."

In June, Hasbro added to its portfolio by acquiring the Power Rangers, My Pet Monster and other entertainment brands from **Saban Properties LLC** in a cash-and-stock deal valued at roughly \$500 million.

For the second quarter, Hasbro's earnings fell to \$60.3 million from \$67.7 million. On a per-share basis, the company's profit of 48 cents easily surpassed the average analyst estimate of 29 cents

on Thomson Reuters.

Revenue fell 7% from a year earlier to \$904.5 million but came in above the \$838.1 million expected, on average, by analysts.

Jefferies analyst Stephanie Wissink said that following the results, there are fewer reasons for investors to be cautious.

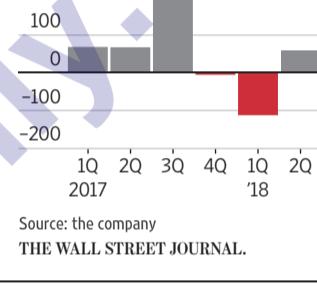
In particular, she mentioned the company's digital games business, which could account for more than 10% of sales in the next two to three years.

Rival **Mattel Inc.** will report second-quarter earnings on Wednesday.

Toy Story

Hasbro reported its first profitable quarter since the period ended in September.

Net earnings/loss



Source: the company

THE WALL STREET JOURNAL.

Qualcomm Awaits Beijing's Verdict

BY TRIPP MICKLE

Qualcomm Inc. is set to find out this week if its \$44 billion deal to buy chip maker **NXP Semiconductors NV** will become one of the biggest casualties in the escalating U.S.-China trade battle.

Wednesday is the expiration date for its merger agreement with NXP, a deal struck in October 2016 that Qualcomm touted as transformational, saying it would diversify a largely smartphone-driven business into the fast-growing automotive chip market.

China is the last of nine markets where Qualcomm and NXP need approval from competition authorities, but that decision has been snarled in the wider trade feud for months.

Beijing's State Administration for Market Regulation could still sign off on the deal, but trade specialists said President Donald Trump's threat Friday to put tariffs on \$500 billion in Chinese imports makes that highly unlikely by Wednesday. And Qualcomm, which extended its deadline in April, has said it doesn't plan to do so again.

Qualcomm's fortunes already have been whipsawed by White House priorities and U.S.-China jousting. In March, Mr. Trump saved the San Diego company from a hostile take-



The chip maker's NXP deal is lacking only China's regulatory approval. A Qualcomm display in Shanghai.

over by rival **Broadcom** Ltd., blocking the deal in the interest of national-security concerns focused on China.

Then, Qualcomm nearly lost a significant customer, **ZTE Corp.**, when Washington banned U.S. companies from selling components to the Chi-

nese maker of smartphones and telecom equipment over sanctions violations—only to have Mr. Trump later make a deal with Beijing to save ZTE.

"It's been wild," said Jeffrey Helfrich, portfolio manager at Dallas-based investment adviser Penn Davis McFarland,

which counts Qualcomm among its largest holdings. "Any one of the many events in the past year would drive a CEO crazy."

Qualcomm and NXP declined to comment. Chinese regulators didn't respond to a request for comment.

Meg Whitman Invests In Esports Startup

BY MAUREEN FARRELL

Technology and entertainment companies have been paying close attention.

Activision built its own esports league based on its popular "Overwatch" game. Analysts and investors pointed to its investment in esports to help explain the run-up in its stock ahead of the January launch of the league.

In 2014, Amazon.com Inc. spent nearly \$1 billion to buy Twitch Interactive Inc., a popular internet channel for watching people play video-games.

Ahead of Ms. Whitman's investment, Immortals had already landed backing from high-profile investors including Michael Milken's family office, Lions Gate Entertainment Corp. and AEG, the sports and live-entertainment company founded by billionaire Philip Anschutz.

Immortals' 23-year-old CEO and founder, Noah Whinston, said that the investment from Ms. Whitman didn't come as part of a larger round but was completed outside of the company's fundraising timetable to add someone with her expertise to the board. "I've always been very interested in what she did at eBay, which was to take a much more niche community-oriented site and turn it into something mainstream."

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BUSINESS & TECHNOLOGY

WebMD Reaches Into Asia

Health-care content will be provided to Chinese consumers via Tencent's WeChat

By SHAN LI

HONG KONG—**Tencent Holdings** Ltd. of China has struck a deal to provide **WebMD**'s health-care content to the more than one billion users on its WeChat social network, according to the companies.

The content-licensing deal includes WebMD articles, videos and slide shows covering medical and health topics, such as the side effects of chemotherapy or the symptoms of appendicitis. Financial terms weren't disclosed.

WebMD, which is owned by private-equity firm **KKR & Co.** and based in New York, said the deal will raise the quality

of health-care information available to Chinese consumers. The content, slated to be rolled out by year's end, will also be available on Tencent's QQ messaging app.

"There are tens of millions of people on WeChat today that are forming groups for specific disease information, whether it's cancer or diabetes," said Jeremy Schneider, senior vice president of corporate development and global strategy for WebMD. "There is a lot of talking amongst themselves, but there is not a lot of credible information."

Tencent will translate and adapt the content for Chinese audiences. Meng Zhang, general manager of Tencent Healthcare Information Center, wrote in an email.

"There are quite some differences between Chinese and Western demographics, medical practices and cultures," Mr. Zhang wrote. "It is very im-

portant that we take into account these differences during the localization process."

Health care is a big—and growing—business in China, which is forecast to spend \$1 trillion on health care by 2020, according to a report from McKinsey & Co. Its aging population is increasingly dealing with chronic conditions such as diabetes, but the health-care system doesn't have enough general family doctors who can direct patients to the right treatments and specialists, said Philip Leung, head of the Greater China Healthcare practice for consulting firm Bain & Co.

That leaves many people turning up at the hospital for care. Wait times can be so extreme that ticket scalpers book hospital appointments and then try to sell them for a big markup, a practice Beijing has started cracking down on, said Mark Natkin, managing

director of research firm Marbridge Consulting.

In recent years, China has expanded insurance coverage, encouraged the growth of private hospitals and pushed for digitizing medical records. To further improve care, China last year tapped Tencent to be a "national champion" to develop uses of artificial intelligence technology in medicine.

Tencent has backed dozens of health-care companies, both in China and around the world. Mr. Natkin said his firm has tracked at least 30 health-care-related investments since April 2012. Tencent declined to comment.

The new WebMD services will compete against a growing number of companies providing not only medical information, but also online tools that help Chinese consumers navigate the system.

—Fanfan Wang in Beijing contributed to this article.



Kelvin Dushnisky has been with Barrick since 2002.

AngloGold Poaches Barrick's President

By JACQUIE McNISH

TORONTO—Barrick Gold Corp. said its president, Kelvin Dushnisky, is leaving the company to join **AngloGold Ashanti** Ltd. as its chief executive officer.

Barrick hasn't named a new president. Mr. Dushnisky wasn't available for comment.

Mr. Dushnisky joined the Toronto-based gold-mining company in 2002 and has been president since 2015. Barrick is the world's largest gold producer, and Mr. Dushnisky's departure comes as the company is under pressure to reverse falling gold production and reserves. The company said it will replace Mr. Dushnisky "in due course."

The company has no chief executive officer. Barrick's executive chairman, John Thornton, has led the company since 2014, when he was appointed to oversee a turnaround of the company as it struggled with heavy acquisition debts.

Mr. Thornton is credited with nearly halving the company's debts to \$6.4 billion at the end of last year by selling assets, rapidly shrinking costs and head count and attracting new investors. The moves have reduced Barrick's mining footprint, and analysts have raised concerns about falling ore reserves and rising costs at its mines. Barrick's annual gold production has fallen more than 30% since 2013 to 5.32 million ounces last year.

Fund Reveals It Owns 5.7% of Barnes & Noble

By JEFFREY A. TRACHTENBERG

An investment fund led by Richard Schottenfeld has acquired 5.7% of bookseller **Barnes & Noble** Inc. and has met with the bookseller's senior management to discuss how to improve the company's performance, according to a securities filing.

In an interview, Mr. Schottenfeld said he began purchasing his stake in May. He believes Barnes & Noble can better manage its expenses while improving its in-store shopping experience. He also said consumers are frustrated by the retailer's online-shopping efforts.

"It's our preference to work with the companies in which we invest," said Mr. Schottenfeld. "A fresh investor can bring new ideas." Mr. Schottenfeld's holdings put him among the book retailer's largest shareholders.

A spokeswoman for Barnes & Noble declined to comment. Barnes & Noble shares rose 2.7% Monday.

Mr. Schottenfeld invested in Barnes & Noble in 2013, when he agitated against the retailer's investment in its struggling Nook digital business. He also was in favor of separating the retailer's college unit. After that business was spun off as Barnes & Noble Education Inc. in August 2015, Mr. Schottenfeld sold his Barnes & Noble shares.

Earlier this month, Barnes & Noble fired Chief Executive Demos Parneros, citing company-policy violations. The retailer said the dismissal wasn't related to improper financial reporting or potential fraud, but didn't provide more information. The bookseller is being overseen by a management group that includes Leonard Riggio, its executive chairman and largest shareholder.

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Business & Technology

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—Fanfan Wang in Beijing contributed to this article.



A series of scandals involving drug ingredients, milk and infant formula have angered the public. An official checks vaccines at a hospital.

China Probes Vaccine Production

By PREETIKA RANA

HONG KONG—Chinese Premier Li Keqiang called for a government investigation into "the entire process chain of all vaccine production and sales," after a drug company allegedly sold more than 250,000 doses that failed to meet safety standards.

Shares of major local vaccine makers, including a **Merck** & Co. partner, tumbled Monday after Mr. Li's statement was released a day earlier. He didn't elaborate on what more his government would do to investigate.

Mr. Li's investigation was sparked by public outrage against **Changsheng Biotechnology** Co., a large vaccine maker based in Jilin, a province in northeast China. Earlier this month, the national drug regulator said Changsheng fabricated production records of a rabies vaccine. The company said it suspended production of the vaccine

pending the results of an investigation. It said none of the batches in question were shipped.

Then a week ago, Changsheng said a separate investigation conducted by Jilin's food and drug authority showed that 253,338 doses of another vaccine—administered to protect against diphtheria, pertussis and tetanus—failed to meet safety standards. Most of the doses, the company said, were sold to the government of Shandong province. Authorities in Jilin province fined it \$380,610 and seized \$126,683 worth of assets from sales of the vaccine, the company said.

Authorities in Beijing have recently tried to clean up the world's second-largest drug market by sales after a series of safety scandals—Involving drug ingredients, milk and infant formula—led to deaths and angered the public. The latest incident touched a nerve.

Anger on Tencent Holdings

Ltd.'s WeChat and Twitter-like microblogging site Weibo Corp. was largely directed at Beijing's inability to restore public faith in domestic goods.

That deals a blow to President Xi Jinping's government, which is seeking to transform the drug industry into a producer of complex products.

Mr. Li sought to soothe worries about safety as anger intensified over the weekend. "We will resolutely crack down on all illegal and criminal acts that endanger the safety of people's lives, and resolutely punish those who violate the law," his office said Sunday. It added that Beijing was committed to ensuring "a safe, secure and trustworthy living environment" for its citizens.

Trading in **Chongqing Zhifei Biological Products** Co., which sells Merck's Gardasil vaccine in China, and **Shenzhen Kangtai Biological Products** Co. Ltd., which produces vaccines for hepatitis B among others, were temporarily suspended after both companies' shares fell by the maximum 10% daily limit on Monday.

Shenzhen-listed Changsheng was halted from trading after falling by more than 40% since last Monday.

—Fanfan Wang and Stella Yifan Xie contributed to this article.

Speaker Maker Sonos Sets IPO Range

By KIMBERLY CHIN

High-end speaker company **Sonos** Inc. laid out the terms for its initial public offering in a regulatory filing Monday, saying it expects its shares to price between \$17 to \$19 each.

Sonos plans to offer roughly 13.9 million shares in its IPO, raising about \$250 million at the midpoint. The company will sell about 5.6 million shares, netting \$90.5 million at the midpoint. About 8.3 million shares in the offering are being sold by existing shareholders.

After the offering, Sonos would have a market value of about \$2.14 billion on a fully diluted basis, according to a person with knowledge of the process. The company will trade on the Nasdaq exchange under

the ticker SONO.

Earlier this month, Sonos reported \$655.7 million in revenue for the six months ended March 31 and \$13.1 million in profit. In the year-earlier period, the company generated

\$555.4 million in revenue and \$15.2 million in profit.

The company has reported annual losses for the past three fiscal years, though it was profitable for at least two years before that.

Sonos, founded in 2002, has raised about \$110 million in primary funding from investors, including Index Ventures and KKR & Co.

—Maureen Farrell contributed to this article.

BUSINESS NEWS

IKEA Builds Changes Into Sales Model

Furniture chain offers an assembly service in India, where shoppers often shun such work

BY SAABIRA CHAUDHURI
AND CORINNE ABRAMS

IKEA built a global empire selling affordable furniture that people assembled themselves. For its first store in India, the Swedish retailer is upending its business model.

The India store, set to open next month in the southern city of Hyderabad, will feature IKEA's first in-house furniture-assembly team, with 150 full-time employees. IKEA created the optional service after research indicated many Indians would be unlikely to buy bookshelves and tables they had to screw together.

The store also will have items tailored for Indian preferences, such as lunchbox sets to carry multiple-course meals, pans to cook Indian flatbread and mattresses containing coconut fibers, which many Indians find cooling. The outlet's 1,000-seat restaurant will be IKEA's biggest to date, serving samosas and biryani as well as Swedish meatballs made with chicken or vegetables because most Indians don't eat beef or pork.

"This is the moment of truth," said Juvencio Maeztu, the company's deputy chief executive, who spent the past six years preparing for the India launch. "India is an opportunity to make the next 75 years of IKEA."

IKEA, like many big Western retailers, is betting that India's mushrooming middle class and young population will spur demand for the company's products. Roughly half of India's 1.3 billion people are under the age of 25. While only a small minority can afford an IKEA bed or table set today, incomes and aspirations are rising. The country's home-furnishings market expanded more than 90% over



The Swedish retailer made more than 1,000 home visits to learn about Indians. The company's new store in Hyderabad, India.

Indian outlet will cost less than \$3. It also will offer a sewing service so customers can buy fabric to have curtains made in the store.

IKEA spent weeks training its in-house team, which includes 75 women, to assemble its furniture. In addition to its full-time employees, the company has separately trained carpenters available on Urban-Clap, a Bangalore-based online marketplace for freelance labor, to assemble its furniture.

Low labor costs mean many Indians are used to hiring carpenters to make furniture or even just hang pictures.

Elsewhere, too, IKEA has been working to be more convenient. Last year it acquired Silicon Valley startup TaskRabbit—the online marketplace that connects people with freelancers willing to run errands and do odd jobs—saying it would use it to for furniture assembly.

One of its biggest adaptations in India is a plan for smaller, city-center stores. Indian cities are traffic-filled, making it unappealing to travel long distances. And consumers are used to shopping in much smaller stores than the sprawling big-box chains of the West.

"India is an opportunity to leapfrog," Mr. Maeztu said. "We cannot penetrate Mumbai or Bangalore only with a blue box in the outskirts."

IKEA's main domestic competition will be the thousands of tiny furniture shops and roadside carpenters who build to order. There are only a few national furniture brands and websites.

A few miles from the IKEA in Hyderabad is Ashish Singh's Furniture Point store. He knows IKEA is coming, but said he isn't worried. Although both venues will compete on price, Mr. Singh maintained that IKEA can't match the quality of materials or customization his store allows.

"We deal with Indian teak; they deal with plywood," he said.

Getting Organized

India's home-furnishings market is largely served by informal mom-and-pop outfits—so-called unorganized retailers—but bigger companies are increasingly gaining share.

Global sales, change from a year earlier



Note: IKEA's fiscal year ends Aug. 31; India's fiscal year ends March 31.
Sources: the company (global sales); Technopak (home furnishings)

raft of regulations limiting foreign investment in the country's retail sector.

In the past month, the announced date of the company's India opening has been delayed twice. A spokeswoman

Sales of home furnishings in India



THE WALL STREET JOURNAL.

said IKEA still has more work to do on the store.

The Swedish retailer spent years studying India to understand what makes its residents tick. It set up a makeshift IKEA store near New Delhi and

watched how invited families interacted with its products. Its employees have been on over 1,000 home visits to figure out how Indians eat, sleep, relax and entertain. In preparation for its Hyderabad opening, IKEA flew 75 Indian employees to Sheffield last year to help open a store in the English city. It also opened a pop-up shop in Hyderabad to start introducing its products to potential customers.

Many things in the 400,000-square-foot Hyderabad store will be the result of that research. Dining-room furniture will have a prominent role after home visits showed the dining table is "not only a place to eat but to discuss," Mr. Maeztu said.

The new IKEA will have hundreds of items the average Indian can afford, including a \$2.16 jewelry box, shoehorns for 70 cents each and door-mats that say "welcome" in different Indian languages for about \$5. Roughly 800 of the 7,500 products on sale in the

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BUSINESS & FINANCE

For Sale: Ad Space in Packages

By KHADEEJA SAFDAR

In the sliver of spare room between a new pair of shoes and the books you ordered online, retailers have found a different way to monetize the empty space in your packages.

Saks Fifth Avenue, Zulily and Barnes & Noble College are among several businesses that have joined a new marketplace that allows advertisers to buy and insert paper ads in customers' boxes. More than 25 retailers have listed slots for sale in their packages in the weeks since the website, called UnDigital, went live.

The rise of online shopping has taken a toll on retailers as shipping costs and investments in e-commerce capabilities have cut into profits. Retail margins on average fell to 8% last year from 10.2% in 2012, according to consulting firm AlixPartners. Over that period, e-commerce sales expanded to 17.6% of total sales from 10.5%.

Retailers hope they have a remedy: Wring more money out of the space inside the box.

For years, companies have been adding product samples or targeted coupons in their packages shipped to customers in hopes of encouraging shoppers to place another order at their stores. Some retailers brokered occasional deals with existing vendors or advertisers. With UnDigital, retailers are offering their packages to a broader range of potential advertisers.

On the UnDigital platform, retailers post monthly listings with a number of packages and the maximum number of inserts per package. Advertisers can specify the number of packages in which they want inserts at a price set by the retailer. The average price per insert is between 10 and 12 cents, and the average number of inserts per box is two to three.

Once an advertiser buys the inserts, UnDigital manages printing and payment logistics. It also sends the ads to



Touch of Modern is working on an agreement to include inserts in Cabela's Inc. packages.

Boxed In

E-commerce sales rose to 17.6% of total sales last year, but retail margins continue to fall.



the retailer's shipping facility for them to be inserted. Advertisers can add unique links on their inserts to track conversion rates.

Because retailers can break up the volume of packages

into segments, smaller brands and niche advertisers are able to buy inserts, said Ryan Millman, co-founder and CEO of UnDigital. "If you want to try 100,000 units instead of five million, it might cost a few cents more, but it allows an advertiser to test with a very large company."

Online retailer Zulily said it has included inserts in packages in the past but mainly from its existing vendors. The retailer joined UnDigital in hopes of finding new advertisers and generating more revenue to reinvest in the business, said Chris Johns, manager of integrated marketing and partnerships for Zulily. "A penny saved is a penny passed along to the customer," he said.

Barnes & Noble College is looking for advertisers that sell products specifically for college students, such as those related to technology or entertainment, said Lisa Malat, chief marketing officer at the

company.

Saks declined to comment.

Touch of Modern, an e-commerce site that curates products for men, said it is working on an agreement to include inserts in the packages of Cabela's Inc., which sells hunting and outdoor gear. Though the cost of an insert ad is much higher than a digital ad, an insert can be a more efficient way to reach a shopper, said Ian Yung, senior director of business development at Touch of Modern. "It's rare that someone will order something online and not open the package."

Some shoppers say they open packages but don't bother looking at the inserts. "My main objective is to get my item as fast as I can—I don't look at anything else," said Corey Gorman, a 27-year-old accountant in Scranton, Pa. "The only way I would look at the ads is if they were shoved in my face like YouTube ads."

Aircraft-Parts Maker Nordam Files for Chapter 11 Protection

By PEG BRICKLEY

lons that attach the engine to the aircraft.

Existing lenders led by **JPMorgan Chase & Co.** are offering up to \$45 million in bankruptcy financing, money to support the business while restructuring talks continue.

Pratt & Whitney and Nordam worked out some of their differences in arbitration earlier this year, but efforts to enlist lender support didn't pan out, Mr. DiDonato said.

In June, \$266 million in bank loans matured, catching Nordam in a liquidity crunch caused by years of spending

The cost of the nacelle program has strained Nordam's finances.

on the nacelle, and declining earnings. Earnings before interest, taxes, depreciation and amortization fell to about \$50 million in fiscal year 2017 from roughly \$88 million in fiscal year 2008, according to papers filed Sunday.

Nordam is owned largely by the family of Ray Siegfried Sr., who acquired the struggling business in 1969, and led its growth into an international manufacturing and repair operation.

Besides the bank debt, Nordam owes Siegfried family-controlled lending entities \$19 million, court papers say.

Only U.S. units of the Tulsa, Okla., company filed for chapter 11 bankruptcy protection, according to court documents. An employer of more than 2,000 people, Nordam is being represented in bankruptcy by Weil Gotshal & Manges LLP and Richards, Layton and Finger as legal counsel and Guggenheim Securities LLC as investment banker.

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	Open	High	hi	lo	Low	Settle	Chg	interest	Open	High	hi	lo	Settle	Chg	interest
Copper-High (CMX) -25,000 lbs.; \$ per lb.	2,7485	2,7490		2,7300	2,7370	-0.090	1,373		370.00	372.25		368.50	371.25	2.25	786,188
July	2,7485	2,7490		2,7300	2,7370	-0.090	1,373		232.75	233.50		229.25	231.50	-1.75	1,698
Sept	2,7515	2,7765		2,7340	2,7465	-0.095	174,855		235.75	239.25		234.50	237.75	-7.75	3,210
Gold (CMX) -100 troy oz.; \$ per troy oz.	122.00	122.00		122.00	122.40	-5.50	137		853.25	854.75		847.25	847.75	-2.00	67,972
July	122.00	122.00		122.00	122.40	-5.50	137		328.50	330.40		326.60	328.00	1.10	47,990
Aug	1231.70	1235.20		1222.20	1225.60	-5.50	203,311		325.80	328.20		324.10	325.40	.80	203,396
Oct	1235.70	1239.30		1226.70	1229.70	-5.80	33,977		28.24	28.31		27.96	27.97	-25	46,587
Dec	1240.70	1244.70		1231.10	1234.40	-6.00	229,868		28.24	28.31		28.30	28.32	-22	242,160
Feb'19	1248.10	1250.00		1237.30	1240.20	-6.00	26,594		862.75	862.75		862.75	862.75	0.00	175,391
June	1258.80	1262.00		1251.40	1252.10	-6.00	6,700		1189.00	1200.00		1188.00	1199.00	6.00	6,537
Palladium (NYM) -50 troy oz.; \$ per troy oz.	1222.00	1222.00		1224.00	1224.00	-5.50	137		1177.50	1187.00		1176.00	1185.50	7.00	1,230
Sept	886.60	908.80		875.60	902.60	13.70	18,787		518.00	522.50		512.00	513.75	-2.25	200,365
Dec	884.30	905.40		875.00	899.60	13.90	2,298		535.75	539.25		530.00	532.25	-7.75	147,624
Platinum (NYM) -50 troy oz.; \$ per troy oz.	... 829.60	... 829.60		... 825.80	... 825.80	2.20	21		509.25	518.00		506.25	510.75	2.25	135,495
Oct	829.00	838.00		825.90	831.00	1.50	77,549		535.75	543.75		531.75	536.75	3.00	89,382
Silver (CMX) -5,000 troy oz.; \$ per troy oz.	15.505	15.505		15.355	15.368	-0.122	425		514.25	520.00		512.50	513.75	-2.25	200,365
Sept	15.540	15.580		15.350	15.425	-0.124	154,037		152.00	152.00		151.75	152.00	0.25	147,624
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl.	15.505	15.505		15.355	15.368	-0.122	425		153.725	153.725		152.00	153.25	-425	151,295
Sept	15.516	16.931		15.670	16.789	-0.37	481,171		154.300	154.625		153.650	154.325	-225	124,128
Oct	16.611	16.74		16.626	16.75	0.11	242,432		154.500	154.500		154.250	154.500	0.25	124,128
Dec	16.589	16.684		16.561	16.614	0.27	295,045		154.725	154.725		154.500	154.725	0.25	124,128
Jan'19	16.58	16.650		16.536	16.590	0.33	159,629		154.900	154.900		154.725	154.900	0.25	124,128
June	16.81	16.642		16.636	16.435	0.54	160,052		155.125	155.125		155.000	155.125	0.25	124,128
Dec	16.12	16.288		16.91	16.728	0.66	210,128		155.375	155.375		155.250	155.375	0.25	124,128
NY Harbor ULSD (NYM) -42,000 gal.; \$ per gal.	2,1021	2,1414		2,0956	2,1180	0.136	53,032		109.350	109.400		108.450	108.725	-200	58,956
Sept	2,1072	2,1470		2,1003	2,1229	0.135	108,512		110.55	110.93		109.83	110.60	-350	120,192
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.	2,0658	2,1043		2,0556	2,0914	0.024	49,548		65.500	66.425		66.250	66.425	0.25	124,128
Sept	2,0300	2,0684		2,0209	2,0528	0.185	133,154		51.400	53.325		51.100	52.625	3.00	124,128
Natural Gas (NYM) -10,000 MMBtu's; \$ per MMBtu.	2,735	2,741		2,713	2,721	-0.036	77,337		474.80	478.00		470.50	474.80	0.25	124,128
Sept	2,706	2,711		2,688	2,695	-0.033	286,351		474.80	478.00		470.50	474.80	0.25	124,128
Oct	2,724	2,730		2,708	2,715	-0.031	158,556		474.80	478.00		470.50	474.80	0.25	124,128
Nov	2,772	2,795		2,758	2,767	-0.025	216,917		474.80	478.00		470.50	474.80	0.25	124,128
Jan'19	2,970	2,975		2,956	2,966	-0.022	144,787		474.80	478.00		470.50	474.80	0.25	124,128
April	2,570	2,600		2,570	2,580	-0.003	124,430		474.80	478.00		470.50	474.80	0.25	124,128

Agriculture Futures

Corn (CBT) -5,000 bu.; cents per bu.	356.00	358.50		354.50	357.25	2.00	643,367
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Cash Prices | WSJ.com/commodities

Monday, July 23, 2018

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

Energy

	Monday		Monday		Monday	
	(U.S.\$ equivalent)	11362	(U.S.\$ equivalent)	11362	(U.S.\$ equivalent)	11362
Coins,wholesale \$1,000 face-a			Beef,carcass equiv. index		Soybeans,1>No yllw IL-bp,u	8,1650
Coins,wholesale \$1,000 face-a	11362		choice 1-3,600-900 lbs-u	181.31	Wheat,Spring14%+pro Mnpls-u	6,8700
			select 1-3,600-900 lbs-u	173.33	Wheat,No.2 soft red St.Louis-bp,u	5,2150
			Platinum,Engelhard industrial	832.0	Wheat - Hard - KC (USD) \$ per bu-u	5,4075
			Platinum,Engelhard fabricated	932.0		

MONEY & INVESTING

China Tower Seeks Biggest IPO Since '14

Telecom monopoly's offer would be largest since Alibaba and raise up to \$10 billion

By JOANNE CHIU

The monopoly behind China's vast network of cell-phone towers started marketing what could be the world's largest initial public offering in four years.

China Tower Corp. wants to raise up to \$8.7 billion by selling a quarter of its shares in Hong Kong, according to a term sheet released Monday. Including an option to sell 15% more stock if demand is strong, the deal could raise as much as \$10 billion.

The company says it is the world's largest telecommunications tower provider by revenue and locations, with nearly 1.9 million sites across mainland China and a national market share of 97% by sales. It is raising funds to upgrade and expand its network and repay debt.

A \$10 billion deal would be the world's largest IPO since Chinese e-commerce giant Alibaba Group Holding Ltd.'s \$25 billion New York listing in

September 2014.

The listing, which is aimed for Aug. 8, comes as global investors have turned more cautious on Chinese stocks as the trade conflict with the U.S. escalates. Hong Kong's benchmark Hang Seng Index is down 15% this year from a January peak.

However, Steven Leung, an executive director at UOB Kay Hian, said China Tower could be a good way to bet on rapid growth in China's mobile market. "Some investors might consider switching into China Tower, which is expected to provide higher yields than the Big Three wireless operators," he said.

The company was created in 2014 by China's three big telecommunications operators—China Mobile Communication Co., China United Network Communications Corp. and China Telecom Corp.—which pooled their towers to cut costs and duplicated investments. The three own most of its shares.

China Tower management told investors it plans to pay out at least half of its earnings as dividends. The company last year reported net profit of 1.94 billion yuan (\$286.5 million).



The company was created in 2014 by China's three big telecommunications operators to cut costs and duplicated investments.

Analysts at Goldman Sachs, one of the banks running the deal, estimate China Tower's earnings before interest, taxes, depreciation and amortization will increase 11% a year through 2022, according to a report seen by The Wall Street Journal.

Hong Kong recently changed its rules to attract more listings from technology and biotech startups, securing the \$4.7 billion debut of smartphone-maker Xiaomi Corp. China Tower showcases a more traditional strength of the city: serving as a venue where state-backed Chinese companies can raise capital.

China Tower is offering about 43.1 billion shares at an indicative price of 1.26 Hong Kong dollars to HK\$1.58 (16 U.S. cents to 20 U.S. cents) a share. That implies a maximum market capitalization of \$34.7 billion, before any option to sell extra stock. In comparison, New York-listed American Tower Corp., which has operations from Peru to Nigeria, has a market value of about \$62 billion.

Ten large investors agreed to buy US\$1.4 billion of stock in the IPO, no matter where in the range it prices. Cornerstone investors are a fixture of the Hong Kong IPO market.

Towering Presence

Five largest global initial public offerings in 2018, by fundraising size

DEAL	VENUE	FUNDRAISING SIZE, BILLIONS
China Tower*	Hong Kong	\$10
Meituan Dianping*	Hong Kong	\$6
Xiaomi	Hong Kong	\$5
Siemens Healthineers	Frankfurt	\$5
Foxconn Industrial Internet	Shanghai	\$4

*Estimated values for uncompleted deals.

Note: Already listed IPOs include over-allotments.

Sources: Dealogic; China Tower's term sheet

EPA/SHUTTERSTOCK

THE WALL STREET JOURNAL.

Cushman Expects To Price at Up to \$18

By NISHANT MOHAN

Real-estate-services firm **Cushman & Wakefield** said Monday in a regulatory filing that it expects shares in its initial public offering to sell for \$16 to \$18 each.

The company anticipates net proceeds of \$719.3 million from the 45-million-share offering, based on the midpoint of the range.

The company gave its underwriters **Morgan Stanley, JPMorgan Chase & Co., Goldman Sachs Group** and **UBS Group** the option to purchase up to 6.75 million shares. If fully exercised, the IPO's total proceeds could reach \$931.5 million.

\$719M

Net proceeds if the shares sell at the midpoint of the price range

Hedge-Fund Star Cooperman Shuts Omega

By RACHAEL LEVY

Renowned hedge-fund manager Leon Cooperman on Monday told clients that he would be returning capital and turning his firm into a family office, a dramatic shift for one of the country's best-known stock pickers.

Mr. Cooperman said his New York hedge fund, **Omega Advisors Inc.**, which was founded in 1991, will now manage only his personal wealth. Mr. Cooperman, who regularly appears on financial television, said the decision was driven "solely by how I want to spend my remaining years."

In an interview, Mr. Cooperman, 75 years old, said his decision wasn't based on performance. "I'm closing because of my age and because I want to reduce my stress level," he said.

One of Omega's funds, **Omega Overseas Partners Ltd.**, has posted 12.6% annualized net returns for certain clients since January 1992, according to a fund document reviewed by The Wall Street Journal. That was better than the 9.6% rise in the S&P 500 during the same period. This year, that same fund has gained 4.5% after fees through Friday, lower than a 5.9% gain



Leon Cooperman said he is closing his fund to outside investors 'because of my age and because I want to reduce my stress level.'

for the S&P 500, including dividends.

Omega, like all hedge funds, is under pressure. Stock pickers have faced headwinds, and clients have clamored for lower fees as hedge funds have struggled to make money. Well-established funds, such as Eton Park Capital Management LP, have shut.

A widely followed hedge fund index maintained by data-research company HFR dropped 0.45% in June, according to a report released last week. That pulled down the industry's gains for the first half. The index rose 0.79%

in the first two quarters, which was lower than the 2.65% return on the S&P 500, including dividends, over the same period.

Investors also redeemed an estimated \$3 billion from hedge funds during the second quarter, according to HFR, which was the highest outflow since the first quarter of 2017. The industry manages a total of \$3.23 trillion.

Hedge funds typically bet on or against stocks, bonds or other securities, often using borrowed money and charging hefty fees. Many dropped less than the overall market during

the last financial crisis and some even posted outsize gains by anticipating the collapse. Since 2008, the funds have struggled to do better than low-cost, passive investment products that track indexes such as the S&P 500.

Mr. Cooperman said he expected tough financial markets in coming years. He acknowledged that he didn't want to be caught in the fray.

In the letter to clients, Mr. Cooperman wrote: "I turned 75 last April. It is my understanding that if you make it past 65 and cancer doesn't get you, you can expect to live on average to 85. Hopefully, I can improve on that average, but in any event I don't want to spend the rest of my life chasing the S&P 500 and focused on generating returns on investor capital."

Omega managed \$3.6 billion as of June 30, according to the firm's website.

Omega's vice chairman, Steve Einhorn, and Mr. Cooperman will advise each other on their respective family offices, Mr. Cooperman said in the letter. Omega employees Sam Martini and Eric Schneider, who run the firm's credit fund, will continue the fund under a new name, and portfolio manager Rebecca Pacholder

will be launching a new fund. Mr. Cooperman said his family office will invest in both.

Mr. Cooperman's decision to shut Omega to outside investors comes just over a year after he and U.S. securities regulators ended a lengthy showdown over allegations of insider trading.

That settlement didn't bar the well-known investor from the industry.

The agreement with the Securities and Exchange Commission called for Omega to accept a compliance monitor for five years who can question any trade that Mr. Cooperman or his traders make. It also called for monthly certifications that insider information didn't figure into any trades.

Neither Mr. Cooperman nor the firm Omega Advisors admitted to wrongdoing as part of the pact.

Mr. Cooperman, the son of an immigrant plumber, grew up in a one-bedroom apartment in the Bronx. He joined Goldman Sachs Group Inc. the day after he graduated from Columbia Business School and spent more than two decades there. He rose to general partner and chairman of its asset-management business before leaving to establish Omega.

The company is currently owned by an investment group led by private-equity firm TPG Capital, which purchased Cushman in 2015. It combined that firm with DTZ and Cassidy Turley to create the global real-estate giant. The group paid about \$3.5 billion to acquire the three firms. The investor group, which also includes **PAG Asia Capital** and **Ontario Teachers' Pension Plan Board**, are expected to control 70% of the shares outstanding in the company once it goes public.

The backers are taking the company public at a time when the firm's peers, including **CBRE Group Inc.** and **JLL**, have been trading near records.

Cushman has \$3 billion in debt, and the company plans to use most of the proceeds to pay it down.

For instance, it said in the filing it would pay off the \$470 million balance of a second-lien loan with an 8.87% interest rate.

Cushman reported a net loss of \$221 million in 2017 and a loss of \$92 million in the first quarter of 2018, according to regulatory filings. Expenses for the quarter included \$65.7 million for integration and acquisition costs.

The company will trade under the ticker **CWK** on the New York Stock Exchange.

Blackstone Plays the Blues on Gibson, Favors Sale

By BECKY YERAK

Blackstone Group LP's lending arm said bankrupt **Gibson Brands Inc.** has failed to properly market its assets, thereby favoring its proposed sale to senior secured bondholders.

The investment firm added that it is willing to provide additional financing to give the guitar maker more time to consider alternative offers.

Blackstone's GSO Capital Partners LP is owed \$77 million on a secured term loan the musical-instruments company had on its books as it headed into bankruptcy. The firm on Friday echoed earlier calls by unsecured creditors, including electronics company **Koninklijke Philips NV**, for Gibson to make a bigger push to find potential new buyers.

GSO said it "would even be willing to help fund that process by providing" financing for Gibson during the bankruptcy, as well as when it wraps up chapter 11 proceedings, "to further stimulate bidding in an open-sale process," according to a filing Friday in U.S. Bankruptcy Court in Wilmington, Del.

Gibson filed for bankruptcy



B.B. King with his Gibson. The company said its musical-instruments business 'has performed well.'

in May with a reorganization plan that would allow senior secured bondholders led by **KKR & Co.** to convert their debt into equity in the business, which was founded in 1894.

GSO said there are other interested bidders, both strategic and financial, who might

be willing to buy Gibson at a price greater than the recent valuation of the Nashville, Tenn.-based owner of such guitar brands as Les Paul and Flying V. Some potential bidders haven't been contacted by Gibson about buying its assets, GSO said. Earlier efforts to find buyers have been "half-

hearted" and there has been a "failure to properly market" the company, GSO said.

Gibson had no immediate comment Monday.

The reorganized Gibson is expected to be valued at between \$360 million and \$430 million, according to an analysis by investment bank Jefferies Group.

Gibson blamed much of its recent financial struggle on its Hong Kong-based Gibson Innovations Ltd. division, which sells Philips-branded consumer electronics such as headphones and speakers. Gibson said its musical-instruments business "has performed well."

GSO said KKR is being enabled in the "scheme" to take control of Gibson by "promising existing shareholders" some of the company's value.

Gibson's majority owners, Henry Juszkiewicz and David Berryman, bought Gibson in 1986. Mr. Juszkiewicz serves as chief executive officer, while Mr. Berryman serves as president. They are also board members.

The proposed restructuring includes employment and consulting agreements with both men. Mr. Berryman would receive a salary and bonus totaling nearly \$3.4 million and warrants exercisable for up to 2.2% of the equity in the reorganized company, plus health benefits. Mr. Juszkiewicz would receive, among other things, \$2.1 million in consulting fees and warrants exercisable for up to 2.2% of the equity in the reorganized Gibson, plus health benefits.

The company will trade under the ticker **CWK** on the New York Stock Exchange.

MARKETS

Bond Yields Surge World-Wide

Investors flee from government debt on reports Bank of Japan is near policy change

BY DANIEL KRUGE
AND MEGUMI FUJIKAWA

Government-bond prices world-wide tumbled Monday, roiled by reports that central banks could be on the verge of taking another step back from the easy-money policies that have characterized the postcrisis period.

News reports that the Bank of Japan might consider changing its interest-rate target helped push the yield on the 10-year Japanese government bond as high as 0.09% in Monday trading in Tokyo from 0.03% late Friday.

While that rate and other government-bond yields are still generally low, it was the largest one-day move higher for the Japanese bonds in nearly two years.

Many investors worry that the end of ultralow interest rates and other monetary stimulus will remove a critical support that has lifted markets since the financial crisis.

The Wall Street Journal later reported that Japan's central bank would likely stick close to current policy at their next meeting, citing people familiar with the matter. Still, the market reaction shows how even small shifts can spur significant market reactions after years of little change.

The yield on the 10-year U.S. Treasury note, a global benchmark that influences borrowing costs for corporations and individuals, followed other global sovereign debt yields higher, rising to 2.963%, its highest level since June 13. Yields, which rise as bond prices fall, also climbed in Germany and the U.K.

"It felt like we were in a holding pattern—now all of a sudden you've got a potential

Investors sold government bonds Monday, sending yields higher, as they grappled anew with the prospect stimulus will be withdrawn at a faster rate. Many worry the end of easy-money stimulus will remove a crucial support for markets.

CREDIT MARKETS

MARKETS

Investors Continue to Bet Against Gold

Demand for safety is crimped by a strong economy, rising real rates and dollar

By AMRITH RAMKUMAR
AND BEN EISEN

Investors are placing a record number of bets that a protracted slump in gold prices will continue as the metal is punished by a strengthening dollar and rising interest rates.

Hedge funds and other speculative investors over the past five weeks have increased their wagers that gold prices will fall, pushing them to their highest level recorded during the week ended July 17, according to Commodity Futures Trading Commission data going back to 2006.

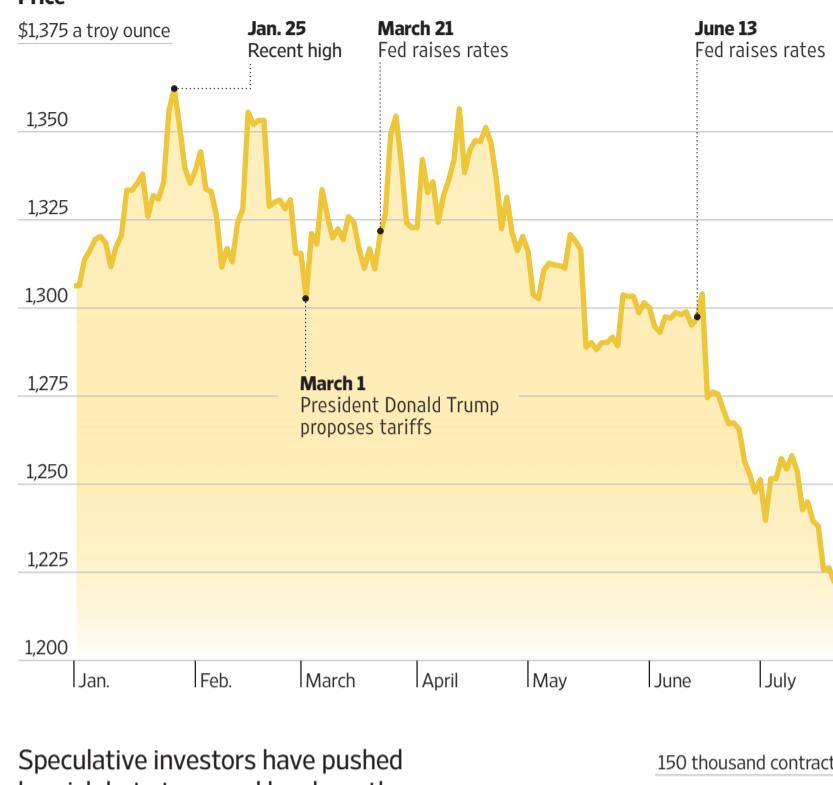
Futures on the precious metal have fallen 10% from their January highs and are down 2.2% this month alone. Gold closed at its lowest level in more than a year Thursday at \$1,222.40 a troy ounce and is still trading near that level.

Gold is often associated with fearful investors whose distrust for the financial system leads them to store value in physical assets like the metal. Analysts say steady economic performance in the U.S. has crimped that haven demand, despite simmering trade tensions, with some expecting second-quarter growth to come in at its highest in nearly four years when the Commerce Department releases data Friday.

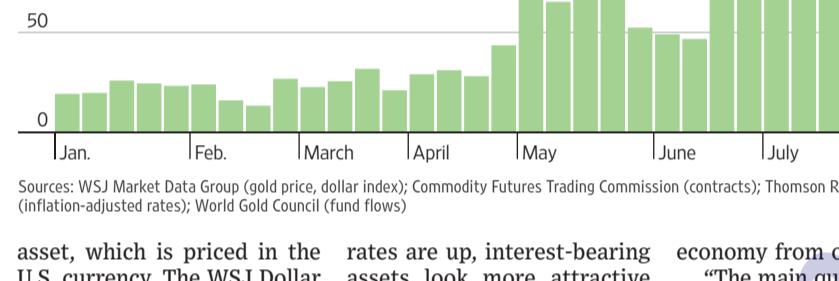
Gold's price has largely depended on other markets in the U.S., where economic growth is picking up faster than growth in other regions.

A rise in the dollar has been a catalyst for gold's slump. Like many commodities, gold tends to get hit when the greenback is up because it becomes more expensive for overseas investors to buy the

Prices have fallen this year, hitting a 52-week low on Thursday.



Speculative investors have pushed bearish bets to record levels as the price declines have accelerated.



Sources: WSJ Market Data Group (gold price); Commodity Futures Trading Commission (contracts); Thomson Reuters (inflation-adjusted rates); World Gold Council (fund flows)

asset, which is priced in the U.S. currency. The WSJ Dollar Index, which tracks the greenback against a basket of 16 others, has climbed to its highest level in more than a year.

Additionally, gold tends to fall when inflation-adjusted rates are rising, as they generally have this year. When real

rates are up, interest-bearing assets look more attractive than gold, which doesn't offer any income.

The negative backdrop has analysts wondering how much further gold prices will fall, with the Federal Reserve expected to continue gradually boosting rates to keep the

economy from overheating.

"The main question I get is, 'Why is gold not going higher on trade threats?' The big reason is because of the Fed," said Bob Haberkorn, senior market strategist at RJO Futures.

Some analysts had expected increased inflation to spook investors and support gold, but

The recent declines are associated with moves in other assets such as the dollar.

WSJ Dollar Index



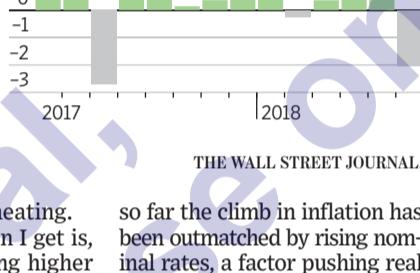
Gold also falls when inflation-adjusted rates rise because interest-bearing assets look more attractive.

Yield on U.S. Treasury inflation-protected securities, a measure of real rates



With investors turning cautious, money flowed out of gold-backed exchange-traded funds last month.

Flows into and out of gold-backed ETFs



THE WALL STREET JOURNAL.

ers began pulling money from gold-backed exchange-traded funds. Investors took more than \$2 billion out of gold-backed ETFs in June, the largest monthly outflow since July 2017, World Gold Council estimates show. Demand for American Eagle gold coins, a proxy for physical demand, has also been weak.

Adding to worries, analysts say open interest in gold futures has been rising quickly as prices have fallen. "This suggests that short sellers are pressing their bets," Sundial Capital Research's Jason Goepfert wrote in a note to clients last week. Typically, the opposite happens when gold prices are bottoming out.

Not everyone is bearish on gold. GraniteShares Gold Trust, a low-cost gold ETF, has taken in more than \$250 million this year.

"Longer-term holders of gold are not perturbed by these short-term things," said Will Rhind, chief executive of GraniteShares. "If anything, they are using it as an opportunity to reset their positions in gold."

Some investors think gold will rebound if the recent dollar rally reverses or real rates fall. Prices climbed Friday on the dollar's worst day in nearly four months, after President Donald Trump said he wasn't happy about the Fed's recent interest-rate increases. He lashed out at China, the European Union and others, saying they manipulate their currencies.

Some gold bugs also think a trade war or other unforeseen event could drive a selloff in risky markets, prompting demand for the safety of gold.

But for the moment, traders say the outlook for gold prices is looking a bit tarnished.

"It looks like it wants to go even further lower—I wouldn't be surprised if it did," Mr. Haberkorn of RJO Futures said. "You could say it's oversold, but things can remain oversold for quite some time."

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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Tesla Asks for Its Money Back

Elon Musk is asking for donations to save Tesla Inc.

The Wall Street Journal reported Sunday that Tesla asked some suppliers to refund a portion of what Tesla paid them. One supply manager quoted the auto maker as saying the refunds are "essential to Tesla's continued operation." The person said Tesla asked for a meaningful amount of the money it has received from Tesla since 2016, the year Tesla unveiled its Model 3 sedan.

Tesla shareholders, usually not the type to worry, sent the stock down more than 3% Monday.

That sell-off understates the concern that investors should have. Even if suppliers agreed to pay back Tesla, a dubious assumption, most don't have any extra cash sitting around. The automotive supply chain is a ferociously competitive, low-margin industry. Suppliers have vendors of their own, and any cash they give back to Tesla

Bumpy Ride



would be modest and more of a goodwill gesture than something that would meaningfully help the car maker.

Suppliers, who once were eager to work for Tesla, may not be in a mood to help. Tesla has been slowing its payments to these companies over the past two years in an apparent effort to save cash. Accounts payable totaled

\$2.6 billion at the end of the first quarter, compared with \$2 billion a year earlier. Net working capital, a handy way to measure liquidity, fell to minus \$2.27 billion in March; a year ago, that figure was \$780 million. Tesla could be asking for refunds of sums it owes but hasn't paid yet.

Tesla's maneuver should raise further concern among

investors that the company hasn't simply raised fresh capital to patch its funding gaps. While Mr. Musk has repeatedly said Tesla doesn't need to raise capital, Moody's Investors Service warned that it needed to raise \$2 billion in the "near term" back in March when it downgraded Tesla's credit rating. Issuing fresh debt seems unlikely, since the bonds Tesla issued last August are quoted at about 90 cents on the dollar.

Meanwhile, the stock still trades near \$300 a share, above where Tesla last issued stock in the winter of 2017. That Tesla hasn't taken advantage of its high stock price, even with such glaring cash needs, looks more curious with each passing day.

And with the stock trading at about 130 times FactSet's projection of 2019 earnings, there isn't much breathing room if Tesla's suppliers don't grant Mr. Musk his wish.

—Charley Grant

Strong Google Results Soothe Cost Worries

A company of Google's size and scale rarely gets the benefit of a low bar.

Yet, given the rather downbeat news flow around the internet giant lately, strong second-quarter results reported Monday afternoon by parent company Alphabet Inc. were met with sighs of relief. Total revenue grew 25% year over year to \$32.7 billion while advertising revenue rose 24% to \$28 billion, both beating Wall Street's projections.

Per-share earnings, excluding the \$5 billion fine levied by the European Union last week, jumped 32% year over year to \$11.75, well ahead of the \$9.66 per share expected by analysts. The results were enough to give the stock an after-hours lift of nearly 4%.

Another encouraging development came in the distribution traffic acquisition costs, or TAC, that Google pays to partners in order to drive traffic to its own sites. The outlay for distribution TAC totaled \$3 billion for the second quarter, or 12.9% of

the revenue generated by the company's website traffic. That is down slightly from 13.2% in the previous quarter and is the first sequential decline for this important measure in three years. Looking ahead, CFO Ruth Porat says these costs will continue to grow at a "more moderate pace."

That may seem a small improvement, but worries about those costs and political crackdowns have weighed down Alphabet's stock price this year.

The shares had been up by just 15% for the year ahead of the report. That was well below the 23% gain notched by the Nasdaq Internet Index and lagged behind peers such as Amazon.com, Microsoft and even Facebook, whose shareholders have been quick to forgive that company's more serious consumer-privacy lapses.

Google's regulatory challenges are far from over, but the company has shown that it can keep its business clicking.

—Dan Gallagher

China's Debt Market Deserves Caution

Deep Bond

Foreign holdings of Chinese government bonds



Note: 1 billion yuan=\$147.7 million
Source: Wind Info

Beijing is trying to normalize the market by allowing more to occur, it risks a destabilizing panic. The rise in corporate-bond yields suggests there is more pain to come. As of the end of March, Chinese companies needed to refinance nearly \$300 billion of bonds this year, 70% of which have low ratings, according to Moody's.

The current rise in foreign interest might, then, seem surprising. Overseas investors poured a net \$45 billion into Chinese government bonds in the first half, according to Wind Info. These bonds' inclusion in the Bloomberg Barclays Global Aggregate Index, one of the world's three major bond indexes, is a key reason fueling

the interest.

As long as foreign buying remains focused on government bonds, or those of quasi-sovereigns like big Chinese policy banks, there should be few alarms. More care is needed when it comes to corporate bonds, or the safe-sounding but often precarious bonds issued by local government financing vehicles. International ratings firms still can't operate independently in China, while local ratings remain untrustworthy, with 90% of issuers rated at AA or above.

Entering relatively uncharted territory in global markets is exciting. In the case of Chinese bonds, it will pay for investors to do their homework. —Andrew Peaple

OVERHEARD

Cutting back on the avocado toast might not be enough.

A survey of 1,519 millennials between the ages of 21 and 37 conducted by retail brokerage firm TD Ameritrade shows that more than half expect to be a millionaire at some point. The median age at which respondents expect to retire is 56.

That not only is rather ambitious but doesn't jibe with other responses or data.

For example, the median age at which millennials expect to pay off their student loans is 31, while they expect to begin saving for retirement at

age 36.

According to a retirement calculator by NerdWallet, that will require millennials to save some 47% of their income annually at an assumed annual return of 7%.

If they do that, then they can kill two birds with one stone, though barely, by checking being a millionaire off their list, too.

But they will have to blow away the older generation. The actual median retirement savings of Americans aged 56 to 61 is about \$17,000, and they retire on average at age 63.