

# THE WALL STREET JOURNAL.

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WEDNESDAY, JUNE 14, 2017 ~ VOL. CCLXIX NO. 137

WSJ.com

★★★★ \$3.00

DJIA 21328.47 ▲ 92.80 0.4%

NASDAQ 6220.37 ▲ 0.7%

STOXX 600 388.75 ▲ 0.6%

10-YR. TREAS. ▲ 3/32, yield 2.206%

OIL \$46.46 ▲ \$0.38

GOLD \$1,265.80 ▼ \$0.30

EURO \$1.1212

YEN 110.07

## What's News

Business & Finance

Uber's Kalanick said he would take an indefinite leave, as the firm announced changes to its workplace culture. Later, Bonderman resigned as a director over making a sexist remark. A1, A10

The White House is set to begin its search for the next Federal Reserve chief, a process that will be managed by Goldman veteran Cohn. A1

A Treasury report on bank oversight is raising industry expectations that the postcrisis era of heightened regulation is over. B1

Anbang said its chief had handed over his duties for personal reasons, hours after a media report said he could be in trouble with Beijing. B1

IBM said it has paired with BMW to provide cloud-based data management for BMW's connected car initiative. B1

Fiat Chrysler vehicles produced much higher diesel emissions on the road than in the lab, researchers found. B3

Verizon said it had completed its acquisition of Yahoo's core internet assets. Yahoo's Mayer resigned. B3

A tech rebound lifted the Dow and S&P 500 to new records. The blue chips rose 92.80 to 21328.47. B20

Blink Health ended a deal with Express Scripts over a discount program for patients taking Lilly's insulin. B3

Neiman Marcus said sale talks have ended and that it would stay independent. B2

Berkshire has violated Texas law by owning both auto dealerships and an RV maker, the state said. B2

World-Wide

Sessions told a Senate panel that he never met with Russian officials to discuss the presidential campaign and defended his role in firing Comey. A1

The White House pushed back on suggestions that Trump has considered firing special counsel Mueller. A4

Trump has given the Pentagon unilateral authority to send thousands of new American troops to Afghanistan at its discretion. A8

The White House secretly sent a diplomatic mission to North Korea to recover an imprisoned U.S. citizen who was in a life-threatening coma. A8

Trump's plan to slash the State Department budget won't clear Congress, senators told Tillerson. A4

Establishment candidates won Virginia's gubernatorial primaries. Northam and Gillespie got the Democratic and GOP nods, respectively. A6

GOP senators raced to bridge divisions over rickety insurance markets and billions in subsidies in their pursuit of a health-care deal. A6

Britain's May met with the head of a Northern Irish party as she sought a deal to stay in power. A11

French leader Macron said the door is still open for the U.K. to stay in the EU. A11

A St. Louis man pleaded guilty to cyberstalking and making hoax bomb threats to Jewish centers. A3

A former Rio governor was sentenced to 14 years in prison for corruption and money laundering. A10

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Please see TOOLS page A12

## Rescue Mission: Student Held Prisoner in North Korea Returns to U.S.



TOUCHDOWN: Otto Warmbier, 22 years old, was transferred late Tuesday to an ambulance after his plane arrived at Lunken Airport in Cincinnati. He was serving a 15-year prison term in North Korea, and his return was secured by a secret diplomatic effort. A8

## Sessions Denounces Claims Of Collusion With Russia

By Aruna Viswanatha,  
Paul Sonne  
and Del Quentin Wilber

versations he had with President Trump on the subject.

Mr. Sessions, a former Republican senator from Alabama and a top adviser to Mr. Trump during the campaign, spoke forcefully before the Senate Intelligence Committee, saying he needed to defend himself from "scurrilous" accusations.

Mr. Sessions was at times combative and folksy in an-

swering and parrying questions as he sought to dispel some of the shadows cast in part by Mr. Comey's testimony last week about the attorney general's behavior.

Mr. Sessions alternated between strong denials and hazy recollections, saying he couldn't recall whether he had a passing encounter with the Russian ambassador to the U.S. at the Mayflower Hotel in Washington or any other undisclosed interactions with Russian officials.

Tuesday's hearing became heated at times, as Mr. Ses-

sions said he didn't appreciate the "innuendo being leaked out there about me" while Sen. Ron Wyden (D., Ore.) suggested Mr. Sessions was "stonewalling" by declining to answer questions about his conversations with the president.

Mr. Sessions said he was protecting the president's "constitutional right" to keep such conversations confidential and citing a Justice Dept.

Please see PROBE page A4

White House plays down talk of firing Mueller..... A4

## Anbang CEO Relinquishes Duties



SIDELINED: Anbang Insurance announced that CEO Wu Xiaohui had handed over his duties for personal reasons, hours after a media report said he could be in trouble with the Chinese government. B1

At Your Next Massage, Try The Sander

\* \* \* \* \*  
As therapy tools get pricey, some pros opt for power tools

By RACHEL BACHMAN

Randy Fruchter says the exchange has happened a few times. He leans over a man lying prone on his massage table and turns on a buzzing, handheld device.

"Hey, that sounds like a jigsaw," the client says.

"Actually," Mr. Fruchter replies, "it is a jigsaw."

A year ago, the massage specialist in Orange County, Calif., balked at the \$3,500 price of a massage appliance. Instead, Mr. Fruchter bought a \$100 cordless jigsaw, filed down the blade and covered the point with a hard-rubber stopper. He uses the gadget

Please see TOOLS page A12

## OIL GIANT SEES A FUTURE IN VOLTS

France's Total, sensing peak demand for crude oil, bets it can also produce and sell electricity

By RUSSELL GOLD

France's Total SA, one of the world's largest oil companies, sent its top executives to Silicon Valley last summer, where they met with tech investors and futurists. At Tesla Inc.'s Bay Area factory, a Total executive tweeted a photo of a gleaming, red Model S—an electric car that burns no oil products at all.

The trip was meant to "open their minds," said Total Chairman and Chief Executive Patrick Pouyanné.

Total, like its peers Exxon Mobil Corp. and Royal Dutch Shell PLC, was built to service the world's massive demand for crude oil. Betting that demand will peak in the next few decades, Mr. Pouyanné

## Search for Fed Chief Begins, Led by Goldman Veteran

By NICK TIMIRAO AND KATE DAVIDSON

The White House is set to launch its search for the next Federal Reserve chief, according to a senior official, and it will be managed by Gary Cohn, the former Wall Street executive who some market strategists believe could be a candidate for the post himself.

Officials won't publicly outline any timetable for their decision or shortlist of candidates. Fed Chairwoman Janet Yellen's term runs through January, and President Donald Trump didn't rule out her reappointment in an April interview.

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# U.S. NEWS

## 'Border Adjustment' Backer Refines Plan

BY RICHARD RUBIN

WASHINGTON—The top House Republican tax legislator floated a five-year phase-in of his controversial "border adjustment" idea on Tuesday in a bid to blunt mounting opposition to the concept.

The phase-in offered by Rep. Kevin Brady (R., Texas) is a response to critics who worry about the disruption that border adjustment could cause for companies, supply chains and consumers. It is a sign that Mr. Brady continues to press ahead with border adjustment and refine details of that plan rather than drop the proposal, as some Republicans are urging.

"This reflects really the input we've gotten, the feedback we've gotten," Mr. Brady, the chairman of the House Ways and Means Committee, said at the annual meeting of The Wall Street Journal's CFO Network. "A very gradual five-year phase-in really resolves the major challenges."

Mr. Brady and House Speaker Paul Ryan are trying to advance their tax-policy vision in the face of unified Democratic resistance to tax cuts and steadily growing Republican concerns. They are aware of the objections and are talking to GOP senators and the White House. But until someone else presents an alternative, Messrs. Brady and Ryan see their plan as viable, and they are fleshing it out.

Mr. Brady also said his plan would include targeted rules for the financial-services, insurance, communications and digital-services industries.

"It's hard to determine where...the border begins in the cloud," he said.

Mr. Brady's proposal for a 20% top corporate-tax rate includes border adjustment, which exempts exports from U.S. taxation but denies companies the ability to deduct import costs. Under the phase-in suggested by Mr. Brady, only 20% of import costs



Rep. Kevin Brady proposed a five-year phase-in of a plan to exempt exports from taxation and prevent the deduction of import costs.

would be nondeductible in the first year of the new tax system, stepping up steadily each year until it reaches 100% in the fifth year. The tax exemption for exports would phase in on a parallel schedule. Mr. Brady said he was sensitive to long-term contracts and agreements denominated in

dollars and wanted to give companies time to adjust.

The phase-in likely isn't enough to soften or halt the opposition.

"Chairman Brady's proposed five-year transition does nothing to change the harmful impact on consumers, it only delays the political conse-

quences for lawmakers," said Joshua Baca, a spokesman for Americans for Affordable Products, a coalition of border-adjustment opponents.

Opponents say taxing imports would drive up consumer prices, and they doubt currencies would adjust to offset the tax changes as quickly and smoothly as some economists project. If the currency did adjust quickly, with the dollar rising as much as 25%, importers would get a windfall benefit in the early years from cheaper foreign products and then lose that edge as the border adjustment took effect.

Border adjustments aren't new. They are a core feature of value-added taxes around the world. But no country has tried the border-adjusted corporate tax Republicans are proposing, and the plan, if it ever became law, could trigger retaliation from other countries and a challenge at the World Trade Organization.

The issue has fractured the U.S. corporate world into competing coalitions, with companies such as Eli Lilly & Co. and Oracle Corp. backing border adjustment and firms like Macy's Inc. and Best Buy Co. opposing it.

The American Made Coalition, a group whose members include big U.S. companies and which backs border adjustment, said Tuesday that it wanted Congress and the administration to keep working toward what it called a level playing field.

"It is unfortunate that some groups remain committed to sinking tax reform at every turn rather than work on ways to fix a broken system that hurts American workers," said John Gentzel, a coalition spokesman.

The idea has steadily lost support since Mr. Brady first pitched it in June 2016. It now seems nearly impossible for border adjustment to pass the Senate, and there's even opposition from several Republicans on Mr. Brady's committee.

## In North Carolina, a Sweet Project to Help Those in Need



FARM TO TABLE: A tractor pulled along two people planting sweet potatoes in North Carolina on Tuesday. The Cleveland County Potato Project aims to harvest between 60,000 and 75,000 pounds of potatoes over the next several weeks to send to local food pantries.

## FED

Continued from Page One  
power of the Fed during his long career on Wall Street and for the institution's relative freedom during his current stint in Washington.

While Mr. Trump's 2016 criticisms of Ms. Yellen suggested the central bank would face a rough time with the new administration, the president and Ms. Yellen are off to a surprisingly smooth start.

Weeks after his inauguration, Mr. Trump held court with Ms. Yellen in the Oval Office. Seated behind the office's Resolute desk, he told her she was doing a good job, according to people familiar with the exchange. Ms. Yellen sat across from Mr. Trump in a chair next to Mr. Cohn, who arranged the meeting.

The Republican president told Ms. Yellen he considered her, like himself, a "low-interest-rate" person, those familiar with the exchange said. During a conversation that lasted about 15 minutes, they discussed how economic policy might help the millions of U.S. citizens who felt left behind during the postcrisis recovery.

Mr. Trump's April comments marked a reversal from last year, when he accused Ms. Yellen of keeping rates low to help Democrats.

Mr. Trump and his administration have, so far, opted to stay neutral in public on Fed decisions, a contrast to his administration's criticisms of other nonpartisan institutions such as the Federal Bureau of Investigation, Congressional Budget Office and the courts.

"The Fed will do what they need to do, and we respect the powers of the Fed," Mr. Cohn said in a March interview on Fox News, one of his rare public comments on the central bank.

Mr. Trump wants a fast-growing economy, and that means he won't want the Fed raising interest rates so aggres-

sively that it thwarts any boom. Ms. Yellen, for her part, wants to preserve the independence of an institution that faces more political hostility than at any time in a generation.

On paper, the White House and the Fed appear headed for a collision. The president wants to raise the economy's annual growth rate to at least 3%, but Fed officials think demographic trends and slow productivity growth mean the economy can grow sustainably at around a 2% rate.

With the unemployment rate at 4.3%, the Fed would likely accelerate interest-rate increases if Mr. Trump's administration took steps to lift growth in a way that simply boosted short-term demand. This hasn't been a problem yet because Mr. Trump's administration hasn't managed to move its agenda through Congress.

Some observers caution against reading much into Mr. Trump's silence on Fed policy because the central bank hasn't done anything to upset the administration.

The other, from Queens, is a risk-averse economist who prepares meticulously for speeches and meetings, has vacated with suitcases full of books and has spent her career in the halls of academia and

Stocks have moved to record highs while federal borrowing costs have fallen. A likely Fed move Wednesday would lift its benchmark rate to a range between 1% and 1.25%, a very low level historically.

But if the Fed takes action Mr. Trump perceives to be threatening, he could become more vocal, said Peter Conti-Brown, a financial historian at the University of Pennsylvania's Wharton School.

Though Mr. Trump and Ms. Yellen were born two months apart in neighboring boroughs of New York City, they couldn't be more different.

One, from Queens, is the brash celebrity developer who relies heavily on his gut, professes little interest in academic expertise and brings a deep skepticism of established institutions to Washington.

The other, from Brooklyn, is a risk-averse economist who prepares meticulously for speeches and meetings, has vacated with suitcases full of books and has spent her career in the halls of academia and

central banking.

Their placid relationship reflects Mr. Cohn's leading role. Ms. Yellen meets regularly with Mr. Cohn and Treasury Secretary Steven Mnuchin, who also spent much of his career at Goldman Sachs.

Mr. Cohn has emphasized to colleagues the importance to markets of not publicly second-guessing monetary-policy decisions.

Mr. Cohn takes pride in convincing Mr. Trump of the economic benefits of respecting the Fed's independence, including not firing off verbal or Twitter attacks on the bank, according to people who have discussed the issue with him.

Mr. Trump can put his stamp on the institution by filling three open seats on the Fed's seven-member board of governors.

The Fed chairman and vice chairman jobs come open next year. Many Wall Street and Washington observers expect Mr. Trump to select his own candidate for the top job, possibly Mr. Cohn.

**Who Will Be the Next Fed Chief?**  
Market analysts have focused on a handful of current and former policy makers who might be considered

◆ **Janet Yellen:** Fed chairwoman since 2014. Served as vice chairwoman 2010-14 and as president of the San Francisco Fed 2004-10. Led the White House Council of Economic Advisers 1997-99.

◆ **Gary Cohn:** Since January 2017, director of the White House National Economic Council, which will run the search process for the next Fed chairman. Mr. Cohn was chief operating officer at Goldman Sachs 2006-17.

◆ **Kevin Warsh:** Member of

the White House strategic and policy forum, a group of private-sector business leaders. Currently a fellow at the Hoover Institution and lecturer at the Stanford Graduate School of Business. Member of Fed board of governors 2006-11.

◆ **John Taylor:** Stanford University economics professor whose so-called Taylor rule, which calculates the ideal level of interest rates based on changes in several economic variables, has been embraced by conservative lawmakers who say it would lead to more predictable policy making.

◆ **Jerome Powell:** Member of the Fed board of governors since 2012. Partner at the Carlyle Group, a private-equity firm, 1997-2005.

◆ **Glenn Hubbard:** Dean of the

Columbia Business School. Served as chairman of the White House Council of Economic Advisers 2001 to 2003.

◆ **Kevin Hassett:** White House nominee to become chairman of the White House Council of Economic Advisers. American Enterprise Institute economist since 1997. Fed economist 1992-97.

◆ **Randal Quarles:** Co-founder and managing director of the Cynosure Group, a private investment firm in Salt Lake City. Being considered by the White House for nomination to be Fed vice chairman of supervision.

◆ **Marvin Goodfriend:** Carnegie Mellon University economics professor being considered by the White House for nomination to the Fed board. Richmond Fed research director and policy adviser 1993-2005.

Sheriff Howard Sills said. Authorities said the inmates then carjacked a green Honda Civic and fled. The escapees were armed with the officers' pistols, according to the sheriff.

The bus had been carrying 29 inmates and was traveling between Baldwin State Prison and another facility, said Teresa Slade, a spokeswoman for the sheriff's office. Authorities identified the escaped inmates as Ricky Dubose and Donnie Russell Rowe, who were serving sentences at Baldwin State Prison for armed robbery and other offenses.

Jennifer Levitz

As of Tuesday morning, the city had recorded 158 homicides this year, up from 124 during the year-earlier period. At that pace, the city is on track to hit a record homicide rate in 2017.

Mr. Davis detailed separate

shootings on Monday night and

Tuesday morning, including one

incident that left two people

dead and two injured. "It is guns,

gangs and drugs," he said.

Baltimore has a heroin prob-

lem that fentanyl, the more potent synthetic opioid, has amplified.

State data released last

week showed 694 people in the city died from drug overdoses last year, compared with 393 a year earlier. Deaths linked to fentanyl more than tripled to 419 in 2016.

—Scott Calvert

GEORGIA

**Two Guards Killed As Inmates Escape**

Two Georgia state-prison guards were killed by an inmate on a transport bus early Tuesday, according to the Putnam County Sheriff's office, which was conducting a manhunt for the escaped prisoners.

The inmates disarmed the officers before one of the prisoners shot and killed both guards,

—Andrew Scurria

Puerto Rico's governor said he would lobby Congress to recognize the U.S. territory's vote in favor of becoming the 51st state.

Despite boycotts by opposition parties that depressed turnout, Puerto Rican voters delivered "a clear rejection of the current colonial status and a path forward through statehood," Gov. Ricardo Rosselló told The Wall Street Journal.

Statehood drew 97% support in Sunday's vote, though turnout was 23% as opponents of the governor urged their constituents to snub the vote. The last time Puerto Rico called a plebiscite on its political status, in 2012, 78% of voters turned out. The results aren't binding on Congress, which must approve any change in Puerto Rico's political status.

U.S. lawmakers, who historically have been skeptical of accepting Puerto Rico as a state, are especially loath to do so now that the territory is grappling with a financial crisis that is stifling its economy and elevating rates of poverty and joblessness, said

Amilcar Antonio Barreto, a professor at Northeastern University.

—Andrew Scurria

**CORRECTIONS & AMPLIFICATIONS**

**Larry Tabb**, the founder and research chairman of consulting firm Tabb Group, was incorrectly identified as president of the company in a Page One article on Tuesday about the CBOE Volatility Index.

**C-sharp and D-flat** are the same musical note. A Life & Arts article Monday about perfect pitch incorrectly said very few people in Western cultures can tell a C-sharp from a D-flat.

**A photo** in Saturday's U.S. News section of runners at the

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

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## U.S. NEWS



Kindergartners on the playground at Oak Point Elementary, in Oak Point, Texas, where recess went from 30 minutes to an hour a day.

# Schools Rethink Recess

After dropping daily breaks to focus on academics, educators now take play seriously

BY TAWNELL D. HOBBS

Three kindergarten girls looked close to taking a spill as they sat on the high back of a playground bench at Oak Point Elementary. Feet away, several administrators didn't make a move to stop them because at this school outside Dallas, playtime is revered.

"As long as they're safe, we allow kids to be kids," said Daniel Gallagher, assistant superintendent for educational services in the Little Elm Independent School District.

That's the mantra in this small school district, where schoolchildren are transitioning from one daily 30-minute recess to one hour a day, taken in 15-minute increments.

School officials say children are better focused with more unstructured breaks and do better in school.

School districts throughout the country are reassessing recess—with some bringing back the pastime or expanding it, citing academic and health benefits.

The Minneapolis school board on Tuesday approved a proposal to require 30 minutes of daily recess in elementary schools, moving away from just recommending 20 minutes daily. And in Florida, parents are hoping the governor will soon sign an education bill that includes a required 20 minutes of daily recess for elementary-school students in traditional public schools.

In the past year, the state of Rhode Island and school districts in Dallas, Portland, the Jefferson Parish Public School System in Louisiana, and the Orange County and Manatee County school districts in

Florida, are among those to implement a daily-recess requirement.

About 21% of school districts required recess daily for elementary-school students in the 2013-14 school year, according to the latest study from the Centers for Disease Control and Prevention and Bridging the Gap Research Program. That's an increase from 16% of school districts in 2006-07.

It's a change after years of recess taking a back seat to testable core subjects like math and reading, with a noticeable decline in playtime after the rollout of the now-defunct 2002 No Child Left Behind law that put more focus on holding schools accountable for academic performance.

Supporters of daily recess point to a 2013 study by the American Academy of Pediatrics, which says in part that "safe and well-supervised recess offers cognitive,

social, emotional, and physical benefits that may not be fully appreciated when a decision is made to diminish it."

But some school administrators and lawmakers have spoken against state bills to mandate recess, saying it takes away flexibility from schools. This year, the Arizona School Boards Association opposed a bill in the state that would have required 50 minutes of daily recess in elementary schools.

"We are absolutely not against school recess," said Chris Kotterman, the association's director of governmental relations. "But when it comes to how the school day should be structured, it should be left up to the local school board."

In Little Elm, teacher Nicole Beal said she has seen firsthand the benefits of her kindergarten students having recess breaks. "Their reading is better, they're more focused," she said.

# Guilty Plea in Jewish Centers Bomb Hoax

BY CORINNE RAMEY

A St. Louis man pleaded guilty in Manhattan to cyberstalking and making hoax bomb threats Tuesday, admitting he had menaced Jewish centers nationwide.

Juan Thompson, 32 years old, made at least 12 fake threats to Jewish organizations and community centers, federal prosecutors said. Mr. Thompson formerly worked for the Intercept, an online news

publication, which has said it fired him after discovering he fabricated sources and quotes.

"Thompson's threats not only inflicted emotional distress on his victim, but also harmed Jewish communities around the country," Joon Kim, the acting Manhattan U.S. attorney, said in a statement.

He faces up to five years in prison on each count, prosecutors said. Attorneys for Mr. Thompson didn't respond to a request to comment.

In July, Mr. Thompson began harassing an ex-girlfriend by making threats in her name, prosecutors said. He emailed her employer, claiming she had broken the law and falsely reported she had child pornography, prosecutors said.

Mr. Thompson also made threats to Jewish community centers and organizations, including to the Anti-Defamation League in Manhattan in February, they said. Mr. Thompson sometimes made the threats in

the name of the former girlfriend, claiming she had planted bombs, and sometimes in his own name, prosecutors said.

They said that in an email to the Anti-Defamation League, Mr. Thompson wrote that his ex-girlfriend "is behind the bomb threats against jews. She lives in nyc and is making more bomb threats tomorrow."

Mr. Thompson and the woman had a romantic relationship in 2015 and 2016, prosecutors said.

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## U.S. NEWS

# Senators Press Tillerson on Proposed Cuts

BY FELICIA SCHWARTZ

WASHINGTON—Leaders of a Senate committee said Tuesday that the Trump administration's 2018 budget proposal, which includes large spending cuts at the State Department, won't make it through Congress and pressed Secretary of State Rex Tillerson to explain the administration's priorities.

Senators also asked Mr. Tillerson about the administration's policies toward North Korea and Russia in his first appearance on Capitol Hill as the chief U.S. diplomat.

The secretary of state said President Donald Trump's administration has to make "difficult decisions" as it looks to cut the State Department budget by about one-third and that the U.S. will focus its efforts on missions that deliver "the greatest value and opportunity" for Americans.

He said the people working at the State Department—rather than budget priorities—would make the department effective.

"I think you know that the budget that's been presented is not going to be the budget we're going to deal with," said Sen. Bob Corker (R., Tenn.), the chairman of the Senate Foreign Relations Committee. "Congress has a tremendous respect for the diplomatic efforts that are under way, the aid that we provide in emergency situations."

In a later session, Sen. Lindsey Graham (R., S.C.), chairman of the Senate panel that oversees State Department funding, said the budget



Secretary of State Rex Tillerson preparing to testify before the Senate Foreign Relations Committee on Tuesday in Washington.

JACQUELYN MARTIN/ASSOCIATED PRESS

request is "radical and reckless when it comes to soft power" and doesn't reflect the threats the U.S. faces.

Asked by Sen. Chris Murphy (D., Conn.) whether the cuts to the State Department's budget amounted to a strategy to pull back from world affairs, Mr. Tillerson said he didn't see it that way. "I take a completely counter view to the way you've in-

terpreted it," Mr. Tillerson said.

Explaining the administration's view, he said: "America has been leading for a very long time and American people have been reaching in their pockets and paying for this leadership for a very long time" but our allies must do their part.

Mr. Tillerson will also face two House committees on Wednesday.

At a separate hearing on Tuesday, Defense Secretary Jim Mattis said he stood by his statements predating the Trump administration in which he said cuts in diplomatic support would require increases in military spending.

"I think America has two fundamental powers, the power of inspiration and the power of intimidation, and they have to

work together, and the State Department represents inspiration overseas," he said in testimony before the Senate Armed Services Committee.

The Trump proposal would cut spending at the State Department and the related U.S. Agency for International Development by 32%.

Senators also asked Mr. Tillerson if he supported Russia

sanctions legislation, which senators reached a deal on late Monday night.

Mr. Tillerson said the Trump administration wanted flexibility "to turn that heat up" depending on how bilateral efforts were going.

"We have some channels that are open where we're starting to talk," he said, pointing to efforts related to Syria and Ukraine, and added that he wouldn't want to close them off.

Sen. Jeanne Shaheen (D., N.H.) asked Mr. Tillerson in the afternoon hearing about ongoing talks with Russia to possibly return recreational compounds owned by Russia, which the U.S. seized in retaliation for Moscow's alleged interference in the 2016 U.S. presidential election.

"This is part of how we take some of the irritants out of the relationship," Mr. Tillerson said, saying the U.S. also is raising its own concerns with Russia as part of this channel, including harassment of U.S. diplomats.

Sens. Cory Gardner (R., Colo.) and Bob Menendez (D., N.J.) asked Mr. Tillerson about a report released Monday concerning possible illicit trading networks benefiting North Korea's nuclear and missile programs. Mr. Tillerson said he has stressed the necessity of cracking down on North Korea's trade in every bilateral meeting he has had and said North Korea's intricate financial networks are "difficult, but not impossible, to address."

—Gordon Lubold contributed to this article.

## WASHINGTON WIRE

### BUDGET

#### Treasury Chief Backs Shutdown Possibility

Treasury Secretary Steven Mnuchin said Tuesday there could be circumstances under which a shutdown of the U.S. government would be a desirable outcome.

Mr. Mnuchin, who was testifying before the Senate Budget Committee, was asked about President Donald Trump's tweet earlier this year that the country "needs a good 'shutdown' in September."

Asked whether he thought there was such a thing as a "good" shutdown, Mr. Mnuchin told lawmakers, "It's an unfortunate outcome. At times there could be a good shutdown, and times there may not be a good shutdown."

"It's not our primary objective to have a shutdown," he said.

Congress reached an agreement in April to fund the government through September.

—Kate Davidson

### CUBA

#### Trump Plans Rollback Of Obama Cuba Policy

President Donald Trump's administration likely will scale back policy changes it believes have benefited the Cuban government while preserving some of the increased commercial activity that began under the president's predecessor, Secretary of State Rex Tillerson said Tuesday.

Mr. Trump is expected to announce an amended Cuba policy during an appearance in Miami on Friday, according to people familiar with administration discussions.

Mr. Tillerson discussed some of the administration's plans at a Senate Foreign Relations Committee hearing.

"The general approach is to allow as much of this continued commercial and engagement activity to go on as possible because we do see the sunny side...we see the benefits of that to the Cuban people," Mr. Tillerson said. "But on the other hand, we think we have achieved very little in terms of changing the behavior in the regime in Cuba, its treatment of people, and it has little incentive today to change that."

The people familiar with the deliberations said Trump administration officials are considering steps to tighten enforcement of travel restrictions that had been loosened during the Obama administration.

The administration also is considering elimination of regulations that allowed individuals to plan their own cultural exchanges.

Cuban officials didn't respond to a request for comment.

—Felicia Schwartz

# White House Plays Down Talk of Firing Mueller

BY PETER NICHOLAS  
AND ARUNA VISWANATHA

The White House pushed back on suggestions that President Donald Trump has considered firing special counsel Robert Mueller, amid a chorus of Republican warnings that it would be a mistake to oust the man leading the investigation into Russian meddling in the 2016 elections.

For days, allies of Mr. Trump have been questioning Mr. Mueller's independence and the need for a special counsel. But the issue escalated on Mon-

day when a friend of the president and Chief Executive of Newsmax Media, Chris Ruddy, gave a television interview in which he said Mr. Trump is considering firing Mr. Mueller.

Both White House aides and a senior Justice Department official on Tuesday played down the notion that Mr. Mueller is on shaky ground or could even be dismissed so readily.

The White House noted that Mr. Ruddy hasn't spoken to the president about Mr. Mueller's role. One White House official said that Mr. Mueller's dismissal "is not something that is

being discussed internally," adding Mr. Ruddy appeared to be "speculating."

Asked if he believed Mr. Trump was poised to dismiss Mr. Mueller, Newt Gingrich, a former Republican House speaker who is in contact with the president and says he spoke to him Monday night, said: "No, I don't think so."

Mr. Ruddy, in an interview Tuesday, stood by his remarks. He was at the White House on Monday but did not meet with the president.

Mr. Ruddy said that he has spoken to a half dozen people

over the past month "familiar with the president's thinking" who confirmed that Mr. Trump sees firing Mr. Mueller as an "option" that is "under serious consideration."

The deputy attorney general, Rod Rosenstein, is the only one with authority to fire Mr. Mueller. Under Justice Department rules, he could only do so for cause.

On Tuesday, Mr. Rosenstein testified on Capitol Hill that he wouldn't follow any White House order to fire Mr. Mueller unless there was a legal and appropriate reason. If he chose,

Mr. Trump could then fire Mr. Rosenstein. Mr. Rosenstein added that he was "confident" that Mr. Mueller will have "sufficient independence" to conduct his probe.

Since his appointment last month, Mr. Mueller has been quickly getting to work, hiring seasoned prosecutors and evaluating the investigative work that has taken place to date, according to people familiar with his operations.

House Speaker Paul Ryan told reporters: "I think the best advice is to let Robert Mueller do his job."

"I'm not sure what was in his mind explicitly," Mr. Sessions said on Tuesday.

White House officials said at the time that Mr. Trump had for months been contemplating the possibility of removing Mr. Comey, and that the dismissal wasn't connected to the Russian probe.

Senators focused on a private meeting between the president and Mr. Comey that the former director described in his testimony. The meeting in February was one day after former national security adviser Mike Flynn was forced to resign after having misled Trump administration officials over the nature of Mr. Flynn's conversations with Mr. Kislyak.

Mr. Comey had told the committee that after a meeting at the Oval Office with several top officials, the president asked the rest of the attendees, including Mr. Sessions, to depart, leaving Mr. Comey alone with Mr. Trump. Mr. Comey said Mr. Trump then asked him to drop an investigation into former national security adviser Mike Flynn, which Mr. Trump denies.

Mr. Comey said he later asked the attorney general to ensure he wouldn't be left alone with Mr. Trump again. Mr. Sessions didn't respond, in Mr. Comey's telling.

In contrast, Mr. Sessions testified Tuesday that when Mr. Comey raised concerns about being left alone with the president, he agreed with the director about the importance of handling such conversations properly and not discussing current investigations. Mr. Sessions said he encouraged Mr. Comey to "abide by the well-established rules governing any communications with the White House."

Mr. Sessions also said there is "no prohibition" on private meetings between the president and the FBI director. He added that he thought Mr. Comey should have raised his conversations with Mr. Trump more explicitly with the deputy attorney general.



Attorney General Jeff Sessions said Tuesday he needed to defend himself from 'scurrilous' accusations.

### 'An Appalling and Detestable Lie'

Highlights from the testimony of Attorney General Jeff Sessions before the Senate Intelligence Committee on Tuesday

'The suggestion that I participated in any collusion—that I was aware of any collusion with the Russian government to hurt this country, which I have served with honor for 35 years, or to undermine the integrity of our democratic process, is an appalling and detestable lie.'

'It did not violate my recusal.'

—On his involvement in the firing of FBI Director James Comey

'I'm not able to discuss with you, to confirm or deny, the nature of private conversations I had with the president.'

'I don't know how I would characterize that ... It didn't seem to me to be a major problem.'

'On whether he lingered after President Trump asked him and other aides to leave Mr. Comey alone in the Oval Office because he felt he should stay for matters concerning the FBI director'

'I don't know ... Probably so.'

'On whether the White House has the obligation to preserve any audio recordings'

'I am not stonewalling. I am following the historic policies of the Department of Justice.'

from the investigation into Russian interference in the election beyond what was publicly known.

Democrats have raised questions in recent days about why Mr. Sessions recommended that Mr. Trump dismiss Mr. Comey, given Mr. Trump's suggestion that he fired Mr. Comey at least in part because of his handling of the Federal Bureau of Investigation's Russia probe.

During his January confirmation hearing, Mr. Sessions said he would recuse himself from any investigations involving Mr. Trump's opponent in the campaign, Hillary Clinton. In March, he stepped aside from any investigations into the 2016 campaign, including into Russian interference, after it emerged he hadn't disclosed two meetings with Mr. Kislyak he had during the campaign.

In response to senators' questions about why he then played a role in Mr. Comey's firing, Mr. Sessions said the recusals do "not and cannot interfere with my ability to oversee the Department of Justice, including the FBI."

He added: "I recused myself from any investigation into the

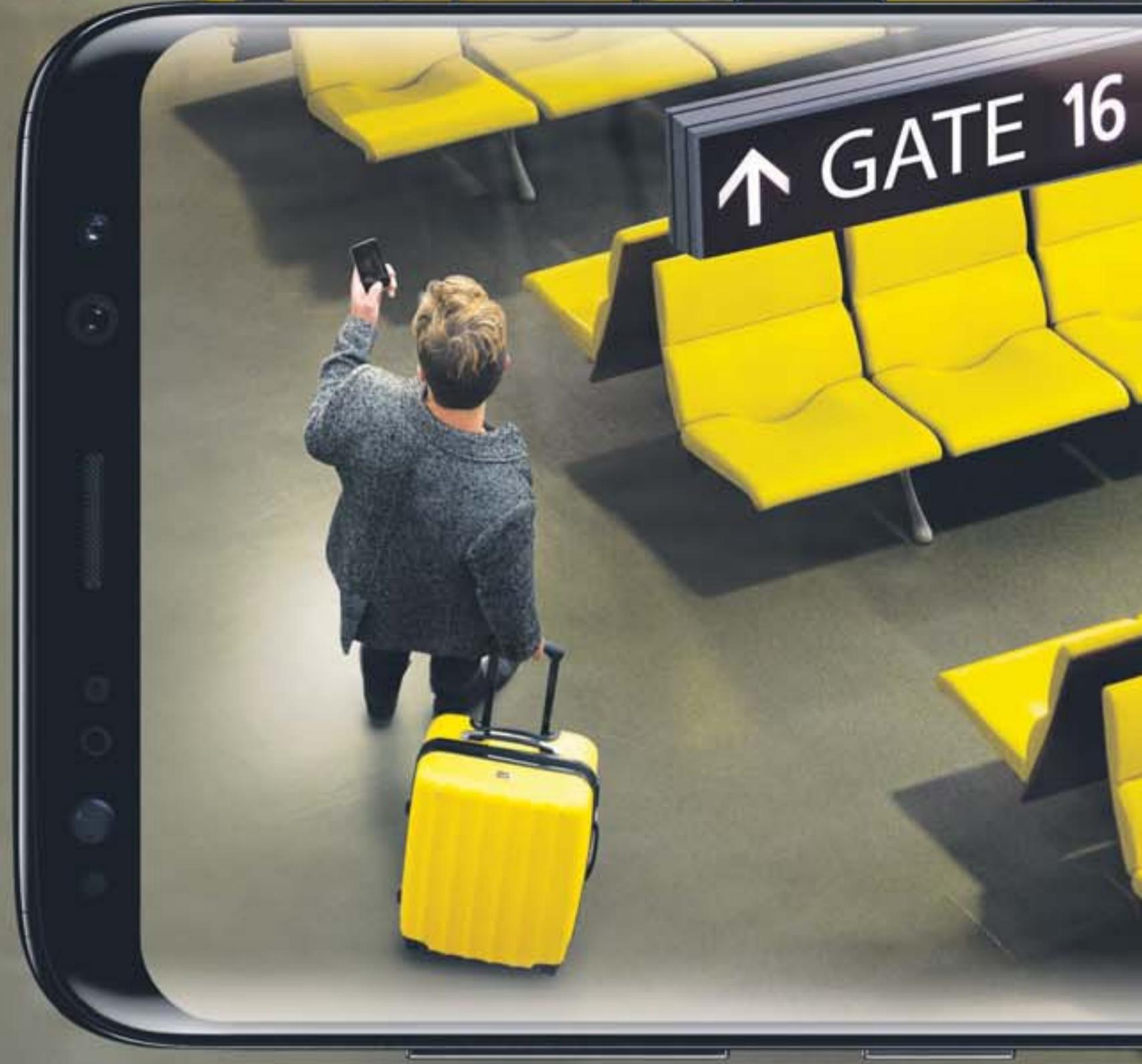
campaigns for president, but I did not recuse myself from defending my honor against scurrilous and false allegations."

Mr. Sessions declined to say if he had talked about Mr. Comey's handling of the Russia investigation with Mr. Trump. And he couldn't explain the

disparity between the reasons he and Deputy Attorney General Rod Rosenstein gave for firing Mr. Comey—namely his handling of the Clinton email investigation—and the president's claim in an interview that "this Russia thing" played into the decision.

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## U.S. NEWS

# Establishment Wins Virginia Primaries

Democrat Northam defeats insurgent while GOP's Gillespie squeezes out victory

By REID J. EPSTEIN  
AND JANET HOOK

ARLINGTON, Va.—Lt. Gov. Ralph Northam won Virginia's Democratic primary for governor Tuesday, in the most significant intraparty contest between the party's establishment and insurgent wings since Democrats' trouncing in the 2016 presidential election.

In the Republican primary for governor, the party establishment was rattled anew by the disruptive forces unleashed by President Donald Trump's election. Former Republican National Committee Chairman Ed Gillespie, who was heavily favored, won by just a single percentage point over Corey Stewart, the Virginia state chairman of Mr. Trump's presidential campaign.

Voters in both primaries rejected the extreme elements that have animated their parties since Mr. Trump's election. Mr. Stewart, who was outraised five-to-one, couldn't win on a Trump-centric message, while Democratic former Rep. Tom Perriello lost despite support from liberal Sens. Bernie Sanders and Elizabeth Warren.

Mr. Northam in his victory speech in Arlington promised



Ralph Northam, right, won the Democratic nomination in the race for Virginia governor Tuesday. Above, with Gov. Terry McAuliffe.

to rally Perriello supporters and unite the party for a general election fight of national political consequence.

"We're going to bring all Democrats under the tent starting tonight," Mr. Northam said. "This is the bellwether of the country. People are looking at Virginia to see what di-

rection we are going."

Mr. Northam, a 57-year-old pediatric neurologist from Norfolk, has been preparing to run for governor since he won a promotion from the state senate to lieutenant governor four years ago.

Long before Mr. Perriello made his surprise entry into

the race in January, Mr. Northam had been crisscrossing the state amassing political chits for his 2017 campaign.

It paid off with support from the state's entire Democratic political establishment. Gov. Terry McAuliffe, who is barred by Virginia law from

seeking a second consecutive term, endorsed Mr. Northam and engaged his political muscle to back him. Every Democratic member of the Virginia legislature endorsed Mr. Northam, as did county chairmen in each of the state's 95 counties and 38 independent cities.

Mr. McAuliffe hailed the victory of his lieutenant and framed the general election fight as a choice between building on his successes or advancing the Trump agenda.

"The Republicans' divisive policies would put up a 'not welcome' sign in Virginia that is contrary to our values and bad for our economy," Mr. McAuliffe said.

In the Republican primary campaign, Mr. Gillespie largely kept his distance from the president, while Mr. Stewart, the chairman of the Prince William County board of supervisors, campaigned as an unabashed Trump supporter, dubbing the former RNC chairman "Establishment Ed."

The unexpected nail-biter in the GOP primary was reminiscent of another big upset in the Virginia GOP. Rep. Dave Brat, a college professor, in 2014 rode the Tea Party wave of anti-establishment activism to topple House Majority Leader Eric Cantor in the GOP primary. Mr. Cantor and his allies were ill prepared for the challenge, which was also a low-turnout affair.

Mr. Gillespie's supporters attributed the close margin Tuesday to Mr. Gillespie not engaging with or attacking Mr. Stewart during the GOP primary contest.

"Ed Gillespie ran a positive race that didn't tear down fellow Republicans," said Pete Snyder, a Northern Virginia technology executive who lost a GOP primary for lieutenant governor in 2013.

## Senate Republicans Push to Reach Health-Care Deal

WASHINGTON—Senate Republicans raced to bridge divisions over rickety insurance markets and billions of dollars in insurance subsidies in their pursuit of a health-care deal.

While President Donald Trump predicted a deal would

By Kristina Peterson,  
Louise Radnofsky and  
Stephanie Armour

emerge, hard work remained behind the scenes.

Much of this week's negotiations have focused on specific measures to help shore up the individual insurance market, including billions of dollars in funding to smooth the transition to a new plan if they succeed in knocking down much of the 2010 Affordable Care Act, according to Republican aides.

Abortion is also one of several possible flashpoints facing senators trying to pull together 50 votes from the 52-member GOP caucus.

At a White House lunch Tuesday with more than a dozen key GOP senators, Mr. Trump reiterated his arguments that insurance woes in many of their states gave them no choice but to act, arguments which were also touted in analyses from Mr. Trump's top health officials Monday and Tuesday.

Mr. Trump said he and fellow Republicans had all made a commitment to repealing Obamacare, and "that's what we're going to do."

After media access to the lunch ended, Mr. Trump told the senators that the House health-care bill is "mean" and



Centene CEO Michael F. Neidorff: 'We do very well in the exchanges.'

said the Senate bill should be more generous, GOP aides said.

The White House declined to comment on the president's remarks, saying "we aren't going to comment on rumors about private conversations that may or may not have happened."

Sen. John Thune of South Dakota, a member of Senate GOP leadership, said some senators pressed Mr. Trump to keep making controversial payments to insurers to keep coverage under the ACA afloat.

The payments, which subsidize out-of-pocket costs for

low-income consumers, are the subject of litigation brought by House Republicans who argue the administration lacks an explicit authorization to make them. At the same time, insurers have relied on the payments and say that if they are abruptly cut off, it could trigger widespread disruption in the already fragile insurance markets.

In another move that could win over wary Republicans in tenuous insurance markets, the Senate health plan could include \$15 billion in 2018 and another \$15 billion in 2019 aimed at steady them, several sources said.

### As Others Retreat, Insurer Adds States

Centene Corp. said it would expand its offerings in the Affordable Care Act insurance marketplaces, entering three new states and bucking a trend of insurers retreating amid uncertainty about the future of the exchanges.

Centene, a Medicaid-focused insurer that has been able to eke out profits in the marketplaces while many competitors have lost money, said it would begin selling exchange plans in Kansas, Missouri and Nevada next year.

It will increase the area where it sells marketplace plans in six more states: Florida, Georgia, Indiana, Ohio, Texas and Washington.

Centene also said it would stop offering marketplace plans in Massachusetts next year, because of continued low enrollment.

The money could be used to set up a system that helps reimburse insurers' losses, according to sources who said the main goal of the funding package would be to help keep premiums affordable.

The plan retains a number of the ACA's taxes, which has spurred opposition lobbying from employers and some industry groups.

The Senate Republicans' focus on efforts to stabilize the individual markets is considered key to creating a smooth transition from the ACA to their new plan. Insurers are closely monitoring the Senate plans and pressing for faster

and more immediate financial measures to induce them to participate in the ACA's insurance exchanges next year.

GOP senators have also been trying to figure out how to prevent any federal funds from covering abortion, which some argue could happen if they provide financial help for people to buy health insurance on their own if they don't get it through an employer.

Provisions restricting the use of the tax credits proposed in a House bill passed last month have hit procedural hurdles in the Senate.

Sen. Ted Cruz (R., Texas) warned on Monday that it

"we do very well in the exchanges; it's been a good business segment for us." Despite the lack of clarity around the future of the ACA, as Republicans in Congress work to pass a health-care bill, Mr. Neidorff said Centene is making its calls based on the information it has now, rather than the possible changes to come.

"We think we have the agility to deal with the various regulatory environments," he said. He also said that in the end, policy makers "will want the vulnerable population to have health care." It isn't the first time that Centene has made a bold bet while other insurers were retreating from the ACA business. This year, the company agreed to offer plans in Arizona's Maricopa County after all its competitors pulled out, assuring that enrollees in Phoenix had an exchange option.

—Anna Wilde Mathews

would be "very problematic" to not have abortion restrictions in place around the tax credits.

The Susan B. Anthony List, a group that supports anti-abortion candidates for federal office, was first signatory on a letter to the Hill late last week that said the restrictions—along with a ban on Medicaid funds flowing to health providers such as Planned Parenthood who also perform abortions—"are essential to the bill, and must be retained all the way to final passage."

◆ **Boss Talk:** Anthem faces tough choices..... B9

## States Rally to Save Wellness Funds

By STEPHANIE ARMOUR  
AND BETSY MCKAY

State officials and public-health groups are pushing the Senate to preserve nearly \$1 billion annually that goes to local health programs—from vaccines to antismoking campaigns—that would be halted under the House Republican bill to topple the Affordable Care Act.

Officials from states led by both parties are rattled because the House-approved health-care overhaul would end payments to a prevention program at the federal Centers for Disease Control and Prevention. The money is largely doled out as grants for state and local disease-prevention and health-outreach efforts.

"This was little-noticed because there was so much focus on insurance coverage," said John Auerbach, chief executive of the Trust for

America's Health, a nonpartisan organization focused on disease prevention.

The Prevention and Public Health Fund, launched in 2010 as part of the health law, is aimed at helping states develop new ways to reduce disease and curb costs.

The money has increasingly become a core part of state health-department budgets, health officials said.

More than 500 organizations have urged President Donald Trump to preserve the prevention funding, saying in a letter they wanted to "warn of the dire consequences" if it is eliminated. The groups include the American Heart Association, American Academy of Pediatrics and Johns Hopkins Bloomberg School of Public Health.

House Republicans have said the program funds many frivolous projects. Lawmakers

on the House Energy and Commerce Committee cite grants that went to urban-gardening projects and massage therapy.

The Obama administration used the program "as a slush fund for questionable projects

that had little to do with public health or prevention," said Zach Hunter, a committee spokesman.

"Republicans have long favored redirecting these funds to more directly benefit patients and improve public health while also keeping

agencies accountable for their spending," he said.

It is unclear how the Senate will respond, but Sen. Bill Cassidy (R., La.) said there are some questions about where the funding has gone.

"Some of the activity is probably of dubious quality," he said. "But some of it, fair to say, has advanced the ball on health-care delivery."

The prevention fund received \$931 million in fiscal year 2017 and \$829 million in 2016. The health law would provide \$837 million for the fund in the next fiscal year.

Cuts to the fund would cost lives, said Tom Frieden, who was CDC director from 2009 until January. "Losing immunization programs means more preventable illness and more cancer," he said in an interview.

—Michelle Hackman contributed to this article.

### Pounds of Prevention

The House-approved health-care bill to replace the ACA would remove the nearly \$1 billion fund that supports a variety of programs. Where the money went in fiscal year 2017:

Program	Funding (\$millions)
Immunization	\$324.4
Preventive health block grants	\$160.0
Office of smoking and health	\$126.0
Heart disease and stroke prevention	\$73.0
Diabetes prevention	\$72.0
Racial/ethnic approaches to community health	\$51.0
Epidemiology and laboratory capacity program	\$40.0
Lead poisoning prevention	\$17.0
Alzheimer's disease prevention education	\$14.7
Healthcare associated infections	\$12.0
Youth suicide prevention	\$12.0
Chronic disease self-management	\$8.0
Hospitals promoting breastfeeding	\$8.0
Falls prevention	\$5.0
Million Hearts Program	\$4.0
National early child care collaboratives	\$4.0

Source: Centers for Disease Control and Prevention

THE WALL STREET JOURNAL

# HOW GIRL SCOUTS MOBILIZES THEIR TROOPS.



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# WORLD NEWS

## Pentagon to Decide Afghan Force Levels

Trump move gives military the power to deploy thousands of new U.S. troops

By DION NISSENBAUM  
AND GORDON LUBOLD

WASHINGTON—President Donald Trump has given the Pentagon unilateral authority to send thousands of new American troops to Afghanistan at its discretion, a U.S. official said Tuesday, clearing the way for the U.S. military to intensify its fight against the Taliban and Islamic State extremists in the region.

The decision to delegate control over troop decisions to the Pentagon, which is expected to be announced on Wednesday, sets the stage for U.S. commanders to decide to

reverse course in Afghanistan and begin sending more forces to the country after years of reductions in the hope that Kabul could handle internal threats on its own.

Earlier Tuesday, Defense Secretary Jim Mattis told the Senate Armed Services Committee that the U.S. is "not winning" the war in Afghanistan and that he was ready to take steps to address resurgent Taliban militants.

The White House decision to cede authority to Mr. Mattis is another reflection of Mr. Trump's push to give the military wide latitude around the world. The White House has already given the Pentagon more power to carry out strikes in Yemen and Somalia.

In April, Mr. Trump gave Mr. Mattis similar freedoms in Iraq and Syria when he lifted a troop cap set by his predeces-



JACQUELYN MARTIN/ASSOCIATED PRESS

Defense Secretary Jim Mattis testified before a Senate committee.

sor. But, unlike Iraq and Syria, the power is expected to have a bigger impact in Afghanistan, where the Pentagon could move expeditiously to send thousands of troops back into a 16-year-old war that has

claimed the lives of more than 2,300 members of the U.S. military since 2001.

The top U.S. commander in Afghanistan has been urging the Trump administration for months to send more troops to

Afghanistan. But a decision to do so has met with resistance from some members of the administration, who are wary of being dragged back into a fight that could require more forces, firepower and money.

The U.S. once had 100,000 troops in Afghanistan, after then-President Barack Obama approved a military surge in 2009 at a time when the war against the Taliban appeared to be in danger of failure.

Before leaving office, Mr. Obama declared an end to major military operations and dramatically scaled back the U.S. military presence in Afghanistan. There now are fewer than 9,000 U.S. troops in Afghanistan, primarily to help advise and train Afghan forces, which have struggled to secure their country.

The Pentagon has been weighing plans to send be-

tween 3,000 and 5,000 troops to Afghanistan. But that decision could still take weeks, the U.S. official said.

Mr. Mattis, testifying Tuesday before the Senate Armed Services Committee, said he expected to complete a military strategy for Afghanistan by next month. That could mean a decision on troop numbers could occur simultaneously, or sometime afterward.

Islamic State militants have established a foothold in Afghanistan. Last month, a massive truck bomb killed more than 150 people in Kabul, the deadliest attack in the Afghan capital since the Taliban were forced from power in 2001.

Over the weekend, three U.S. soldiers were killed by an elite Afghan commando, raising new concerns about the reliability of the country's best trained fighters.

## Frantic Mission Freed American

The White House secretly sent a diplomatic mission to North Korea this week to recover a U.S. citizen who the Trump administration had learned was in a life-threatening coma, senior U.S. officials said, an episode that could inflame tensions with Pyongyang.

By Jay Solomon and Felicia Schwartz in Washington and Jonathan Cheng in Seoul

The freed American, University of Virginia student Otto Warmbier, arrived late Tuesday at Cincinnati's Lunken Airport and was taken by ambulance to a hospital, the Associated Press said.

Mr. Warmbier, who is from Ohio, was sentenced early last year to 15 years of hard labor for allegedly defacing a political poster while on a private tour of North Korea.

The 22-year-old's dire health condition, U.S. officials said, risked escalating a stand-off between Washington and Pyongyang, fueled by North Korea's advancing nuclear-weapons program and repeated ballistic missile tests.

Mr. Warmbier slipped into a coma more than a year ago, U.S. officials and members of his family said. North Korea told U.S. officials during a secret meeting last week that he first lost consciousness after contracting botulism and taking a sleeping pill. The news prompted a frantic week within the State Department to assemble a mission to retrieve him.

U.S. officials said the administration and Mr. Warmbier's family are skeptical about Pyongyang's description of events, particularly because North Korea withheld information on him for so long, despite repeated U.S. requests.

"In no uncertain terms, North Korea must explain the causes of his coma," said Bill Richardson, a former congressman and one-time New Mexico governor who sent a delegation to North Korea last year to seek the release of Mr. Warmbier and other imprisoned Americans.

The Trump administration has been ratcheting up financial sanctions on North Korea in an effort to pressure leader Kim Jong Un to dismantle his nuclear program. China has been urging talks, while increasing its role in the rising U.S.-North Korean tensions.

Under ordinary circumstances, the release of a detained American could ease hostilities. But Mr. Warmbier's health, and the circumstances behind his lapse into a coma, could undercut efforts to establish a diplomatic channel to defuse the nuclear crisis, current and former U.S. officials said.

Former U.S. basketball star Dennis Rodman is visiting Pyongyang this week on what he has described as a peace mission. Senior Trump administration officials said they are worried Pyongyang could be trying to use the trip as a cover for returning Mr. Warmbier without taking responsibility for his medical condition.

The White House denied Tuesday that it is seeking to



GUO YINA/XINHUA/ZUMA PRESS

Otto Warmbier arriving for his trial in Pyongyang in March 2016. The American student fell into a coma more than a year ago.

use him as a channel to Mr. Kim. Mr. Rodman has made previous trips to Pyongyang and has met North Korea's dictator.

President Donald Trump in February ordered redoubled efforts to free Mr. Warmbier and three other imprisoned Americans, officials said Tuesday, describing the sequence of events.

The State Department's special representative for North Korea, Joseph Yun, met North Korean diplomats last month in Oslo, where they agreed Swedish diplomats could gain access to the four imprisoned Americans. But it was only on June 6 that the U.S. was told of Mr. Warmbier's condition.

Senior administration officials described a flurry of activity in the past week in which Secretary of State Rex Tillerson ordered Mr. Yun to prepare to fly to Pyongyang to retrieve Mr. Warmbier. Once there, the American diplomat confirmed the prisoner's condition and ordered his evacuation to Ohio.

U.S. officials didn't mention whether threats were made against Pyongyang to gain Mr. Warmbier's release, but one person said there was no quid pro quo and the North agreed to the move on humanitarian grounds.

—Eun-Young Jeong in Seoul and Jon Kamp in Boston contributed to this article.

### Drone Flew to Site Of Missile Defense

A drone believed to be from North Korea flew to the site of a U.S. missile-defense battery in South Korea to take photos, a spokesman for Seoul's Defense Ministry said.

Tuesday's disclosure highlights North Korea's growing capabilities with unmanned aerial vehicles.

The drone, which South Korea's Ministry of National Defense had identified last week

after it crashed in South Korea, carried a Sony camera and a 64-gigabyte memory chip that contained about 10 photos of the site where the U.S. has deployed the Terminal High-Altitude Area Defense system, according to a ministry spokesman.

The site is 170 miles south of the demilitarized zone that separates the two Koreas.

Separately, the South's Defense Ministry said a North Korean soldier had defected across the demilitarized zone.

—Jonathan Cheng and Peter Nicholas

## Deep Ties to China Leave Australia in a Bind



By Andrew Browne

SHANGHAI—In a moment of candor, former Australian Prime Minister Tony Abbott once admitted that his country's approach to China is driven by two emotions: fear and greed.

Increasingly, Chinese money pays the bills. It was unflagging Chinese demand

for iron ore, coal and other commodities that kept Australian mines in business through the global financial crisis. China buys one-third of Australia's exports, and Chinese tourists are the biggest spenders Down Under.

Many colleges would struggle to make ends meet without Chinese students on full fees. Moreover, the country's long-term prospects have been greatly improved by an influx of Chinese migrants bringing investment and skills.

Yet some Australians are fearful. Greed breeds economic dependency—and, po-

tentially, a political opportunity for Beijing to exploit.

A report last week by the Australian Broadcasting Corp. and Fairfax Media has stirred a public debate by mapping China's inroads into Australia's national politics and academia, as well as its Chinese-language media and student bodies.

The most explosive allegation is that the Australian Security Intelligence Organization had cautioned the major political parties about receiving donations from two billionaires of Chinese descent identified as having links to the Chinese Communist Party. If true, those warnings went unheeded; the real-estate tycoons have handed out millions of dollars in political contributions.

It shouldn't be a surprise that Australia finds itself grappling with impossible tensions. The unsatisfactory solution is to hedge economic engagement with military deterrence. Australia is sending a powerful signal by hosting a squadron of U.S. F-22 Raptor stealth fighters.

The Australian predicament, however, is deepening. China is asserting its interests in countries in its neighborhood with mounting confidence.

In the wake of the investi-

### Bill Payer

China buys roughly a third of Australia's exports.

#### Year-over-year change in China's imports from Australia



Source: Wind Info

THE WALL STREET JOURNAL

lia into line with practice in the U.S., Britain and many other Western countries.

Australia's vulnerabilities to Chinese meddling are magnified by all the factors that give it economic vitality: geographical proximity, natural endowments that so perfectly match the Asian giant's industrial requirements and, above all, migration flows.

More than one million Australians claim Chinese roots; almost half were born in China. Beijing targets them as part of a global project to construct what it calls "comprehensive national strength."

One voice calling for calm is former Foreign Minister Bob Carr. "It's an arrogant assumption," Mr. Carr writes in the Australian, "that the Chinese in Australia are so simple they can be corralled and marshaled by Chinese agents."

One of the real-estate developers named in the investigative report, Huang Xiangmo, used a nationalist-leaning Chinese newspaper, the Global Times, to attack the Australian media for singling out his political contributions. It was, he said, "not only racist, but also snobbish."

That is perhaps the greatest danger: a backlash against a Chinese population in a country that for decades pursued a "White Australia Policy" to keep out Asian immigrants.

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Yet some Australians are

fearful. Greed breeds eco-

nomic dependency—and, po-

potentially, a political opportu-

nity for Beijing to exploit.

# TAKING FLIGHT. GOING HIGHER. MISSISSIPPI



Chances are, every commercial airplane you have flown on has had at least one component manufactured in Mississippi.

Global leaders in the aerospace sector flock to the state. GE Aviation, Stark Aerospace, Airbus Helicopters, Rolls-Royce and Lockheed Martin all have a presence within Mississippi, along with more than 100 other aerospace-related companies. Also, Mississippi State University is home to the FAA's Unmanned Center of Excellence, which is shaping the integration of unmanned flight into U.S. air space. Compelling business advantages, like the state's low operating costs, skilled workforce, minimal tax burden, easy access to U.S. and international markets, and proximity to important military installations, continue to attract numerous aerospace companies to the state.

**See how aerospace companies take flight in Mississippi.**

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[mississippi.org/aerospace](http://mississippi.org/aerospace)

mississippi development authority  
**MISSISSIPPI**

## WORLD NEWS

# Physicians Flee Venezuela's Chaos

BY RYAN DUBE

ANCUD, Chile—On a recent day in this remote island town, Jhomar Yansen rushed to operate on a man who had been kicked in the gut by a sheep and was suffering severe internal bleeding.

The surgeon worked in his native Venezuela on patients with gunshot and knife wounds until last year, when he fled the chaotic, impoverished country like thousands of other professionals. Now he finds himself as part of a cluster of Venezuelan physicians caring for fishermen and shepherds on a green archipelago in the frigid Southern Pacific.

"This isn't exactly where I thought I'd work," said Dr. Yansen, who lives here with his wife, also a doctor, and their infant daughter. "But thank God I'm here. I didn't want my daughter to grow up in such a hostile environment."

Nearly two million Venezuelans have fled their country since the late strongman Hugo Chávez took office in 1999 and put his country on the path to socialist revolution, according to Tomás Páez, a sociologist at Venezuela's Central University.

The numbers have accelerated since President Nicolás Maduro took over in 2013, Mr. Páez said, with businessmen, university professors, farmers and oil workers abandoning a country riven by authoritarian rule and protests. Venezuelans are flooding into neighboring Colombia and Brazil.

They have also boarded boats bound for Caribbean islands. In the U.S., their asylum requests have surged, while the sight of them selling cornmeal cakes known as arepas has become a commonplace in the Peruvian capital, Lima.

The exodus of doctors is exacerbating the already serious strain on Venezuela's once-vaunted public-health system,



Health-care workers protested in Caracas last month against shortages of medicines. Many have left for elsewhere, including Chile.

which has been crippled by dilapidated hospitals and shortages of medical supplies.

Figures released last month by the health ministry showed maternal mortality in the country increased 66% last year; infant mortality, which rose 30% last year, is now higher in Venezuela than war-torn Syria. Malaria and diphtheria rates are soaring amid shortages of insect repellents, vaccinations, and public-health funding.

The Venezuelan Federation of Doctors estimates that some 16,000 doctors have left in 12 years, moving as far away as Spain and Australia.

"If this wave of migration of doctors to other countries continues, a moment is going to arrive...when they aren't going to have enough capacity to run hospitals," said Juan Correa, the federation's vice president. Calls to Venezuelan health authorities seeking

### Doctors Without Borders

Instability in Venezuela has made it one of the largest sources of immigrants to Chile, with physicians migrating at a growing pace.

Chilean visas issued, by top countries of origin, 2016



Source: Chile's immigration office; Beltrán Mena, director of the Eunacom exam

THE WALL STREET JOURNAL.

comment weren't returned.

Venezuela's loss is helping places like Ancud on Chiloé, a tranquil island of green rolling hills, penguins and wooden churches 760 miles south of Santiago—and a world away from Venezuela's strife.

Last year, 1,313 Venezuela-

educated physicians, more than any other foreign group, took a test to work in Chile's public-health system, up from just 16 in 2011, according to exam administrators.

More could arrive. In 2016, 88% of medical students in their final year at four Vene-

zuelan universities said they hoped to emigrate after graduation, according to Venezuelan sociologist Iván de la Vega.

In the past 18 months, about a dozen doctors—including surgeons, gynecologists and anesthesiologists—have found work in Ancud's small 72-bed hospital.

These exiles from a Caribbean climate have adjusted to the Chilean island's cold nights by learning to split firewood. "At times you want to cry," said Karina Castilla, a gynecologist. "You're in a country that has welcomed you, but it isn't your country and it will never be."

Still, they don't see a future in Venezuela. "I have no problem living here," emergency-room physician Daniel Arocha said. "We found what we were looking for."

◆ U.S. court rules on seizure of Venezuelan assets ..... B19

## UBER

Continued from Page One  
also calls for Uber to install more independent board seats; elevate the role of the recently hired chief diversity officer, Bernard Coleman; create an oversight committee; establish leadership coaching for executives; and roll out mandatory sensitivity training for employees.

The report's summary also zeroed in on aspects of a corporate culture it says reinforces exclusionary and other poor behavior. Uber's 14 cultural values, for instance, include mandates such as "always be hustlin'" and "toe stepping." The report suggested restrictions on alcohol consumption and the use of controlled substances at the office, as well as romantic relationships among colleagues.

But the summary stopped short of exposing any incidents at Uber or identifying employees. It isn't clear whether any employees will be dismissed or reprimanded as a result of the investigation, though Uber on Monday parted ways with Emil Michael, the chief business officer and a confidant of Mr. Kalanick, as a result of the probe, according to people familiar with the matter. Mr. Michael declined to comment.

Tuesday's meeting with employees was clouded by a sexist remark by Uber investor and director David Bonderman that prompted him to resign from Uber's board later in the day. While director Arianna Huffington was addressing employees at the meeting about the addition of a second woman to the board, Mr. Bonderman interrupted and said, "Actually, what



IMAGO/ZUMA PRESS

Uber Technologies Chief Executive Travis Kalanick will take an indefinite leave from the company.

it shows is that it's much more likely to be more talking."

Mr. Bonderman, the founder of private-equity firm TPG Capital, later apologized for the comment, saying in an email to Uber employees that it was inappropriate and disrespectful, according to a TPG spokesman.

Uber is trying to repair its reputation after a February blog post by former software engineer Susan Fowler Rigetti, who alleged a male-dominated workplace permissive of sexual harassment and sexism. The claims compelled Uber to hire Covington & Burling LLP to conduct an investigation, which included interviews with more than 200 employees and separate online focus groups. Ms. Fowler Rigetti left Uber in December.

Some investors praised the report's recommendations as well as Mr. Kalanick's leave, say-

ing Uber has an opportunity to change negative perceptions.

"The leave should help reset Travis's greatest value to Uber," said Bradley Tusk, an investor and previous political consultant to Uber. "To me, that's focusing

In Mr. Kalanick's absence, Uber will be run by a committee of 14 executives.

on innovation and growth." Investors Mitch Kapur and Freada Kapur Klein, who previously criticized the company's "toxic" work culture, called the recommendations "thoughtful and extensive" in a statement.

Mr. Kalanick's announcement

that he will take a leave of absence is a surprising twist in the controversial eight-year history of Uber. The company, guided by a CEO with a pugnacious leadership style, bulldozed into new markets while battling local regulators and competitors around the world, raising over \$15 billion in funding in the process. A self-described "hustler," Mr. Kalanick is known for instituting hard-charging business tactics and a workplace that rewarded high performers above all else.

Nonmedical leaves for CEOs are rare for a company of Uber's size, employment experts say, and often leaders don't return. Mr. Kalanick also is grieving the death of his mother, who was killed last month in a boating accident that left his father seriously injured.

Mr. Kalanick is protected in

his position because of his share-based voting power. Along with co-founder Garrett Camp and early employee and former Uber CEO Ryan Graves, he has a large majority of the voting shares. The rest of the board is made up of insiders and investors, though Uber on Monday named Nestlé SA executive Wan Ling Martello as an independent director.

In recent months, Mr. Kalanick has lost about a half-dozen direct reports and several other senior executives—through resignations or firings—including the leaders of operations, marketing, finance, communications and self-driving car development. Mr. Michael, whose last day was Sunday, was effectively considered Mr. Kalanick's No. 2. Uber is actively searching for financial and operating chiefs as well as a general counsel.

In Mr. Kalanick's absence, Uber said it would be run by a committee of 14 executives, including the chief technology officer, regional managers and heads of legal, product, operations and other areas.

Mr. Holder's team emphasized the role of an eventual chief operating officer as a "full partner with the CEO." A former No. 2 to Mr. Kalanick, Jeff Jones, left in March after just six months, calling the values of Uber out of line with his own. Uber has interviewed executives for the role with public company experience.

Ms. Fowler Rigetti took to Twitter to express disappointment with the report's findings, noting she had seen illegal behavior at Uber. "I've gotten nothing but aggressive hostility from [Uber]" she wrote. "It's all optics." She didn't respond to a request for comment.

# Former Rio Governor Sentenced To 14 Years

BY PAUL KIERNAN

RIO DE JANEIRO—Former Rio de Janeiro state Gov. Sérgio Cabral was sentenced to 14 years in prison for corruption and money laundering, becoming one of the most high-profile Brazilian politicians yet convicted in the sprawling "Car Wash" probe.

Judge Sergio Moro found Mr. Cabral guilty of receiving around 2.7 million Brazilian reais (\$816,450) in bribes and laundering some of the proceeds. The money had been skimmed off an overpriced construction contract for a refinery built by state-owned oil company Petróleo Brasileiro SA on the outskirts of Rio.

Mr. Cabral's attorney said he plans to appeal but declined to specify on what grounds.

Mr. Cabral rode the commodity boom to political stardom during his 2007-14 term, as Rio experienced a fleeting renaissance that culminated in its winning bid for the 2016 Olympics.

With state coffers flush from rising oil prices, he attacked the city's crime problem, propped up employment by drastically expanding the state's payroll and spent billions of dollars on infrastructure projects, such as a new Metro line, whose costs, prosecutors say, have been inflated by corruption. Rio state is now in the throes of an epic fiscal crisis.

"The failed situation of Rio de Janeiro state cannot be ignored, as the suffering of the population and civil servants, which despite being the result of many factors, also has its origins in the systematic graft by the ex-governor and his associates," Judge Moro wrote in his ruling.

## FROM PAGE ONE

# Uber Curbs Alcohol, Office Flings

By YOREE KOH

Alcohol-soaked parties, controlled substances, office romances and free dinner: those are the hallmarks of Uber Technologies Inc.'s raucous workplace—and many other startups.

A report Uber commissioned from the law firm of former U.S. Attorney General Eric Holder, released Tuesday, called out such details as part of what's wrong with Uber's culture. Uber's board of directors unanimously adopted Mr. Holder's recommendations, such as limiting company spending on alcohol.

A freewheeling culture of marathon late-night work sessions and frat-boy behavior often goes hand-in-hand with a startup's fast-paced growth, experts say. But it can become detrimental as a company matures—in Uber's case, to a \$68 billion valuation and 12,000 employees. "What worked for 200 people doesn't work for a couple thousand and can spin out of control," said Ranjay Gulati, an organizational growth expert and professor at Harvard Business School.

Many startups stumble as they transition to a corporate culture, contributing to Silicon Valley folklore. Zenefits, the health-insurance brokerage startup, instituted a no-alcohol policy last year amid reports that employees were having sex in the office stairwells.

The report from Covington & Burling LLP recommended that Uber prohibit alcohol consumption during "core work hours," limit budgets for alcohol during after-work events and come up with retreats that don't require drinking. It also addressed "prohibiting consumption of non-prescription controlled substances."

The report didn't include details of what episodes led to the recommendations. Other suggestions include serving the catered dinner earlier to indicate the work day is ending so people can go home.

The report also recommended the company prohibit romances between employees in a reporting relationship.

BY GREG BENINGER

David Bonderman, the co-founder of private-equity firm TPG, resigned from the board of Uber Technologies Inc. hours after he made a sexist remark during a companywide meeting on Tuesday to address problems with the ride-hailing company's workplace culture, according to the TPG and Uber.

His exit from Uber's board was a stunning turn of events at the end of a day in which the company sought to move

past a grueling four-month investigation into allegations of sexism and sexual harassment. Mr. Bonderman, who has served on the board for four years, was at Uber's San Francisco headquarters addressing employees about the results of the investigation, carried out by former U.S. Attorney General Eric Holder. The probe is leading to a series of changes in management practices.

Mr. Bonderman's remark came in the opening minutes of an all-hands meeting about

sexual harassment, sexism and inclusion. The private-equity billionaire appeared to try to offer light humor when he interrupted fellow Uber director and media magnate Arianna Huffington, who in her remarks announced to applause the company's recent appointment of a second female board member, Wan Ling Martello.

"There's a lot of data," Ms. Huffington said, "that shows when there's one woman on the board it's much more likely that there will be a sec-

ond woman on the board."

"Actually," Mr. Bonderman said, "what it shows is that it's much more likely to be more talking." The comment drew a rebuke from Ms. Huffington, who said, "Oh, come on, David."

"I directed a comment to my colleague and friend Arianna Huffington that was careless, inappropriate, and inexcusable," Mr. Bonderman said in a statement about his resignation from Uber's board. "The comment came across in a way that was the opposite of

what I intended, but I understand the destructive effect it had, and I take full responsibility for that."

Mr. Bonderman, 74 years old, the chairman and co-founder of private-equity firm TPG, had apologized earlier in the day in an email to all Uber staff, saying the off-the-cuff comment was "disrespectful" and "inappropriate," according to a copy of the email sent by a TPG spokesman.

Matthew Jarzemsky contributed to this article.

# Board Member Steps Down After Sexist Remark

BY GREG BENINGER

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Matthew Jarzemsky contributed to this article.

## WORLD NEWS

# May Presses for a Deal to Stay in Power

British prime minister meets with DUP leader in bid to secure a working majority

BY JENNY GROSS  
AND PAUL HANNON

British Prime Minister Theresa May met with the head of a small Northern Irish party as she sought to complete an agreement that would enable her to govern with a minority in Parliament but one that could be a risk to peace in Northern Ireland.

Mrs. May gambled by calling last week's snap election, but it backfired and her Conservative Party lost seats, falling short of a parliamentary majority.

She is now seeking to negotiate an agreement to win support in key votes from the mainly Protestant Democratic Unionist Party, whose leader, Arlene Foster, was in London on Tuesday for talks.

Mrs. Foster, in a statement from her Twitter account, said discussions were "going well" and that she hoped they would soon come to a successful conclusion.

Mrs. May will have to navigate the agreement carefully. A deal with the DUP risks complicating the fragile peace in Northern Ireland, where the British and Irish governments act as impartial mediators between the main Protestant and Catholic parties.

Mrs. May will likely have to agree to concessions in exchange for the DUP's support in no-confidence and budget votes essential to keeping a minority



Democratic Unionist leader Arlene Foster, left, and her deputy, Nigel Dodds, arrived at 10 Downing St. for talks on Tuesday.

government in power. Typically under such agreements, support in other votes would be on a case-by-case basis.

John Major, a former Conservative British prime minister who helped pave the way for the 1998 Good Friday agreement that put an end to three decades of violent confrontation, said he is worried about

the implications for peace.

"A fundamental part of that peace process is that the U.K. government needs to be impartial," he said. "That was always the intention. The danger is that, however much it tries, it will not be seen to be impartial if it is locked into a deal with one of the parties."

The deal with Northern

Irish lawmakers will likely have significant implications for Brexit, raising the prospect that Mrs. May will be pressured by lawmakers to pursue a closer relationship with the European Union than she had set out before the election.

The DUP, which won 10 seats in last week's election, is a socially conservative party

that supports Britain's exit from the EU but wants to keep a "frictionless" border with the Republic of Ireland after Brexit.

This aim may be incompatible with Mrs. May pre-election stance in Brexit negotiations, in which she said the U.K. wouldn't agree to staying in the EU's customs union or single market, or to the bloc's principle of guaran-

teeing free movement of people from EU countries.

Aside from Brexit, the DUP, a pro-British party that has strong support from working-class voters in Northern Ireland, may also push for less-severe cuts in public services.

Data released on Tuesday showed consumer prices in the U.K. in May rising at the fastest annual rate for almost four years, intensifying a squeeze on households.

Northern Ireland has been without a government since February after Sinn Féin, the mainly Catholic nationalist party that wants the province to leave the U.K. and join the Republic of Ireland, withdrew from a power-sharing agreement with the DUP. Talks over a new agreement resumed on Monday after the election.

Gerry Adams, leader of Sinn Féin, said an agreement between the DUP and the Conservatives wouldn't alter his basic lack of trust in the British government.

The agreement includes a pledge that London should exercise "rigorous impartiality." Irish Prime Minister Enda Kenny and some British officials involved in negotiating the agreement have questioned whether such impartiality is possible when one of the parties to the dispute is part of that government.

David Trimble, who was awarded the Nobel Peace Prize as one of the leading unionist politicians who paved the way for the agreement and the peace that followed, said he didn't believe a Conservative-DUP deal would upend the peace process.

# Door Still Open to U.K., Macron Tells Prime Minister

BY WILLIAM HOROBIN  
AND JASON DOUGLAS

PARIS—French President Emmanuel Macron said the door remains open for the U.K. to stay in the European Union, reflecting uncertainties over coming exit negotiations as politically weakened U.K. Prime Minister Theresa May tries to plot a course out of the bloc.

Mr. Macron made his comments standing alongside Mrs. May after the two dined together in Paris on Tuesday. The dinner brought Mrs. May face to face with a politically emboldened defender of the EU just days after losing her parliamentary majority in elections.

Mrs. May's bruising setback has blurred the U.K.'s strategy for Brexit negotiations that are due to start in less than a week. With weakened support, she could struggle to deliver her campaign promise of hard-nosed negotiations to get a clean break with the EU.

"The door obviously remains open so long as the Brexit talks aren't concluded," Mr. Macron said.

Mr. Macron said he respects the British vote to exit and said once the negotiations start it would be harder to make a U-turn.

Mrs. May said she would stick to the timetable for beginning the Brexit talks. The U.K. government will strive to keep a "deep and special partnership" with the EU, especially on matters of trade, she said.

The meeting was the first test of Mrs. May's stature on the European stage after her Conservative Party lost its parliamentary majority in a U.K. election she called with the aim of strengthening her mandate to negotiate Brexit.

The stumble at the polls was widely blamed on a botched campaign by Mrs. May and a successful showing by Jeremy Corbyn, the veteran left-wing leader of the main opposition Labour Party. Mr.



U.K. Prime Minister Theresa May met with French President Emmanuel Macron in Paris on Tuesday.

Corbyn's pledges to nationalize railways and pay for college tuition struck a chord with voters weary of years of government belt-tightening, especially the young. Conserv-

atives' plans to overhaul elder care fell flat.

The rebuke from voters has cast doubt on Mrs. May's ability to stay in office or govern effectively. Earlier Tuesday,

she met with lawmakers from Northern Ireland's Democratic Unionist Party to forge a loose alliance, giving her government the extra votes it needs to retain power.

A big question mark now hangs over the U.K.'s Brexit strategy. Mrs. May had advocated a clean break with the bloc, but some in her party are pushing for a softer approach that puts economic security first.

"There is a unity of purpose among people in the United Kingdom. It is a unity of purpose, having voted to leave the EU, that the government gets on with that," Mrs. May said.

Mr. Macron is a tough interlocutor for Mrs. May on European matters. The 39-year-old won France's presidential election in May by campaigning as an outspoken defender of a stronger Europe.

The French leader notched up a second victory on Sunday as his party won the first round of the legislative election by a large margin, setting it up to win as many as 455 seats in the 577-seat National Assembly, according to polling firms.

◆ European Union wants U.K. clearing business ..... B15

## Britons Are Seeking EU Citizenship Elsewhere

The number of Britons applying for citizenship in several European Union countries has risen sharply since the U.K. voted to leave the bloc.

By Nina Adam  
in Frankfurt  
and Bertrand Benoit  
in Berlin

Figures released on Tuesday showed 2,865 British citizens had obtained German citizenship in 2016—up from 622 in 2015 and the highest number since Germany began collecting the data in 1950.

While the Federal Statistical Office, which published the data, doesn't record applicants' motivations, it said "a connection to Brexit appears obvious."

Brexit-driven naturalizations could surge even higher this year, immigration officials say, since the already lengthy process of obtaining German nationality has become longer due to the flood of requests.

Other EU countries have also registered sharp rises in citizenship applications by Britons. The Swedish Migration Agency said 1,600 Britons applied for Swedish citizenship last year, more than three times the level of 2015.

The Danish Immigration Ministry said it had received 489 applications in 2016 and 130 for January and February.

of this year alone, compared with just 77 for all of 2015. Ireland received 571 applications in 2016—almost eight times the 2015 level, the Department of Justice said.

"We never thought it was necessary [to apply for German citizenship], because we felt European," said Stephan Hale, a British businessman in Berlin. But after the June 2016 referendum on Brexit, he added, "all of a sudden this risk is appearing and you say 'damn it, I still want to be part of this nice union.'"

He obtained German citizenship with his British wife and three children last month.

### Passport Rush

Last year more Britons than ever before took up German citizenship.

3,000 Britons



Source: Federal Statistical Office

THE WALL STREET JOURNAL.

### EUROPEAN UNION Pressure on Nations That Bar Asylum

The European Union's executive launched legal proceedings Tuesday against Poland, Hungary and the Czech Republic for refusing to take in asylum seekers, reigniting a fight that is likely to widen as the bloc seeks unity in Brexit negotiations with the U.K.

A majority of EU states voted in 2015 to distribute around the bloc as many as 160,000 asylum seekers who had arrived in Italy and Greece. By mid-June, near the planned two-year end date of the program, just 20,869 had been relocated.

The former communist countries that joined the EU about a decade ago have almost no experience integrating Muslim populations. Poland and Hungary refused to take any asylum seekers. The Czech Republic took 12 last year and recently said it would quit the program.

The commission's decision comes on top of existing disputes with Hungary and Poland over what critics say are efforts to erode democratic rights in the two countries.

None of the three countries have indicated they would change their minds. European Commission chief Jean-Claude Juncker has warned that refusing to admit refugees might result in Central and Eastern European states receiving less financial support.

—Valentina Pop



INFERNO: Rescuers were working to evacuate trapped residents as firefighters battled a massive blaze at Grenfell Tower, a 27-story apartment complex, in London early Wednesday. See WSJ.com.

### CANADA

### Central Bank Chief Says Cuts Worked

Bank of Canada Gov. Stephen Poloz said the interest-rate cuts it delivered in 2015 to fend off the fallout from plunging oil prices "have done their work," reinforcing on Tuesday a hawkish message the central bank delivered Monday that pushed the Canadian dollar upward.

Mr. Poloz said the Canadian economy is gathering momentum, with an array of sectors expanding. Business investment also is firming following a prolonged weak spell fueled by the commodity-price slump, with capital spending expected to

build as companies operate at near full capacity.

"It's a much more diverse recovery," Mr. Poloz said in an interview with Canadian Broadcasting Corp. in Winnipeg, Manitoba. "What that suggests to us is that the interest-rate cuts that we put in place in 2015 have largely done their work, so that's very reassuring."

On Monday, the central bank's second-highest-ranking official, Carolyn Wilkins, rattled markets with an unexpected hawkish turn in a speech, in which she said the central bank would have to assess whether ultralow interest rates—at 0.50% since July 2015—are still required.

—Paul Vieira

### GREECE

### Germany's Schäuble Expects Athens Deal

German Finance Minister Wolfgang Schäuble said he is upbeat that eurozone finance ministers would strike a deal with Greece at their meeting later this week to release funds for the cash-strapped country. "We will get this done on Thursday, you will see," said Mr. Schäuble at a finance conference in Berlin on Tuesday.

Eurozone finance ministers will meet in Luxembourg to discuss whether to clear the next disbursement of funds to Greece, a much-needed bailout payment to meet its coming debt repayments. At the Eurogroup meeting, they will also discuss ways to lighten the country's debt burden.

On Friday, Greece's Parliament approved another round of austerity measures and economic overhauls the country has to implement to unlock the financial support.

Greece is under pressure to accept at the meeting an agreement among its creditors to postpone further discussion about restructuring its €315 billion (\$353 billion) debt.

Mr. Schäuble also said the eurozone needs "more normal" monetary policy, repeating his view that interest rates shouldn't stay so low for too long.

—Andrea Thomas

## IN DEPTH

# TOTAL

Continued from Page One  
“the energy of the 21st century.”

More than any other oil major, Total sees electricity as a hedge against oil's eventual decline and is assembling a new business around it. Last summer, it paid \$1 billion for a French maker of industrial batteries. It bought a small utility that supplies gas and renewable power to households in Belgium and owns a majority stake in SunPower Corp., a California company that makes high-efficiency solar panels for governments, businesses and households.

If all goes to plan, a large piece of Total's business will one day be selling electricity to homeowners and businesses, some generated by natural gas it has extracted and some from solar panels and battery packs. By 2035, Mr. Pouyanné said, 20% of Total's energy output will be low-carbon energy such as electricity from renewable sources like wind and solar. The company recently created a “gas, renewables and power” reporting segment, which in 2016 earned about 5% of Total's \$9.42 billion net operating income.

For decades, Total and other large oil companies have employed a model pioneered by John D. Rockefeller over a century ago. They find crude, pump it from the ground, refine it into different fuels and chemicals and sell them to motorists, airlines and manufacturers. As oil prices rise and fall, different parts of this value chain make money.

Today, a prolonged downturn in oil prices has dented revenues and profits at the world's large producers. Oil demand is expected to come under further pressure as auto makers improve fuel efficiency, electric vehicles become more popular and many countries push ahead with commitments to burn fewer carbon-intensive fuels.

### Power grids

Producing and selling electricity is a very different business. While oil is a commodity that can be extracted in one locale and stored, shipped and sold to other parts of the world, electricity must be produced and consumed simultaneously. Power grids tend to be regional, so electricity generated in Europe can't be sold to Latin America.

Most electricity is generated from coal or natural gas, and increasingly from wind, solar and other renewable energy sources. Burning oil currently generates just 4.3% of global electricity, a share that has halved in the past two decades and is expected to shrink to 2.5% by 2025, according to the International Energy Agency, a Paris-based group that monitors energy trends.

Total is already a large producer of natural gas, a cleaner-burning fuel that is ex-



THOMAS PAPILLAY/MAXPPP/ZUMA PRESS

Total Chairman and Chief Executive Patrick Pouyanné wants to turn his company into one of the world's biggest energy suppliers.

pected to overtake coal by 2040 as a source of electricity because of its flexibility and lower emissions, according to the IEA. While rivals including Exxon and Shell are also bulked up on natural gas production, Total wants to go further and enter the power business.

Predicting and betting on shifts in energy consumption is a notoriously tricky business. U.K. energy giant BP PLC invested heavily in solar power in 2000, only to shut that business in 2011 after struggling to make money. Shell in 2008 pulled out of a large offshore wind power project near the mouth of London's Thames River after costs mounted. “Oil companies like to talk about themselves as energy companies, but they are not energy companies. They are commodity companies,” said Bob Lukefahr, who helped develop BP's renewable strategy in the 2000s.

Capital budgets are be-

Mr. Pouyanné said Total remains “first an oil-and-gas company,” and that remains a lucrative business. The company's net income last year, \$6.2 billion, was second only to the much-larger Exxon among its Western oil peers. At the same time, he said some investors feel Total needs a diversification plan if governments and the public increasingly demand cleaner energy.

“They have some questions about what will be the impact of climate change on our company. We are trying to bring them some answers,” he said.

Some of the challenges are apparent in Mr. Pouyanné's own household. He said he tried and failed to persuade his wife that they should buy an electric car. He still drives a Renault with a conventional engine.

Most industry forecasters expect oil to remain a major source of energy fueling global economies. The IEA says consumer demand for oil will keep growing for another two decades unless governments take sharper action to curb emissions. But electricity consumption is expected to grow faster than oil—2% a year through 2040, compared with oil's 0.5% growth, according to the IEA.

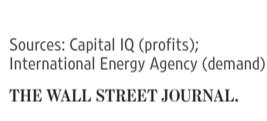
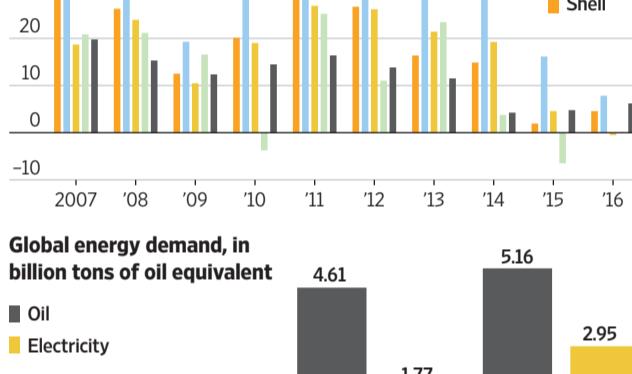
Underlying this shift is a global push to use fuels with lower carbon emissions. Over 140 countries have ratified an 2015 agreement struck in Paris to reduce emissions as a way to tackle climate change. Their methods generally include shifting away from oil and coal and toward energy sources like gas, renewables and even nuclear, which all generate electricity. The U.S. has since said it plans to pull out of the accord.

Producing clean energy was much more expensive in the late 1990s and early 2000s, when oil companies conducted highly public experiments with

### Energy Prospecting

A prolonged decline in oil prices has dented profits of large oil companies. As global electricity demand grows, France's Total is pivoting to focus more on generating power from gas and renewable energy.

#### Profits of the oil majors



Sources: Capital IQ (profits); International Energy Agency (demand)

THE WALL STREET JOURNAL.

alternative energy sources. Production costs for solar panels and other renewable energy projects have since plummeted. “Sometimes you can be wrong if you are 15 years” too soon, said Mr. Pouyanné.

Shell last year led a consortium that won a bid to build a wind farm off the coast of Holland that could power a million homes at prices lower than competing coal and gas projects. Norwegian oil-and-gas company Statoil ASA recently announced plans to increase its spending on renewables from 5% today to at least 15% by 2030, with an emphasis on offshore wind.

rattled the company. In October 2014, Total's then-CEO, Christophe de Margerie, was killed in an airplane crash in Russia. Mr. Pouyanné, who was running Total's refining and chemicals business, was quickly promoted to the top job. At the same time, a glut of oil was overwhelming demand, causing oil prices to collapse from a high of \$107.26 a barrel to \$53.27 by the end of the year. Total recorded a \$5.7 billion loss in the final quarter of 2014, its worst quarterly result in decades, and the first quarter with Mr. Pouyanné at the helm.

“I became CEO at the worst possible moment,” he said.

He took over a nearly century-old company with fossil fuel operations in 130 countries. Like its fellow Western oil companies, Total had large exploration, refining and

Now that Total controls

companies that generate, store and sell electricity, Mr. Pouyanné is trying to figure out how to fit the pieces together.

“To be clear, these are investments,” he said of Total's foray into electricity. “We have to be patient.”

# TOOLS

Continued from Page One  
daily to work on painful hips and stiff upper backs.

“In five minutes I can get about 30 minutes of work done,” Mr. Fruchter says.

The popularity of massage is rising along with the price of electric gadgets for it. So some do-it-yourselfers are raiding garages and Home Depot and turning power tools into turbocharged robo-masseurs.

Bill De Longis, head strength coach at Trinity College in Hartford, Conn., uses a jigsaw—with a lacrosse ball pierced and epoxied to its business end—for limbering the limbs of the school's varsity athletes. He calls it his “jigsaw.” He opted to hack the \$60 saw after seeing a similar massage tool priced at \$600.

“I'm at a Division III school, so we don't have a lot of money to spend on luxury items like that,” Mr. De Longis says.

The coach also has appropriated an orbital sander (with sandpaper removed) and a battery-powered car buffer, which Trinity's baseball pitchers and women's lacrosse team use to warm up.

Using power tools for massage seems to have originated among weightlifters and other serious athletes. The idea



The Electric Forest music festival in Rothbury, Mich., features car-buffer massages.

spread on social media, and now power tools can be found everywhere from chiropractors' offices to tie-dyed campouts.

Nova Han, artistic director

they're almost in this really blissful state,” says Ms. Han, adding that the massages will return for this year's festival, which starts June 22.

Tod Whitfield, a retired Toronto police detective, was so intrigued by his CrossFit gym's car-buffer massager that he experimented on his body's sore spots with a half-dozen tools in his home machine shop. The most effective, he reports, is a pneumatic-powered sander whose scratchy surface he replaced with a lamb's wool bonnet.

“When they come out of it,

“The pad spins in a circular motion, but the shaft also spins on its own axis, which gives you this dual action,” says Mr. Whitfield, who has used the sander on an aching shoulder and hip. “It gives this nice sort of vibration.”

A spokesman for Clarence, N.Y.-based Dynabrade, maker of Mr. Whitfield's sander, was surprised to hear of someone massaging himself with company products, some of which are used in industrial finishing for tractors and motorcycles.

“Some of our orbital sand-

ers, they're around 12,000 rpm,” Dynabrade's Ron Veiders says.

“It could cause abrasions or whatnot, or even contusions. It wouldn't be something I would encourage.”

Peter Roberts, coach and owner of Quantum CrossFit, where Mr. Whitfield first saw car-buffer massage, says the buffer is especially effective on the lower body, including inner-thigh muscles. “But if you accidentally hit your testicle, it doesn't feel great,” he says. “I'll just say that.”

Kyra Williams, a personal trainer and powerlifting coach based in Tampa, Fla., uses a car buffer regularly since a friend introduced her to the idea. “I thought it was a little odd, but she brought it into the gym and other people were going crazy about how great it felt,” she says. “So I figured I'd give it a shot, and it feels pretty awesome.”

Power tools can be part of a team's warm up, says Michael Rehfeldt, the University of Cincinnati men's basketball team's director of strength and conditioning. He has four Black & Decker Random Orbit Waxer/Polishers for use before games.

“It's good for increasing blood circulation and almost has a numbing effect, almost like a massager,” he says. “It heats up the muscle and creates blood flow.”

Tim Perra, vice president of

chemical divisions. Mr. Pouyanné began cutting costs including the company's capital budget. Total returned to profitability in 2015 even as oil prices fell further. Oil currently trades around \$46 a barrel. Mr. de Margerie, his predecessor, was outspoken about the challenges facing the oil business. At an industry conference in London in 2007, the former CEO surprised the crowd by declaring that oil-production growth forecasts were too optimistic because of depleting conventional reservoirs.

That outlook prompted Total to begin exploring alternative energy sources. It paid \$1.37 billion for a 60% stake in SunPower in 2011 and scooped up smaller stakes in early-stage clean-energy startups.

### Storing solar energy

Total's stake in SunPower has since lost more than half its market value amid a sharp decline in prices of solar panels. SunPower has posted losses for the past two years.

Unlike oil and gas, where output can be turned up or down in response to demand, solar energy is produced only when the sun is shining. Its value to consumers and power companies is limited unless the energy can be stored. That thinking drove Mr. Pouyanné in 2016 to purchase Saft Groupe SA, a French battery maker.

Saft supplied high-end batteries for satellites, airplanes and smart meters. While much of the battery industry focused on bringing down prices, Saft specialized in long-life and durability. When the European Space Agency sends a robotic rover to Mars in 2020, the exploration vehicle will use Saft batteries.

Saft Chairman and CEO Ghislain Lescuyer said Saft is looking for ways to work with SunPower. While he declined to discuss details, such a partnership could produce a solar panel-and-battery combination that could compete with Tesla—which recently acquired SolarCity Corp.—and other companies exploring similar energy products.

Tom Werner, SunPower's Chairman and CEO, said the company benefits from Total's focus on long-term strategy and size, even though it can be at odds with the speed and nimbleness required of a solar company. “There is no model to emulate,” he said.

Last June, Total acquired another piece of the puzzle it is trying to assemble when it paid about \$200 million for Lampiris NV, a gas and renewable power retailer in Belgium. After operating for a little over a decade in the Belgian residential energy market, the company won more than one million customers.

Now that Total controls companies that generate, store and sell electricity, Mr. Pouyanné is trying to figure out how to fit the pieces together.

“To be clear, these are investments,” he said of Total's foray into electricity. “We have to be patient.”

Kelly Starrett, a coach, physical therapist and author, recalls topping a reciprocating saw with a lacrosse ball years ago but said the contraption was too intense for massage. The San Francisco gym founded by Mr. Starrett and his wife, Juliet, also has an industrial buffer/polisher for human use.

“We call it ‘informed freestyle,’ ” Mr. Starrett says. “The number of things I have tried to use off-label in order to improve human performance is considerable.”

Mr. Starrett also is a founding owner of TimTam, a deep-tissue massager company that launched last year. The \$400 device was created from a jigsaw mold, according to Tom Pepe, managing director of TT Therapeutics, which owns TimTam.

Power tool-massage fans boast of their devices' versatility. Last year Mr. De Longis at Trinity College reinstated the blade on his jigsaw massager and used it to saw wood for boxes he built for doing squat exercises. Another of his retooled massagers also does double duty.

“I intend to buff my car with it this summer,” he says.

# GREATER NEW YORK

## Bike Riding Is Becoming More Popular but Less Dangerous in NYC



Despite its first New York City fatality on Monday, the Citi Bike program is credited with boosting cycling and improving safety.

The first death of a Citi Bike rider in New York drew attention to the risks of the bike-share program at a time when cycling in the city is becoming more popular and safer.

Dan Hanegby, a 36-year-old investment banker, was killed after his bike collided with a charter bus on 26th Street between Seventh and Eighth avenues at about 8:15 a.m. Monday.

Mr. Hanegby was knocked off the bike and crushed under the rear tires of the bus, according to the New York Police Department.

A report in February by New York City's Vision Zero campaign to combat road deaths found that growth in cycling—driven partly by the popularity of Citi Bike—had contributed to making cycling safer because motorists are more aware of bikes.

Bicycling trips rose to an average of 158 million a year in 2014 and 2015, a rise of 34% from the average between 2011 and 2013, the report found.

Last year, the city installed a record 64 miles of bike lanes, of which more than 18 miles were protected.

Monday's death was the first in over 41 million trips on Citi Bike in New York and only the second bike-share fatality in the U.S. The first death occurred last year when a 25-year-old woman in Chicago was involved in a collision with a truck.

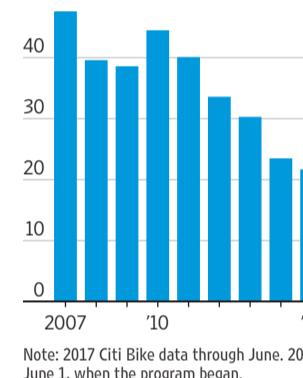
Dani Simons, a spokeswoman for Motivate, the parent company of Citi Bike, said the bike-share program's users in New York are, on average, involved in about 14 crashes a year that require "serious medical attention."

—Paul Berger

### Safe Riding

New York is seeing a decline in serious traffic accidents involving bicycles even as the Citi Bike program entices more people to try cycling.

#### Fatalities and severe injuries per 10 million NYC cycling trips



Note: 2017 Citi Bike data through June. 2013 Citi Bike data from June 1, when the program began.

Sources: NYC Department of Transportation (fatalities); Citi Bike (ridership)

#### Trips taken on bicycles from NYC's Citi Bike program.



THE WALL STREET JOURNAL.

## Officer Indicted on Drug Charges

BY ZOLAN KANNO-YOUNGS

cover officer posing as a drug trafficker, prosecutors said.

Officer Stroud pleaded not guilty in state court in Manhattan. Her attorney, Alex Grosshstern, said Officer Stroud "vehemently denies the allegations." An NYPD spokesman said she was suspended without pay.

"As alleged, this type of criminal behavior erodes trust in law enforcement, making it harder for every police officer

to do their job," said NYPD Commissioner James O'Neill.

Officer Stroud met the undercover officer in March and began moving the narcotics between April and this month, prosecutors said. She was paid between \$250 to \$1,000 for four separate deliveries and made more than \$2,000, they said.

Mr. Grosshstern said Officer Stroud was on modified duty during the time she allegedly

transported drugs. It is unclear why she was on modified duty. He said "it defies common sense for someone to be engaged in such egregious activity" knowing they are under scrutiny.

Officer Stroud is being held on charges of criminal possession of a controlled substance in the first degree and official misconduct. If convicted, she faces up to 20 years in prison.

## Met Museum Shifts Duties In Top Ranks

BY CHARLES PASSY

Less than four months after Thomas P. Campbell announced his resignation as chief executive of the Metropolitan Museum of Art, the New York institution is undergoing a major shift in its administrative ranks.

Daniel H. Weiss, the interim chief, has been named Mr. Campbell's permanent successor in the top post, the museum's board of trustees said Tuesday. He will have a somewhat different set of responsibilities, however.

Mr. Weiss, 60 years old, also will keep the title of president, a position he has held at the Met since 2015. In the Manhattan museum's structure, that means he has oversight of the institution's finances, administration and day-to-day operations.

Mr. Campbell, by contrast, has also held the title of director, which denotes oversight of the museum's art collections and exhibitions.

In effect, under the new structure, the Met is putting the executive in charge of finances and operations at the fore of the organization, with the executive in charge of art reporting to that person. Previously, it was the other way around.

The Met, in a news release, said the decision followed a "comprehensive review of the Museum's organizational

structure, roles, and leadership titles." The museum said its board would begin a search for a new director because that slot hasn't been filled since the announcement of Mr. Campbell's departure, which takes effect later this month.

The Met's moves shouldn't come as a surprise given the financial difficulties the museum has faced. The institution is looking at a \$15 million deficit for fiscal 2017 in its nearly \$400 million annual budget, and has been cutting staff and trimming other expenses.

The museum also is considering charging out-of-town visitors for admission; currently, the museum allows all patrons to pay a suggested contribution.

Met officials and Mr. Weiss played down the administrative-structure change, noting that Mr. Weiss has an extensive academic background in art, particularly from the medieval and Byzantine eras.

"I think it's not about money versus art," Mr. Weiss said.

If anything, he said, the organizational shift speaks to the need to let museum leaders focus on specific tasks. In particular, he noted that the director would be able to concentrate on the museum's art program without assuming responsibilities for the institution as a whole.

The new structure "is actually liberating," Mr. Weiss said.



Daniel H. Weiss will lead the Met as chief executive and president.

PETER ROSS FOR THE WALL STREET JOURNAL

## Pressure Mounts for Action on Child Sex-Abuse Law

BY MIKE VILENSKY  
AND MELANIE GRAYCE WEST

With time running out in New York's legislative session, advocates for child sex-abuse victims are pushing Gov. Andrew Cuomo and state legislators to pass a long-sought measure making it easier for victims to press charges or sue their alleged abusers.

The issue has gained steam during the past year, and legislation backed by advocates for children passed in the state Assembly earlier this month with bipartisan support. But the bill faced pushback from the Catholic Church and the Boy Scouts of America, and has stalled in the Republican-led state Senate.

The measure passed by the Assembly would allow sexual-abuse victims to bring civil lawsuits until their 50th birthday and felony criminal cases to be brought by prosecutors until their 28th birthday. Currently, they only have until the

### Lawmakers Face Looming Deadline

New York's legislative session is scheduled to end June 21. Here are a few other outstanding issues lawmakers may take up before then.

#### Economic Oversight

Lawmakers are haggling over a measure, of which Gov. Andrew Cuomo is wary, that

would hand the state comptroller more oversight over contracts. Some have called for more stringent accountability measures to see if the state's job-incentive programs are working.

#### Mayoral Control

Mayor Bill de Blasio's authority to run the city's school system without the state's approval is up for renewal. Mayoral control is expected to be renewed, but his Democratic

allies may give concessions to conservative charter-school supporters in exchange.

#### New York City Subways

With outrage over the worsening state of the subways reaching a fever-pitch, public-transit advocates are urging the governor and state Legislature to come up with more funding and legislative fixes, but there are no specific bills on the table.

—Mike Vilensky

age of 23 to pursue either type of case.

More controversially, the legislation would provide a one-year window after it takes effect for past victims of child sex abuse to sue or press charges against their former abusers, as well as certain institutions, such as churches.

"The choice for any legislator is stark," said Assemblywoman Linda Rosenthal, the Manhattan Democrat who

sponsored the bill. "Vote to protect children who have been abused, or stand with the institutions that have allowed the abuse to occur."

A spokesman for Republican Senate Majority Leader John Flanagan, said the conference is reviewing the issue.

"For years, Senate Republicans have been at the forefront of efforts to protect New Yorkers from dangerous sexual predators," he said.

Sen. Jeff Klein, Democratic leader from the Bronx who is allied with Mr. Flanagan, said he introduced a potential compromise. His legislation mirrors the Assembly's bill but changes the protocols around the one-year window for reviving cases.

Mr. Klein's bill would task a commission—composed of former law-enforcement officials, sexual trauma experts, and defense attorneys—with consid-

ering if a case could move forward within the one-year window. The Assembly has been cool to that proposal.

The New York state Catholic Conference has led efforts against Ms. Rosenthal's legislation, but has said it would support a different version.

"We continue to oppose the retroactive window in the Child Victims Act that would allow for old claims against institutional defendants from decades ago to be revived, with no caps or limits of any kind," said Dennis Poust, a spokesman for the Catholic Conference.

A representative for the Boy Scouts of America said, "While there are a number of provisions in the bill [we] support, we do have concerns with components of the bill as it is currently written."

Mr. Cuomo, a Democrat, has said passing the measure this year is a priority, but advocates are growing anxious with about a week left in the session.

Several supporters of the legislation said Mr. Cuomo's office had promised that the governor would introduce his own bill related to the issue if the Legislature is unable to come to a consensus. The Legislature would still have to pass the governor's bill for it to become law but it would amp up the pressure on lawmakers.

"We expect and frankly we need the governor to bring everybody together," said Michael Polenberg, vice president for government affairs at Safe Horizon, an advocacy group for sex abuse victims.

"Time is running short."

Mr. Cuomo's aides met with advocates last week to discuss the issue.

"These victims deserve justice and we have been actively working with advocates to build support for this in both houses of the Legislature. All options remain on the table," said Rich Azzopardi, the governor's spokesman.

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## GREATER NEW YORK

METRO MONEY | By Anne Kadet

# Want to Rent a Store? Grab Your Credit Card



When Daniel Berg needed a short-term store rental in Manhattan to market Berg Bites, his new line of sweet and chewy "health balls," he didn't bother calling a broker. He found a vacant shop online and booked it with a credit card.

He paid \$4,800 to rent the small store on Thompson Street in SoHo for seven days. It's a great location, he says, perfect for the snack-and-beverage pop-up he's running this week.

"It was a lot easier than you'd expect," Mr. Berg says.

These days, renting a store is as easy as booking a hotel room. At least, that's the pitch from Appear Here, an online platform recently launched in New York City.

Like its rival, Storefront, Appear Here allows landlords to list vacant stores by the day, week or month. Sites can be viewed in per-

son, but transactions are completed online, typically in three to six days.

I love this. Our retail strips are looking awfully sketchy these days, as landlords hold out for high rents and long-term tenants. According to real-estate services company CBRE, the number of vacancies along Manhattan's major retail corridors grew 65% this past year.

These platforms make it relatively simple for landlords to fill those vacancies with temporary tenants, and for anyone with an idea and a credit card to test a new business concept.

Intrigued, I recently scanned Appear Here's listings to find a small space for NYCcarrot, my imaginary pop-up shop devoted entirely to selling carrots of all stripes.

Alas, the only thing more depressing than looking for an affordable New York City apartment is looking for an affordable store. The cheapest listing, at \$3,330 a

month, was a tiny stall in a Canal Street market.

A 1,200-square-foot space in Brooklyn looked like a deal at \$200 a day until I realized it was a "repurposed" shipping container.

Prices on the high end, meanwhile, are truly eye-popping. A 5,000-square-foot showroom in Manhattan's Meatpacking District fetches \$105,000 a week—the price of a small condo in Tampa.

There are about 200 New York City listings on the Appear Here site so far, mostly in low-rise Manhattan neighborhoods such as the West Village and Lower East Side, says Chief Marketing Officer Elizabeth Layne. The typical rental, paid in advance, costs between \$10,000 and \$40,000 a month.

So far, the service is getting a lot of interest from fashion designers, food-concept entrepreneurs and coffee-shop owners. Come on, people, is that the best we can do? The barriers to en-



CRAIG PARFET FOR THE WALL STREET JOURNAL

Daniel Berg, founder of the snack-and-beverage firm Berg Bites, paid \$4,800 to rent a store in Manhattan for seven days.

try certainly are low enough to encourage some creativity.

Designer Kelsi Yuanyuan Xi says that when she asked a traditional broker to find a Manhattan pop-up location for Myrra, her jewelry line, his suggestions required large security deposits, extensive documentation and years of tax records—which

the recent transplant from Australia couldn't provide.

Through Appear Here, she found a Garment District shop that required no deposit and little documentation. "It was really simple," she says of landing her three-month rental.

These platforms can't replace traditional brokers, of

course. Seth Peichert, who is involved with operations and leasing for Centaur Properties, says the developer has been renting SoHo and Nolita spaces through Appear Here, while brokers are seeking long-term tenants for them. "This is a way to generate some revenue in the meantime," he notes.

The drawbacks? Rates for short-term rentals on Appear Here run 1.5 times higher, on average, than rates for multi-year leases. And Appear Here takes a 15% cut from landlords, compared with the 6% commission typical of a commercial broker.

Landlords, meanwhile, are on their own when it comes to screening tenants for proper operating licenses and adequate insurance.

But why not experiment? Ms. Xi says her first run went so well, she's planning to test different neighborhoods to find the right spot for a permanent store.

*anne.kadet@wsj.com*

## GREATER NEW YORK WATCH



One of the injured in Tuesday's carbon monoxide poisoning in Tribeca. The leak was traced to a boiler.

### TRIBECA

#### Carbon Monoxide Leak Sickens Dozens

More than 30 people were sickened Tuesday by carbon monoxide poisoning from a damaged oil boiler in a building in Manhattan's Tribeca neighborhood, authorities said.

Police and firefighters responded to the situation at 8:30 a.m. to find high carbon monoxide levels and numerous people unconscious, Fire Department of New York officials said.

The 12-story building at 60 Murray St. was evacuated, and 32 people were transported to hospitals. One person initially was in critical condition but later stabilized, police said.

The oil boiler in the basement

of Amish Market, located on the first floor of the building, had a broken pipe, which spread the carbon monoxide as high as the third floor, said Fire Department Chief of Department James Leonard.

—Zolan Kanno-Youngs and Mara Gay

### NEW YORK

#### Soupman Inc. Makes Bankruptcy Filing

Soupman Inc., of "Seinfeld" fame, filed for bankruptcy protection Tuesday, just weeks after a top company executive was indicted on charges of tax evasion.

The Staten Island-based company licenses the recipes, likeness and name of Al Yeganeh, the man who inspired the "Soup Nazi" character in the television show.

Federal prosecutors last month unsealed an indictment charging the company's chief financial officer with 20 counts of failing to pay federal income taxes, Medicare and Social Security for Soupmans employees. The executive, Robert Bertrand, has pleaded not guilty.

"The combination of legacy liabilities and recent company developments have made it necessary to seek bankruptcy protection," Chief Executive Jamie Karson said.

The company has lined up a \$2 million bankruptcy loan to keep its business running during the chapter 11 case. Soupman operates restaurants in the New York area and also sells soups to grocery stores and online.

—Patrick Fitzgerald and Corinne Ramey

**OUT TODAY**

# alexander

# SUMMER SPECIAL

• NYC'S HOT BOÎTES  
• TROPICAL BEACH RETREATS  
• SIZZLING GLOBAL STYLE

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# LIFE & ARTS



Mark Spinelli discussed marrying Jessica Krol with her father at a family gathering.

ing ability, finances and knowledge of current events. Ms. Krol soon returned to the room and they had to finish the conversation later. Looking back, Mr. Spinelli says he wishes he'd invited Mr. Krol to lunch or coffee instead. The Hoboken, N.J., couple have been happily married for almost a year.

Couples are often already living together and some have bought rings and booked wedding venues before they ask parents' approval. Not surprisingly, some parents respond, "Why are you even asking?" says Stephanie Coontz, research director for the Council on Contemporary Families, a nonprofit, nonpartisan group of researchers, scientists and therapists who study the American family.

The custom of asking the bride's father is obsolete, now that wives share breadwinning in most households and marriages are more egalitarian. The tradition survives in part because couples hope their families will take an interest in their marriage and help them hold it together in an era of widespread divorce, says Ms. Coontz, author of "Marriage, A History."

Some couples update the tradition in a thoughtful way. Giovanni Furio included Deb Drapac, the mother of his girlfriend Annette, along with her father Steve Drapac, in the meeting he requested to discuss marriage. Ms. Drapac says she appreciated being included.

Rather than promising financial support, he pledged emotional support for Annette, says Mr. Furio, a Columbus, Ohio, civil engineer. And he asked for Deb and Steve Drapac's blessing, rather than their permission.

He'd barely gotten started when Mr. Drapac says he choked up, and the conversation dissolved in hugs, kisses and congratulations.

The tradition serves another, distinctly modern purpose: It allows suitors to draw in-laws into planning the elaborate wedding rituals that follow. Dan Oliver, an accountant at a New York hedge fund, invited Jennifer Friedman's mother and stepfather, Linda and Leon Kurzweil, to dinner at the Four Seasons to ask their permission to marry her. Both were delighted, and Ms. Kurzweil burst into tears of happiness.

Mr. Oliver quickly enlisted her help planning a surprise engagement party for Ms. Friedman two months later at a rooftop lounge in Manhattan. A hostess recorded Mr. Oliver's proposal on bended knee, and 30 relatives and friends emerged from hiding to celebrate the engagement. The couple were married in June.

**WORK & FAMILY** | By Sue Shellenbarger

## Should You Still Seek The Parents' Blessing?

Some couples put a modern spin on the big talk with future in-laws; They've already purchased the wedding rings and booked the venue

**THE NOTION** that suitors need to ask the bride's father's permission to marry went out with the buggy whip—or did it?

Many couples are planning on marrying regardless of the answer, but they're retooling old scripts to fit the modern marriage—slipping the request into casual conversations and asking Mom as well as Dad. As a result, popping the question before the question can get awkward.

Shawn Cox and Alyssa Knowles had bought a house and a business together before Mr. Cox asked Alyssa's father, Mike, for permission to marry her. To make time for a private conversation, he invited Mr. Knowles to their Charlotte, N.C., house to help install a porch swing.

Mr. Knowles says he was surprised to be asked for his permission. "I didn't think people did that nowadays," says Mr. Knowles, of Greenville, S.C. "Some people would look on it as an archaic and outdated tradition, but I thought it was nice," partly because it motivates suitors to get to know the bride's family well, he says. He and Mr. Cox had just finished installing the swing and sat down to relax when Mr. Cox popped the question.



Jennifer Friedman and Daniel Oliver, top, during their wedding ceremony. He discussed marrying her with her mother and stepfather, Leon Kurzweil, seen above at the reception.

Before Mr. Knowles could answer, the swing fell from the porch ceiling and crashed to the floor, pinning Mr. Cox's legs. "Mike didn't skip a beat," Mr. Cox says. "He picked me up, said, 'Yes, you can marry my daughter,' and, 'OK, we're going to Lowe's and we're going to fix this.'" The couple were married in 2012 and own and run three Clothes Mentor name-brand clothing-resale stores.

Ms. Cox (nee Knowles) says that while asking for her father's per-

mission was a formality, she wanted Mr. Cox to do so. "I was only 24 years old at the time. Being 24 and making a huge decision like that, I would have been nervous" without her family's blessing, she says.

Some 77% of suitors ask parents' permission to wed their daughters, according to a 2015 internet poll of 12,000 brides and 1,200 grooms by The Knot, an online marketplace for wedding products and services. Some gay and

lesbian couples are embracing the tradition too, with more than 40% asking parents' OK, according to another survey by The Knot.

Parents don't always say yes. Kellie Gould, editor in chief of The Knot, says she has heard anecdotal reports of fathers rejecting boyfriends' requests. One father told a 19-year-old teen he and his daughter, also 19, were both too young to marry.

Mark Spinelli tried to slip the conversation with his future father-in-law into a holiday gathering at his girlfriend's Pompton Plains, N.J., home in 2014. He'd decided to propose to Jessica Krol before the new year, and the get-together was his last chance to ask her father Steve for permission to marry her.

When Ms. Krol stepped out of the room for a few minutes, Mr. Spinelli rushed past startled relatives seated nearby and whispered his question into Mr. Krol's ear. "It was the most awkward situation," says Mr. Spinelli, a commercial real-estate broker.

Parents don't always follow the script either. Mr. Krol says he welcomed the news and told Mark, "Fine," then, "I started breaking his chops," quizzing him playfully on his worthiness, including his spell-

Let us say he is correct. So when Caesar emerges from a bathtub here—stark naked, displaying himself for conspirators and audience alike—we are meant to think of Trumpian narcissism. What then are we to think of when this erstwhile president is lying in a puddle of blood in the Roman Senate as the result of half-a-play's plotting?

It is not surprising that Delta Air Lines and Bank of America announced they were pulling out of sponsorship.

But, given Mr. Eustis's political perspective, such opposition is an honor that increases in proportion to its perceived injustice. He even anticipated the attack, arguing that the play is really a "warning parable" about the dangers of fighting for democracy using undemocratic means. The play opposes assassination; it does not glorify it.

But if that were the parable, why pay attention? Shouldn't it be superfluous unless such violence were really being considered by today's audiences. Is it?

If it is, the play won't convince anyone otherwise. There is nothing in it to suggest that the conspirators get their comeuppance because they killed when they should have voted instead. The only parable in this stag-

Please see JULIUS page A15

### THEATER REVIEW

## 'CAESAR': A TYRANT IN THE DIRECTOR'S CHAIR

BY EDWARD ROTHSTEIN

New York

**BEFORE TURNING TO** the controversies inspired by the Public Theater's new production of Shakespeare's "Julius Caesar" at Central Park's Delacorte Theater, consider the play's scant evidence demonstrating Caesar's tyranny. We hear from Brutus that he was ambitious. He valued theatrical political display. And while boasting of constancy, he gave into whim and superstition.

In fact, in this production, the real tyrant is not Caesar, but its director, Oskar Eustis. He is ambitious, inconsistent, unconstrained and pandering. Given such directorial tyranny, I was tempted to follow the example of the play's conspirators, justly take dagger in hand, and add a bloody gouge to his self-inflicted wounds.

If that idea seems rather tasteless, is it any more so than Gregg Henry, as Caesar, impersonating not a Roman tyrant but President Donald Trump? Or Tina Benko, as Caesar's wife, Calpurnia, appearing as a slinky model with a Slavic accent meant to suggest Melania Trump (though Ms. Benko sounds more like a Transylvanian Israeli)?



JOAN MARCUS/THE PUBLIC THEATER/AP

This play is a favorite of those seeking political allegories and some are to be expected, particularly since Shakespeare, like Bach, can withstand a lot of interpretive manipulation. But Mr. Eustis's claims are imperial. He has

said: "I decided to open our summer season with Julius Caesar as of November 9, 2016." He saw Trump as Caesar the day after Election Day and he thinks that analogy continues to be self-evident.

## LIFE &amp; ARTS

**MY RIDE** | By A.J. Baime

# A Rusted Buick's Modern Revival

*Jerry Gray, 73, a retired floor-installation business owner and insurance man from Belgrade, Mont., on his 1952 Buick Roadmaster Riviera, as told to A.J. Baime.*

For me, the Buick's story begins with a plane crash. In 1998, I started building a kit airplane, and when I finished in 2002, I flew it to Florida and safely back. But a month later, I crashed while trying to land. My wife Suzy was watching, and she was not happy. The airplane was totaled, and my wife said to me, "You like old cars. Why don't you keep yourself on the ground?"

I found the Buick on eBay, bought it for \$1,500, and drove down to Nebraska to pick it up in a U-Haul, in 2008. The Roadmaster was the top-of-the-line Buick in its day, a true luxury postwar car. But this one had been sitting in a field since about 1965.

In my shop, I disassembled the car and rebuilt it with all new parts—new suspension, four-wheel-disc brakes, fuel injection, rack-and-pinion steering, power everything, and a big 455 Buick engine. I sandblasted the body and my wife and I chose two-

tone paint—metallic copper on top, desert rose below. There's SiriusXM radio, air conditioning, plus Truespoke 15-inch wheels and Coker whitewall tires.

A wonderful local artist named Brett McGinley air-brushed a portrait of Marilyn Monroe under the hood.

The build took me four years and cost about the same as a new Corvette Grand Sport would. The goal was to make a cruiser that my wife would want to spend time in, and it worked, because she loves the car as much as I do. We will motor all day long at 75 mph, and we get up to 26 mpg on the highway, as much as many new cars today. Everywhere we go, we have to add an hour to our travel time, because when we stop, strangers cannot get enough of this car.

Every summer, we get in the Buick and head either east or west, putting 10,000 miles on the car. This summer, we're heading west to visit our kids in California—me, my wife and Marilyn.

Contact A.J. Baime at Facebook.com/ajbaime.



**Jerry Gray, a 73-year-old retiree from Belgrade, Mont., in his 1952 Buick Roadmaster Riviera. Mr. Gray rebuilt the car, which had been sitting in a field since about 1965.**

JESS MCGLOTHIN FOR THE WALL STREET JOURNAL

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## LIFE & ARTS



TURNING POINTS | By Clare Ansberry

# The Teenage Spiritual Crisis

JON KRAUSE

Thomas Ramey quit praying a few years ago when he was 16 years old because it didn't seem to matter.

The 18-year-old, who was baptized and confirmed as a Methodist, doesn't believe in an afterlife, but still believes in a God. He goes to church regularly because he likes playing in the youth band, volunteering and listening to people who have different opinions. "I doubt everything," says Thomas, who plans to study engineering.

That is true of many teens, who grew up praying, going to houses of worship, and studying religious texts. As 6-year-olds, they were convinced there was a God and heaven and that everything in the Bible was true, for example. Now they aren't so sure.

The teen brain grows rapidly, and with it the ability to think more abstractly and critically. In early adolescence, teens begin to establish their own ideals and recognize hypocrisy in people and institutions around them. They deal with heartbreak and social cliques, see suffering in the world and wonder if there is a God who cares. They are trying to figure out their place and how and if something like religion belongs.

Exploring such questions is the most important work a teen can do, says Lisa Miller, a clinical psychologist and author of "The Spiritual Child." Research shows that adolescents with a strong personal spirituality are found to be 60% less likely to be severely depressed as teenagers, she says.

Andrew Zirscky, academic director of the Center

for Youth Ministry Training in Brentwood, Tenn., says some children start doubting faith in middle school, when many of them begin preparing for confirmation and bar mitzvahs and bat mitzvahs.

"Right when kids are having the most doubts, we ask them to affirm their faith," says Dr. Zirscky. Many plow ahead despite misgivings because they feel pressured to do so, he says, and because churches do a poor job of allowing faith and doubt to co-exist. He asks sixth-graders

Most teens are believers: 84% of 13- to 17-year-olds believe in God.

to draw the image of God they had in first grade. It is often a white bearded figure sitting in the cloud. When he asks them to draw the image now, they draw hearts, and use words like "loving" or "All-knowing."

"At some point, you have to doubt your previous understanding of who God is and replace it with a better one," he tells them.

While teens doubt, they aren't ready to give up on the idea of God and the importance of religion. A significant majority—84% of 13- to 17-year-olds believe in God, according to a National Study of Youth and Religion, a longitudinal survey of more than 3,000 teens conducted in 2002 and led by researchers at the University of North Carolina at Chapel Hill and University

of Notre Dame. Three years later, belief among the same teens, then 16- to 21-years-old, slipped to 78%.

Teens often see God as a cosmic therapist, solving problems and generally making people happier, but distant, says sociologist Patricia Snell Herzog, who worked on the study. A large majority believe religion is important, but many become less actively involved as they age through adolescence. "Religion is just there in the background," says Dr. Herzog. "We describe it as the furniture of their life."

Thomas Ramey was born and raised in Decatur Ala., part of the U.S. known as the Bible Belt. He went to Wesley Memorial United Methodist Church three times a week, twice on Sunday and every Wednesday. His mother, Lisa, taught Sunday school.

When he was 8 years old, and able to read, he received his first Bible, which he and his mother read together. "He always asked lots of questions," says Mrs. Ramey. At 11, after weeks of studying, he was confirmed, and was a Chaplain aid for his Boy Scout troop, leading prayers before meals and at campouts. At that time, he says he believed in God and what the Bible said.

His views started changing in his midteens. His youth group had cliques. He was in the social outcasts group, he says, and he encountered some hostility from certain church leadership against some of his friends who were gay.

"When you see people behave in wrongful, hurtful, hypocritical ways, it's kind of

hard to believe that God cares," he says.

Thomas hit another hard stretch when he was about age 16 and three people close to him died, including a friend of the family who had dementia. Thomas and his mother visited often, helping the man's wife care for him.

Sometime after that, he quit praying. "If something bad is going to happen, it's going to happen," he says. "Deal with it head on."

Thomas still believes in God. The earth and solar system are too complex and fragile not to have something influencing and connecting everything, he says. "Whether whatever created us, loves us, is a different matter," he says. He doubts there is an afterlife and isn't troubled by that.

His strongest belief these days is in "the equality of all humans from birth to death, and that the only meaning we have in this world is that which we inject into it."

## CAESAR

*Continued from page A13*  
ing comes from making the bad guys so consistently obvious. Caesar's men wear Big Brother-like Eye insignias on their flak jackets. The good guys are "Occupy" advocates, who also mount the spontaneous-seeming street memorials we see on arriving, looking like those that arose after the 9/11 attacks and, here, supposedly created in memory of Pompey, just killed by (terrorist) Caesar.

Audience members even go on stage to scrawl comments on protest posters proclaiming "Resist"—which, at the play's beginning, are quickly pasted over by the fascistic police. Lest we miss the point, Cassius appears at Brutus' door wearing a pussy hat.

Finally, near the play's end, Caesarian riot police shoot into an unarmed crowd of protesters. What was that parable again?

The production even indulges in "intersectionality"—a form of 21st-century conceptual imperialism in which every imagined victim is said to share similar political oppressors. Thus, Marc Antony is cast as a woman (Elizabeth Marvel), leading to pronoun changes and inspiring a dollop of illusory ambiguity, which fades as soon as she adopts a "bad guy" Southern drawl. As for the poet Cinna, who is set upon in the street by a maddened populace, here, to suit the director's pre-packaged prejudices, he is a Muslim pummeled by Caesar's police.

Such themes don't fit easily with Mr. Eustis's grade-school notions. But they are far more intriguing than the tyrannical vision he crudely enforces in their place.

**Corey Stoll as Brutus and John Douglas Thompson as Cassius**

reasons why, throughout the play, characters wonder about the time or the hour: The world is in an uneasy state of transition.

Such themes don't fit easily with Mr. Eustis's grade-school notions. But they are far more intriguing than the tyrannical vision he crudely enforces in their place.

**Julius Caesar**  
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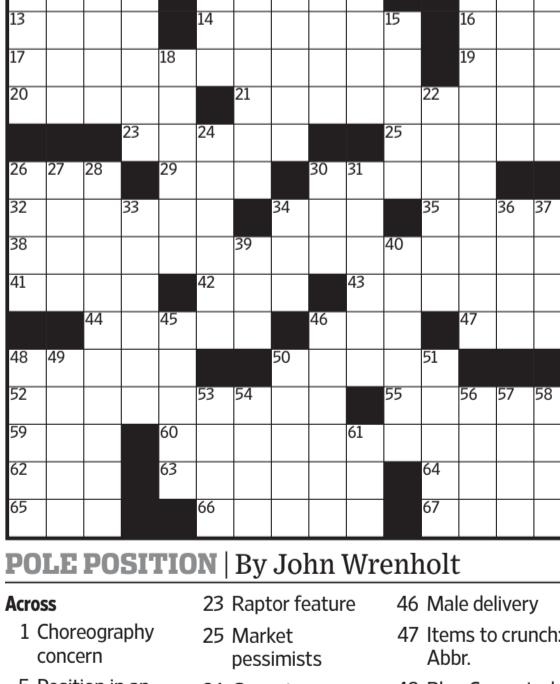
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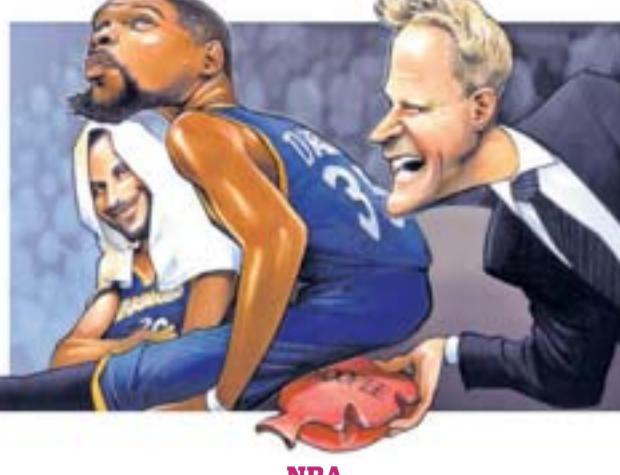


**POLE POSITION** | By John Wrenholt

Across	23 Raptor feature	46 Male delivery
1	Choreography concern	25 Market pessimists
5	Position in an orchestra	26 Go on to say
10	With 10-Down, mother of North and Saint West	29 Game in which two lose
13	"Truth in Engineering" advertiser	30 Signs
14	Find a partner	32 Illegal sweeteners
16	Exclamation of insight	34 Project
17	Company founded by John D. Rockefeller	35 Wheeling's river
19	Parks' partner, for short	38 Oscar-winning song from "Pocahontas"
20	Play along with	41 Vent
21	When everything goes perfectly	42 Nettle
		43 Like Baroque architecture
		44 Richard Parker in "Life of Pi," e.g.
		45 Like capital gains
		46 Like pub mates
		47 Ragweed reaction
		48 Long in the tooth
		49 Didn't I warn you?"
		50 Like capital gains
		51 Pub mates

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# SPORTS



NBA

## HOW HUMOR HELPED LIFT THE WARRIORS

BY BEN COHEN

OAKLAND, Calif.—The Golden State Warriors heard what the entire basketball world had to say about them before this season. They were a superteam. They were villains. They were Supervillains.

Steve Kerr wasn't insulted. He was inspired. The Warriors' coach thought it had comedic potential. So when Golden State's players came to training camp, Kerr made sure there were presents in their lockers: their very own "Supervillains" shirts.

His players got the joke. Then they got in on the joke. The Warriors soon posed for an informal team photo at Stephen Curry's home underneath letter-shaped balloons that spelled out "Supervillains." There was even a customized Snapchat filter. They had turned the put-down into a punchline.

The Warriors have accomplished one of the greatest runs in NBA history over the last three seasons. They have won more games in that time than any team ever, and now they have two championships after beating the Cleveland Cavaliers in Game 5 of the Finals on Monday for a 16-1 postseason record.

There is a serious case to be made for the Warriors becoming a dynasty. And it's partly because they believed in not taking themselves seriously.

"We're always in search of something funny," said Golden State assistant coach Bruce Fraser. The Warriors were loose because they won, but they also won because they were loose.

Sports teams packed with highly paid professional athletes and their egos can be notoriously difficult to manage. It may seem obvious that adding Kevin Durant to a team already loaded with superstars last offseason

would bring the championship back to Golden State. It could just as easily have created dissonance.

But in Kerr, the Warriors have a coach who, before Game 4 of the Finals, greeted his team with a locker room message reading: "I want you to go out there and play with great joy. That's who we are." It's a notion that has quietly spread throughout professional sports in recent years. Many teams are miserable to be around. The Warriors are the opposite. They believe that work can be fun.

The Warriors used comedy all season to keep rolling and even to deflate the few bad moments. After the only losing streak of the season, for example, the song they blasted at practice was Bobby McFerrin's "Don't Worry, Be Happy."

"The humor comes from what happens within our daily lives," Fraser said. "We don't have a writer's room. It's not like we've got guys in the back working on humor instead of analytics."

The Warriors' embrace of comedy is surprisingly crucial to their success. It's the foundation of their office culture in a workplace where the office is everywhere: the locker room, film room, weight room, team plane, team hotel, team bus and, of course, the basketball court.

But even the Warriors needed reminders sometimes to be more like the Warriors. Golden State's players came to practice Sunday hearing what the entire basketball world had to say about them. The Cavs had won Game 4, and the Warriors were feeling pressure to close the series before they lost control of the series.

Kerr arrived wearing the "Supervillains" shirt he'd brought on the first day of the season. One day later, the last day of the season, the Warriors won the NBA title.

Swedish billionaire Torbjörn Tornqvist bankrolled Team Artemis, which failed to advance to the Cup finals despite likely having the fastest boat.



## A \$100 Million Gamble...Sunk

Tornqvist's effort embodies the tension between technology and sailing acumen

BY AARON KURILOFF AND MATTHEW FUTTERMAN

BERMUDA—For much of the past several months, the 50-foot catamaran called Magic Blue carved through the waters of the Great Sound here on practice runs enjoying an unlikely position: It appeared to be the fastest boat in the history of the America's Cup.

That was notable in large part because Magic Blue's owner, billionaire oil trader Torbjörn Tornqvist, and his Artemis Racing team suffered the death of a sailor in the competition four years ago off San Francisco and failed to win a race. That tragedy shook to its roots a competition that had become obsessed with speed.

It also seemed to place Tornqvist as the latest dreamer in a long line stretching from tea magnate Sir Thomas Lipton to Baron Marcel Bich, inventor of the Bic pen—tycoons who since 1851 have spent fortunes in fruitless pursuit of sailing's most prestigious trophy.

But Magic Blue knocked

off Larry Ellison's Oracle Team USA, the defending champion, in two early-round races in recent weeks, and stormed back from an early deficit to defeat SoftBank Japan in the semifinal series this month. Tornqvist was on track for a showdown with fellow billionaire Ellison in the Cup finals.

And then Magic Blue helmsman Nathan Outteridge fell off the boat. That embarrassing flub last weekend, which followed races when Magic Blue's crew struggled to control the boat's blazing speed, led to a critical loss against Emirates Team New Zealand that Artemis proved unable to overcome. On Monday, New Zealand advanced to a rematch of the last Cup finals against Ellison's Oracle team, starting on Saturday.

The outcome for Artemis embodied the tension between technology and old-school sailing acumen that dominates the debate around the America's Cup—with Tornqvist taking the lead in the camp that wants the competition to be more of a high-tech extreme sport.

Tornqvist, 63 years old, joined the fray just as a revolution in high-tech design has roughly tripled America's Cup speeds to around 50 miles an hour in less than a decade. Whether he decides to make a third run at the "Auld Mug" will have a significant impact on the direction of yachting's most-hallowed international competition.

The co-founder of the oil-trading firm Gunvor Group spent more than \$100 million on the race, mostly out of his own pocket, according to a person familiar with the matter. "It was an irresistible challenge for me," Tornqvist told The Wall Street Journal. "I like competition, and in sailing I've been able to compete on the highest level."

Altair, a Michigan company whose software is used in the automotive and aerospace industries, helped design Magic Blue. Engineers working for Tornqvist's Artemis Racing team used the firm to create and test designs for underwater wings, called hydrofoils, that lift boats in the air.

Oracle drew on Airbus for engineering help. Yet Ellison's sailors also were recruited into strength and endurance training. Oracle's message was that sailors working as a team would win the race, not machines—that skillful boat-handling was more important than superior boat speed.

"We don't think sailing should be an elitist sport," said Jimmy Spithill, the Oracle skipper. "It should be like anything else, where the best athletes win."

Technological advances have nonetheless made boats faster than ever. Ted Turner, who won the 1977 America's

Cup in a monohull, doesn't like the change.

"I'm a traditionalist," said Turner, 78 years old. "I like catamarans, just not in the America's Cup."

Tornqvist, a native of Stockholm, rekindled his childhood passion for sailing during a cruising trip on his 50th birthday in 2003. Win-

ventional catamaran, Big Red. It was slower than rivals in training and spent hours in the shop for repairs, cutting down on practice time, team members said.

During a training exercise with Oracle in San Francisco Bay, a gust of wind hit Artemis's vessel mid-turn. Big Red's twin noses buried themselves beneath the surface and the boat pitched forward. Andrew Simpson, a British Olympic Games gold medalist, became trapped in the wreckage underwater.

Tornqvist learned of Simpson's death by phone, and days later decided the team would nonetheless finish a new boat. The crowd gave Artemis an ovation when it got the new boat to the starting line, though it failed to win a race.

Despite back-to-back disappointments, Tornqvist is winning fans within the sport.

"I give Torbjörn Tornqvist all the credit in the world. He could have just said, 'I'm out of here. This is not for me,'" said Ken Read, a TV analyst and a sailor in many America's Cup races.



### What Went Wrong For Team Artemis In Bermuda?

advance and face a New Zealand squad that's now reached six of the past seven Cup finals.

While helmsman Nathan Outteridge outmaneuvered the Kiwi boat several times on the start, New Zealand seemed to hold a speed advantage in the light winds that dominated the series. The teams split the first two races and Artemis held a narrow advantage in the third when Outteridge went over the side during a turn.

After the Kiwis ripped off three more wins to advance, Outteridge said he would discuss the future with Tornqvist in the next few days. If they continue, Artemis remains committed to pushing the high-tech, high-speed version of the Cup to its limits.

For Tornqvist, there doesn't seem to be any turning back. "These are the inflection points in life that we think mean so much, and it was almost accidental," Tornqvist said of his quest. "Then I was on the slippery road toward the America's Cup whether I wanted it or not."

### Weather



Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

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

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

Today Tomorrow

City Hi Lo W Hi Lo W

Anchorage 58 44 c 62 48 pc

Atlanta 89 73 t 89 73 t

Austin 96 74 pc 98 74 pc

Baltimore 85 63 t 80 64 pc

Boise 73 55 s 77 57 c

Boston 70 57 s 71 57 s

Burlington 70 50 s 78 59 s

Charlotte 91 71 t 89 71 t

Chicago 91 72 t 91 71 t

Cleveland 84 69 t 85 69 t

Dallas 93 77 pc 95 79 s

Denver 84 52 s 88 54 pc

Detroit 83 66 t 85 67 t

Honolulu 85 74 t 85 74 t

Houston 92 75 pc 93 74 pc

Indianapolis 90 71 t 87 70 t

Kansas City 88 70 t 94 71 t

Las Vegas 99 74 s 105 78 s

Little Rock 91 74 pc 92 73 t

Los Angeles 83 62 s 88 63 s

Miami 88 79 pc 88 78 t

Milwaukee 84 69 t 86 67 t

Minneapolis 87 67 pc 89 66 s

Nashville 92 72 t 90 74 t

New Orleans 86 75 pc 89 74 t

New York City 80 62 s 73 60 s

Oklahoma City 92 73 pc 97 73 t

### U.S. Forecasts



Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

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

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

Today Tomorrow

City Hi Lo W Hi Lo W

Albuquerque 83 55 s 87 57 s

Austin 83 66 s 87 68 s

Baltimore 85 63 t 88 65 s

Billings 80 55 s 83 57 s

Boise 73 55 s 77 57 s

Calgary 80 55 s 83 57 s

Edmonton 80 55 s 83 57 s

Eugene 80 55 s 83 57 s

Ft. Worth 80 55 s 83 57 s

Hartford 80 55 s 83 57 s

Honolulu 80 55 s 83 57 s

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# OPINION

## Why Uber and Google Fight



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

Google-parent Alphabet isn't a litigious company. So proclaimed its chief financial officer, Ruth Porat, in a public forum two weeks ago.

She added that its legal spat with Uber just happens to be a "compelling" exception.

Compelling, certainly, for the media, which love a tale of tech giants battling it out over autonomous vehicles. One thing the celebrated case won't do, though, is decide anything important about the future of driverless cars.

Too many questions remain unanswered and unanswerable. When commuting is effortless, won't people commute a lot more? Won't some buy Winnebagos and live in them, constantly in motion? Then traffic will be worse, not better.

If people won't need to own cars anymore and cars won't sit idle 95% of the time in driveways, supposedly vehicle sales will plummet. But if people are commuting more and shared cars are racking up 150,000 miles in a year instead of 10, won't they wear out and need to be replaced faster?

Will people still care about luxury and performance brands in a car-sharing world?

Talk of winners and losers is not remotely sensible at this point, but that hasn't

stopped anyone—Ford, GM, Daimler, BMW, Audi, Tesla, etc.—from engaging in such blather for reasons related to the stock market and brand management.

While GM or Ford must scrimp money from car sales to reinvest in robotics, Tesla can whistle up more cash from Wall Street on the back of an Elon Musk tweet. Google and Apple can dip into bottomless cash piles generated by their high-margin tech businesses.

A neurosis has enveloped the auto sector on this point. The firing of Mark Fields at Ford last month was, at bottom, about Ford's failure to lift its stock by mouthing autonomous-driving hype. Or listen to GM's Mary Barra. You would think she eats, drinks and sleeps driverless cars and the "mobility revolution" rather than the products that bring in 100% of GM's revenue.

Guess what? The same is true of Uber. Its embattled co-founder, Travis Kalanick, overegged the pudding last year by claiming his company would be doomed unless it raced to the front in developing and demonstrating self-driving cars. This made no sense. As long as Uber maintains its lead as the world's preferred, trusted dispatcher of rides, its basic business model should be able to survive a transition to autonomous vehicles just fine.

The ride-sharing company's real problem is its giddy \$70 billion private-market valuation, which no amount of

commissions earned on driver pickups would seem likely to justify. Uber would like at some point to go public, and at a tech-wonder valuation, thus its aggressive and flamboyant effort starting last year to attach itself to the self-driving car meme by buying Otto, the startup created by Google renegade Anthony Levandowski.

### Both companies face cultural challenges that have little to do with driverless cars.

If Uber blundered into its legal war with Google by trying to help itself to autonomous-vehicle hype, Google blundered into the fight for a different reason. This reason has nothing to do with the driverless future and everything to do with the limits of Google's signature effort to maintain a freewheeling, entrepreneurial, tech-incubator feel inside a large organization.

Google brought aboard Ms. Porat in the first place and turned itself into the Alphabet holding company to impose discipline on its free-spending "moonshots." It played down its "don't be evil" motto in favor of a more traditional corporate code of conduct.

Mr. Levandowski himself was a fruit of Google's eccentric policy of letting employees pursue personal projects on

company time and with company resources. A leader of Google's autonomous-vehicle efforts, Mr. Levandowski, as the Journal detailed last month, previously tested the limits by secretly setting up an outside company to sell his inventions back to Google.

Where another employer might have found this an intolerable case of employee self-dealing, Google rewarded Mr. Levandowski by buying his company for \$20 million.

Mr. Levandowski could hardly have gotten any message except to keep testing the limits of chutzpah. This he allegedly did by spiriting a large amount of Google data into another startup, Otto. When he left Google and eventually sold Otto to Uber for \$680 million, this was apparently more employee initiative than Google could stomach.

Back in the real world, driver-assistance technology has been creeping into cars for decades and likely will continue to do so, with collision avoidance the next feature to become standard over the next several years. The driverless car won't arrive with a bang overnight.

For instance, the Lidar sensors at the heart of the Google-Uber litigation will have to become a cheap commodity before autonomous driving is widespread. That alone means however the case plays out, you should expect neither company to walk away with meaningful advantage in the driverless vehicle sweepstakes.

BOOKSHELF | By Amy Dockser Marcus

## The Ethics Of Gene Editing

### A Crack in Creation

By Jennifer A. Doudna and Samuel H. Sternberg  
(Houghton Mifflin Harcourt, 281 pages, \$28)

Until recently, the name Jennifer Doudna was not widely known. Among scientists, she was recognized as a prominent biochemist. She ran her own lab, at Yale, then at the University of California, Berkeley. She made important findings, such as elucidating the three-dimensional structure of RNA, a molecular workhorse that carries genetic information and catalyzes protein synthesis in the cell. Her days revolved mainly around petri dishes and test tubes. Then along came Crispr.

Crispr, an acronym for Clustered Regularly Interspaced Short Palindromic Repeats, is part of the immune system of bacteria, helping ward off attacks by viruses. Ms. Doudna and a key collaborator, Emmanuelle Charpentier, figured out a way to program Crispr-Cas9—a tool that includes

Cas9, an enzyme produced by the Crispr system—to target and edit DNA in a test tube.

As Ms. Doudna writes in "A Crack in Creation," written with Samuel H. Sternberg, a biochemist and former member of her lab, Crispr will allow an organism's DNA to become "almost as editable as a simple piece of text." Using Crispr, scientists will have the capacity to alter, insert and delete genes in plants, animals and, yes, humans. The discovery, published in the journal Science in 2012, set off a frenzy of interest that has not yet subsided.

Suddenly Ms. Doudna seemed to be everywhere. Accepting a \$3 million prize for her role in the Crispr discovery, she was photographed wearing an evening gown and standing next to the actress Cameron Diaz. She and Ms. Charpentier appeared on Time magazine's list of the 100 most influential people. She joined then-Vice President Joe Biden on the dais at the World Economic Forum in Davos, Switzerland, and talked about Crispr's potential for finding cures for cancer. There had been gene-editing tools before Crispr, but none had caught on in quite the same way. Crispr will permit scientists to make changes in many genes at the same time, and it is easier, cheaper and faster to use.

In 2015 Ms. Doudna organized a meeting in Napa, Calif., attended mainly by scholars and scientists, to debate whether Crispr should be used to perform so-called human germ-line editing, a process that involves changes to sperm, egg or embryo. Scientists remain excited by the potential for using Crispr to edit genetic mutations and treat diseases: In one lab recently, for instance, researchers corrected a gene mutation that causes sickle-cell anemia in humans and transferred the edited cells to mice, the first step toward finding a cure for the condition. But it is quite another thing to edit the germ line—that is, to make changes that would be passed on to future offspring. Would

### Is it moral to alter an unborn child's genome to reduce the risk of Alzheimer's? What about editing for hair color or athleticism?

It is permissible, Ms. Doudna asks, to lower an unborn child's risk of Alzheimer's disease? If so, would it also be permissible to edit for greater intelligence or athleticism or even, say, for a particular hair color? While all such uses would ultimately require regulatory and institutional review, it is the notion of building a social consensus that is particularly fraught.

Scientific discussions, Ms. Doudna acknowledges, too often take place behind closed doors. Long before the public even realizes what is happening, scientists "define the terms of the debate," she notes. By then, it may be too late for the public to have any influence. In the most interesting chapters of "A Crack in Creation," Ms. Doudna wrestles with her ambivalence about the tool she has helped create. She concludes that she no longer feels comfortable operating inside her "familiar scientific bubble": She must take on a role as a public citizen and address not just the power of gene editing but the ethics of it. At stake, she believes, is "nothing less than the future of our world."

It is hard not to applaud this conviction, and "A Crack in Creation" does contribute to a public understanding of Crispr, explaining science in terms that are understandable for a general reader. There are fascinating peeks inside the operations of a lab, where certain decisions can be "driven more by convenience than by preference," as Ms. Doudna writes. In the experiment at the heart of the seminal Crispr paper, the researchers decided to target a spot in a jellyfish's DNA simply because they happened to have the gene available for immediate use in their freezers and didn't want to delay their work any longer in the rush to write the paper.

The debates surrounding Crispr are not only scientific and ethical. They also include a patent battle over who controls the intellectual property of the discovery. Money has poured into Crispr-focused companies, including three that Ms. Doudna helped found and from which she may profit. To her credit, she doesn't hide these facts, but she doesn't delve into them much either. She calls the patent dispute—between a group led by her institution, Berkeley, and the Broad Institute of MIT and Harvard—"a disheartening twist" but stops there.

Indeed, "A Crack in Creation" offers little insight into how the human side of science—fights over credit, the potential for profit, a desire for recognition—may affect the presentation or analysis of data. Nor does Ms. Doudna discuss how it feels to be at the center of a scientific rivalry or what toll the patent fight may have taken on her relationships with fellow scientists. When it comes to sharing her personal feelings, Ms. Doudna often seems to hold back.

Ethical discourse regarding Crispr or any other scientific breakthrough requires full disclosure and mutual trust. At one point, Ms. Doudna describes the divide between her personal and professional lives—her neighbors and the parents of her son's friends on one side, scientific specialists on the other. As she notes, it is at the intersection of these worlds that a candid conversation about Crispr and its ramifications must take place. "A Crack in Creation" is an important start, but there is still more to know—not only about Crispr but also about the views of all those who will be affected by it.

Ms. Dockser Marcus is a Wall Street Journal reporter in Boston.

## Can the U.S. Afford Modern Nukes?

By Matthew R. Costlow

When President Obama left the White House, he punted on a tough choice: how to modernize the U.S. nuclear force. In the coming weeks, the Congressional Budget Office is expected to release a report that estimates modernization as currently proposed would cost \$1.2 trillion over 30 years, or about \$40 billion a year. Congress and the Trump administration shouldn't be intimidated by the ostensibly big number.

The plan analyzed by the CBO would replace the nuclear delivery systems of bombers, missiles and submarines with new ones that incorporate the latest safety and survival features. These changes would enable some systems to perform well into the 2080s. It's ambitious, but this program isn't the budget buster nuclear disarmament supporters describe.

Under the plan, spending on the nuclear arsenal would peak

in the late 2020s at about 6.5% of the Defense Department budget, up from 3.2% today. Recall that military spending consumes only about 15% of the federal budget.

But determining whether modernization is affordable involves more than cost considerations. The Pentagon simultaneously has to consider

Forty billion dollars a year isn't much for America's survival.

its priorities and the costs of weapons systems when determining the best way to protect U.S. interests. According to the Defense Department, the two highest priorities of U.S. strategy are "the survival of the nation" and "the prevention of a catastrophic attack against U.S. territory." The Pentagon's Quadrennial Defense Review lists "a secure

and effective nuclear deterrent" at the top of a list describing how to achieve such priorities.

Given that the U.S. nuclear arsenal helps to deter the only existential threat to the U.S., major nuclear war, its value can't be measured by traditional dollar metrics alone.

Budgets are about trade-offs and priorities. As the vice chairman of the Joint Chiefs of Staff, Gen. Paul Selva, testified earlier this year, "We are emphasizing the nuclear mission over other modernization programs when faced with that choice."

The federal government can afford to spend less than 1% of its multitrillion-dollar budget on nuclear modernization. And with Russia, China and North Korea all upgrading their nuclear weapons capabilities, just about the only thing the U.S. can't afford is to end its modernization efforts before they begin.

Mr. Costlow, a doctoral student at George Mason University, is a policy analyst at the National Institute for Public Policy.

## OPINION

### REVIEW & OUTLOOK

#### Uber's Growing Pains

Ride-hailing app Uber Technologies' growth curve has been as meteoric as its learning curve has been steep. But its leadership turmoil shows the perils of moving from Silicon Valley darling to durable success, especially if it wants to tap public markets for capital anywhere close to its \$68 billion valuation.

Uber said Tuesday that CEO Travis Kalanick will take an indefinite leave from the company he built, a day after chief business officer Emil Michael stepped down. The moves followed a unanimous vote by Uber's board—which consists of private investors—to adopt reforms to its "workplace culture." The San Francisco-based startup enlisted former U.S. Attorney General Eric Holder's law firm Covington & Burling after several women complained that Uber executives ignored sexual-harassment allegations.

Workplace culture often flows from the top, and the internal analysis seeks to correct lapses in executive judgment. In 2014 Mr. Michael floated a plan to dig up details about the private lives of journalists critical of the company. Earlier this year Mr. Kalanick was caught on camera berating a driver.

Yet Uber would never have achieved what it has if not for Mr. Kalanick's hard-charging attitude. The company has had to break through regulatory barriers backed by the taxi lobby in city after city, and it didn't do that by bowing at the first sign of resistance. Uber's innovation has greatly improved the lives of millions of urban travelers, and that break though has in turn invited competitors like Lyft, Via and Gett. There's no guarantee that Uber will emerge as the Facebook of this pack.

But Uber's hardball tactics also present business risks. Last year the California DMV pulled the registration on Uber's self-driving cars because the company didn't obtain a \$150 permit to test its vehicles. Twenty other car manufacturers had obtained permits, but Uber didn't see the need. It finally conceded to apply for a permit in March. The Justice Department is also investigating Uber's use of "greyball" software to evade regulators in jurisdictions where it wasn't authorized to operate.

Uber is the dominant ride-hailing app in most U.S. cities because private investors bankrolled its rapid expansion with recruitment bonuses for drivers. A high concentration of drivers in cities reduces rider wait times while

heavy customer traffic deters drivers—in effect free agents—from defecting to other apps.

Millennials are fickle customers, and a drop in ridership could divert drivers to competing apps. This would make it harder for Uber to raise capital to sustain its huge losses (\$2.8 billion last year) as it expands. Investors who may have tolerated

Uber's earlier blunders because of its growth potential will draw a line when management failures impair the company's performance and profitability.

Consider the lawsuit by Google's self-driving startup Waymo that accuses former employee Anthony Levandowski of lifting trade secrets before joining Uber. Last month federal Judge William Alsup referred the case to prosecutors after declaring that the evidence that Mr. Levandowski pilfered Waymo's technology was highly incriminatory. Uber has denied colluding with Mr. Levandowski. But even if Uber isn't found complicit in the alleged piracy, the judge could bar it from using any cribbed code or technology. This would be a major setback in Silicon Valley's autonomous car race.

All of this explains why investors are shaking up Uber's management, but that also carries risks. Sheryl Sandberg's collaboration with Mark Zuckerberg worked for Facebook, but John Scully clashed with Steve Jobs when he arrived at Apple from Pepsi. Jobs left Apple but returned to revive it with a new burst of innovation. One certainty: Uber won't survive the ride-sharing shakeout if the lawyers at Covington & Burling are in charge.

One question for capitalism is whether Uber's breakup would have occurred sooner if it had already braved public equity markets. Two decades ago startups went public much earlier in their business cycle. But Sarbanes-Oxley and other regulatory demands have made going public far more costly, and even successful tech startups tend to delay listing shares on exchanges. Public markets are sensitive to losses and bad publicity, so they can be as useful for disciplining managers as they are for rewarding investors.

The only story the business press likes better than a glorious startup is an inglorious failure, so Mr. Kalanick is now getting a rough ride. But he's built an innovative business that fulfills a public need, and Uber's investors had better hope his replacement is as good a manager as Mr. Kalanick has been an entrepreneur.

#### Otto Warmbier's Homecoming

University of Virginia student Otto Warmbier visited North Korea over New Year's in 2015 as a tourist, and on Tuesday the 22-year-old returned home to the U.S.—in a coma.

Mr. Warmbier traveled to North Korea for a five-day tourist trip, despite State Department warnings and the North's long record of taking Americans hostage. As he was preparing to leave with his fellow travelers in January 2016, he was detained and accused of stealing a propaganda poster from his hotel. The next month he gave a tearful public confession, and that March he was sentenced to 15 years of hard labor for a "hostile act" against the state.

Mr. Warmbier's parents told the Associated Press Tuesday that they recently learned their son has been in a coma since March 2016, or shortly after his show trial. They say North Koreans told U.S. authorities that their son contracted

botulism and never awoke after he was given a sleeping pill. "We want the world to know how we and our son have been brutalized and terrorized by the pariah regime," Fred and Cindy Warmbier said in their statement.

Secretary of State Rex Tillerson declined to comment on Mr. Warmbier's condition "out of respect for the privacy" of the family. But a U.S. official told the New York Times that the U.S. had recently obtained intelligence indicating the young man had been repeatedly beaten in custody. A United Nations commission documented in 2014 that "the use of torture is an established feature of the interrogation process" in North Korea.

Otto Warmbier's fate underscores the grotesque nature of former basketball player Dennis Rodman's latest visit this week with his pal Kim Jong Un in Pyongyang. Kim still holds three other American hostages, and any American who visits is tempting torture and death.

#### Pennsylvania's Lesson for Illinois

S tate and local governments owe at least a trillion dollars to public employee pensions. So it is welcome news that some politicians are noticing, and this week Pennsylvania took a step toward sanity in worker benefits.

On Monday Pennsylvania's Democratic Governor Tom Wolf signed a bill that would enroll new state employees in "hybrid" retirement plans that feature defined-contributions from employees, much like 401(k)s offered by private businesses. The government would put up a smaller defined benefit. Employees could also choose a plan with only the 401(k), though it isn't clear how many would. Teachers and other current workers would have the option to switch into the new plans. The legislation passed the Republican legislature by wide margins.

Pennsylvania's pension system is among the most broke in the country, with up to \$70 billion in liabilities by some estimates. The state like so many others tries to conceal the damage with dubious assumptions—predicting 7% returns that never materialize while chasing yield in risky instruments. Pennsylvania ran a pension surplus as recently as the early 2000s, but that was blown up by expanding benefits and reducing payments.

The legislature has for a decade considered reforms, including borrowing money and dumping it into the stock market, as if that's never ended poorly. Meantime, the burden increased: Nathan Benefield at the Commonwealth Foundation notes that Pennsylvania school districts spent \$2.3 billion on pensions in 2014-15, a 252% increase since 2008-09. School district

revenues increased \$3.9 billion from 2009 to 2015, but nearly half of the increase went to pensions. Many districts are strapped for cash as a result.

Thus the plan to enroll new employees in hybrid plans, effective 2019. This would eliminate the taxpayer risk for new hires. Another benefit is portability: A teacher who would

like to work five years but not three decades can bring savings with her when she leaves. Perhaps some younger workers who doubt they'll ever see the promised pension will elect to join the hybrid plans.

Note also that the bill enjoys bipartisan support in a state with often dysfunctional politics, and Gov. Wolf deserves credit for signing the measure after vetoing a hybrid pension bill in 2015. Government unions didn't fight the legislation in a heretofore unseen display of restraint, and perhaps they think this will stave off more invasive changes for current workers or retirees. It's also instructive that former Republican Governor Tom Corbett couldn't pass his similar plan in 2013.

The new plans are still much more generous than private alternatives: A career employee could retire with benefits of up to 95% of his final earnings, which the American Enterprise Institute's Andrew Biggs says is much higher than the 70% replacement rate most financial advisers say is sufficient.

The law also can't erase government liabilities, and pension woes won't be fixed until governments are honest about what they owe and how to pay for it. But the Pennsylvania improvements are at least a start. Are you paying attention, Illinois and Connecticut?

A bipartisan reform begins to address the state's funding abyss.

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

### LETTERS TO THE EDITOR

#### The Talented Mr. Comey Takes On Congress

Regarding "James Comey's Passion Play" (Review & Outlook, June 9):

Former FBI Director James Comey is a coward for failing to stand up to President Trump and former Attorney General Loretta Lynch. Anyone in the military, law enforcement, auditing, law or medicine at some point has to confront a supervisor and tell him he is wrong. When Mr. Trump said that Gen. Michael Flynn is "a good guy" and hoped Mr. Comey could "let this one go," he should have smiled and said: "We don't want to go there. We will work Flynn's case as quickly as we can."

When Mr. Trump asked for loyalty, Mr. Comey could have said he would keep the president in the loop. When Attorney General Loretta Lynch told Mr. Comey to say that the Hillary Clinton investigation was to be described as a "matter," Mr. Comey should have said that he would not do it. Instead he caved.

Mr. Comey should have understood that his superior is a political novice, and instead of stabbing him in the back by leaking a memo, should have guided him into understanding the complex relationship between the president and FBI. The FBI is not independent and the president can fire the FBI director, but to do so risks precious political capital and invites a special counsel, which has happened.

James Comey failed as a subordinate in supporting his boss's boss. He deserved to be fired.

O.S. MARTIN  
Richardson, Texas

James Comey disclosed that President Trump was not a target of the Russia probe. Far from obstructing Mr. Comey's investigation, Mr. Trump encouraged him to ferret out any campaign staff who interacted inappropriately with Russians. It was Loretta Lynch who gave Mr. Comey an inappropriate order—to follow Democrat talking points in referring to the criminal investigation of Hillary Clinton, not as investigation, but nebulously as a "matter." One wonders what she spoke about with a potential target of the investigation when she met secretly with Bill Clinton on the tarmac.

Not since the Army-McCarthy hearings has a single media appearance done so much to dispel mass hysteria about Russians hiding under our beds.

RICHARD A. CRANE  
Chicago

I had the opportunity to watch James Comey testify in front of the Senate Intelligence Committee. I saw a man who was honest, straightforward and just. Despite all that has occurred,

curred in the past few months, he kept his cool and stuck to the facts, giving the committee all the information that he could give.

I am very proud to have had Mr. Comey serve as our FBI director. He is a true American patriot.

NAMEER BHATTI  
Blue Bell, Pa.

I believe President Trump was surprised by James Comey's refusal to pledge loyalty. Isn't that what Mr. Comey displayed toward Loretta Lynch? The FBI conducted a sham investigation of Hillary Clinton and her associates' abuse of classified information. No grand jury was convened by the Justice Department. Mrs. Clinton wasn't interviewed until very late in the game, and then not under oath and the interview wasn't recorded. Mrs. Clinton's Chief of Staff Cheryl Mills was given immunity for the contents of her laptop and allowed to serve as her former boss's lawyer though she had handled emails that were the point of the "matter."

Mr. Trump could have reasonably expected the same courtesy as Mr. Comey had shown to President Obama, Loretta Lynch and Hillary Clinton.

FRANCIS G. KNIPE  
Torrance, Calif.

It is not clear to me how anyone can justify the head of the FBI leaking information. The actions of a company's chief drive the actions of the organization. Mr. Comey's actions effectively say to all of the FBI that it is OK to leak.

JIM IKELER  
Cincinnati

If Mr. Comey's backdoor approach to triggering the appointment of a special counsel to investigate the president or his advisers is honorable behavior in the swamp, do most of Washington's many deep-state leakers of information (sometimes classified) deserve to be reclassified as heroes?

Twenty-five-year-old federal contractor Reality Winner, described by friends and family as a passionate person, decided recently that the public deserved to know more about Russian military intelligence cyberattacks. She shared classified information directly with the media and now is in trouble with the Justice Department. She should have used a friend to serve as a document-release buffer.

Please forgive us despicable simpletons for not understanding the mystifying ways of the Washington swamp ecosystem.

TOM WEST  
Raleigh, N.C.

#### Decline of Cash Bail Is Mostly an Improvement

amount relative to an amount reasonably calculated to assure his or her appearance.

The surety bail arrangement is effective in ensuring that an arrested person appears for the proceeding to determine guilt and the value that the person is presumed innocent ("Cash Bail, Staple of Courts, Is Fading," page one, May 23). Opponents of bail inaccurately portray it as a means to restrain a person solely because he or she cannot afford the bail amount. Courts haven't recognized a right to affordable bail, and any concerns regarding whether bail is "excessive" if the arrested person cannot raise the funds should be dismissed. The touchstone in determining whether bail is excessive under the Eighth Amendment isn't what the arrested person can pay but rather the

#### LNG Offers Another Reason To Scrap Obsolete Jones Act

Converting natural gas into liquified natural gas and transporting it by sea has made gas available to many new regions ("Long a Promise, Gas Goes Global," page one, June 7).

However, the benefits of a more integrated global market don't extend to all regions of the U.S. The Jones Act, which requires the use of American-built ships on domestic voyages, makes it prohibitively expensive to transport LNG to all domestic ports, but especially the noncontiguous regions of Hawaii, Alaska and Puerto Rico. Currently no Jones Act-eligible tankers are capable of carrying LNG.

To transport LNG from a West Coast port such as Oregon to Hawaii would require building a much more expensive American ship. Repealing or reforming the Jones Act would give Americans access to improved transport infrastructure, allow greater energy production and relax excessive regulation without any cost to the federal budget.

EM. PROF. THOMAS GRENNES  
North Carolina State University  
Raleigh, N.C.

Kentucky eliminated bail bondsmen in 1976, and our pretrial release system has worked well for more than 40 years.

JUSTICE (RET.) J. WILLIAM GRAVES  
Paducah, Ky.

#### Pepper ... And Salt

THE WALL STREET JOURNAL



"Remember those days when we believed our job descriptions actually described our jobs?"

## OPINION

# How Trump Is Like Obama

By Josef Joffe

**U**nkle Sam is getting pushed around by the rest of the world, and we aren't going to take it anymore. That is the gist of President Trump's "America First" doctrine. But let's cut No. 45 some slack. He is not the first to chop away at the made-in-the-USA global order designed by Harry S. Truman 70 years ago. Pride of place must go to No. 44, Barack Obama.

What, that exemplar of internationalist virtue? True, President Obama did not trumpet "America First." His standard shibboleth was "It's time for a little nation-building at home," echoing George McGovern's "Come home, America!" from 1972. Let's lay down the burden and mend crumbling bridges and failing schools, Mr. Obama suggested. Cut to Mr. Trump, who wants to invest \$1 trillion in the domestic infrastructure.

**There's more continuity than difference between 'nation-building at home' and 'America First.'**

Come home or To hell with you—either way, the message reads: The world's housekeeper will now look out for No. 1. So Mr. Trump keeps bullying the allies on defense spending, demanding billions in back pay for the security the U.S. has always delivered at a discount. Now listen to Mr. Obama. In a 2016 interview with the Atlantic, he rumbled: "free riders aggravate me."

Mr. Trump hasn't brought the boys home, but Mr. Obama did. He drew down the European force to about 50,000 from 75,000. During the 1980s, it numbered 350,000. That was supposed to be accompanied by the fabled "pivot" to Asia, but it



President Obama at a NATO summit in Warsaw, July 9, 2016.

made America great after World War II? Sheer clout, at first. So why did the Pax Americana endure while Europe and Japan rose from the ruins and China grew into the world's second-biggest economy? Because of the genius of pre-Obama, pre-Trump diplomacy: Achieve your own ends not by going mano-a-mano, but by serving the interests of others in the process, like safeguarding security and the liberal trading order.

"Too expensive!" trumpets No. 45. Let's consult No. 33, President Truman: "Which is better for the country," he asked with a view to Europe, "to spend 20 or 30 billion dollars to keep the peace, or to do as we did in 1920 and then have to spend 100 billion dollars for four years to fight a war?"

In World War II, U.S. defense outlays peaked at 41% of gross domestic product. Today, the cost of empire has come down to 3.6%—a steal. So the Europeans spend only 1.5% on average? Global powers always pay more for defense; that's part of what makes them great. The U.S. is not doing the European Union a favor by adding its own weight to an Atlantic order that doubles as the world's largest trade and investment relationship. The insurance premium is worth it, especially given Vladimir Putin's blatant strategic ambitions.

Do good for yourself by doing good for others—that has been the secret of America's realpolitik and exalted position. While Mr. Obama wielded hammer and chisel against the nation's perch, Mr. Trump is waving a chain saw. As friends retract, rivals rejoice: What a windfall! But take solace from Bismarck, who supposedly quipped: "God protects children, drunkards and the United States."

Mr. Joffe serves on the editorial board of *Die Zeit* in Hamburg and is a fellow of the Hoover Institution in Stanford, where he also teaches U.S. foreign policy. His latest book is *The Myth of America's Decline*.

didn't materialize. Instead Mr. Obama presided over a global retraction, most grievously in Iraq. Then, refusing to enforce his "red line" in Syria, Mr. Obama invited Russia in and effectively welcomed Iran, too. Turning away from old allies, he chased the will-o'-the-wisp of Iranian friendship. In Mr. Obama's view, paraphrased by the Atlantic's Jeffrey Goldberg, "the Middle East is no longer terribly important to American interests." Meanwhile, Tehran has expanded to the Mediterranean.

The Obama agenda was *self-containment*, a first in the history of great powers. So who would mind the global store, as the U.S. had done since 1945? Under Mr. Obama, "Yes, we can" segued into "Others will." Moscow, Tehran and Beijing did, but not as retainers of Aloof America. Rising powers have never seen a vacuum they did not like.

Set aside Mr. Trump's in-your-face tweets and savor the kinship between Donald the Crude and Barack the Cool. Each in his own way—softly or brutally—has signaled: America, previously the "indispensable nation," is vacating its penthouse at the top of the global hierarchy. No great power has ever done so voluntarily; all America's

predecessors were sent packing by more-muscular competitors.

Yes, but doesn't Mr. Trump want to "make America great again"? First, this is a mendacious slogan. By any measure, America was not a limping giant on Jan. 20 but the greatest power on earth, given its economic primacy, military clout, diplomatic centrality and, not to forget, cultural sway. The world dresses, watches, listens and dances American. Some has-been!

Second, what makes a nation "great"? Mr. Trump thinks it is unbridled national egotism, flanked by the extended middle finger, as when he withdrew from the nonbinding Paris climate accord. Promptly, China began to posture as the guardian of global goodness. Another great victory was pushing aside the leader of tiny Montenegro at the NATO summit's photo-op last month.

The short take on Trumpist diplomacy: A schoolyard bully is never elected class president. The other kids may fear him, but they won't follow him. Leadership means taking care of others while going to the top. It comes from authority grounded in consent, not humiliation of the weak.

Still, America's slide into abdication began in 2009, not in 2017. What

protections afforded by certificate-of-need laws is unsupportable. There is no difference in the provision of charity care between states with and without such programs.

Certificate-of-need laws are a remnant of a failed theory of government health-care planning. Their only purpose today is to restrict competition and protect the big hospitals' local monopolies. The federal government, which played a central role in creating this problem, could help solve it by making Medicaid block grants contingent on repeal of certificate-of-need laws.

So long as these harmful laws continue to prevent health-care providers like Dr. Ribot and Dr. Barfield from expanding the services they offer, health-care costs will continue to rise. Ultimately, it is patients who pay the price.

Dr. Scherz is an Atlanta urologist and the founder and secretary of the Docs 4 Patient Care Foundation.

## A Regulation That Protects Big-Hospital Monopolies

was on board. Certificate-of-need laws eventually expanded to cover not only hospitals but a wide range of facilities, including imaging centers and outpatient surgery centers.

It didn't take long for Washington to realize that certificate-of-need laws weren't bringing prices down.

### By restricting construction of new medical facilities, certificate-of-need laws drive up health-care costs.

The federal program was abolished in 1986, and 14 states subsequently scrapped their certificate-of-need programs. But hospital associations across the country work hard to maintain the market advantage that certificate-of-need laws provide, spending millions of dollars to lobby state legislators to block reform.

Health costs were escalating, but policy makers and economists misdiagnosed the cause, pinning the blame for price inflation on excess capacity. In New York, the hospital industry petitioned the state for protection. Without a certificate-of-need law, they claimed, competitors would lure away established hospitals' paying patients, leaving them to act only as a safety net for the destitute. The result, they said, would be financial ruin. Other states soon followed suit.

So did Congress. The National Health Planning and Resource Development Act of 1974 gave states with certificate-of-need programs additional federal health-care dollars. By 1982 every state except Louisiana

had a certificate-of-need law.

Now the Cuba Agricultural Exports Act in the House and the Agricultural Export Expansion Act in the Senate, would remove the credit restriction and allow private financing of agricultural exports. President Trump's secretary of agriculture, Sonny Perdue, expressed his support for trade on credit with Cuba during his Senate confirmation hearing in March. Producers from Arkansas, Kansas, Louisiana, Minnesota, Texas and other states would be the first to benefit directly from this change.

If there ever was a time for this bill to move, it is now. Agriculture is a crucial part of rural states' economies. The most important thing that can be done now for American agriculture is to open new markets for U.S. products.

Following Fidel Castro's death in November, President-elect Trump said, "Our administration will do all it can to ensure the Cuban people can finally begin their journey toward prosperity and liberty." He also has promised time and again to bring back American jobs and "make America great again."

Allowing agricultural trade on credit would be a good compromise:

Those who support the Cuba embargo should be able to get on board.

The Trump administration would accomplish a bilateral trade deal that supplies the Cuban people with high-quality food. And all of this can be done while supporting rural American jobs—an undeniable victory for the Trump White House.

There is a better way forward that satisfies both parties without repealing the embargo or changing its structure: allow agricultural goods to be sold on credit through private financing. Currently the U.S. trades agricultural goods with Cuba, but there are restrictions that limit trade to cash-only transactions. Considering that nearly all international trade relies on credit, this policy puts American farmers on the sidelines while competitors like Brazil and China enjoy Cuba's \$2.4 billion market.

Two bills under consideration right

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Following Fidel Castro's death in November, President-elect Trump

PLAN PROTECT RETIRE

Nothing is going to stop you  
from taking care of them. Not even time.



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# BUSINESS & FINANCE

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The conglomerate's newly named CEO worked at GE Capital along with its finance chief. A GE wind turbine in Mongolia.

## GE Leaders Rise Up From Finance

By THOMAS GRYTA

The finance guys are back in charge at **General Electric** Co.

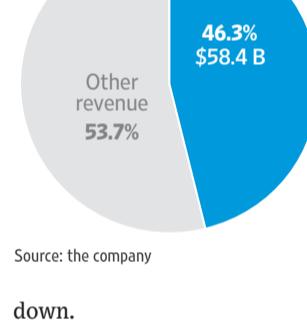
After 36 years under Jack Welch and Jeff Immelt, the conglomerate will soon be run by two GE lifers who spent years working together at the once lucrative-yet-problematic GE Capital division. Newly anointed John Flannery will take the top job when Mr. Immelt retires as CEO this summer, and financial chief Jeffrey Bornstein, who was also in the running for the top job, plans to stay on board.

"Having Jeff as the vice chairman is key," Mr. Immelt said in an interview, sitting at a table with Mr. Flannery in GE's Boston headquarters. "These guys have worked together for 20 years."

The duo first worked together in the 1990s at GE Capital dealing with such segments as commercial lending and bank loans. At the time, GE Capital was one of the country's largest banks, financing everything from home mortgages to power plants. When it became a drag during the financial crisis, Mr. Flannery was abroad and Mr. Bornstein worked to wind it

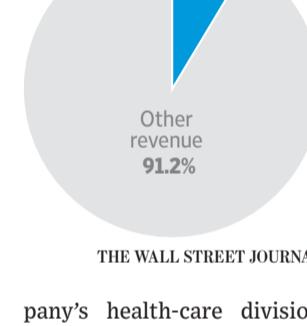
### Shifting Stream

Share of revenue from GE Capital in 2001



Source: the company

Share of revenue from GE Capital in 2016



THE WALL STREET JOURNAL.

down.

After the crisis, Mr. Flannery was leading the deal making team at GE while Mr. Bornstein was finance chief. The duo pushed to sell "sacred cows" such as GE Appliances and continued to shrink GE Capital by spinning off the credit card business into Synchrony Financial.

"We look at the world through a pretty similar lens," Mr. Flannery, 55 years old, said of Mr. Bornstein, 51.

That lens is focused on how the company spends its money, Mr. Flannery said Monday. He has spent recent years turning around the com-

pany's health-care division, while Mr. Bornstein has worked with Mr. Immelt on cutting costs at the parent company.

"Every dollar is an incremental choice of investment," Mr. Flannery said. "You can invest in plant and equipment, you can add sales people, you can develop new products, you can do research, you can buy companies, you can sell companies and you can buy back stock."

"Focus on the cost, and margin and cash, and then where do you focus the company," he said.

Mr. Flannery said he would

work with Mr. Bornstein on a review of the company's vast operations, which span from diesel locomotive engines to infant-resuscitation systems used in hospitals. He will produce recommendations for the portfolio by the fall.

While Mr. Flannery transmits a sense of urgency for the review this summer, certain things won't be considered. The company's dividend, which had to be cut during the financial crisis for the first time since the Great Depression, is "safe" and reducing it won't be considered, he said.

Also the company won't be increasing the scope of its financial services business even if regulations ease, a proposition that drew a guffaw from Mr. Immelt. GE Capital had shrunk to about \$10 billion of revenue last year, down from more than \$58 billion in 2001 when Mr. Immelt took over.

All those ideas generally make Wall Street analysts and investors happy after GE reported a steep shortfall in cash flow during the first quarter. The stock rallied 3.5% Monday following the Flannery promotion announcement, but is still down about 8% for the year and has lagged

Please see GE page B2

8% for the year and has lagged

Please see GE page B2

## IBM to Help BMW Ride on the Cloud

By CHESTER DAWSON

**International Business Machines** Corp. said Wednesday it is pairing with **BMW** to provide cloud-based data management for the German auto maker's recently launched connected car initiative, a move by the centenarian tech giant to deepen its move into passenger vehicles.

IBM is working to sign up auto makers for its cloud-computing platform and stake a claim in the burgeoning market for connecting passenger cars with customized services based on real-time vehicle performance. Last year, it announced a similar deal with **General Motors** Co.

Connected vehicle data represent a rapidly emerging market for auto makers, which are cautiously moving to embrace the potential for revenue streams from service companies that are eager to tap into their large captive client base. For drivers, it opens the door to services tailored to their driving profiles.

The project with BMW, which is expected to start up this fall in Europe, lays the foundation for what IBM envi-

sions as a global data hub that gathers information from many auto makers and matches vehicle owners with outside service providers such as auto insurers, repair shops and gas stations.

"We are the broker and the enabler for the third parties" beyond auto makers, Dirk Wollschlaeger, IBM's general manager for global automotive, aerospace and defense, said in an interview.

A representative for BMW in the U.S. confirmed plans to partner with IBM but didn't provide details.

BMW officially launched its CarData program last month, which is designed to link some 8.5 million vehicles equipped to transfer data—and whose owners opt in—with third parties marketing customized and discounted products such as oil changes or insurance policies.

IBM's agreement with BMW isn't exclusive but provides an opportunity to showcase its Bluemix cloud platform. Mr. Wollschlaeger said another European auto maker, which he declined to name, also plans to use Bluemix and that his company is in talks with several others.

Microsoft's first full-fledged laptop isn't a reinvention of the portable computer. It's more of a reupholstering.

I mean that both literally and figuratively. The interior of the Surface Laptop, which arrives in stores later this week, is covered in soft fabric. Snack lovers, be warned: This laptop isn't compatible with Doritos fingers.

The rest of the \$1,000-and-up machine is surprisingly traditional. It's a handsome new dressing on the slim, lightweight workhorse design Apple popularized with the

MacBook Air nine years ago. After using the Surface Laptop for a week, I found it to be a dependable road warrior—but I'm still not sure why Microsoft made it.

I love Microsoft's other Surface hardware for evolving the idea of a PC. The Surface Pro made the world realize a finger-operated tablet could be a real computer.

The Surface Book pioneered a new form of laptop that detaches from its keyboard. The Surface Studio reinvented the desktop as a giant swiveling touch screen.

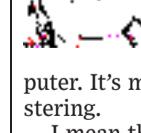
But the Surface Laptop is...just another under-3-pound aluminum laptop. Making a touch-friendly Win-



Sizing up against the competition: Microsoft's new laptop, red, under Dell's XPS 13, Apple's MacBook Pro, and above Apple's MacBook Air. The company's latest launch is surprisingly traditional.

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

## Microsoft Laptop Stands Out For Its Upholstery, Not Features



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dows 10 rival to the MacBook is a good idea—but it's already been done.

One of my favorites, Dell's XPS 13, is just as powerful and nearly as slim as Microsoft's, and its base price is \$200 less.

Microsoft says it made the Laptop with students in mind. It's the first computer to run a special version of its operating system called Windows 10 S, designed to make computers safer and easier to run.

Its biggest change is that you can only download apps from the Windows Store, which vets them.

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more than \$100 billion in annual spending, should be able to find \$1 billion in annual savings, he has told people.

"Investors still view GE capital deployment as subpar," Credit Suisse analyst Julian Mitchell said, noting that shareholders will want to see details from the new CEO on how and why cash flow will improve.

"If Mr. Bornstein were to have left, this would likely have raised concerns among investors that a major earnings/cash-flow guide reset may be imminent," he said.

The Wall Street Journal reported in March that Saks Fifth Avenue parent Hudson's Bay Co. had approached the private-equity firms that own Neiman Marcus about buying the company. Last week, the Journal reported that the talks had collapsed after the parties couldn't agree on a price, according to people familiar with the situation.

Ms. Katz said Neiman Marcus is continuing to invest in e-commerce, which accounts for a third of total sales. The company is building an analytics team to better target potential customers, and is looking to offer better service online. "We are committed to investing in new technology so we can remain a leader in the online luxury business," Ms. Katz said.

The upscale retailer faces significant challenges, including nearly \$5 billion in debt piled on through two leveraged buyouts, and softer demand for luxury goods.

On Tuesday, Neiman Marcus reported that sales for the three months through April 29 fell 4.9% to \$1.1 billion. The company had a net loss of \$24.9 million, compared with a quarterly profit of \$3.8 million a year earlier.

In April, Neiman's owners—Ares Management LP and the

Canada Pension Plan Investment Board—chose to issue nearly \$5 billion in debt piled on through two leveraged buyouts, and softer demand for luxury goods.

Ms. Katz said the Dallas-based company has about \$600 million in liquidity including cash and credit lines, and that sales trends have improved from the October period, when revenue fell 7.4%.

She pointed to a pickup at stores in Texas and Florida as

well as improved online traffic. Texas is benefiting from the company's new Fort Worth store, which is a prototype that offers more services and weaves technology into the shopping experience.

But she conceded that the pricing pressure facing even high-end retailers is here to stay. Ms. Katz said the price transparency created by the internet has made it even more important for stores like Neiman Marcus to sell exclusive items.

## GE

Continued from the prior page behind the broader market. On Tuesday, GE shares retreated 1.7%.

Activist shareholder Trian Fund Management LP worked with GE to set new goals in March for cost cuts and industrial operating profit, tying executive bonus amounts to their success in hitting the targets. Mr. Flannery shares the investor's view that a company the size of GE, which

Idaho) in a statement Tuesday welcomed "reasonable and meaningful recommendations to the existing, and all too often, one-size-fits-all regulatory landscape."

Mr. Crapo appeared at the banking conference and said he believed some of the report's recommendations requiring congressional approval could win bipartisan support, especially those affecting small and medium-size banks.

Mr. Crapo also said he was open to a new idea raised in the Treasury's report: granting more power to the Financial Stability Oversight Council. The council was created by the 2010 Dodd-Frank financial overhaul and empowered to watch over the stability of the financial system.

The council includes the most powerful U.S. economic officials: the Treasury secretary, the head of the Federal Reserve, and other top regulators.

Republicans for years have talked about hamstringing or abolishing the council. The Treasury report said Congress should grant it the power to assign a "lead regulator" to make decisions about policy matters involving multiple federal agencies.

Mr. Mnuchin has already used his position as chairman of the council to push regulators to begin a review of the Volcker rule, a Dodd-Frank provision banning banks from certain types of trading, according to people familiar with the matter. That rule is enforced by five regulatory agencies, all of which have seats on the council.

"I don't like to generally consolidate even more power in such a powerful entity," Mr. Crapo said. "However, we are running into situations where the law gives up to five agencies the authority to administer one statute and they can't even get a consistent rule."

—Andrew Ackerman and Rachel Witkowsky contributed to this article.

The Trump administration's proposal to rethink many of the rules governing the U.S. financial sector sounded a lot like bankers' wish lists.

In particular, J.P. Morgan Chase & Co. Chief Executive James Dimon's vocal suggestions over the past several months had much overlap with the 147-page report released by the Treasury Department on Monday evening. Here are some of the similarities and areas of overlaps between Mr. Dimon's annual shareholder letter released in April and the new report overseen by Treasury Secretary Steven Mnuchin.

**Capital planning via stress tests:** Dimon: "While we firmly believe banks should have a proper assessment of their qualitative abilities, this should not be part of a once-year stress test."

**Treasury:** The "process should be adjusted to a two-year cycle, which will not compromise quality in that stress-testing results are forecast over a nine-quarter cycle."

**Living wills forcing banks to plan for their own demise:** Dimon: "While they have some positive elements, they have become unnecessarily complex and costly, and they need to be simplified."

**Treasury:** "The agencies should be held accountable to develop specific, clear, and accountable guidance for living-will submissions."

**Supplementary leverage ratio:** Dimon: "Rules here 'need to be modified.' These rules,

which limit the amount of borrowed money a bank can use in relation to its overall assets, often penalize 'fairly risk-free activity' and should instead promote lending and liquid capital markets."

**Treasury:** "Consideration of adjustments to the Supplementary Leverage Ratio (SLR) and enhanced Supplementary Leverage Ratio (eSLR) is important to address unfavorable impacts these requirements may have on market liquidity and low-risk assets."

**Operational risk capital:** Dimon: "This should be 'significantly modified, if not eliminated' since it isn't always calculated fairly or in coordination with other capital rules."

**Treasury:** "Also, a more transparent, rules-based approach should be used in the calculation of operational risk capital."

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## BUSINESS NEWS

# Yahoo Passes to AOL's Armstrong

New leader in place as Marissa Mayer resigns and Verizon completes acquisition

BY LARA O'REILLY

**AOL** chief executive and veteran ad salesman Tim Armstrong is ready to build a new empire, while **Yahoo** boss Marissa Mayer is leaving hers behind.

**Verizon Communications** announced Tuesday it had completed its \$4.5 billion acquisition of Yahoo's core internet assets.

Ms. Mayer has opted to resign from Yahoo given the changes to her role following the close of the acquisition, the company said.

Yahoo will be merged with AOL, which Verizon bought for \$4.4 billion in 2015, to create a new online media and advertising subsidiary called Oath, housing such brands as HuffPost, TechCrunch, Yahoo Finance, Tumblr and the pair's stack of advertising technology solutions.

The two companies will benefit from the data Verizon has on its subscribers, which will improve targeting and measurement for marketers looking for online advertising

alternatives to Google and Facebook.

Distribution will also be a factor: Soon, for example, some of Oath's content brands will be automatically available on the "desktop" of Verizon subscribers' phones through its AppFlash app. Verizon's go90 mobile video app will also become more integrated with Oath's content properties. And entirely new mobile content brands are set to launch before the end of the year, created by Oath's internal Factory unit.

Mr. Armstrong, who becomes Oath's CEO, said: "The entire company is centering around brand building for mobile and building our content brands."

He declined to comment on Ms. Mayer's "decision process" in opting to move on, beyond noting that the two executives had planned Oath's organizational structure together as they worked to integrate one public company with another.

Ms. Mayer's departure was widely expected despite her saying last year that she planned to stick around. Her name was absent from the leadership team Mr. Armstrong listed in a memo to staff, which was reported by Recode in April.

"Given the inherent changes to my role, I'll be leaving the



Tim Armstrong will proceed to integrate AOL and Yahoo operations.

ter the disclosure of the data breaches, Verizon and Yahoo agreed to shave \$350 million from the original offer price. The final price tag was a marked drop for one of the early web pioneers, which once had a market capitalization of more than \$125 billion during the peak of the dot-com boom.

Mr. Armstrong had previously stated publicly that he wanted Oath to reach 2 billion consumers by 2020, up from around 1 billion currently. He also targeted a rise in Oath revenue to more than \$10 billion. Mr. Armstrong has now added a small "caveat" to that time frame as the deal took longer to close than expected.

Mr. Armstrong has a history of building media and tech brands. He held sales roles at a variety of early internet companies in the 1990s, eventually joining Google, where he helped nurture key ad products, including AdSense and DoubleClick. Mr. Armstrong became CEO of AOL in 2009.

Ross Levinsohn, a one-time interim CEO at Yahoo who was in the running to lead the company permanently before Ms. Mayer got the job in 2012, said Mr. Armstrong is well-positioned to lead Oath. "He understands the businesses as well as anyone, is a dynamic leader and [is] well respected."

## Dispute Hits Deal For Insulin Discounts

BY PETER LOFTUS

A corporate dispute over a price-discount program for diabetes patients taking **Eli Lilly & Co.**'s insulin has resulted in an industry middleman's exit from the deal—the latest sign of discord among players in a prescription-drug supply chain facing criticism for high prices.

**Blink Health LLC**, a provider of consumer price discounts for prescription drugs, said it has terminated its relationship with **Express Scripts Holding Co.**, a pharmacy-benefit manager that helped arrange the new price break for Lilly's insulin.

Blink Health continues to offer the discount program at participating pharmacies in partnership with Lilly. Blink Health Chief Executive Geoffrey Chaiken said in an interview Tuesday. He said he couldn't discuss specific reasons for the termination of the agreement with Express Scripts, which was recent.

"We've built a business model where we are the agents of the patient and we have a responsibility to those patients to get them the lowest prices possible, and we only want to work with folks that are aligned with those values," Mr. Chaiken said.

An Express Scripts spokesman said the company disagreed with Mr. Chaiken's assertion and that Express Script's "entire business and mission are predicated upon lowering the price of medicine."

The Express Scripts spokesman said Blink Health "asked to terminate their agreement with us after they failed to live up to the contractual agreements they had struck with us. We agreed to allow the agreement to be terminated." Express Scripts, which administers prescription coverage on behalf of employers and insurers, arranged with Lilly to extend the discounts through Blink until the end of this year, "unless Blink elects to terminate the Lilly discounts sooner," the Express Scripts spokesman said.

An Eli Lilly spokesman said the company's insulin remains available at the same discounts through Blink Health and declined to comment on the Blink-Express Scripts dispute.

Lilly, Express Scripts and Blink Health touted the insulin discount program as a partnership when it was announced in December. The program was designed for uninsured patients and others paying for insulin largely out-of-pocket, such as those with high-deductible health-insurance plans. The program offers discounts of up to 40% off the list prices of the insulins Humalog, Humulin and Basaglar. Patients receive the discounts through Blink Health's mobile and web applications and take them to participating pharmacies to get their insulin.

Express Scripts said in December it negotiated the insulin discounts on behalf of Blink Health.

## Emissions Study Faults Fiat Chrysler

BY MIKE SPECTOR

West Virginia University researchers found **Fiat Chrysler Automobiles NV** vehicles with diesel engines produced significant emissions discrepancies between the road and the lab, resembling earlier conclusions they reached with **Volkswagen AG** cars that helped expose a long-running deception.

Diesel-powered Ram pickup trucks when tested on the road produced nitrogen-oxide emissions as much as 25 times above allowable levels in the U.S., and similarly equipped Jeep Grand Cherokee sport-utility vehicles as much as eight times, according to a report on the researchers' findings reviewed by The Wall Street Journal. Those results were for 2015 models, while 2014 models had "significantly increased" emissions on the road compared with the lab, the report said.

The 74-page report, expected to be released in coming weeks, tested five model-year 2014 and 2015 vehicles and found significant emissions discrepancies between on-road performance and lab tests, despite Fiat Chrysler's attempts last year to address the excess pollution in part through a recall of 2014 models. The report stopped short of concluding whether the Italian-U.S. auto maker used illegal software meant to dupe regulators.

The findings add to mounting pressure on Fiat Chrysler, which the Justice Department in May accused of using illegal defeat-device software on nearly 104,000 2014-2016 Ram pickup trucks and Jeep Grand Cherokees with diesel engines to cheat emissions tests. The models used software to pass government emissions tests and then turned down or shut off controls to let the vehicles emit illegally high levels of pollution, according to a Justice Department civil lawsuit filed against the auto maker. Fiat Chrysler has denied using defeat devices.

Fiat Chrysler disputed the university findings, pointing to factors in on-road testing that allegedly skewed the results. The auto maker said the university researchers conducted on-road tests that departed from U.S. environmental regulators' test procedures by being done at 50% higher average speeds, with 600 to 700 pounds more payload and under dissimilar road conditions.

U.S. regulatory tests are limited to the lab, and Fiat Chrysler contends on-road testing results are problematic and under agreed-upon standards.

"We stand by the research," a university spokesman said.



TELENEWS/EUROPEAN PRESSPHOTO AGENCY

## Alitalia Files for Bankruptcy in U.S.

BY TOM CORRIGAN

Italy's **Alitalia SpA** airline filed for bankruptcy Monday in the U.S., faced with the threat of losing access to New York's John F. Kennedy International Airport over unpaid bills.

Alitalia, which is working to find a buyer, sought chapter 15 protection, the section of the bankruptcy code that deals with international insolvencies, at the U.S. Bankruptcy Court in New York.

Large foreign companies, particularly those with U.S. operations or dollar-denominated debt, often file for bankruptcy in the U.S. to aid sale or restructuring processes in their home countries. Like chapter 11, chapter 15 immedi-

ately halts lawsuits and blocks creditors from seizing assets.

The carrier recently launched an insolvency process in Italy for the second time in a decade after employees rejected a restructuring plan put forward by its major shareholders. Court papers filed Monday show Italy's government has agreed to provide about €600 million (\$672 million) in emergency financing to the airline operating while it works to find a buyer.

Alitalia has struggled to pay its bills and has lost billions of dollars over decades, amassing more than \$3 billion in debt.

According to Alitalia's court papers, one of JFK's terminal operators threatened to suspend the airline's lease as soon as

Tuesday unless it was paid, which could have significantly disrupted the airline's business by cutting off daily flights to and from New York. Alitalia's U.S. operations account for about 30% of its total revenue, and about half of that is generated from flights to and from JFK.

Alitalia also says it faced being cut off by internet and telephone service providers, which would have shut down its U.S. call center and other office activities.

On Monday, Judge Sean Lane, who will oversee the airline's U.S. bankruptcy proceeding, issued a 10-day temporary restraining order to reinforce the court's ability to prevent any creditor from taking actions that could damage Alita-

lia's business before he holds a hearing on the matter on June 26.

Italy's government put the airline up for sale after months of fruitless talks with labor unions and the carrier's shareholders, including its biggest, Abu Dhabi-based **Etihad Airways**.

Three years ago, Etihad unsuccessfully poured in cash to refresh the carrier, re-training cabin crew and replacing fading interiors with Italian-designed leather seats. But Etihad, which owns 49% of the airline, has refused to put more cash into Alitalia without significant concessions from workers.

—Robert Wall contributed to this article.

## BUSINESS WATCH

SPRINT

### Unlimited Wireless Offered as Giveaway

Sprint Corp. is giving away unlimited wireless service for a year to customers who switch to the No. 4 U.S. carrier, an aggressive move in an already fierce industry price war.

The promotion, which includes unlimited data, texting and calling, is targeted at **Verizon Communications Inc.** customers, but anyone who brings an eligible device from other carriers can sign up, Sprint said. Eligible devices are listed on Sprint's website.

Customers who sign up for the free service must own their smartphone and will be asked to start paying Sprint's regular rates after a year, though customers are allowed to switch or cancel service. Customers can switch up to five lines.

Sprint currently charges \$60 a month for unlimited service on one device.

—Ryan Knutson

HEXAGON

### Swedish Company In Talks on Sale

**Hexagon AB** has held talks on a possible sale to a U.S. or European rival that could value the industrial-technology company at \$20 billion, according to people familiar with the matter.

Talks between Hexagon and potential buyers are at an early stage and the company, one of Sweden's biggest, may ultimately decide not to pursue a sale.

Two factors are pushing the company, the people said: an insider-trading case against its chief executive, and the ill health of its largest shareholder. In March, Hexagon CEO Ola Rollén was indicted on insider-trading charges related to an outside investment. The company said it supports Mr. Rollén, who denies wrongdoing. Meanwhile, Melker Schörling recently stepped down as chairman of Hexagon due to health issues.

—Dana Mattioli and Dana Cimilluca

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## TECHNOLOGY

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Proterra, whose CEO wants to 'eliminate fossil-fuel buses from American cities,' has said a public stock offering is just one option.

## Proterra Raises Funds, Seeks IPO

**Electric-bus maker attracts \$55 million from Al Gore's fund, BMW and others**

By TIM HIGGINS

**Proterra Inc.**, the electric-bus maker heading toward a possible initial public offering, has raised an additional \$55 million in funding from investors including **BMW AG's** venture-capital arm and Al Gore's investment fund.

The fundraising follows a \$140 million investment in January and brings the total capital collected by the company to \$345 million since it was founded in 2004.

Burlingame, Calif.-based

Proterra, which has manufacturing facilities near Los Angeles and in South Carolina, has sold more than 400 buses to cities and communities such as Dallas and Philadelphia. The vehicles sell for \$750,000 each. Proterra declined to say how many buses it sold last year or disclose revenue.

Besides BMW's i Ventures and Mr. Gore's Generation Investment Management LLP, Proterra has more than a dozen investors, including General Motors Co.'s venture fund and venture-capital firms like Kleiner Perkins Caufield & Byers.

"My view is if you can get BMW's help and you're working on lightweight materials and electric cars, and you can get Generation's help in terms

of understanding how to be a public company before you're a public company—especially in the green space—let's do it," said Ryan Popple, Proterra chief executive.

Proterra bolstered its executive ranks last month with the hiring of two senior executives with experience taking companies public. JoAnn Covington, former general counsel of Rocket Fuel Inc., was named chief legal officer. Amy Ard, who previously worked for AMG Advanced Metallurgical Group NV, became chief financial officer. Both worked on their respective companies' IPOs. Proterra also named former Michigan Gov. Jennifer Granholm to its board in March.

Mr. Popple, a former Tesla

Inc. executive, has said the company could file for an IPO this year or in 2018. In an interview, he was coy about a timeline for an IPO, saying the company could file soon or wait awhile with the cash raised.

"For me, an IPO is a means to the end and the end is: I want to eliminate fossil-fuel buses from American cities, and if an IPO helps us do that, great," Mr. Popple said. "If a strategic partnership with a larger corporation is actually the faster way to do that—that doesn't matter to me."

The challenge for Proterra is selling buses that are more expensive than traditional diesel buses, though Mr. Popple says his buses are cheaper to operate and don't require as many repair parts.

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## Google Parent Shelves Its Tiny Test Car

By JACK NICAS

Google parent **Alphabet Inc.** retired its self-driving prototype dubbed the "Firefly"—a tiny test car with no steering wheel or pedals—to focus on building its self-driving technology into mass-produced vehicles.

The vehicle, built in collaboration with Detroit-based auto supplier **Roush Industries**, started hitting roads in a testing capacity in 2014, with a capped speed of 25 miles an hour. It became iconic as autonomous-car development heated up, and was a symbol of Silicon Valley's assault on the auto industry.

The move confirms that Alphabet's driverless-car unit **Waymo** has come to terms with the high regulatory and societal hurdles of selling vehicles without traditional controls. Instead, Waymo said it is focused on automating commercially available cars—like the hundreds of Pacifica minivans from **Fiat Chrysler Automobiles NV** it is modifying—that will enable it "to bring fully self-driving technology to more people, more quickly."

Waymo in 2014 introduced the Firefly, a two-seat concept car with few controls other than "Stop" and "Go" buttons.

## TECH

*Continued from page B1*  
theory. But right now, some pretty important apps are missing from the store, like Google's Chrome and Adobe's Photoshop Lightroom. Any one with software needs as basic as those would need to upgrade to regular Windows 10—free now, but \$49 starting in 2018.

That's not to say the Laptop is a bad laptop. Here's what's good:

## Power

Microsoft didn't skimp on Intel's latest chipset. I could even stream three videos at once without triggering the annoying whir of a fan to keep it from overheating.

## Battery

The Laptop lasted slightly longer than 10 hours in my brutal web-surfing test—a half-hour longer than the 13-inch MacBook Pro and 15 minutes longer than a similarly equipped Dell XPS 13.

## Screen

The screen is a stunner, packing in more pixels than even the latest MacBook Pro. You can touch it and even write on it with a stylus (sold separately). Unlike touch PCs such as HP's Spectre x360, though, you can't swing the screen all the way around to make it lie flat.

## Details

The keys have a more satisfactory click—called "travel" in the industry—than the latest MacBooks. The trackpad is responsive. The laptop is even weighted so you can open it with one hand.

But if you're considering getting one, particularly for business use, there are a few caveats to keep in mind. Here's what's bad:

## Ports

Along with a Mini Display Port for an external monitor, there's just one old-fashioned USB-style port. That's not enough. Besides, in the next few years you'll probably need the newer USB-C plugs. The Dell XPS 13 has both the old and new—and an SD-card reader.

## Memory

The \$1,000 base model comes with just four gigabytes of RAM, half what you get for that price from Apple or Dell. I recommend eight for a computer you plan to hold on to for a few years, which immediately hikes up the price to \$1,300.

## Ports

While other Windows 10 S computers will directly compete in that price range, Microsoft's own offering can't.

Microsoft adds some value by including a free year's subscription to Microsoft Office, but in the age of Google Docs, that's no longer a must-have for students.

At \$1,300—the cheapest configuration worth considering—you've hit the same price as the MacBook Pro that Apple updated last week.

And while the Surface Laptop has touch-screen capabilities, most students with that much money to burn would rather spend it on a Mac. For everyone else: Dude, you're getting a Dell.



Microsoft says the fabric on the laptop is easy to clean and durable.

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## INTERNATIONAL NOTICES

## THE WALL STREET JOURNAL

**Swissair Swiss Air Transport Company Ltd.** in debt restructuring liquidation / publication of provisional distribution list for the 3rd interim payment

The provisional distribution list for the 3rd interim payment in the debt restructuring proceedings with assignment of assets concerning **Swissair Swiss Air Transport Company Ltd.** in debt restructuring liquidation. Balz Zimmermann-Strasse, 8302 Kloten, will be open to inspection by the creditors concerned between 14 June 2017 and 26 June 2017 at the offices of the liquidator, Karl Wüthrich, attorney-at-law, Wenger Plattner, Goldbach-Center, Seestrasse 39, 8700 Küsnacht. For inspection, please call the hotline on +41 43 222 38 50 to arrange an appointment.

Appeals against the provisional distribution list must be lodged with the District Court of Bülach, supervisory authority for debt enforcement and bankruptcy, Spitalstrasse 13, P.O. Box 8180 Bülach, within ten days of the list's publication, i.e. by 26 June 2017 (date of postmark of a Swiss post office). If no appeals are lodged, the 3rd interim payment will be made as provided for in the provisional distribution list.

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# JOURNAL REPORT | WSJ D.LIVE ASIA

## In Defense of the Giants

Yuri Milner on why big projects need the big internet companies



What does the future hold for the internet giants of today—and the companies that will rise to prominence down the road?

The Wall Street Journal's editor in chief, Gerard Baker, spoke with Yuri Milner, the founder of technology-investment firm DST Global and co-creator of prizes to honor scientific achievements and reinvigorate the search for life in space. Here are edited excerpts of the discussion.

### The internet future

**MR. MILNER:** It's not a secret that the internet as an investment class did very well in the last 10 years. I just wanted to reflect on some of the reasons why and make predictions on how well this asset class will do in the next 10 years.

There is common knowledge about why this specific asset class is so powerful. There is no need for physical infrastructure. All the heavy lifting has been already done:

low operating costs, global distribution networks, viral capabilities to distribute products and a very fast product development cycle.

I wanted to focus on two more reasons.

Internet companies spend dramatically more on R&D per dollar of revenue. The second reason is that internet companies have been extremely successful in attracting and retaining talent. All of those reasons lead to value creation.

But we asked, what's going to happen in the next 10 years?

And you only need to make some relatively conservative assumptions to come up with a significant number. What percentage of consumption is happening online, the number is only 6% globally. We believe that in the next seven to eight years, this number will more than double. That means that there will be an additional \$4 trillion created in that space.

**MR. BAKER:** What could change

that trajectory?

**MR. MILNER:** It looks like that's how innovation is taking place in the 21st century. The internet is enabling innovation. In the last maybe 20 years new companies were more successful in capturing this opportunity. And these companies over time became big companies.

**MR. BAKER:** These companies are enormously dominant. Their scale is extraordinary. Apple approaching a trillion dollars of market cap. Google. Facebook. How concerned should we be about the domination in all kinds of things?

**MR. MILNER:** The key question we all collectively need to ask is, what is best for consumers? What is best for all of us? Let's also not forget that these companies became big in a mostly organic way. There was not a significant amount of M&A happening.

**MR. BAKER:** You're comfortable

right now that the concentration that we're seeing is not fundamentally either anticompetitive or harmful to the consumer?

**MR. MILNER:** Obviously, there has to be a balance. Governments are looking for ways to find this balance. What I would like to focus on and what I do focus on is what value these companies can bring to all of us in the future.

As I mentioned, the sector really dominates in R&D spend. If we focus on the biggest projects that require many billions of dollars in funding—like, for example, virtual reality or artificial intelligence—those projects require an enormous amount of capital. They require computation. They require server capacity. And I think we all have an intrinsic interest in those projects getting funded. So what I'm saying is that in order for all of us to reap the benefits of AI, for example, as soon as possible we need a certain amount of concentration of capital so that those projects get funded.

### A separate setup

**MR. BAKER:** Can China go on, in political terms and from an investment perspective, to continue to develop its own separate internet companies? And Facebook and everybody else will just have to deal with the rest of the world?

**MR. MILNER:** The interesting byproduct of these massive companies that have been created is that the employees and the founders of those companies, obviously they reap the benefits of the success. And the byproduct of this is the creation of a very vibrant angel community.

From the angel community follows a VC community. And then a VC community is followed by growth stage, late

## THE ASIAN TECH REVOLUTION

For many years, technology firms in Asia were dismissed as merely copycats, with much of the innovation coming from Silicon Valley giants. But at the inaugural Wall Street Journal D.Live Asia conference last week in Hong Kong, more evidence emerged that companies and startups from this region are creating unique products and services that are being emulated in the West. That's largely due to Asian companies' intense focus on what consumers want on their mobile devices.

Asia is home to more than 2.5 billion mobile-phone users, with China being the world's biggest smartphone market, according to researcher eMarketer. Tech startups in the Asia-Pacific region raised more than \$100 billion over the past five years through venture-capital funding, according to data from CB Insights, highlighting just how much growth is coming from this region.

The Wall Street Journal convened over 300 tech executives, entrepreneurs and investors to address topics ranging from the future of the internet to technologies that are changing our world such as artificial intelligence, driverless cars and mobile payments. In onstage interviews, executives discussed how the fintech revolution is unfolding, where venture-capital money is flowing, which companies are winning the AI battle, how Asian internet firms are plotting their future and how Western companies are navigating China's opaque market. Edited excerpts are presented here.

—Yun-Hee Kim

## INSIDE

Baidu's Qi Lu discusses his plans for turning the company around with a big boost from AI, and how the driverless-car race is shaping up, **B6**

Richard Liu of JD.com says the Chinese retailer is going to have to diversify and will introduce marquee Chinese brands into the U.S., **B6**

Microsoft's Alain Crozier explains why tech companies must change their mind-set to succeed in China, **B7**

Connie Chan and David Su on venture capital in China and what investors can learn about products that come out in China first, **B8**

Anthony Tan and Doug Parker discuss where the booming ride-sharing industry is headed in Asia, **B8**

## Ctrip Sets Its Sights Globally

CEO Jane Jie Sun says that while her company is No. 1 in China, it is an 'infant' around the world



China's outbound tourism industry is growing rapidly. Ctrip.com, China's biggest online travel site, is challenging Priceline to become the world's biggest online travel platform.

To discuss Ctrip.com's growing ambitions, Wall Street Journal senior editor Yun-Hee Kim spoke with the company's chief executive, Jane Jie Sun. Here are edited excerpts of the discussion.

### Buying strategy

**MS. KIM:** You did a major acquisition last year, the \$1.7 billion deal to buy travel search site Skyscanner. When you look at acquisitions, what do you look for?

**MS. SUN:** First, it needs to be closely related to our core business, which is travel. The second thing is, normally when we look at the target, it needs to be the No. 1 or No. 2 industry leader in that vertical. The third criteria is the valuation needs to be reasonable.

**MS. KIM:** You have also been acquisitive in the U.S. How is your strategy in the U.S. different from Europe?

**MS. SUN:** In the United States, we saw a very strong trend for customers to move from the rest of the world to the United States.

The visa restrictions in the United States were finally lifted up. Chinese citizens were able to get 10-year visas. Second, lots of young kids are very curious and want to study in the United States. And third, the U.S. has lots of travel resources, and it's relatively very safe.

So when we saw the trend to move customers from the rest of the world to the United States, then we needed to make sure our customers were provided the best service, best products.

So our three investments in the United States will be able to block the best hotels, the best transportation for our customers.

did you decide to invest?

**MS. SUN:** India will overtake China as the most populous country in the world. Although the GDP per capita is quite low, it has potential to grow the affluent portion of its people. And these people will be able to travel.

The India market is very similar to China in the sense that it's very localized. Only local people know how to deal with the government, how to develop that market. We believe MakeMyTrip is a very good player in that market.

**MS. KIM:** Let's talk about regulatory challenges. What are the headwinds that you see coming from the government?

**MS. SUN:** The government is very supportive of travel, because we are nonpolitical. We bring people together. So our government supports us. And enterprises also like us because to conduct business meetings, they need a good supplier to make good arrangements for their travel.

And the citizens like Ctrip because after they buy a house, buy a car, they want to travel. So as long as we deliver a high level of service, provide the most comprehensive products and offer the best price, I think we will be able to serve the government, enterprise and individuals very well.

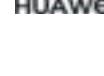
**MS. KIM:** You have a 10% stake in MakeMyTrip in India. India's a very competitive market, but also very different from China. What are the biggest challenges there and why



A beacon under the night sky in Australia

## Exploration lights the way forward

The relentless pursuit of innovation enlightens the intelligent world



# Baidu's Turnaround Strategy

President Qi Lu's view on how the driverless-car race is shaping up



MANUEL WONG/DOW JONES (2)

And the second is to make the user interactions richer and better. Because the inspiration for a user to search never came out of the blue. The reason you're searching for something is because you have a purpose in mind, you want to accomplish something. You want to listen to a song. You want to ask a question. You want to study.

We want to bring the user a lot closer to the [subject]. So that, for example, if you want to listen to a song, you can play the song. You can watch a movie, watch video clips—interacting with the services directly.

**MS. YUAN:** But the problem now is that people increasingly rely on social media for information. And people don't search as much as before. How are you going to tackle that?

**MR. LU:** I do not agree with your premise. Social media is a great product. However, having said that, each social-media product is a proprietary, closed information ecosystem. That's number one.

Number two, the digital universe is expanding at such a vast pace, it will outstrip any social media, any proprietary closed world. And users, our interests, our needs are long-term. This is why search succeeded—it never ends. If you blend these two, there's people always seeking more information.

The key is the search experience needs to be better. What search brings the user, the interaction needs to be richer. We want to enable every human being to easily discover access to anything they care about.

## The driverless car

**MS. YUAN:** Baidu and Google, who's going to have a driverless car on the street first?

**MR. LU:** First of all, let me describe what I think is the state of the driverless-car industry. There's a bunch of companies

# Microsoft's Perspective On the Chinese Market

Alain Crozier explains why tech companies must change their mind-set to succeed in China

Western tech companies have had a turbulent relationship with China—particularly over issues concerning the protection of intellectual property. How does one of the biggest players handle it? The Wall Street Journal's Jason Anders spoke with Microsoft Corp.'s chairman and chief executive for greater China, Alain Crozier. Here are edited excerpts of the discussion.

## Recent success

MR. ANDERS: Microsoft has

been doing business in China for something like 25 years. How would you say it's going?

MR. CROZIER: It's going very well. In the past 10 days, as an example, we've done two very large announcements. First, we did the first world-wide launch of any product out of China with the new Surface Pro. That's a big sign that the Chinese market is very important for Microsoft. Most, if not all, products are launched out of the U.S. Already, this is our second-largest market for Sur-

face. If everything goes well, China is going to be the first market for Microsoft from a hardware standpoint.

The second one is also very important. We have now a Windows 10 government edition available for the Chinese government but also for the state-owned enterprises.

With another big piece of Microsoft's business, a cloud business, a joint venture that we started some time ago here in China, is experiencing very nice and very solid growth.

MR. ANDERS: I know this process involved some amount of sharing some proprietary code with your Chinese partners. Western companies have long been cautious when it comes to sharing technology in China. Was this something that you considered to be a risk?

MR. CROZIER: When you are a software developer and you put a lot of effort and research and development into code, it is clear that when you develop a solution or product, you want to keep the code for yourself.

And the reality is at some point you have to also decide what is best for customers, what is best for government and what is best also for Microsoft. And I think we've decided that now was a time to open up as a software company to initiatives like this one. Is there a risk? I'll tell you that in 10 years.

It's a decision that I know a lot of people don't really want to take. But I think a lot of things are changing in China, from an IP standpoint. I think there are also more reforms that really help companies like Microsoft make decisions like this one.

MR. ANDERS: With Windows



MANUEL WONG/DOW JONES

10, while Microsoft has said this software is as robust as the software anywhere else, this still puts some doubt in someone's mind that perhaps you weakened something like security to break into the Chinese market.

MR. CROZIER: Windows 10 is

the most secure operating system Microsoft has ever built. When you look at how Windows 10 is used by all types of governments, including some very conservative governments, Windows 10 is by far the best operating system.

We have also been very transparent. If you are a government and you want to see exactly what's going on with Windows 10, our doors are totally open.

MR. ANDERS: I want to ask you more broadly about the experience of a Western company, especially a Western technology company, doing business in China in 2017. Obviously, Microsoft has a couple of decades of experience here. You've worked in a lot of places yourself. To be blunt, how level or not is the playing field today, for Western firms, especially technology firms?

MR. CROZIER: The field is a great field. But the thing is, every company's built on some values. You have some strict

values. You also have some strict principles. And we live in a world today where sometimes maybe some of those principles will evolve because the times are different and because the customers are different and because the competition may be different.

You have a lot of forces that at some point will maybe have you change your mind a little bit on how you want to do things.

A lot of players come and only have one play, which is an IP play. And it is, "I protect my IP, and I'm going after piracy."

And, "I'm fighting that on my own." As a software company, you have to change that. You have to, first of all, work with local partners, extensively.

So you have to potentially change the way you think. You have to change your business model one way or another and say, "Hey, you know what? I want to really do something in this country. I find a partner. I work with this partner. I share maybe more than I used to share."

## A different mind-set

MR. ANDERS: We were talking about what it takes to be successful in China. And you were

saying it takes a very different type of person, really, a different kind of mind-set than it

does to work in Silicon Valley or Europe. Can you elaborate on that a bit?

MR. CROZIER: You have to be long-term focused when you come to this market. That's the first thing.

The second thing is, the people you hire to be in this market, they have to be long-term focused.

And for that, you need maturity. You need to be careful. When the wind is coming here or it's coming there or it's snowing or it's too cold, people start to say, "Hey, I don't like this weather. I don't like that."

So, you need to have people who have a certain maturity at saying, "Yeah, you know, this isn't going to be easy. But I need to stay put. And I need to make sure that when I come to China, I love the place."

Because I've seen too many people coming and saying, "Hey, I've been sent by my company to come here." And then a year later they say, "Oh, this place, I don't like."

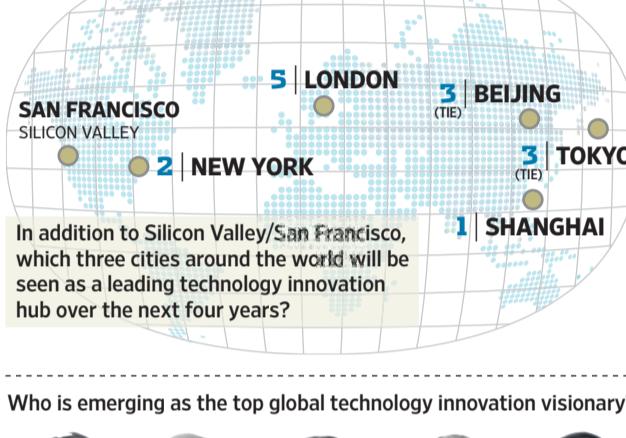
Why? Because it's very difficult. Because it's complex. Yeah, sure. But you know what? If you do well, if you have a long-term mind-set and if your company is committed to doing business in China, you'll experience a fantastic life, I can tell you that.

## High Profile

How technology industry leaders around the world answered some questions on technology innovation in a KPMG survey

Which country shows the most promise for disruptive technology breakthroughs that will have a global impact?

U.S. 26% China 25% India 11% U.K. 10%



Who is emerging as the top global technology innovation visionary?

	1	ELON MUSK	TESLA/SPACE-X
	2	TIM COOK	APPLE
	3 (TIE)	JACK MA	ALIBABA
	3 (TIE)	LARRY PAGE	ALPHABET
	3 (TIE)	SUNDAR PICHAI	GOOGLE

Source: KPMG Technology Innovation Survey of 841 C-Suite and other global technology industry leaders, conducted online September to November 2016

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## JOURNAL REPORT | WSJ D.LIVE ASIA



MANUEL WONG/DOW JONES (2)

David Su and Connie Chan

# Where VC Money Is Going in China

Connie Chan and David Su discuss venture-capital trends, and what investors can learn about products that come out in China first

Venture capitalists are often among the first to recognize big trends in technology, and, if they're lucky, to back the companies best positioned to profit from those trends.

Wall Street Journal reporter Rolfe Winkler sat down with two successful VCs familiar with China's tech market, Connie Chan, a partner at Andreessen Horowitz, and David Su, founding managing partner of Matrix Partners China, to find out where tech—and the money—are headed next. Edited excerpts follow.

**MR. WINKLER:** Where is venture capital flowing right now, in China and the U.S.?

**MR. SU:** Software services is a space we've been investing in over the last four years. Human capital is getting increasingly expensive in China. In the last four years we probably invested in about 30 companies in early to early growth stage. We're seeing tremendous growth in that space.

We're also looking at security. We're looking at enter-

prise-security, internet-security companies.

**MS. CHAN:** A couple of years ago my partner, Marc Andreessen, wrote an essay saying "software is eating the world." We think that same message holds true today. If you look now at all these traditional industries that were not software-led, they are doing whatever they can to build software teams, engineering teams. Look at the auto industry, for example.

We're seeing so much disruption happening. We're looking at a lot of areas where traditional industries are getting massively disrupted by software.

**MR. WINKLER:** Why doesn't Andreessen invest in China?

**MS. CHAN:** We have a strong operating-partner focus where we introduce networks of investors, engineers, product designers, marketing folks to all of our portfolio companies. And a large part of our network is centered in Silicon Valley. So our biggest value-

add is most likely to a company that has its headquarters in and is based in the U.S. Most likely Silicon Valley. We have made investments outside of the country. But that's definitely not the norm.

However, we do spend a lot of time thinking about China. I come to China, I come to Hong Kong quite frequently because I think there's so much to learn. There are so many portfolio companies trying to figure out their China strategy.

**MR. WINKLER:** We've heard many times that China is full of technology copycats. That has reversed a little bit. Give us examples where you've had a portfolio company learn something product-wise, rolled something out because they saw it here first.

**MS. CHAN:** Earlier this year we made an investment in LimeBike [a bike-sharing company based in San Mateo, Calif.]. After talking to lots of my Chinese investor friends who had invested in Ofo and Mobike, the two leaders in bike sharing

in China, I learned about the unit economics of this model, and I saw some very strong product market fit. In many ways, LimeBike is kind of a China copycat in the sense that they're taking that Mobike, Ofo model and bringing it to the states.

**MR. WINKLER:** David, you are

in China, I learned about the unit economics of this model, and I saw some very strong product market fit. In many ways, LimeBike is kind of a China copycat in the sense that they're taking that Mobike, Ofo model and bringing it to the states.

**MR. WINKLER:** David, you are

an original investor in Ofo. I think you did the series A at about a \$30 million valuation? And now they're at \$2 billion, in what, 12 months?

**MR. SU:** It was just operating in several universities in Beijing. They were doing maybe 30,000 to 40,000 rides a day. As of last week we are doing, like, 20 million daily average rides. They have maybe seven million bikes in a hundred cities. So Ofo and Mobike now dominate the bike space. The growth has been phenomenal.

**MR. WINKLER:** Are these companies profitable?

**MR. SU:** Not yet. Ofo is going through this neck-to-neck competition with Mobike. Both are getting subsidies and waiving periods of usage. But eventually, when things settle down, I think the numbers will work.

**MR. WINKLER:** Payments is so strategic for some of these companies,

**MR. SU:** Yes. I think the next few years you will see lots and lots of innovation in payment on mobile that's going to drive a lot of consumption, change in behavior. I think all this is driving a lot of changes in consumers. And there's very minimal friction to using these services.

**MS. CHAN:** The way Chinese app companies think and the designers think is they want to grow deep, not just wide. Meaning, they want to control all aspects of your day from

morning to night. It might just start with your transportation—but it can branch beyond that.

**MR. WINKLER:** Why do they want to control all that?

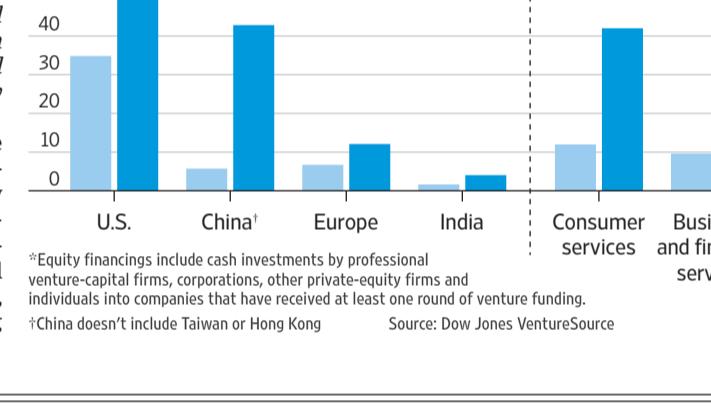
**MS. CHAN:** Because you get more of the users' time. You can send them to different services, different apps, you control distribution, you can do different kinds of advertising. You get more data around that consumer. So anything that's a daily-use, high-frequency app is very valuable. And I think China, with the super app design model, recognizes that biking is one of those companies.

**MR. WINKLER:** What companies starting today will be the next Baidu, Alibaba and Tencent?

**MR. SU:** We were looking at software services and security. You know, this is a space we're very interested in. No. 2: all this micropayments. If you walk today in Shanghai and Beijing you are starting to see pop-up KTV [karaoke TV] booths with two or three seats. You scan your phone, you open the door, you go in and you can sing two songs, take pictures with your friends, capture the image and send it to whatever account you have. It's instant gratification. And that's all powered by mobile, powered by payment. Areas like that we are very interested in, where young consumers will be very interested.

## Venture-Capital Flows

Equity financings for venture-backed companies\* ■ 2012 ■ 2016



\*Equity financings include cash investments by professional venture-capital firms, corporations, other private-equity firms and individuals into companies that have received at least one round of venture funding.

†China doesn't include Taiwan or Hong Kong

Source: Dow Jones VentureSource

THE WALL STREET JOURNAL.

# The Ride-Sharing Boom

Anthony Tan and Doug Parker on where the industry—and driverless cars—is heading in Asia

Few battles in the tech world have been as bruising as the global ride-sharing wars. Who will come out on top?

In Southeast Asia, Singapore's GrabTaxi Holdings Pte. is slugging it out with Uber Technologies Inc. and others for dominance. Grab is now in 55 cities across the region. It launched a mobile-payments business known as GrabPay, recently bought an Indonesian e-commerce firm and is teaming up with Cambridge, Mass., startup nuTonomy Inc. to test self-driving cars in Singapore.

Grab co-founder Anthony Tan and Doug Parker, chief operating officer of nuTonomy, sat down with Jason Anders, The Wall Street Journal's global business editor, to discuss where the industry is headed in Asia.

Edited excerpts follow.

## Perfect complement

**MR. ANDERS:** Ride sharing is

booming, especially here in Asia. Anthony, Grab is focused on Southeast Asia, on letting folks hail private cars, taxis and motorbikes. But lately, you've been pushing pretty aggressively into mobile payments and other businesses. Why?

**MR. TAN:** The payments experience and the entire ride-sharing experience—they are perfect complements, right? Today we do about 2.5 million rides a day. That's a lot of small transactions, ranging from \$3 or \$4 to \$11. And you just sort of use GrabPay all the time. That frequency builds a habit. That habit then becomes something you're comfortable with. Our credit wallet, because of that, has grown about 80% month on month.

**MR. ANDERS:** You recently bought Kudo in Indonesia, which helps consumers who don't have internet connec-

tions, or even bank accounts, buy things by connecting them with local agents who they can deal with face-to-face. What does that have to do with ride-hailing?

**MR. TAN:** Think about the digital divide. In Southeast Asia there are about 630 million people and a lot of them still don't have a bank account. They don't have smartphone penetration. It's growing very fast but is far from where it needs to be. GrabKudo has about 400,000 agents. They are community guys and they come up to [people] and they say, "Hey, if you want access to any of the e-commerce sites, I can get you access. Do you want to sign up as a Grab driver?" They have been signing up thousands of drivers on a daily basis.

**MR. ANDERS:** So Doug, nuTonomy is looking to make the case that not only do we not need to own cars, we actually don't need drivers. How do you convince ride-hailing companies that this is where they should be investing?

**MR. PARKER:** There has been a big step change in experience from the taxicab drive of the 1990s in New York City to the taxicab or Uber, Grab or Lyft drive of today. Autonomous [driving] is the next big step change. Your experience today is about 10 times better than the old taxicab ride, but there are things you probably don't like about it. Maybe I would like to sit in the front. I'd like to look out a front window, control the radio myself, control the temperature.

Autonomous is also going to be a safer ride. Something like 1.4 million people die every year in auto accidents.

That's equivalent to 10,747 crashing every day. You would never let United get away with something like that, or Boeing. So once you have big companies taking on this role of driving the cars, we are going to end up with a safer, more

comfortable, more efficient ride.

**MR. ANDERS:** You've worked with Grab on a test in Singapore. And you just announced you're going to collaborate with Lyft on a similar test in Boston, with real-world riders. What are you learning from these tests?

**MR. PARKER:** When you start putting people [in self-driving cars] who aren't roboticists or scientists, what they tell you is amazing. They have a lot of fear when they first get in, when the car starts driving itself. But after five minutes, they're playing with their phones. So there is this very fast adoption curve. But when the car goes to make a turn at a busy traffic light for the first time, it is a little scary.

It's kind of like people who are scared of flying. They aren't scared of the engineering, or that the plane won't fly. It's that they have no control. It's the same thing with autonomous cars. We have to get used to the fact that the car is going to make the right choice. Every time.

**MR. ANDERS:** How long will it be before I hail a car, and it picks me up without a driver?

**MR. PARKER:** We will still have a safety driver in the car for a number of years. There is a long process to convince regulators that this is safe. We

have to find the right way to prove, through on-road tests, that this is entirely safe to take the driver out. Part of that is we're going to have remote safety officers who will monitor the cars and take over if there is a problem.

## 'Brothers in this'

**MR. ANDERS:** NuTonomy is working with different ride-hailing partners and auto makers. Many of these companies are locked in some pretty bitter blood feuds. How do you stay neutral?

**MR. PARKER:** Right now, we're trying to work with the good guys—the Grabs and the Lyfts of the world that really want to drive a better experience for people. But also, at this point, Grab and Lyft aren't competing with each other. We actually have three partnerships with ride-hailing companies. We haven't announced the third one yet.

**MR. ANDERS:** You haven't announced the third one yet? Here we are. Let's have it.

**MR. PARKER:** I know. It's a great forum. But...

**MR. ANDERS:** You haven't announced the third one yet? Here we are. Let's have it.

**MR. PARKER:** I know. It's a great forum. But...

**MR. ANDERS:** Anthony, let's talk about competition. Uber gave up the fight with Didi Chuxing Technology Co. in China, and I know Didi is one of your investors. How are you going to avoid one of these re-

ally protracted, and wildly expensive, battles in Southeast Asia?

**MR. TAN:** It is very different in Southeast Asia. For one thing, Grab embraces the taxi world. In Singapore, Grab combines all the taxis, all the cars, with one touch of a button. And because we work so closely with the Singapore government, they have allowed us to be the first company with the ability to price dynamically for taxis, which is essentially a public utility vehicle. So with just Grab, you now get taxis that can have dynamic pricing at peak hours, and be cheaper than the meter during off-peak hours.

**MR. ANDERS:** If Didi wanted to acquire Grab outright, would you be open to it?

**MR. TAN:** Right now, we work hand in hand. They aren't types who say, "I want to be the boss, and that's it." They are much more like, "We're brothers in this. How do we make sure that we win this local style, respecting the local nuances?"

They realize that Southeast Asia is a fragmented market. The countries are similar in many ways but still so different in terms of language, religion, etc. The ability to embrace that fragmentation but also see the common patterns is what Didi respects about us.



Anthony Tan and Doug Parker

## Where To?

One forecast of where the global ride-sharing market is headed

### REVENUE

Projected global growth

\$100 billion

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## MANAGEMENT

# Insiders Are Useful To Boards

By JOANN S. LUBLIN

In an ironic twist, many U.S. corporate boards weakened their oversight of management by trying too hard to be independent, a new study finds.

Nearly three-quarters of S&P 1500 companies boast boards where the chief executive serves as the lone inside member, up from 41% in 2000. That is a troubling shift because companies governed this way are more likely to commit financial misconduct, generate lower profits and overpay their CEOs, the research suggests.

"Having at least one other insider is valuable to preventing some of these negative consequences," said Christine Shropshire, a co-author of the research, which tracked 1,638 companies in the S&P 1500 between 2003 and 2014.

Corporate scandals and legislative changes earlier this century decreased the popularity of multiple insiders on boards. Stock exchanges now require a majority of independent directors, based on the belief the arrangement enhances objectivity and allows for closer supervision of management.

An extremely independent board "is too much of a good thing" because lone-insider CEOs restrict board access to critical information and to leaders' possible successors, added Ms. Shropshire, an associate professor of management at Arizona State University's business school.

Businesses should "reconsider whether the push toward lone-insider boards is actually in shareholders' best interests," concluded the study by five management academics. Their paper is an important study, said Ken Bertsch, executive director of the Council of Institutional Investors, a pension fund group. The work will appear in a coming issue of Strategic Management Journal.

# Anthem Boss Faces Tough Choices

After pulling out of Ohio, Joseph Swedish weighs fate of health insurer's remaining marketplace plans

By ANNA WILDE MATHEWS

**Anthem** Inc.'s business is swirling with uncertainty as the U.S. Congress debates new health-care legislation. That means tough choices are looming for the insurer's chief executive, Joseph Swedish.

One of those difficult decisions came last week, when Anthem said it would withdraw from the Ohio insurance marketplace in 2018. Anthem's departure leaves 18 Ohio counties poised to have no plans available through the marketplace next year.

Anthem is a huge player in the marketplaces created by the Affordable Care Act, and the Trump administration has threatened to stop federal payments that reduce costs for low-income people who get coverage in those exchanges. Insurers say the cost-sharing payments provide vital support.

The Ohio decision, Anthem said, was a reaction to a volatile market and uncertainty around key issues including the federal payments. Now, Mr. Swedish is weighing what to do in the 13 other states where Anthem offers marketplace plans. He says he wants to be sure consumers have access to affordable health care, and he's concerned about issues including the severity of cuts to Medicaid in final legislation.

Mr. Swedish, 65 years old, is also locked in high-stakes litigation. Anthem and **Cigna** Corp. are suing one another over their soured merger deal, which was terminated in May after courts blocked it on antitrust grounds. Anthem is also suing **Express Scripts Holding** Co., alleging it violated their contract. Express has said it believes the suit is without merit.



MICHAEL BUCHER/THE WALL STREET JOURNAL

The former hospital executive, who became Anthem's CEO in 2013, sat down with The Wall Street Journal late last month to talk about the state of health care.

Edited excerpts:

**WSJ:** Where are you in the decision-making process with regard to the exchanges?

**Mr. Swedish:** It's a question wanting to stay in, delving into the math that will dictate the decision that we're responsible for making on behalf of the stability of our company, as well as the performance that we can give our customers. The last thing I want to do is give them a sub-standard product, substandard price, and if we can't meet that test, then there's some very serious doubt we can remain in some markets.

**WSJ:** What options are on the table regarding the ex-

changes? **Mr. Swedish:** There are still decisions yet to be made regarding [federal cost-sharing payments] and the continuation of the [ACA tax on health insurers], which is now under a moratorium. The challenge for us is pricing relative to the decisions that may be made, which could translate to as much as a 25% premium increase. How can the markets we support tolerate that level of premium escalation? That's a judgment call we're gonna have to make.

**WSJ:** Are the marketplaces in a death spiral?

**Mr. Swedish:** It's an unfortunate characterization. There are markets that are significantly unsustainable. There are others that have performed, call it reasonably well, under the circumstances.

**WSJ:** Should CEOs have a voice in big public debates

like the one over the ACA? **Mr. Swedish:** Absolutely. We're leaders of companies that represent millions of Americans, in our case, over 40 million members. We believe we are their voice. And we should speak on their behalf.

**WSJ:** Do you worry about becoming the subject of a presidential tweet?

**Mr. Swedish:** Not really. I don't think we're worried about the tweets, because I know we are considered valued contributors to the debate.

**WSJ:** The House has passed a health bill and the Senate is working on one. What concerns you in that legislation?

**Mr. Swedish:** Change to correct the ACA will be disruptive. Question is, can organizations like ours help the American public make the leap from what they've known to what may be passed? That is a tall order.

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## BUSINESS NEWS

# Cheesecake Factory Cools Down

Same-store sales are likely to drop 1%, ending winning streak; pressures hit industry

BY JULIE JARGON

**The Cheesecake Factory** Inc. has broken a seven-year winning streak, becoming the latest restaurant to succumb to pressures roiling the restaurant industry.

The chain that is known for its vast menu and large portions said Tuesday it expects second-quarter same-store sales to decline by about 1%, after previously projecting an increase of 1% to 2% for the period. The Cheesecake Factory had posted 29 consecutive quarters of same-store sales increases.

Shares in The Cheesecake Factory slid more than 9% in Tuesday trading to \$52.97.

Incoming Chief Financial Officer Matthew Clark told investors Tuesday the company has seen heightened volatility in the Eastern and Midwestern U.S. that is "indicative of uncertainty among consumers."

Analysts say the pressures that have been hurting the restaurant industry and the casual dining sector in particular, including consumers' desire for healthier food and smaller portions, are finally catching up with The Cheesecake Factory.

Darren Tristano, chief insights officer at restaurant consulting firm **Technomic** Inc., added: "There are just too many restaurants...There's a lot more competition from independents, which are giving chains like Cheesecake a run for the money."

Eating out has also become a lot more expensive. Restaurants have been raising menu prices in recent years to help offset rising labor costs as cities and states across the country have increased the minimum wage for hourly workers.

The Cheesecake Factory's average check has increased by more than 10.5% in the last four years to \$21, outpacing



The Cheesecake Factory has long charged a premium because of its service and since it makes all 250 of its menu items from scratch.

## FDA Delays New Labels

U.S. regulators delayed changes to nutrition labels on packaged food and drinks, the latest Obama-era food policy initiative to be postponed by the Trump administration.

The Food and Drug Administration on Tuesday said the delay will give food makers more time to comply with the new labels, which highlight information on calorie content and added sugars. The previous deadline to include the new labels was July 26, 2018.

FDA spokeswoman Deborah

Kotz declined to provide a new timeline.

"Numerous stakeholders have informed us that they have significant concerns about their ability to update all their labels," Ms. Kotz said.

Last month, the FDA said it would delay a requirement for restaurants, grocery stores and other retailers to post calorie counts for prepared food. The Agriculture Department last month delayed a requirement for public schools to reduce sodium levels in meals served in federally subsidized lunches.

The FDA said food companies and trade associations had complained they didn't have enough time to change recipes,

update labeling software and obtain more nutritional information from suppliers by the 2018 deadline. They asked the Trump administration to delay the rules until May 2021, according to a letter made public by the nonprofit Center for Science in the Public Interest.

The "FDA's extension is both reasonable and practical," said Pamela G. Bailey, president of the Grocery Manufacturers Association trade group.

Health and consumer groups that supported the labeling change said the delay was unwarranted and that many companies have already invested in updating their labels.

—Heather Haddon

the broader industry's 8.6% growth in average check during the same period.

In a recent survey involving more than 500 households, Gordon Haskett Research Advisors found that despite optimism about the economy, the majority of respondents said

they would rather pay down debt or add to their savings than make discretionary purchases.

The Cheesecake Factory, with 193 restaurants, has long been able to charge a premium for its food because of its service and since it makes all 250

of its menu items from scratch, including 70 different sauces, dressings and marinades.

But many gastropubs and other rivals have sprung up offering freshly made food, often in smaller portions and at lower price points.

At the same time, grocery prices have fallen, making it much cheaper to eat at home. High prices and a widening span of food choices—from prepared meals at convenience stores to subscription meal kits—have caused overall restaurant traffic to stagnate.

The casual dining sector, which includes restaurants such as The Cheesecake Factory, has suffered the most. Traffic was down 4% in the first quarter, according to NPD Group Inc.

The only bright spots in the industry, according to NPD, are coming from breakfast sales, which grew 1% in the first quarter; visits made on a deal or discount, which grew 2%; and delivery purchases, which grew 2%—all of which are intended to offer affordability and convenience.

Mr. Clark said despite the recent hiccup, the company still expects to achieve long-term annual same-store sales growth of 2%.

"We believe the brand is as strong as ever," he said.

# Disabled Win Web Access Suit

BY SARA RANDAZZO

A federal judge in Florida ruled Tuesday that grocery chain **Winn-Dixie Stores** Inc. must make its website accessible to the blind, following an unprecedented trial over a gray area of accessibility law.

The decision adds momentum to a push by plaintiffs' lawyers and disability-rights groups to make all consumer websites accessible to the blind and hearing-impaired. Uncertainty in the federal Americans with Disabilities Act and a lack of Justice Department guidance have created confusion over whether websites must meet the same stringent accessibility standards as stores do.

Plaintiffs' lawyers have latched on to the ambiguity to launch website accessibility suits, most of which are settled privately. While the decision is only immediately applicable to Winn-Dixie, it "is definitely a game-changer," said Minh Vu, a partner at Seyfarth Shaw LLP who represents companies facing accessibility claims and isn't involved in the case.

Winn-Dixie's vice president of corporate and consumer affairs, Anna Kelly, said the company is disappointed with the ruling and plans to appeal. The chain has nearly 500 stores in Georgia, Florida, Alabama, Louisiana and Mississippi.

Juan Carlos Gil, a legally blind Florida man, sued Winn-Dixie last year, claiming he couldn't access coupons or fill prescriptions on the website because it didn't comport with screen-reader technology that rapidly reads the text of websites aloud. Mr. Gil, who is also wheelchair-bound because of cerebral palsy, has sued several dozen businesses over accessibility issues.

U.S. District Judge Robert Scola ruled Tuesday that Winn-Dixie violated the ADA because its website "has denied Gil the full and equal enjoyment of the goods, services, facilities, privileges, advantages, or accommodations that Winn-Dixie offers to its sighted customers."

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## Sears to Cut 400 Jobs At Corporate Offices

By IMANI MOISE

**Sears Holdings** Corp. on Tuesday said it is cutting 400 jobs at its corporate offices as part of its restructuring plan.

The retailer said the bulk of job cuts will be at its Hoffman Estates, Ill., headquarters, adding that it worked to leave open positions unfilled and reduce contract workers before cutting full-time jobs.

The planned job cuts are in addition to the \$1.25 billion restructuring plan the company unveiled earlier this year. Sears Holdings said that so far, actions such as paying down debt, cutting expenses and reducing the size of its pension plan have created \$1 billion in annualized cost savings.

The owner of Kmart and Sears stores raised doubts in March that it could generate enough money to cover its obligations over the next 12 months. The company said the disclosure was triggered by an accounting rule that recently took effect and didn't reflect management's expectations for the business's near-term health.

Separately on Tuesday, **Sears Canada** Inc., which was partially spun off from Sears Holdings, for the first time cast doubt on its ability to continue operating after trying to cobble together financing.

The Canadian retailer, which has been operating at a

loss since 2014, said it had expected to borrow up to \$175 million against its real estate, but negotiations with lenders revealed it could only raise up to \$109 million. Without an additional cash infusion, the company warned it might not generate enough money from operations to meet obligations due within the next year.

Financial adviser **BMO Capital Markets** and lawyers at **Osler Hoskin & Harcourt LLP** will advise Sears Canada on its options, which the company said could include a financial restructuring or a sale.

Sears Holdings has sold chunks of its real estate and brands to stay alive, but the lack of lenders willing to provide



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# THE PROPERTY REPORT

## A Fight for Sunlight Down Under

Australian fans of rooftop solar panels resist high-rises that produce shade

By ROB TAYLOR

CANBERRA, Australia—In the shadows of a solar-energy boom, temperatures are on the rise.

Australia's rapid embrace of rooftop panels—now installed on one in four homes in some areas—has collided with another hot spot of investment, construction of apartments and homes. With many new high-rise buildings casting shade for much of the day, more households want the courts to intervene to prevent potential blockages.

"There needs to be rules, some process in place over how to deal with this," said Jenny Port, a gallery owner who has waged a seven-month battle to block construction of a 16-story apartment tower beside her inner city art space and home in Melbourne. "Right now, there's just nothing, no rights at all to the sun."

It is a problem reflected globally as adoption of solar technology outpaces regulators' ability to keep up.

Governments for a long time have offered subsidies to stimulate demand for solar panels—a move that helped developers to reduce costs—among broader policies to curb greenhouse-gas emissions. Now, prices of photovoltaic panels have fallen far enough for many households to attempt going off the grid.

Globally, the solar-power industry is expected to achieve a 10th straight year of expansion. **IHS Markit** expects capacity to increase to 79 gigawatts this year from 77 gigawatts in 2016, despite lower demand in China and the U.S., the two biggest markets. The industry is valued at an



Australia has more solar panels on homes than anywhere else. An estimated 15% of Australian households have them.

estimated 17 billion Australian dollars (\$12.8 billion) in Australia, where renewable-energy investors dream of creating the "Saudi Arabia of solar."

Australia has more panels on homes than anywhere else, even though it ranks sixth behind countries including Germany and Italy for overall installed capacity due to large takeup by offices and industry there.

According to the Australian Energy Council, there are panels on 15% of households. Denman Prospect, a housing project near Canberra, Australia's capital, aims to become the first suburb to mandate panels

on every new home.

The fast adoption has attracted entrepreneurs. **Tesla** Inc. two years ago chose Australia for the global launch of its power-storing batteries.

To operate effectively, solar panels require access to the sun during peak hours.

But Ms. Port and her partner spent nearly US\$3,000 installing eight panels atop their art space and home, only for their sunshine to be threatened by the proposed apartment tower.

"I realized we were going to get no sun. A lot of other local people have objected to these

developments, but they still get built," she said.

California introduced laws almost 40 years ago that protect homeowners' access to the sun, partly in response to the 1970s energy crisis. Now, 36 U.S. states and the U.S. Virgin Islands protect solar access to some degree, although only 15 have easement laws that stop overshadowing.

One of the most sophisticated solar-rights protection programs is in Boulder, Colo., where an ordinance sets limits on shading with a hypothetical "solar fence" extending up to 25 feet around a boundary in

summer, shielding neighbors.

But other countries have been slow to act. Germany, which has added about seven gigawatts of solar-energy capacity annually in recent years, doesn't guarantee unfettered access to sunlight.

In Victoria state, Planning Minister Richard Wynne said overshadowing was a problem in areas where homes and offices competed for land. Lawmakers were open to improving solar rights guidance to municipalities to help achieve a target for 40% of electricity needs coming from renewables by 2025, he said.

### Plots & Ploys

SALT LAKE CITY

#### Building Occupied By FBI Is for Sale

A Salt Lake City office building that is 100% occupied by a Federal Bureau of Investigation field office is up for sale, according to a listing by real-estate-services firm JLL.

The 170,000-square-foot building, owned by **KDC MLH SLC Venture** LLC, is expected to fetch as much as \$90 million, according to market observers familiar with the listing. At \$529 a square foot, that would make it one of the most expensive office buildings sold in the Salt Lake City region in recent years.

—Peter Grant

COMMERCIAL MORTGAGES

#### Borrowers Pay Off Debt at Slower Pace

Commercial real-estate owners paid off maturing loans at a slower rate in May as they found it harder to refinance buildings, according to Morningstar Credit Ratings LLC.

There were 790 loans that had been repackaged into commercial mortgage-backed securities that came due in May, with a total unpaid balance of \$9.4 billion. Of those, landlords repaid 64.9% in the six months leading up to their maturity dates. That compares with 71.5% in April and the low-to-mid 80% range last year.

Meanwhile, the number of owners who have failed to repay their loans on time or are delinquent on monthly payments has been rising.

Over the past 12 months, the percentage of delinquent commercial mortgage-securities loans at maturity averaged 17.8%. That was up from 10% in the June 2015 to April 2016 period, the ratings firm said.

—Peter Grant

## Commercial Real Estate Faces Loss of Tax Break

By PETER GRANT  
AND RICHARD RUBIN

A much-loved tax advantage in the commercial real-estate industry is on the chopping block even as chances dim for the passage of a broad federal tax overhaul this year.

If a sweeping bill doesn't get traction in Congress, there is still a decent chance a narrower tax-rate cut will get passed, according to lobbyists and Capitol Hill officials working on tax legislation.

To finance such a rate cut, some in Congress have in their sights what is known as the 1031 exchange provision, which enables sellers of real estate and other assets to defer capital-gains taxes by reinvesting the proceeds in "like-kind" properties. Say an investor sells an apartment building for a \$10 million profit. If he or she reinvests the proceeds in a strip mall or another commer-

cial property, the investor doesn't have to pay taxes on that capital gain at that time.

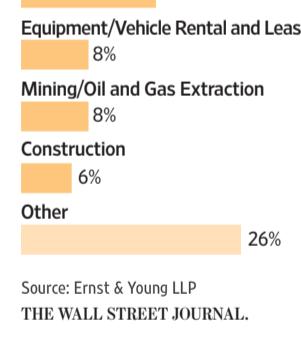
The 1031 exchange could effectively have ended as part of the tax-overhaul plan proposed last year by House Republicans, which made progress after Donald Trump was elected president. But that plan—named "Better Way"—would have included other provisions that would have made it more palatable for the real-estate industry.

Now, real-estate lobbyists say the Better Way plan is getting bogged down and it is looking like the real-estate industry might have to take the medicine without the spoonful of sugar to help it go down, though they would benefit from the lower rates.

As the Better Way plan "has lost a bit of luster of late, the odds have increased that like-kind exchanges are eliminated with no offsetting provision,"

### Trade-Off

Numerous industries use the 1031 exchange rule to defer taxes. Here are the biggest:



Source: Ernst & Young LLP

THE WALL STREET JOURNAL

said real-estate research firm Green Street Advisors in a recent report.

The benefit is vulnerable because many Democrats and

some Republicans consider the provision a loophole with limited broader economic benefit that could be sacrificed to pay for lower tax rates. "It's really become just a way to defer tax liability," said Mark Mazur,

who was the Obama administration's top Treasury tax official and is now director of the Tax Policy Center, a project of the Urban Institute and Brookings Institution.

But real-estate executives say getting rid of 1031 exchanges would be devastating for the economy as well as their industry. Like-kind exchanges are used in 10% to 20% of commercial real-estate transactions, according to Green Street.

They also have sparked the creation of a cottage industry of firms that pool 1031 exchange investments for smaller investors. If the provision is eliminated, "it would cause a lot of transactions not to occur," said Jeff

DeBoer, chief executive of the Real Estate Roundtable, an industry organization.

The economic impact would ripple through the economy because investors who acquire real estate through 1031 exchanges are more likely to invest in those properties than those that pay cash. In such trades, they typically don't have to reach into their pockets, Mr. DeBoer said. "Therefore, you have capital you can now put into the newly acquired property," he said.

The House Ways and Means Committee hasn't released a bill, and there is disagreement among Republicans about where they are heading. Lawmakers have had good discussions on like-kind exchanges but haven't "come to closure" yet with a decision, said Rep. Pat Tiberi (R., Ohio), a senior committee member, in an interview last week.

The 1031 provision of fed-

eral tax law applies to a wide range of assets, including cars, planes and patent rights. Real estate accounts for 36% of the exchanges, according to Ernst & Young LLP. In 2014, the Joint Committee on Taxation estimated that repealing like-kind exchanges would raise \$40.6 billion in additional tax revenue over one decade.

Most observers believe the Better Way plan could have ended the 1031 benefit, even though it didn't specifically address it. Still, if that had happened, Better Way would have lessened the impact partly by allowing buyers of real estate to treat the entire cost—including land—as a business expense that could be used to reduce income instead of depreciating those costs over time. This would be good for real-estate owners but not enough to offset the pain of losing 1031 exchanges, industry executives say.

## Mall Tenants Play Hardball In Talks About Lease Terms

By ESTHER FUNG

Mall tenants are asking for more concessions from landlords facing pressure to fill their properties.

Retailers, food and beverage operators, and department-store chains looking to renew leases have been asking for more allowances from mall owners for renovations, lower rents or more flexible terms, said landlords, brokers and real-estate lawyers.

Tenants are taking advantage of a grim outlook for U.S. mall landlords. Store closure announcements have accelerated this year, with Credit Suisse Group AG expecting more than 8,600 in 2017, up from 2,056 in 2016. There has been a rise in the number of bankruptcy filings by retailers, and even healthy ones are looking to shrink store numbers and boost their online presence.

That, in turn, is weighing on retail property owners, espe-

cially those operating lower-tier malls or strip centers that might find it tougher to retain tenants or find new ones.

**Express** Inc., a Columbus, Ohio-based apparel retailer, said 50% of its leases are coming up for renewal in the next three years and it will focus on lowering occupancy costs to reflect traffic declines. "We're going to continue to create more flexibility than we have today with our leases. And if we can't get the rents we need, we will close stores. And we will be very disciplined with our negotiations with the landlords," said Express Chief Operating Officer Matthew C. Moellering during a recent earnings call.

Restaurants in particular appear to be wielding more influence.

Eateries typically ask for more tenant allowances than, say, apparel retailers, to pay for the higher upfront investments for kitchens, air-conditioning, plumbing and ventilation equip-

ment. Now, they are cranking up demands even further.

"Food operators are negotiating very aggressive deals, and they are getting away with it," said Cynthia Murphy, senior vice president at real-estate services firm CBRE overseeing the mall-leasing business. "More landlords are looking at food as an anchor to create sizzle for their centers."

Restaurant chain **P.F. Chang's China Bistro** Inc. is getting better rental rates and more flexible lease terms, said Chief Financial Officer Jim Bell.

Mall owners, who negotiate lease terms with tenants individually, said they would offer more favorable terms to certain occupants if they believe their presence makes a difference to the property.

Malls in good locations are still seeing strong demand from tenants.

Mall rents and occupancy rates in metro areas have held steady as landlords have filled space with other retailers, fit-



P.F. Chang's China Bistro's finance chief says the restaurant chain is getting better rental rates.

ness centers, restaurants, entertainment and grocery stores that are still expanding.

Vacancy rates in enclosed malls were at 7.9% in the first quarter, up from the 7.8% recorded in the previous quarter, while rents excluding anchor

stores rose 0.4% from a year earlier, unchanged from the previous quarter, according to real-estate data provider REIS Inc.

In cases in which the store location attracts other tenants or the store is still performing well with respectable sales

numbers, landlords say they still have some negotiating power.

"A lot of it is posturing," said Joel Bayer, president at property developer and owner **O'Connor Capital Partners**. "It's sort of a game of chicken. Who's going to blink first?"

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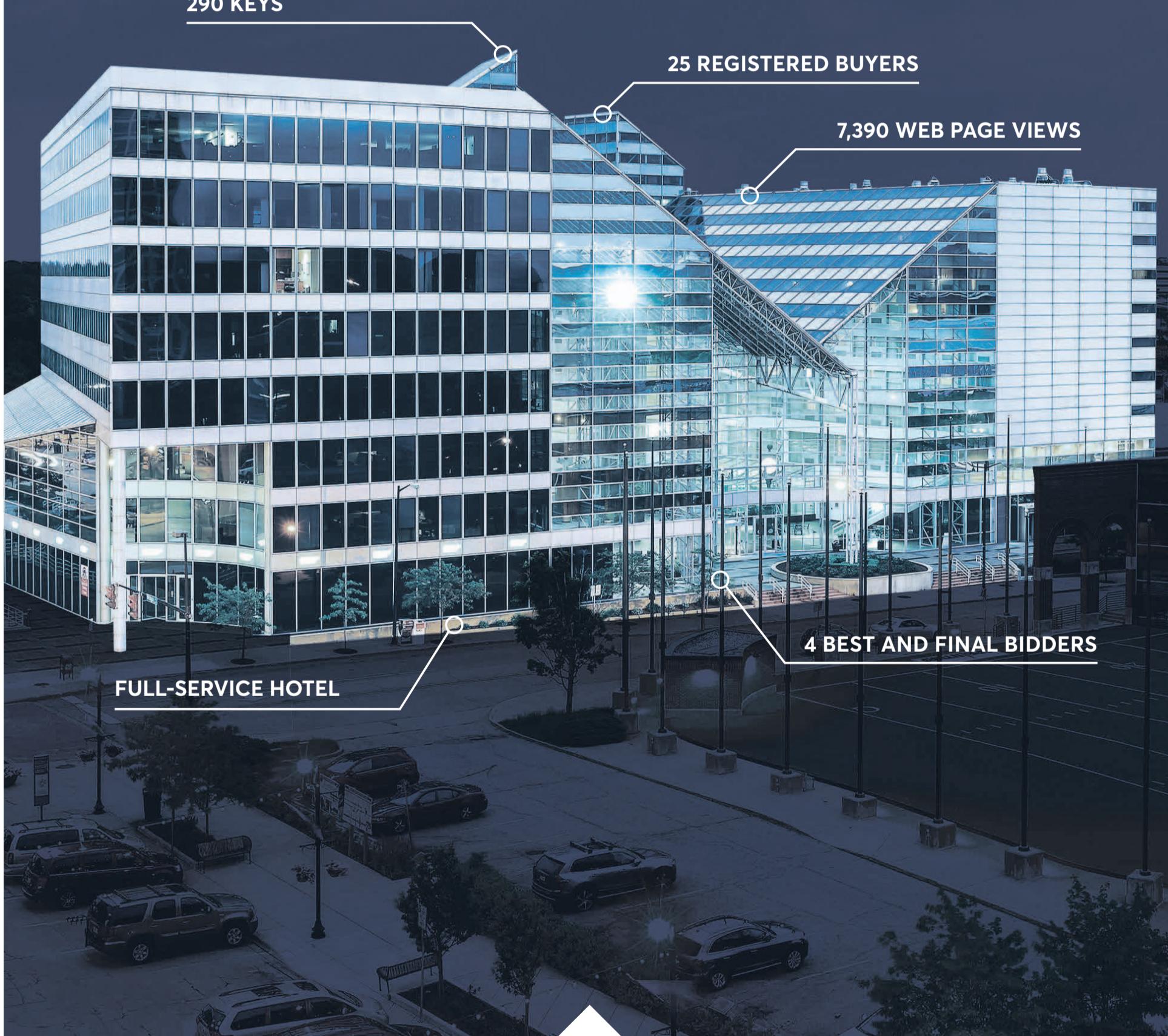
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## BANKING &amp; FINANCE

# China Yields Throw a Curve

Pessimism about the economy and tight funding shake up the nation's bond market

BY SHEN HONG

SHANGHAI—Tight funding conditions and pessimism about the economy pushed long-dated yields of Chinese government bonds well below those on one-year debt, the latest sign of stress in the country's \$1.7 trillion market.

As investors cope with Beijing's effort to clean up a debt-laden financial system, the yield on 10-year bonds fell to 3.55% on Tuesday, less than the one-year paper's 3.61%.

A so-called yield-curve inversion first surfaced in China a month ago, when the yield on less actively traded five-year bonds broke above that on the popular 10-year bonds. Yields move inversely to bond prices.

Two weeks later, the anomaly took on a rare new form: The yield on the illiquid seven-year bonds rose above those on both the five-year and 10-

## Spread Squeezed

China's short- and long-term government-bond yields are now little different.

### Spread between one- and 10-year Chinese bond yields



Source: Wind Info

THE WALL STREET JOURNAL.

year paper.

An inverted yield curve defies the common understanding that bonds requiring a longer commitment should compensate investors with a higher return. It usually reflects pessimism among investors about a country's long-term prospects for growth and inflation.

When the U.S. Treasury yield curve inverted in 2006

and 2007, most analysts cited Asian central banks' heavy buying of longer-dated U.S. government debt.

"But the curve inversion we are seeing right now is one with Chinese characteristics and it's different from the previous one in the U.S.," said Deng Haiqing, chief economist at JZ Securities.

The current development in the Chinese bond market is partly the result of mild inflation and expectations of a slowing economy, Mr. Deng said.

"At the same time, short-term interest rates will likely stay elevated because the authorities will keep borrowing costs high so as to facilitate the deleveraging campaign," he said.

Since last summer, Beijing has embarked on a campaign to reduce long-term financial risk caused by reckless lending behavior among banks and leveraged investing that has created one asset bubble after another.

The effort intensified in February and March when the People's Bank of China raised a suite of key money-market

interest rates, which has since pushed up yields across the bond curve, especially those on short-dated debt.

As a result, the one-year bond yield rose to a 31-month high of 3.66% on Thursday, while the increase in the yield on 10-year bonds has lagged behind.

In fact, the 10-year yield has fallen more quickly than its short-dated counterpart since Monday, when a brief, largely speculative rebound in bond prices emerged after Beijing sent somewhat soothing messages on its deleveraging campaign, analysts say.

In an article published Saturday, the central bank's flagship newspaper, Financial News, said that the severe credit crunch four years ago won't repeat itself this month because the central bank will keep liquidity conditions "not too loose but also not too tight."

Chinese financial markets tend to be particularly jittery in June because of a seasonal surge of cash demand arising from corporate-tax payments and banks' need to meet regulatory requirements on capital.

campaign this year to rein in risks in the financial system has run in tandem with a broader, more than four-year-old crackdown on corruption that has targeted high-level officials and led to the detention of high-profile business people for questioning and, in some cases, prosecution.

China's political leadership

has also shown rising concern about the power of well-connected businessmen, with one tycoon living in exile taking to Twitter and other social media to lob allegations of corruption at senior Chinese leaders.

Anbang and other insurers came into the crosshairs of regulators late last year for taking large stakes in banks and other listed companies. In

February, China's insurance regulator banned the chairman and founder of Foresia Life Insurance Co., Yao Zhenhua, from the sector for a decade. In April, the Communist Party's anticorruption agency said it was investigating the chairman of the China Insurance Regulatory Commission, Xiang Junbo.

Just over a year ago, Anbang appeared to epitomize China's push to invest abroad with back-to-back bids in early 2016 totaling nearly \$20 billion for U.S. hotels, following its purchase of the Waldorf Astoria Hotel for nearly \$2 billion in 2014.

Back in China, Anbang was helping to redefine its industry by selling nontraditional types of insurance. Instead of pro-

viding long-term risk coverage, the type of insurance sold by Anbang and a number of newly formed firms resembled short-term, high-yield deposits. One popular product is known as universal life and regulators expressed concern that Anbang's reliance on raising money in this manner could cause cash-flow problems.

In recent months, as rumors circulated in Chinese media and among analysts that Mr. Wu and Anbang faced trouble, he was unexpectedly summoned at least once to meet with government officials, The Wall Street Journal has reported.

Anbang representatives have repeatedly said operations were fine.

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### Average Yields of Major Banks

Type	MMA	1-MO	2-MO	3-MO	6-MO	1-YR	2-YR	2.5YR	5YR
National average	0.10	0.07	0.07	0.12	0.18	0.30	0.44	0.45	0.84
Savings	0.19	0.07	0.07	0.13	0.19	0.33	0.51	0.47	0.88
Jumbos									
Weekly change	0.00	0.00	0.00	0.00	0.00	0.01	-0.01	0.00	0.00
Savings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.00
Jumbos									

### Consumer Savings Rates

Explanation of ratings: Safe Sound SM, (855) 733-0700, evaluates the financial condition of federally insured institutions and assigns a rank of 1, 2, 3, 4 or 5 based on data from the fourth quarter of 2014 from federal regulators. 5: most desirable performance; NR: institution is too new to rate, not an indication of financial strength or weakness. Information is believed to be reliable, but not guaranteed.

### High yield savings

Bank/rank	Phone number	Minimum	Yield (%)
Money market and savings account			
BankPurely /4	(844) 873-7359	\$1	1.30
ableBanking, a division of Northeast Bank /4	(877) 505-1933	\$250	1.30
CIT Bank /4	(855) 462-2652	\$100	1.15
TAB Bank /4	(800) 837-4136		
One-month CD			
VirtualBank /4	(877) 998-2265	\$10,000	0.15
AloStar Bank of Commerce /4	(877) 738-6391	\$1,000	0.10
Mount McKinley Bank /4	(807) 452-1751	\$5,000	0.10
CD Bank /4	(888) 201-8185		
Two-month CD			
VirtualBank /4	(877) 998-2265	\$10,000	0.15
Applied Bank /5	(800) 616-4605	\$1,000	0.05
NewDominion Bank /2	(704) 943-5700	\$1,000	1.75
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	1.71
Northern Bank Direct /5	(844) 348-8996	\$500	1.65
Five-year CD			
Synchrony Bank /5	(800) 903-8154	\$25,000	2.35
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	2.27
Ally Bank /4	(877) 247-2559	\$0	2.25

### High yield jumbos - Minimum is \$100,000

Bank/rank	Phone number	Minimum	Yield (%)
Six-month CD			
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	1.16
VirtualBank /4	(888) 998-2265	\$10,000	1.11
TAB Bank /4	(866) 680-4136	\$1,000	1.06
One-year CD			
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	1.47
VirtualBank /4	(888) 998-2265	\$10,000	1.46
CD Bank /4	(888) 201-8185	\$1,000	1.45
Two-year CD			
NewDominion Bank /2	(704) 943-5700	\$1,000	1.75
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	1.71
Northern Bank Direct /5	(844) 348-8996	\$500	1.65
Five-year CD			
Synchrony Bank /5	(800) 903-8154	\$25,000	2.35
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	2.27
Mye-Ban by BAC Florida Bank /4	(855) 512-0989	\$0	2.25

Bank/rank	Phone number	Minimum	Yield (%)
Six-month CD			
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	1.16
VirtualBank /4	(888) 998-2265	\$10,000	1.11
TrState Capital Bank /4	(866) 680-8722	\$1,000	1.10
One-year CD			
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	1.47
VirtualBank /4	(888) 998-2265	\$10,000	1.46
Mye-Ban by BAC Florida Bank /4	(855) 512-0989	\$0	1.45
Two-year CD			
NewDominion Bank /2	(704) 943-5700	\$1,000	1.75
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	1.71
Synchrony Bank /5	(800) 903-8154	\$25,000	2.35
First Internet Bank of Indiana /4	(888) 873-3424	\$1,000	2.27
Discover Bank /5	(844) 728-3151	\$0	2.25

Notes: Accounts are federally insured up to \$250,000 per person effective Oct. 3, 2008. Yields are based on method of compounding and rate stated for the lowest required opening deposit to earn interest. CD figures are for fixed rates only. MMA: Allows six (6) third-party transfers per month, three (3) of which may be checks. Rates are subject to change.

Source: Bankrate.com, a publication of Bankrate, Inc., North Palm Beach, FL 33408

Internet: www.bankrate.com

## ANBANG

Continued from page B1  
home, the company helped redefine China's insurance industry with products that resembled short-term, high-yield deposits.

The Chinese government recently forced the huge insurer to pull back, saying its strategies were risky.

The company has tried to defuse concerns about its business and Mr. Wu in the past. This year, it slowed its overseas expansion and made a switch to more traditional types of insurance products at home.

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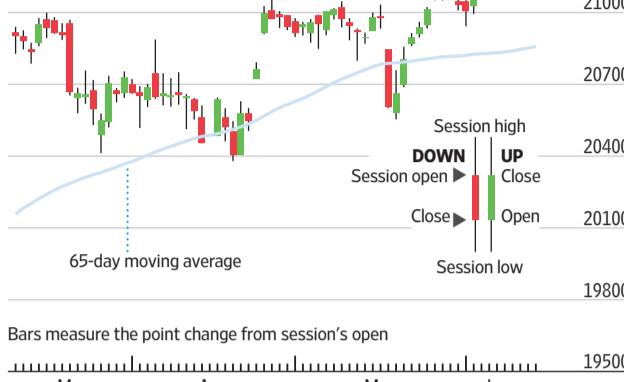
### EQUITIES

#### Dow Jones Industrial Average

**21328.47** ▲ 92.80, or 0.44%  
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 20.76 18.86  
 P/E estimate \* 18.02 17.20  
 Dividend yield 2.32 2.58  
 All-time high 21328.47, 06/13/17

Current divisor 0.14602128057775



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Mar. Apr. May June 19500

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

#### S&P 500 Index

**2440.35** ▲ 10.96, or 0.45%  
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.15 24.29  
 P/E estimate \* 18.97 17.92  
 Dividend yield 1.95 2.16  
 All-time high: 2440.35, 06/13/17



Mar. Apr. May June 2270

#### Nasdaq Composite Index

**6220.37** ▲ 44.90, or 0.73%  
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio \*26.75 22.55  
 P/E estimate \* 21.78 18.97  
 Dividend yield 1.08 1.27  
 All-time high: 6321.76, 06/08/17



Mar. Apr. May June 5530

#### Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.		
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	Standard & Poor's	500 Index	MidCap 400	SmallCap 600
Industrial Average	21327.77	21256.83	<b>21328.47</b>	92.80	▲ 0.44%	21328.47	17140.24	20.7	7.9	8.3	1771.05	1760.36
Transportation Avg	9462.76	9394.73	<b>9456.65</b>	67.86	▲ 0.72%	9593.95	7093.40	25.0	4.6	5.5	1769.34	10.34
Utility Average	724.81	720.05	<b>723.94</b>	1.04	▲ 0.14%	732.63	625.44	5.9	9.8	10.1	1769.34	1416.66
Total Stock Market	25306.73	25204.48	<b>25297.91</b>	124.21	▲ 0.49%	25297.91	20583.16	18.2	8.7	7.7	1091.35	691.91
Barron's 400	650.99	648.52	<b>650.48</b>	3.02	▲ 0.47%	650.48	491.89	25.8	8.1	7.3	866.07	3.71

#### Nasdaq Stock Market

Nasdaq Composite	6226.41	6180.04	<b>6220.37</b>	44.90	▲ 0.73%	6321.76	4594.44	28.4	15.6	13.0
Nasdaq 100	5760.54	5709.17	<b>5751.82</b>	43.64	▲ 0.76%	5885.30	4201.05	30.0	18.3	15.1

#### Standard & Poor's

500 Index	2441.49	2431.28	<b>2440.35</b>	10.96	▲ 0.45%	2440.35	2000.54	17.6	9.0	8.0
MidCap 400	1771.05	1760.36	<b>1769.34</b>	10.34	▲ 0.59%	1769.34	1416.66	19.8	6.5	8.1
SmallCap 600	868.01	862.97	<b>866.07</b>	3.71	▲ 0.43%	866.07	670.90	23.0	3.4	9.1

#### Other Indexes

Russell 2000	1427.55	1420.06	<b>1425.98</b>	6.77	▲ 0.48%	1425.98	1089.65	24.2	5.1	7.0
NYSE Composite	11799.19	11757.75	<b>11796.79</b>	50.33	▲ 0.43%	11796.80	9973.54	14.6	6.7	2.8
Value Line	527.68	524.77	<b>527.58</b>	2.81	▲ 0.54%	529.13	435.06	15.7	4.2	2.2
NYSE Arca Biotech	3678.93	3641.79	<b>3678.37</b>	31.58	▲ 0.87%	3690.05	2818.70	19.7	19.6	10.8
NYSE Arca Pharma	528.94	526.37	<b>527.32</b>	-0.11	-0.02%	554.66	463.78	3.0	9.5	1.0
KBW Bank	94.93	94.12	<b>94.33</b>	0.47	▲ 0.50%	99.33	60.27	43.1	2.8	10.1
PHLX® Gold/Silver	84.69	82.79	<b>84.29</b>	0.88	▲ 1.05%	112.86	73.03	-4.8	6.9	-3.0
PHLX® Oil Service	142.21	138.79	<b>141.53</b>	2.58	▲ 1.86%	192.66	133.30	-16.5	-23.0	-22.1
PHLX® Semiconductor	1101.97	1078.35	<b>1091.35</b>	6.91	▲ 0.64%	1138.25	648.32	56.9	20.4	20.3
CBOE Volatility	11.14	10.26	<b>10.42</b>	-1.04	-9.08%	25.76	9.75	-49.2	-25.8	-5.1

\$Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

#### Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Mkt and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

#### Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Yahoo!	YHOO	18,675.8	52.00	...	unch.	53.66	51.98
SPDR S&P 500	SPY	6,609.9	244.53	-0.02	-0.01	244.64	243.40
Bank of America	BAC	4,271.0	23.80	0.03	0.13	23.99	23.73
Energy Transfer Equity	ETE	3,068.5	16.65	...	unch.	16.70	16.65
PwrShrs QQQ Tr Series 1	QQQ	2,325.3	140.41	0.05	0.04	140.50	139.28
Finl Select Sector SPDR	XLF	2,058.7	24.53	0.06	0.25	24.55	24.35
VanEck Vectors Jr Gold	GDXJ	1,646.1	34.39	0.05	0.15	34.39	34.26
iShares Core MSCI EAFE ETF	IEFA	1,606.0	62.16	...	unch.	62.17	62.11

#### Percentage gainers...

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
H&R Block	HRB	762.4	29.80	2.81	10.41	30.40	26.62
Hub Group Cl A	HUBG	10.8	38.15	1.45	3.95	38.15	35.70
BioTime	BTX	5.6	3.51	0.13			

# COMMODITIES

WSJ.com/commodities

## Futures Contracts

### Metal & Petroleum Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
Copper-High (CMX)	-25,000 lbs.; \$ per lb.	3,055	3,099	2,991	3,000	-0.065	184,150
June	2,6205	2,6205	2,5865	2,5930	-0.0195	1,069	
July	2,6145	2,6250	2,5805	2,5965	-0.0190	89,865	
Gold (CMX)-100 troy oz.; \$ per troy oz.	3,345	3,381	3,287	3,296	-0.060	112,080	
June	1264.10	1266.90	1259.70	1265.80	-0.30	1,621	
Aug	1267.70	1271.00	1260.50	1268.60	-0.30	348,375	
Oct	1270.80	1274.20	1264.30	1272.20	-0.30	10,973	
Dec	1274.00	1277.60	1267.60	1275.60	-0.30	80,464	
Feb'18	1275.60	1280.60	1273.20	1279.00	-0.30	10,254	
June	1285.40	1285.40	1280.60	1285.70	-0.30	5,529	
Palladium (NYM)-50 troy oz.; \$ per troy oz.	3,280	3,295	3,285	3,292	-0.024	88,466	
Platinum (NYM)-50 troy oz.; \$ per troy oz.	882.00	882.00	870.75	866.25	-6.40	90	
June	954.60	954.60	951.40	923.00	-20.30	3	
July	944.30	948.00	922.80	924.20	-20.30	49,776	
Silver (CMX)-5,000 troy oz.; \$ per troy oz.	879.25	879.85	859.45	861.35	-6.70	46	
Sept	873.60	876.35	855.40	857.55	-6.70	34,336	
Dec	858.90	858.90	841.45	843.95	-2.90	1,608	
March'18	833.00	833.00	832.05	832.60	1.35	122	
June	829.00	829.00	829.00	828.60	1.35	5	
Platinum (NYM)-50 troy oz.; \$ per troy oz.	882.00	882.00	870.75	866.25	-6.40	90	
June	954.60	954.60	951.40	923.00	-20.30	3	
July	944.30	948.00	922.80	924.20	-20.30	49,776	
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.	16.95	16.95	16.765	16.738	-0.176	13	
July	16.945	16.955	16.705	16.767	-0.177	108,156	
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.	16.95	16.95	16.765	16.738	-0.176	13	
July	16.945	16.955	16.705	16.767	-0.177	108,156	
NY Harbor ULSD (NYM)-42,000 gal.; \$ per gal.	1,4232	1,4521	1,4181	1,4477	-0.0223	85,549	
Aug	1,4267	1,4593	1,4267	1,4548	-0.0211	78,940	
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.	1,4877	1,5067	1,4746	1,4995	-0.0115	101,695	
Aug	1,4805	1,5004	1,4700	1,4940	-0.0113	79,478	
Natural Gas (NYM)-10,000 MMBtu.; \$ per MMBtu.	3.011	3.065	2.949	2.966	-0.058	211,088	
Aug	3.054	3.092	2.978	2.989	-0.065	193,740	
Sept	3.028	3.074	2.964	2.972	-0.066	169,951	

	Contract	Open	High	Low	Settle	Chg	Open interest
Copper-High (CMX)-25,000 lbs.; \$ per lb.	3,055	3,099	2,991	3,000	-0.065	184,150	
June	2,6205	2,6205	2,5865	2,5930	-0.0195	1,069	
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Palladium (NYM)-50 troy oz.; \$ per troy oz.	3,280	3,295	3,285	3,292	-0.024	88,466	

	Contract	Open	High	Low	Settle	Chg	Open interest
Corn (CBT)-5,000 bu.; cents per bu.	379.25	383.75	377.50	381.00	3.75	477,069	
Dec	397.50	401.75	395.75	399.00	3.50	389,243	
Oats (CBT)-5,000 bu.; cents per bu.	252.00	255.00	250.25	253.25	3.50	4,401	
July	238.00	242.00	236.00	240.75	3.50	1,658	
Soybeans (CBT)-5,000 bu.; cents per bu.	937.50	945.10	931.75	932.50	1.25	259,877	
Nov	940.00	947.25	938.50	939.00	1.25	273,533	
Soybean Meal (CBT)-100 tons; \$ per ton.	302.90	306.40	301.30	301.50	-30	135,735	
Dec	308.10	310.80	306.60	306.90	-30	127,283	
Soybean Oil (CBT)-60,000 lbs.; cents per lb.	31.96	32.24	31.81	32.09	.15	137,185	
July	32.42	32.65	32.28	32.53	.11	138,403	
Rough Rice (CBT)-2,000 cwt.; \$ per cwt.	112.50	113.50	112.00	112.50	-4.50	5,964	
Sept	115.50	116.00	115.00	115.50	-4.50	2,945	
Wheat (CBT)-5,000 bu.; cents per bu.	457.25	462.25	454.00	455.00	11.00	168,015	
July	437.25	446.25	436.75	445.00	11.00	168,015	
Wheat (KCO)-5,000 bu.; cents per bu.	450.50	459.75	450.50	459.25	10.75	135,017	
Sept	450.50	459.75	450.50	459.25	10.75	135,017	
Wheat (MPLS)-5,000 bu.; cents per bu.	462.75	475.00	462.75	474.25	13.75	73,565	
July	612.00	633.25	611.25	628.00	27.50	25,062	
Sept	621.00	639.75	615.00	634.50	27.50	24,420	
Cattle-Feeder (CME)-50,000 lbs.; cents per lb.	151.625	153.050	148.675	149.950	-1.60	32,610	
Sept	151.475	152.650	148.625	149.700	-1.52	9,690	
Cattle-Live (CME)-40,000 lbs.; cents per lb.	128.950	129.075	127.100	127.500	-850	13,554	
Aug	121.900	122.525	120.600	120.875	-675	191,972	
Hogs-Lean (CME)-40,000 lbs.; cents per lb.	82.250	82.850	82.200	82.775	.800	12,827	
Aug	80.300	81.625	80.050	80.225	.225	81,828	
Lumber (CME)-110,000 bd ft.; \$ per 1,000 bd ft.	370.20	372.60	367.50	368.90	-1.30	2,632	
July	370.20	372.60	367.50	368.90	-1.30	2,632	
Sept	359.80	361.90	357.50	358.50	-1.90	1,247	

	Contract	Open	High	Low	Settle	Chg	Open interest
Corn (CBT)-5,000 bu.; cents per bu.	379.25	383.75	377.50	381.00	3.75	477,069	
Dec	397.50	401.75	395.75	399.00	3.50	389,243	
Oats (CBT)-5,000 bu.; cents per bu.	252.00	255.00	250.25	253.25	3.50	4,401	
July	238.00	2					

# BIGGEST 1,000 STOCKS

## How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISE and BATS. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those stocks whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, June 13, 2017

Net Stock Sym Close Chg

## BANKING & FINANCE

# Court Ruling Puts Venezuela in Crosshairs

U.S. judge's decision opens door for Canadian miner to seize nation's assets

BY JULIE WERNAU

A U.S. court ruled that a Canadian mining company can seek to seize Venezuelan assets, a step forward for dozens of companies pursuing legal claims against the South American country.

**Crystallex International Corp.** is trying to collect on a \$1.4 billion judgment from last year against Venezuela over nationalizations carried out by the country. The company filed for bankruptcy protection in 2011 after the Venezuelan government expropriated a large gold reserve, which Crystallex had the exclusive right to develop.

On Friday, U.S. District Judge Rudolph Contreras didn't rule on which assets Crystallex could legally seize but opened the door for the mining company to argue that assets owned indirectly by Venezuela, such as U.S.-based oil refiner **Citgo Holdings Inc.**, can be seized in lieu of payment.

"We can now go after any commercial assets that belong to Venezuela," said Robert L. Weigel, a lawyer for Crystallex.

Crystallex has to prove the refiner and its parent are little more than thinly disguised arms of the Venezuelan government, or "alter egos" in legal terms of Venezuela.

But the Friday ruling helped push forward a process by which courts can determine which assets can and cannot be up for grabs to Venezuela's various creditors, who are making claims as the nation's finances raise doubts about its ability to service the sovereign debt. The government has said it will continue to pay.

Citgo is ultimately owned by **Petróleos de Venezuela SA**, or PdVSA, the state-owned oil company. A PdVSA spokes-



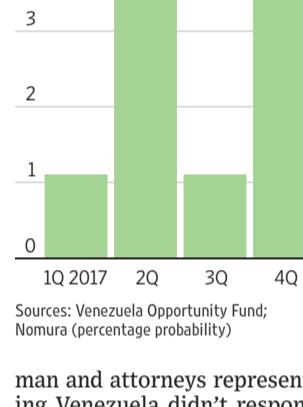
EDDIE SEAL/BLOOMBERG NEWS

A Citgo oil refinery in Corpus Christi, Texas. Creditors are focusing on Citgo because the company is Venezuela's most accessible source of dollar-based assets.

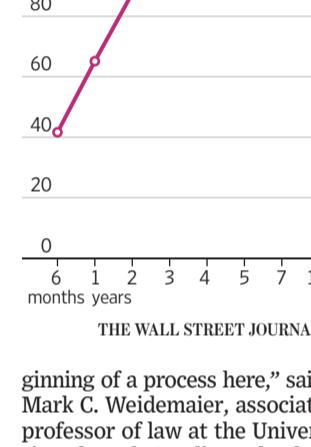
### Coming Due

Venezuela owes \$10 billion to bondholders in 2017 and Wall Street believes an eventual default is almost certain.

#### 2017 bond payments due



#### Percentage probability of a Venezuelan default



going to be revealed but this is a crack in the door."

Venezuela's central bank recently attempted to auction off its own bonds at a steep discount to raise cash, a sign of desperation to stave off default, according to attorneys not involved with the Crystallex case.

About \$36 billion of Venezuelan sovereign bonds have cross-default provisions that could be triggered if the country fails to pay its debts to Crystallex, according to Nomura Securities.

The Canadian company is one of at least 43 companies pursuing legal claims against the government, according to the World Bank's International Centre for Settlement of Investment Disputes.

Companies are converging on Citgo because it is Venezuela's most accessible source of dollar-based assets, attorneys say. Based in Houston, Citgo owns refineries in Lake Charles, La., Corpus Christi,

Texas, and Lemont, Ill. The company also owns networks of pipelines and fuel-distribution terminals in the eastern U.S. Venezuela last year pledged all of Citgo's equity as collateral to bondholders and to state-owned Russian oil producer PAO **Rosneft** in debt deals.

Meanwhile, Venezuela is in the process of appealing a March decision by the U.S. court, which confirmed a \$1.4 billion judgment handed down by an international arbitration court in April 2016.

Since then, the country hasn't paid and Judge Contreras said in the Friday order that after more than 60 days without payment, Crystallex is now free to pursue the government's assets.

Venezuela could post a bond or cash proving that it intends to pay if it loses the appeal. However, attorneys say it is unlikely that Venezuela would find an insurance com-

pany or bank willing to put up that cash.

Even if the country did find a willing insurer or bank, it would be unlikely to make such a move. Instead, Venezuela will likely fight against any moves to discover its assets around the world, according to restructuring attorneys.

Hedge funds led by **Elliott Management Corp.** did something similar in 2001 when they went after Argentine assets following a default—the largest government default at the time—on more than \$80 billion in sovereign debt.

When Argentina refused to pay settlements arising from the default, the hedge funds sought out Argentinian assets to seize and argued that everything from the assets of its central bank to its state-controlled oil company were an "alter ego" of the state.

—Andrew Scurria  
and Anatoly Kurmanov  
contributed to this article.

# Who Receives €1 for Banco Popular's Rescue?

BY BEN DUMMETT

**Banco Santander SA**'s plan to sell €7 billion (\$7.84 billion) in stock to pay for its acquisition of **Banco Popular Español SA** highlights the real costs of rescuing its smaller, failing Spanish banking rival.

Winning the auction for Banco Popular was considerably cheaper: It required Santander to pay just €1 for the bank's equity.

Such a symbolic sum isn't unique for the acquisition of a distressed bank.

In 2012, **Banco Bilbao Viz-**

caya Argentaria SA, which was invited but decided against bidding for Banco Popular, acquired troubled Spanish lender Unnim for €1 after the government nationalized it.

As overseer of the auction, the regulator has first rights to any proceeds to help cover its costs. Not surprisingly, they quickly exceeded €1.

The process started last week after the European Central Bank decided that Banco Popular risked failure under the excessive burden of €37 billion in foreclosures and other nonperforming assets. Once that happened, Europe's Single Resolution Board, the

regulator that ended up with it, getting an electronic bank transfer of the money from Santander.

As overseer of the auction, the regulator has first rights to any proceeds to help cover its costs. Not surprisingly, they quickly exceeded €1.

The scenario played out in the case of Banco Popular. The bank's senior debtholders didn't suffer any losses, while investors

with lower ranked securities virtually were all wiped out.

Santander offered zero to holders of Banco Popular's common shares, which the day before the auction had a total value of €1.33 billion. It offered nothing to holders of the contingent convertible bonds, a hybrid debt security with equity characteristics.

That, in theory at least, left holders of Banco Popular's more senior-ranked Tier 2 subordinated bonds to share the €1 after conversion of the securities into equity if the regulator didn't have first dibs.

# Pimco President Jacobs Is Retiring

BY JUSTIN BAER

**Pacific Investment Management Co.** President Jay Jacobs, a one-time candidate to run the giant money manager, will retire in September.

The firm said Tuesday it would shift Mr. Jacobs's responsibilities to longtime Pimco executives Robin Shanahan and Peter Strelow, who become co-chief operating officers. Ms. Shanahan is head of human resources, while Mr. Strelow serves as chief administrative officer.

The moves are the biggest management changes Pimco Chief Executive Emmanuel Roman has made since he joined the firm last fall.

Mr. Roman is trying to move the firm past a 2014 split with co-founder Bill Gross that led to an exodus of client money, sagging morale and a distracting legal battle.

Pimco reversed an extended period of outflows in the second half of last year and ran its streak to three straight quarters of net inflows in early 2017. In March, Pimco settled a breach-of-contract lawsuit from Mr. Gross for \$81 million.

Mr. Jacobs's departure will end a 19-year career with Pimco. The 46-year-old executive managed many of the firm's internal functions, and often served as a counselor to employees grappling with Pimco's culture and post-Gross malaise, current and former executives said. As the firm's outlook brightened in recent months, Mr. Jacobs said he determined it was time to step away.

"The firm is absolutely back on track and you've seen that in the numbers so far," Mr. Jacobs said in an interview. "I'm really going to miss my Pimco colleagues, but the firm is in a great place."

Mr. Jacobs joined Pimco in 1998 and was head of its Munich office and human resources before becoming president.

# Income Investing Company Tortoise Explores a Sale

BY SARAH KROUSE

Income-investing specialist Tortoise is exploring a potential sale of a majority stake in the firm, Chief Executive Kevin Birzer said Tuesday.

The Leawood, Kan.-based company, with about \$20 billion in assets, runs mutual funds, closed-end funds and master limited partnerships. Its business, currently owned by management and wealth

through a potential deal, he added.

"We'd like capital to accelerate what we're doing," he said.

Tortoise's managers, for example, would like to pursue acquisitions with any additional capital the company receives through a deal and be able to make larger seed investments to get new funds started.

Mariner Holdings, meanwhile, has been increasingly focused on growing its wealth-management business in recent years, Mr. Birzer said. Mariner purchased its stake in Tortoise in 2009.

The largest part of Tortoise's business—about 60%—is in MLPs or MLP-focused investing strategies.

Such structures are taxed differently than corporations and provide a stream of income to investors. They are popular among energy companies.

The business could fetch interest from traditional asset managers seeking to diversify their lineup of products—a move that several firms have pursued in recent years—or find a home with a private-equity firm or some other investor.

With about \$20 billion in assets, it seeks to grow with additional capital

and asset management firm **Mariner Holdings LLC**, includes units focused on fixed-income, energy and infrastructure.

It also runs a small index manufacturing and exchange-traded product business.

Tortoise is exploring "strategic alternatives" for Mariner Holdings' majority stake, Mr. Birzer said. The company's managers would like to increase their ownership stake



KYOSHI OTA/BLOOMBERG NEWS

The Bank of Japan is among other major central banks holding policy meetings this week.

# Dollar Retreats Before Fed Move

BY CHELSEY DULANEY

The dollar wavered Tuesday as the Federal Reserve began its latest policy meeting.

The WSJ Dollar Index, which measures the U.S. currency against

CURRENCIES 16 others, was down

0.1% to 88.31.

The Fed is widely expected to raise its benchmark interest rate by a quarter of a percentage point when it concludes its meeting Wednesday.

Investors will focus on the Fed's statement and postmeeting press conference, which could offer clues on the central

bank's plans for future rate-rises and shrinking its balance sheet.

"We expect a 'dovish hike'—raising rates but signaling a pause perhaps until year-end—to weigh further on the U.S. dollar," said analysts at ScotiaBank in a research note.

Recent weakness in U.S. inflation data has raised concerns that the U.S. economy is slowing, which some investors believe dulls the Fed's case for tightening policy.

Higher rates typically support the dollar by making U.S. assets more attractive to yield-seeking investors.

The Bank of England, Bank of Japan and Swiss National

Bank also hold policy meetings this week.

The British pound recovered from a three-day selloff, rising 0.7% against the dollar after data showed U.K. inflation climbed in May. The British currency has tumbled since Prime Minister Theresa May's Conservative Party lost its majority in last Thursday's election, fueling uncertainty over the path of U.K. politics and its looming Brexit negotiations.

The Canadian dollar jumped 0.6% against the U.S. currency after upbeat comments from central bank officials fueled speculation that the Bank of Canada could raise rates.

THE WALL STREET JOURNAL

## MARKETS

# Treasurys Rebound On Strong Auction

BY MIN ZENG

Prices of U.S. government bonds got a boost from a strong 30-year debt auction, reversing an earlier bout of selling driven by a higher-than-forecast monthly wholesale inflation reading.

The yield on the 10-year Treasury note settled at 2.206%, compared with 2.215%

CREDIT MARKETS Monday. Yields fall as bond prices rise. The 10-year yield fell for the first time in five sessions and traded near this year's low of 2.147% set on June 6.

The price swing came as the Federal Reserve started its two-day monetary policy meeting. Policy makers are scheduled to release an interest-rate statement Wednesday, followed by a news conference from Fed Chairwoman Janet Yellen.

Investors expect the central bank to raise short-term interest rates a fourth time since the 2008 financial crisis. The question is whether the Fed may raise rates one more time later this year as projected in March or stand pat, which would affect investors' wagers on Treasury bonds and other markets.

The \$12 billion sale of 30-year Treasury bonds drew the highest demand since March. The sales of three-year and 10-year notes on Monday also attracted solid buying interest from home and abroad.

The results surprised some traders and investors who had thought that demand could soften due to a jammed auction schedule and a looming expected rate increase from the Fed.

Some money managers say the auctions again underscore U.S. government bonds' attractiveness in a low-yield world, which many investors have cited as one factor that reduces the risk of sharp rise.

"With global bond yields so low, it keeps U.S. bond yields from rising too quickly," said Brett Wender, chief investment officer of fixed income at Charles Schwab Investment Management. "This factor continues to remain in place."

U.S. bonds are a bargain in the developed world: The 10-year German bund yielded 0.265% Tuesday, the 10-year government bond in Japan yielded 0.069% and the 10-year U.K. gilt yielded 1.033%, according to Tradeweb.

A large pool of negative-yielding government bonds in Japan and Europe driven by unconventional bond-buying monetary stimulus highlights global investors' struggle to get income and drives money flowing into Treasurys.

The amount of global negative-yielding sovereign debt outstanding rose to \$9.5 trillion as of May 31 from \$8.6 trillion on March 1, according to a report from Fitch Ratings.

Traders say Treasury auction results also reflect a view in the bond market that after a possible rate increase this month, the Fed could hold off raising rates further this year.

Recent reports showing slowing inflation pressure have bolstered speculation that the Fed would be slow in raising rates. The Fed likely will start the process of unwinding its balance sheet later this year. Some analysts warn that yields could rise if the Fed disappoints those who are looking for a more cautious tone from the central bank.

### AUCTION RESULTS

Here are the results of Tuesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

FOUR-WEEK BILLS

Applications \$114,311,271,500

Accepted bids \$35,000,011,500

\* noncompetitively \$380,714,100

\* foreign noncompetitively \$100,000,000

Auction price (rate) 99.931167 (0.885%)

Coupon equivalent 0.898%

Bids at clearing yield accepted 2.2%

Cusip number 912796LK3

The bills, dated June 15, 2017, mature on July 13, 2017.

29-YEAR, 11-MONTH BONDS

Applications \$27,829,716,700

Accepted bids \$12,000,003,200

\* noncompetitively \$2,460,700

\* foreign noncompetitively \$0

Auction price (rate) 102.595435 (2.870%)

Interest rate 3.000%

Bids at clearing yield accepted 63.87%

Cusip number 912810R8X

The bonds, dated June 15, 2017, mature on May 15,

The bonds, dated June 15, 2017, mature on May 15,

# Companies Follow Money Overseas

More corporations are selling debt in other currencies; ECB and lower costs are a lure

By BEN EISEN

Move over Benjamin Franklin. It's all about the euros.

American companies have sold \$108.5 billion of bonds in other currencies this year

to date, most for any comparable period in a decade, according to data provider Dealogic.

U.S. companies have done hefty issuance of euro-denominated debt but have also sold bonds in Canadian dollars and British pounds in 2017, Bank of America Merrill Lynch data show.

The issuers are some of the best-known firms. General Electric Co. issued \$8.7 billion of euro bonds last month, one of the largest sales in the market's history. And AT&T Inc. sold \$7.9 billion of euro bonds last week, according to Dealogic.

This debt, known as reverse Yankee bonds, has become popular in recent years as companies look to diversify their portfolios, particularly if

they have a lot of debt or plan to take on a lot to do a deal.

"Most companies should be interested in diversifying their funding bases, especially in situations where you have large M&A transactions," said Hans Mikkelsen, a credit strategist at Merrill Lynch. "You can do a little bit here and there instead of doing the entire deal in one currency."

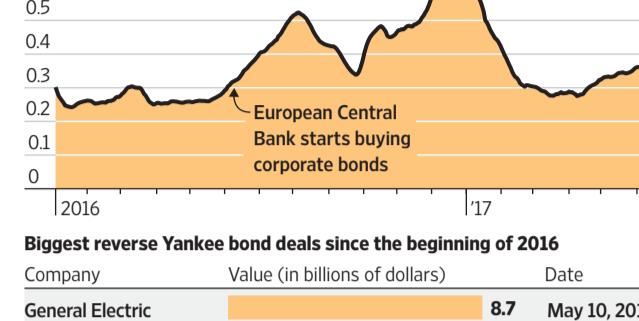
At the moment, companies are benefiting from a favorable set of market conditions, analysts say. One thing that has lubricated the euro-denominated debt market recently: The European Central Bank has continued to buy corporate bonds as part of its stimulus policies. That has maintained a source of strong demand for euro-denominated corporate debt. At last week's ECB policy meeting, the bank did not announce plans to curtail its bond buying.

The ECB waded into the corporate-bond market last year. But the environment wasn't as friendly for U.S. companies selling debt abroad because, in many cases, they had to pay high costs to swap that funding back to dollars. That's important for companies with mostly U.S. operations. AT&T

### Looking Abroad

A decline this year in the cost to borrow in euros and swap back to dollars is helping to fuel the issuance of bonds by U.S. companies in other currencies, or 'reverse Yankee bonds.'

#### Premium on three-month cross-currency basis swaps



#### Bigest reverse Yankee bond deals since the beginning of 2016

Company	Value (in billions of dollars)	Date
General Electric	8.7	May 10, 2017
AT&T	7.9	June 7, 2017
Bank of America	4.8	Jan. 31, 2017
Johnson & Johnson	4.6	May 11, 2016
Honeywell International	4.5	Feb. 15, 2016
Goldman Sachs Group	4.4	July 20, 2016
Pfizer	4.2	Feb. 28, 2017
Verizon Communications*	4.1	Oct. 26, 2016
Bank of America*	4.0	July 25, 2016
Wells Fargo	3.9	April 18, 2016

\*Issued in euros and British pounds. All other deals issued exclusively in euros.

Sources: Dealogic (debt); Thomson Reuters (premium) THE WALL STREET JOURNAL.

gets the vast majority of its revenue in the U.S.

Last year, the added cost of swapping euros for dollars rose sharply as investors con-

tended with a crunch in that market. Cross-currency swap

costs have turned lower this year, making it cheaper to issue in euros and end up with

dollars, according to Wells Fargo & Co.'s securities unit.

"This is the first time where you have a combination" of both falling swap costs and strong demand for corporate bonds from the ECB, both of which are supporting issuance, said Nathaniel Rosenbaum, a director of credit strategy at Wells Fargo.

To be sure, the added hedging costs can still complicate issuance of bonds denominated in other currencies. Merrill Lynch estimates that it likely cost AT&T about 0.1 percentage point more to issue in euros than in dollars if the company were to send the money back to the U.S. and hedge the currency risk. But for a big issuer like AT&T, unlocking new buyers in other currencies may be worth it, strategists say.

Possible changes to the U.S. tax code could help keep the momentum going for these bonds. The idea of removing the tax deductibility of interest has been discussed, but was not included in a White House plan unveiled in April. If that happened, some U.S. companies might be pushed to issue more debt abroad to lessen that additional tax burden, Morningstar has said.

# Saudis Cut Oil Sales to U.S. to Fight Glut

### OPEC Crude Output Increased in May

The Organization of the Petroleum Exporting Countries said Tuesday it produced more crude oil in May, underscoring the fragility of the cartel's agreement with other big producers to cut output and stabilize a slumping market.

OPEC's daily output rose 1% to more than 32.14 million barrels in May, led largely by increases from three of its 14 members: Libya, Nigeria and Iraq, according to the cartel's monthly market report.

OPEC's members have agreed with 10 nations outside the cartel to cap their production at roughly 1.8 million barrels a day lower than levels in October 2016.

Their goal is to draw down historically high amounts of oil in storage, which represent a global oil supply that has kept prices between \$45 and \$55 a barrel for much of the year.

On Tuesday, OPEC said its efforts to "rebalance" the market were having success but at a slower pace than expected in December. The group blamed U.S. producers, whose output rose on the back of a price increase caused by OPEC's production deal.

Oil inventories in the Organization for Economic Cooperation and Development—a group of industrialized, oil-consuming nations—remained higher than the cartel wants, OPEC said.

OECD stocks were above 3 billion barrels, 251 million barrels over OPEC's target.

OPEC said it was producing about 100,000 barrels of oil more than there was demand for every day, another factor weighing on oil prices.

Saudi Arabia, OPEC's biggest producer and the world's biggest exporter, also raised its production slightly in May, according to secondary sources cited by OPEC.

Rising production in Nigeria and Libya was anticipated, as they were exempted from the production-reduction pact.

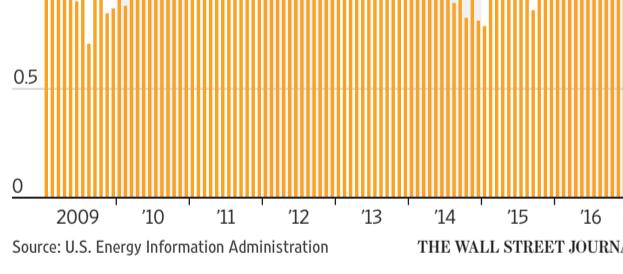
Iraq's output rose more than 44,000 barrels a day to over 4.4 million barrels a day. Iraqi oil officials didn't respond to requests for comment.

—Summer Said

### Paring Back

Saudi Arabia expects to ship less crude to the U.S. this summer.

#### Saudi exports of oil to the U.S., monthly



Source: U.S. Energy Information Administration

doesn't necessarily mean the global glut is shrinking. Traders are increasingly focused on U.S. inventories, in part because data there are easier to come by than in other places. When the EIA reported an unexpected increase in U.S. oil supplies last week, prices fell more than 5%.

"It's easier to hide these barrels in other parts of the world rather than sending them into the U.S.," said Michael Tran, commodity strategist at RBC Capital Markets. "It doesn't mean they're actually going to cut back on exports substantially."

And the fall in Saudi exports could reflect a number of other factors, such as rising U.S. production, which means domestic refiners need less of Saudi Arabia's crude. Saudi exports usually fall during the summer months because the kingdom requires more crude to generate electricity.

Some analysts say it is unclear where the oil that would have flowed to the U.S. will end up: feeding Saudi power plants,

the lack of clarity into the global supply picture, and lingering doubts among some investors about whether OPEC members are cutting as much as they say, are reasons why oil prices have been so volatile in recent months.

When the cartel announced late last year that it would cut output in coordination with Russia and other major producers, many believed it would help work off the global glut relatively quickly. That briefly sent crude prices rising.

But U.S. producers quickly took advantage of those higher prices, and their output has increased rapidly. Global stockpiles have come down but remain well above the levels OPEC is targeting. Even the group's announcement in May it would continue to curtail production through March failed to excite investors.

The Saudi export declines could change that, some analysts said. Aramco has been raising prices to its U.S. customers as part of its effort to stop them from stockpiling so much oil in the world's most closely watched storage tanks.

# Stock Indexes Advance as Technology Shares Recover

By RIVA GOLD AND AKANE OTANI

A recovery in the shares of technology companies helped lift the Dow Jones Industrial Average and the S&P 500 to fresh records Tuesday.

The Nasdaq Composite, which had suffered its biggest two-session decline since September during the tech sell-off on Friday and Monday, posted its best daily performance in more than a week.

Some investors said they weren't surprised to see stocks rebound quickly. Corporate earnings have been strong, which has helped the stock market keep climbing this year. That has in turn led many investors to view pullbacks as buying opportunities, rather than a reason to retreat.

Shares of companies that had slid in the previous two sessions

bounced back. Apple rose \$1.17, or 0.8%, to \$146.59, Facebook rose 2.24, or 1.5%, to 150.68, and Google parent Alphabet added 8.69, or 0.9%, to 970.50. Semiconductor stocks, which also had fallen during the sell-off, rose as well, with the PHLX Semiconductor Sector Index—which tracks 30 companies that design, distribute and manufacture semiconductors—adding 0.6%.

"Valuations had definitely gotten stretched...but every decline of even a couple percent has been met by buying" this year, said Tom Manning, chief executive at F.L. Putnam Investment Management.

The Dow industrials added 92.80 points, or 0.4%, to 21328.47, and the S&P 500 gained 10.96, or 0.5%, to 2440.35. The Nasdaq Composite rose 44.90, or 0.7%, to 6220.37.

The U.S. dollar and government bonds were largely steady as the Federal Reserve

began a two-day policy meeting. The WSJ Dollar Index, which tracks the dollar against a basket of 16 currencies, fell 0.1% to 88.31, while the yield

on the 10-year U.S. Treasury note edged down to 2.206% from 2.215% Monday. Yields fall as bond prices rise.

With

# MARKETS

## Investors Await Fed Balance-Sheet Moves

Officials expect announcement will have only a modest effect on markets

By MICHAEL S. DERBY

With the Fed on track to announce a strategy for shrinking its big bondholdings, attention is shifting from how it will work to how it will affect financial markets: Will it be a snooze or a storm?

Fed officials are hoping for the former, seeking to avoid a replay of the 2013 "taper tantrum" that occurred when the prospect of declining central-bank bond purchases triggered global market convulsions, including big capital outflows and currency drops in emerging markets.

Many expect a modest effect on markets, a view shared by Fed officials who believe their ample guidance about their plans should limit any negative reaction. Some caution, however, that they see potential for turbulence if investors are too complacent about preparing for the Fed's plans.

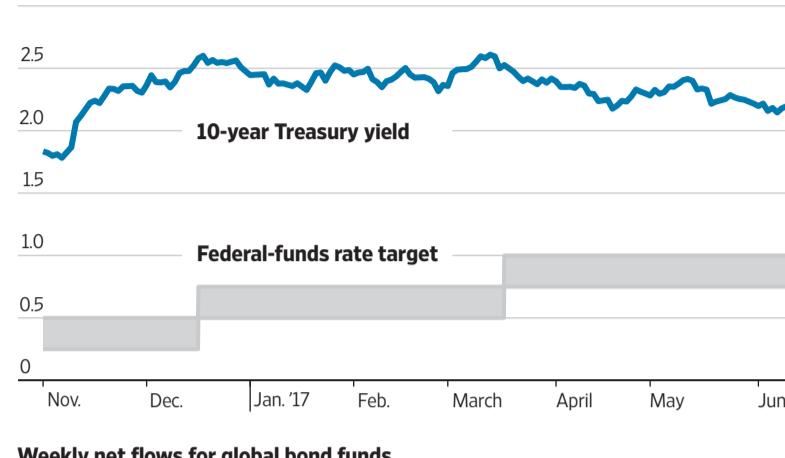
The Fed is likely to announce Wednesday, at the end of its two-day policy meeting, that it is raising its benchmark short-term interest rate by a quarter-percentage point to bring it to a range of between 1% and 1.25%, and signal that it expects about one more such increase this year.

Fed officials have said for months they were discussing how to reduce the balance sheet, and in May outlined a proposed approach that would let increasing amounts of securities mature over time.

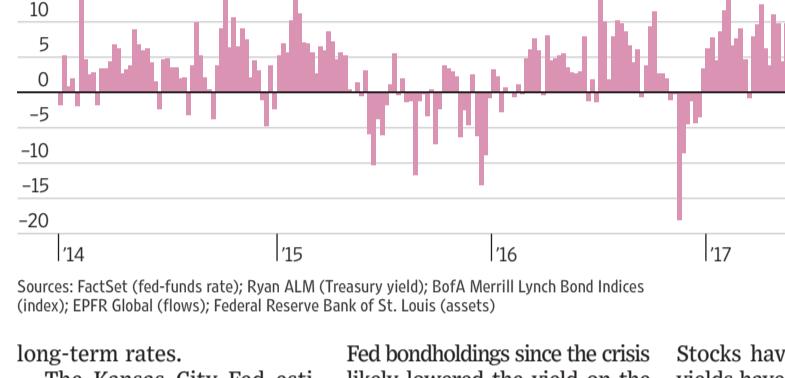
The Fed's portfolio of assets grew to \$4.5 trillion currently from around \$800 billion before the crisis through a series of bond-buying programs aimed at lowering long-term interest rates. Allowing those assets to roll off could push up

### Placid Setting

The Federal Reserve is expected Wednesday to raise its fed-funds target range and to discuss potential plans to reduce the size of its balance sheet. Long-term U.S. yields have fallen this year despite the rising fed-funds rate, reflecting in part large investment flows into bond funds, and some investors say a falling Move Index points to a worrying complacency.



### Weekly net flows for global bond funds



Sources: FactSet (fed-funds rate); Ryan ALM (Treasury yield); BofA Merrill Lynch Bond Indices (index); EPFR Global (flows); Federal Reserve Bank of St. Louis (assets)

long-term rates.

The Kansas City Fed estimated in early May that shrinking the holdings by \$675 billion by 2019 would have the effect of a one-quarter-percentage-point increase in the Fed's benchmark short-term rate. The Fed has raised the rate in three such increments since December 2015.

A mid-May Wall Street Journal survey of private economists found half of respondents reckoned the wind-down process would boost the yield on the 10-year Treasury note by just 0.2 percentage point or less over time.

A recent Fed board paper estimated that the expansion of

Fed bondholdings since the crisis likely lowered the yield on the 10-year Treasury by a percentage point from where it would otherwise have been. By 2023, the paper said, the yield would still be about a quarter-percentage point lower, all else being equal, despite an anticipated shrinkage in the balance sheet.

However, officials haven't revealed several key details that could influence the market effects, including when the process begins, its pace and the likely size of the balance sheet at the end.

Some analysts worry about the disconnect between current easy financial conditions and Fed efforts to tighten them.

Stocks have climbed recently, yields have fallen and volatility is low, despite recent Fed rate increases and plans for more. The gap could mean markets aren't ready for the Fed to start reducing its balance sheet.

"Markets are overlooking both the Fed's resolve to normalize policy and the impact their receding from bond markets will have," Shehriyar Antia, chief market strategist with the Macro Insight Group, wrote to clients. "The longer it takes for market expectations to converge with the Fed's policy trajectory, the greater the potential for an abrupt price move."

Some uncertainty about the effects stems from the opera-

tion's unprecedented scale. Before the crisis, the Fed bought and sold almost only Treasury securities to adjust short-term rates, and the relative size of those interventions was small.

Also, shrinking the balance sheet is only one way the Fed is trying to reduce the economic stimulus it is providing as the recovery gains strength. Fed officials see the slow growth and ebbing inflation of recent months as likely to be transitory, but some outside analysts aren't convinced. While the Treasury market is vast and unlikely to be much affected by the Fed's action, the central bank's presence in the mortgage market is bigger.

### Market Calm Has Some Unnerved

Anxiety over the Federal Reserve's likely decision to soon begin reducing its \$4.5 trillion in assets stems from the unusual calm in the markets this year and a belief held by many that the tranquility won't last.

The Fed is trying to "go slowly and be very clear, but what is out of their control is how markets function," said Julia Coronado, president of MacroPolicy Perspectives LLC and former chief U.S. economist at BNP Paribas SA. "We won't really know until we get the policy and markets have time to react."

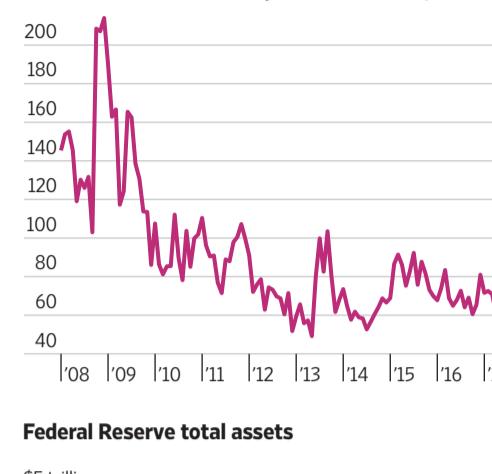
Government-bond yields have been falling this year and inflows into global bond funds last week reached their highest level in two years, helped by softening inflation, an abundance of foreign central-bank demand for Treasuries and diminishing prospects for new fiscal stimulus from the U.S. government, including changes in tax policy.

A gauge of volatility in the U.S. Treasury market, Bank of America Merrill Lynch's Move index, settled Monday at 52.32, its lowest level since early August 2014.

The yield on the benchmark 10-year Treasury note closed Monday at 2.206%, down 0.4 percentage point from early March.

But a June survey by MacroPolicy Perspectives found most respondents believe the Fed's unwinding is only "partially" reflected in Treasury and mortgage-bond prices. About half said it is "not at all" priced into credit and equity markets, despite Fed officials saying they want to get started this year.

—Katy Burne and Sam Goldfarb



### Federal Reserve total assets



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## China on Guard for Fed Rate Increase

By NATHANIEL TAPLIN

China has spent the past two months Fed-proofing its financial system.

As the U.S. central bank prepares for a likely rate rise on Wednesday, those fortifications appear solid, but investors shouldn't rule out further money-market volatility in coming weeks. Higher short-term dollar rates have a way of kindling Chinese outflows.

Investors spent much of the past eight weeks fretting over rising money- and bond-market rates in China, but the fixed-income sell-off—largely engineered by the central bank—has actually helped policy makers kill two birds with one stone.

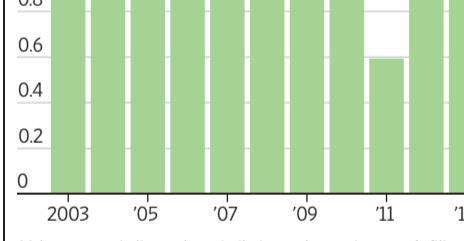
Regulators under pressure to show progress on the "de-leveraging" campaign championed by President Xi Jinping can point to lower bond-market leverage as evidence of success. And by squeezing the market, China has lowered the chances of another disorderly bond-market sell-off like the one after the December Fed rise. The dollar and U.S. rates have both weakened recently. An unexpectedly hawkish tone from the Fed on the pace of future increases or plans to shrink its balance sheet could upset that dynamic, though.

China is heading into a peak season for cash demand ahead of midyear tax and regulatory deadlines and investors are notoriously skilled at finding ways around capital controls. Another round of money-market volatility this summer can't be ruled out.

For now, though, China's bulwark against Fed-induced debt-market troubles looks sturdy. —Nathaniel Taplin

### Paper Chase

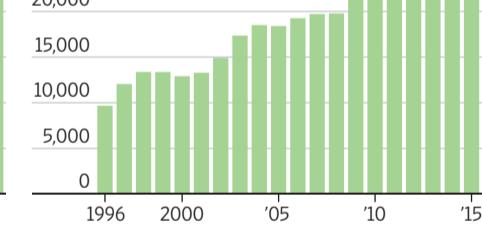
Similarity score for NetApp's 10-K from year to year\*



\*A lower score indicates less similarity to the previous year's filing

Sources: Cohen, Malloy and Nguyen (similarity score); Bill McDonald (number of words)

Number of words in the average 10-K filing



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## Tips Hide in Plain Sight

Companies are a little lazy about what they put into regulatory filings. Investors are profoundly lazy about reading them.

Compare a company's most recent annual report to its previous one, and you will quickly notice the language doesn't change much. Hot-dog seller **Nathan's Famous** has talked about the damage done to its flagship Coney Island location in 2012 in the exact same language three years in a row.

Do investors still care? Nathan's isn't taking any chances, nor do other companies. There is, says Harvard Business School economist Lauren Cohen, an incredible amount of inertia in the language companies use in quarterly and annual regulatory filings, known as 10-Q's and 10-K's, respectively.

When the language in filings does change, investors should sit up and notice. Not that they do.

Mr. Cohen and economists Christopher Malloy and Quoc Nguyen downloaded all the 10-K and 10-Q filings with the Securities and Exchange Commission from 1994 through 2014 and used textual-analysis software to create a similarity score showing how the language in

corporate filings differed one period to the next.

They then looked at stock performance following filings. The finding: Shares of companies that had significant changes did much worse than those of companies that didn't. This was particularly true when it came to changes in the risk factors section of 10-Ks.

Indeed, a strategy of buying shares of companies with no significant risk-factor changes and betting against companies with major changes would have returned more than 22 percentage points more than the overall market annually.

The similarity score for data-storage company **NetApp**, for example, fell sharply when it released its 10-K in June 2011. The company's shares had more than quadrupled from their financial-crisis low, but that run ended. Over the next year, its stock fell 41% while the S&P 500 rose 4%.

Tracking risk-factor changes is something even investors without programming chops can do for themselves. Professionals can use services such as FactSet, which has a function called blackline to highlight differences in filings. Individual investors can accomplish as

much by pasting text from two 10-Ks into separate Microsoft Word documents and using the compare function, or by using text comparison sites such as [textdiff.com](http://textdiff.com).

The stock underperformance of companies that make big changes to their risk factors suggest that, as a group, they aren't merely updating their filings to reflect risks that investors have already learned about, but providing information about emerging ones.

What is really striking, however, is that the stock market reaction to these risk-factor changes occur gradually. Companies are providing investors with material information, and investors aren't noticing it.

Some of that probably has to do with the form in which the information is getting provided.

Annual reports are big, and getting bigger. University of Notre Dame economist Bill McDonald finds that the average 10-K filed last year weighed in at over 26,000 words, nearly three times as many as 20 years ago. That is the equivalent to the text on around 10 full pages in The Wall Street Journal, but about 100 times duller.

—Justin Lahart

## Treasury Brings Hope to Big Banks

The Trump administration's financial deregulation plan is the one to watch in Washington. That bodes well for America's biggest banks.

The U.S. Treasury Department's report on bank regulation, issued Monday evening, is the most detailed statement to date of the Trump administration's view of financial regulation. It calls for an across-the-board streamlining of the regulatory approach to depository institutions.

Like all such calls for deregulation, it is pitched as being on the side of beleaguered community lenders. But it is hard to miss how much it would benefit top Wall Street banks. Importantly, while only some of its recommendations can be implemented without congressional legislation, these measures alone would be enough to move the needle significantly for bank profitability.

The House of Representatives last week passed its own plan, which goes much

further in dismantling the postcrisis Dodd-Frank regulatory regime. That bill stands little chance of passing the Senate, though. By contrast, the various tweaks proposed Monday by the Treasury are far more likely to be realized in the near-to-medium term.

The Treasury plan calls for raising the asset-size threshold under which banks must submit to Federal Reserve stress-testing, which is currently \$50 billion. This would aid midsize banks near the threshold, but it would also require legislation that may or may not be forthcoming.

The Treasury also envisions several changes to the stress-test process aimed at making it less cumbersome

and more predictable.

The report also recommends changes in how regulators calculate banks' total leverage by excluding safe assets such as U.S. Treasury bonds and cash on deposit with the Fed. This would be a boon to Wall Street banks with big securities portfolios.

The report doesn't commit to an outright lowering of capital requirements for the biggest U.S. banks. It does open the door to such a move, though, noting that the current practice of requiring them to hold more capital than international peers risks making them less competitive.

All these changes, with the exception of changing the asset-size threshold, could be implemented without Congress, though they can't happen overnight. The administration still needs to fill various regulatory posts and coordinate desired changes between agencies.

Action on these fronts is still likely over the next year or two, and the combined impact on bank profitability and capital returns would be significant. Investors will start pricing that into bank stocks sooner rather than later.

—Aaron Back

### Levered Impact

Estimated increase in 2018 earnings per share from changed leverage ratio calculation

J.P. Morgan Chase	12.5%
Citigroup	11.8%
Goldman Sachs	11.6%
Morgan Stanley	10.2%
Wells Fargo	9.5%
Bank of America	7.0%

Source: Keefe, Bruyette & Woods

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