

THE WALL STREET JOURNAL.

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★★★★ \$3.00

DJIA 21310.66 ▼ 98.89 0.5% NASDAQ 6146.62 ▼ 1.6% STOXX 600 385.98 ▼ 0.8% 10-YR. TREAS. ▼ 18/32, yield 2.198% OIL \$44.24 ▲ \$0.86 GOLD \$1,246.40 ▲ \$0.10 EURO \$1.1340 YEN 112.35

What's News

Business & Finance

Google was fined a record \$2.71 billion by the EU, which said the firm's search engine favors its own comparison-shopping service. **A1**

◆ **Draghi hinted** that the ECB might start winding down its stimulus, lifting the euro and pulling down eurozone bonds. **A1, B15**

◆ **Cyberattacks** whose victims included major companies created havoc across Europe and the U.S. **B1**

◆ **Apollo has raised** \$2.5 billion for the world's largest-ever buyout fund. **B1**

◆ **Tech shares fell**, pulling down U.S. stock indexes. The Dow lost 98.89 points to close at 21310.66. **B15**

◆ **Nestlé unveiled plans** for a \$20.8 billion share buyback and other moves after being targeted by Third Point. **B3**

◆ **UPS will freeze** pension plans for about 70,000 non-union workers, seeking to corral retirement obligations. **B3**

◆ **Takata's U.S. units** won approval for accords with car makers to help the parts supplier stay in business. **B3**

◆ **Samsung is releasing** a refurbished version of the Galaxy Note 7 smartphone recalled last year. **B4**

◆ **Microsoft cut a deal** with rival Box to form a partnership on cloud-computing technology. **B4**

◆ **Pandora co-founder** Westergren is stepping down from the company. **B4**

◆ **The estates of Madoff's sons** reached a \$23 million settlement over their father's Ponzi scheme. **B14**

World-Wide

◆ **Senate GOP leaders** postponed a health-care vote until after the July 4 recess after efforts stalled to win support from the nine Republican senators who now oppose the bill. **A1, A4**

◆ **The U.S. military prepared** for a possible Syria strike after Washington said it had signs Assad may use chemical weapons again. **A8**

◆ **Ex-Trump campaign chairman Manafort registered** with the Justice Department as an agent of a foreign government for his Ukraine work. **A6**

◆ **Trump's administration** is moving to roll back an Obama rule aimed at protecting drinking water. **A6**

◆ **Justice Gorsuch** early on has lined up consistently with the Supreme Court's most conservative justices. **A5**

◆ **Venezuela's Maduro** said a helicopter dropped grenades on the nation's high court in a terror attack. Some foes called his claim a diversion. **A9**

◆ **Brazil's President Temer** vowed to stay in power and fight the bribery charges filed against him, inflaming a bitter political divide. **A9**

◆ **Colombia's FARC rebels** turned in the last of their weapons, ending a half-century of armed struggle. **A9**

◆ **Lawmakers in Germany** cleared the way for a vote this week to legalize same-sex marriage after Merkel dropped her opposition. **A8**

◆ **Americans spent** more time working and less time sleeping in 2016, according to a survey. **A3**

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EU Slaps Google With Record Fine

By NATALIA DROZDIAK
AND SAM SCHECHNER

tech giants.
If the ruling sets a precedent that sticks, Google and other large tech firms may be forced to rethink how they plan to profit from some of their most popular offerings.

Antitrust experts and tech executives say that question arises in areas where tech giants have introduced major innovations—like Google's search

Please see GOOGLE page A2

◆ U.S. tech firms feel heat in Europe..... A2
◆ Heard on the Street: Google pays small price for scale... B16

Google

€2.42B

Search engine favored own online shopping service

Note: Excludes fines for procedural issues

€1 = \$1.12 †As part of larger cartel decision Sources: EU; staff reports

Big Ticket

The European Union's fine levied against Google is more than double its previous record for an abuse of market dominance.

intel

1.06

Discouraged PC makers from using other chips

Microsoft

0.5

Used Windows to promote its server software and media player

SERVIER

0.43

Abused position in anti-hypertension market†

Telefónica

0.15

Imposed unfair prices on broadband providers

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J. SCOTT APPLEWHITE/ASSOCIATED PRESS

Senate Majority Leader Mitch McConnell (R., Ky.) on Tuesday announced he is delaying a vote on the GOP's health-care bill until after legislators' July 4 recess, hoping to use that time to build support.

Short on Backers, GOP Delays Vote On Health Bill

By STEPHANIE ARMOUR
AND KRISTINA PETERSON

Senate Republican leaders abruptly postponed a vote Tuesday on a sweeping health-care bill until after Congress' July 4 recess, setting off a high-stakes lobbying sprint that could determine the fate of the GOP's legislation to topple most of the Affordable Care Act.

Senate Majority Leader Mitch McConnell (R., Ky.), who worked for weeks in closed-door sessions to craft a bill, told lawmakers that a vote wouldn't happen until Congress returns from recess the week of July 10.

The delay came after efforts stalled to tweak the legislation and garner support from the nine Republican senators who now oppose the bill. The Republican opposition was significant enough that even a routine procedural motion allowing the vote to proceed faced potential defeat.

In a test of his leadership, Mr. McConnell now will need to bridge a divide between conservative Republicans, who say the bill retains too many of the ACA's regulations to significantly lower premiums, and GOP centrists, who worry

the legislation goes too far in cutting funding to Medicaid.

From now until Congress' return, there is likely to be a run of deal-making, arm-twisting and lobbying, with voters voicing their opinions in town-hall meetings, Republican leaders offering changes and organizations trying to sway senators on all sides.

The delay is a setback for President Donald Trump and Mr. McConnell, who had promised a vote this week. On Monday, Sen. John Cornyn of Texas, the second-ranking Senate Republican, tweeted that "I am closing the door" on a delay because "we need to do it this week." On Tuesday, asked if the door was back open, Mr. Cornyn tweeted, "Just a crack."

Still, Senate leaders took comfort from the experience of House Republicans, whose own health bill was initially declared dead. They were then able to regroup, bring it to the floor and pass it in May.

Senate Republicans say they must pass the legislation before Please see HEALTH page A4

◆ Insurers pine for the individual mandate..... A4
◆ Nursing homes balk at Senate bill's Medicaid cuts..... A4

Draghi's Outlook Boosts Euro

By TOM FAIRLESS

SINTRA, Portugal—The euro soared to its biggest one-day gain against the dollar in a year and eurozone bond prices slumped after European Central Bank President Mario Draghi hinted the ECB might start winding down its stimulus in response to accelerating growth in Europe.

Any move by the ECB toward reducing bond purchases would put it on a similar policy path as the Federal Reserve, which first signaled an intent to taper its own stimulus program

in 2013. But the ECB is likely to remain far behind: The Fed has been raising interest rates gradually since December 2015, while the ECB's key rate has been negative since June 2014.

Mr. Draghi's comments, made Tuesday at the ECB's annual economic policy conference in Portugal, were laced with caution and caveats. But investors interpreted them as a cue to buy euros and sell eurozone bonds, a reversal of a long-term trade that has benefited from the central bank's €60 billion (\$67.15 billion) of bond purchases each month.

"All the signs now point to a strengthening and broadening recovery in the euro area," Mr. Draghi said.

Following Mr. Draghi's comments, the euro jumped 1.4% against the dollar, the largest daily percentage rise since June 2016, to end U.S. trading at \$1.1340. It is the euro's highest level against the greenback since August 2016.

The yield on government debt in countries such as Germany and Italy rose sharply. Bond yields rise as prices fall.

The €2.3 trillion bond-buy Please see ECB page A8

By ERICA E. PHILLIPS

INDIANAPOLIS—Charles Fox was walking between stacks of shipping containers this week in a storage yard near Interstate 465, when he spotted just what he hoped for—a unicorn.

Forty feet long and 9'6" high, sandwiched between two rust-colored boxes of the same dimensions, was a container with a logo for Gateway Management Services, a fleet taken over more than 10 years ago by Textainer Group.

And it was blue.

"Nobody even knew these existed," said Mr. Fox, 31. He had seen Gateway containers

Please see RARE page A10

ILLINOIS SINKS IN UNPAID BILLS

Long budget standoff leaves \$14.6 billion backlog

By SHIBANI MAHTANI
AND DOUGLAS BELKIN

SPRINGFIELD, Ill.—This is what happens when a major American state lets its bills stack up for two years.

Hospitals, doctors and dentists don't get paid for hundreds of millions of dollars of patient care. Social-service agencies help fewer people. Public universities and the towns that surround them suffer. The state's bond rating falls to near junk status. People move out.

A standoff in Illinois between Republican Governor Bruce Rauner and Democratic Speaker of the House Michael Madigan over spending and term limits has left Illinois without a budget for two years. State workers and some others

are still getting paid because of court orders and other stopgap measures, but bills for many others are piling up.

The unpaid backlog is now \$14.6 billion and growing. Illinois is even late paying its utilities bills to Springfield, its own capital city. On July 1, the beginning of the next fiscal year, billions of dollars in road projects are scheduled to grind to a halt.

"Right now, our state is in real crisis," said Gov. Rauner last week, on the eve of a special legislative session where lawmakers are trying to hammer out an agreement before the state enters its third budgetless year.

Susana Mendoza, the state's Democratic comptroller.

Please see BILLS page A10

Cyber Shutdown Hits U.S., Europe



Cyberattacks created havoc across Europe and the U.S. on Tuesday, an onslaught that appeared to stem from an obscure Ukrainian tax software product. Companies from Merck to Rosneft to Mondelez were hit. **B1**

VALENTYN OGIRENKO/REUTERS

Salesforce. #1 CRM.

Salesforce ranked #1 for CRM based on IDC 2016 Market Share Revenue Worldwide.

Salesforce

18.1%

ORACLE

9.4%

SAP

7.2%

2012 2013 2014 2015 2016

Source: IDC Worldwide Semiannual Software Tracker, May 2017



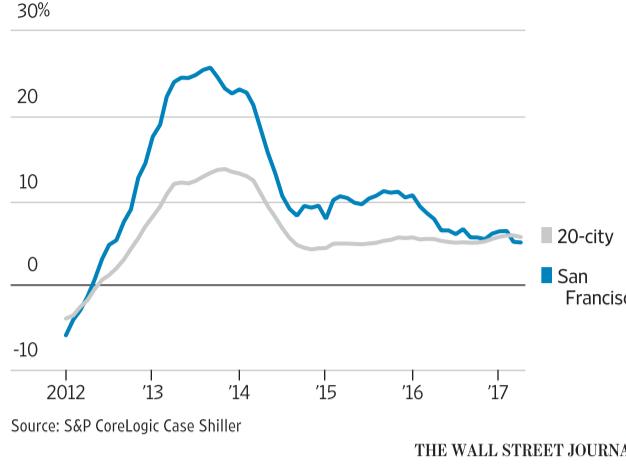
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U.S. NEWS

Cooling Market

S&P CoreLogic Case-Shiller home price index, change from a year earlier



Source: S&P CoreLogic Case Shiller

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In San Francisco, Home Prices Take a Breather

By LAURA KUSISTO

San Francisco, once the hottest housing market in the U.S., is now one of the coolest, in a reversal that could presage a broader slowdown if more buyers decide it isn't worth chasing rapidly rising prices.

Home-price growth continues to accelerate in many parts of the country, driven by a lack of supply and rising demand. The S&P CoreLogic Case-Shiller Indices, which cover the entire nation, rose 5.5% in the 12 months ended in April, after a revised 5.6% year-over-year increase in March.

Prices in San Francisco increased 5% in April, making the Bay Area one of the slowest expanding markets in the U.S. and well behind markets such as Atlanta, Boston, San Diego, Las Vegas and Phoenix.

San Francisco's apartment market also is sluggish. Average rents decreased 0.3% in the second quarter from a year earlier, according to data released this week by Reis Inc.

Economists said the weakening is being caused by a confluence of factors: slowing job growth, less demand from new buyers put off by high prices, and, on the rental side, an increase in new apartment supply as developers try to cash in on a multiyear boom.

"If we had the same level of tech job growth and this [new] supply, there probably wouldn't be an issue," said Conor Wagner, an analyst at Green Street Advisors, a research firm.

Technology-sector employment is still expanding but at a much slower rate. Jobs in the technology, media and information sector had increased by about 15% two years ago but now there is roughly 1% growth, according to an analysis of Bureau of Labor Statistics data by

Green Street Advisors.

That means fewer high-paid workers are able to snap up pricey homes and rentals.

"Tech is growing more slowly than the rest of the economy, and tech has been the thing that has been driving the economy forward the last decade," said Ted Egan, chief economist for the city of San Francisco. "We are in the middle of a notable slowdown."

In many ways San Francisco is a unique market. The average home price has more than doubled since 2009, according to Case-Shiller, making a slowdown virtually inevitable. The economy is overwhelmingly driven by the technology industry, unlike most other big cities.

But there are parallels with the rest of the U.S.

Economists, for instance, said the rate of price growth across the nation is unsustainable, and a significant slowdown in home-price gains or even falling prices in some places is expected.

The number of home sales in the Bay Area in February sank to its lowest level since 2008, down 3.5% from a year ago, according to PropertyRadar, a real-estate research firm.

Nationally, home prices hit a record in September, and the pace of growth accelerated steadily through March. But in April, just seven of 20 cities reported greater year-over-year price increases than a month earlier.

"The question is not if home prices can climb without any limit; they can't," said David Blitzer, managing director at S&P Dow Jones Indices. "Rather, will home-price gains gently slow or will they crash and take the economy down with them? For the moment, conditions appear favorable for avoiding a crash."

Firms Feel Heat in Europe

The European Union's antitrust watchdog has handed down a string of big decisions in recent years against top U.S. technology firms, in what might look to U.S. companies and officials like a trend by Brussels to train investigations

By Natalia Drozdiak in Brussels and Jack Nicas in San Francisco

on large American companies.

EU officials deny any bias. "We don't go against Google because it's an American company but because it's a company abusing its dominant position in our market.... If it were in Brazil, we wouldn't care," a senior EU official said, referring to the EU's €2.42 billion (\$2.71 billion) fine Tuesday against Alphabet Inc.'s Google.

EU competition officials are, to a large extent, constrained by antitrust rules and legal precedents when making decisions against any companies, be they American, Euro-

pean or otherwise. But unlike Washington, where U.S. enforcers need to prove their cases before a judge, the EU's competition directorate acts as prosecutor, judge and jury in competition cases—and only needs to convince itself.

Experts say U.S. tech companies are currently getting increased scrutiny because they happen to dominate the industry. This comes at a time when one of the top priorities for the European Commission, the bloc's executive body, is to ensure the EU's common market functions more efficiently online and across borders.

Asked Tuesday about the perception by some American officials and companies of an anti-U.S. bias in the bloc's decisions, EU antitrust chief Margrethe Vestager said she had reviewed recent cases in different enforcement areas and consistently found that only a small number of the companies affected were American. "I can find no facts to support any

kind of bias," Ms. Vestager said.

The EU's decision on Tuesday to fine Google follows other recent tough decisions against large tech firms: Last August it ordered Apple Inc. to pay Ireland €13 billion in allegedly unpaid taxes and in May fined Facebook Inc. €110 million for providing incorrect information or misleading authorities over the acquisition of its messaging unit WhatsApp.

Apple said in December when it appealed the EU's tax decision that regulators were unfairly targeting the company, while a Facebook spokesman said at the time it had "acted in good faith."

The rulings come at a time when European tech firms, which led the way in the global smartphone push, have fallen behind their U.S. counterparts.

The beneficiary of the regulatory moves in Brussels often aren't just European firms. Many of the complainants in the EU investigations into Google, for instance, are U.S. companies

that have sought antitrust action in Europe after the Federal Trade Commission closed its investigation of Google.

Yelp Inc., Oracle Corp. and News Corp., the owner of The Wall Street Journal, have all filed formal complaints in some of the EU's cases against Google. News Corp. is an interested third party in the shopping case, meaning it can participate in the investigation, and has also formally complained to the EU about Google's handling of news stories.

There are more unnamed U.S. companies lobbying European regulators for action, said Luther Lowe, Yelp's head of public policy. "The not-so-well-kept secret of this process is that U.S. companies have been doing the lion's share of the work," he said.

—Valentina Pop and Brent Kendall contributed to this article.

GOOGLE

Continued from Page One

engine—that become gateways to the internet. EU regulators worry that tech firms, by inserting themselves into such a key role of funneling and directing consumer traffic, could take unfair advantage.

In her announcement of the Google decision, EU antitrust chief Margrethe Vestager stressed that dominant companies have special "responsibilities" not to hinder competition. "They are not allowed to abuse their power in one market to give themselves an advantage in another," she said.

Google General Counsel Kent Walker said "we respectfully disagree with the conclusions announced today." The company said it will review the decision and consider an appeal.

How Google ends up changing its business model to comply with the EU ruling "could eventually apply to any way that Amazon, Facebook or anyone else offers to search for products or services" depending on "what sort of bottleneck they impose on the process," said Michael A. Carrier, a law professor at Rutgers University.

Tuesday's fine is the latest broadside by European authorities against Silicon Valley, at a time when tech firms face few regulatory challenges in the U.S. or elsewhere. The EU has already indicated it is looking at the same potential issue in relation to some of the newest innovations Silicon Valley is pushing, including voice-activated digital assistants, which often provide a sole answer in response to a query.

At the heart of the EU's case is what regulators believe is Google's outsized control over internet traffic. Google handles about 92% of global internet searches, according to research firm StatCounter. For product-related searches, such as "gas grill" or "smartphones," Google often returns a series of ads atop its search results that link to retailers' sites. Merchants pay Google each time a user clicks on their respective ad.

Comparison-shopping sites operate similarly, charging merchants for clicks, but they say their traffic has plummeted in recent years as Google ex-

Steering Customers

European regulators accuse Google of unfairly favoring its shopping ads in search results, while Google says they are good for users.



The EU says Google systematically favors its comparison-shopping service by inserting it above general search results and traditional text ads.

The EU contends Google hurts competing shopping sites by demoting them in search results, sometimes after the first page, causing them to lose traffic.

Google says its shopping ads are improved versions of its text ads, with images and prices making them more useful. It argues EU regulators ignore the prevalence of Amazon and eBay in the online-shopping market.

Sources: European Commission, Google

Note: Web page shortened for display purposes

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banded its own shopping service. Links to those shopping sites typically appear much lower in Google search results, which the EU says gives Google an illegal advantage.

Google says users prefer links that send them directly to a merchant's site to buy a product, rather than another comparison-shopping site. Mr. Walker said the company believes its service benefits users and helps European merchants compete against e-commerce giants Amazon and eBay Inc.

He added that regulators also erred in not considering Amazon and eBay as competitors to Google, pointing to a 2016 study by marketing firm BloomReach that said more than half of internet users start their shopping searches on Amazon.

The EU's fine is more than double what had been the bloc's previous record penalty for a company it found had abused its market position—a €1.06 billion fine on Intel Corp. in 2009. While the penalty is larger than many had expected, it's one Alphabet can easily afford, considering its \$92 billion in cash and liquid securities on hand.

Comparison-shopping sites operate similarly, charging merchants for clicks, but they say their traffic has plummeted in recent years as Google ex-

As part of its decision, the EU ordered Google to treat rival comparison-shopping services equally in its search results, but it left it up to Google to figure out how. Google has 90 days to comply with the order to change its services, or faces penalties of up to 5% of average daily global revenue for each day it doesn't comply.

That could mean no more shopping ads in Europe. More likely, analysts said, Google will propose rebuilding the service.

The fine is the latest broadside by European authorities against Silicon Valley.

EU regulators may require Google to retool the system in a way that would allow results from competing comparison-shopping sites to get mixed in and be as easy to click through as Google-hosted ads.

Losing those ads would deliver a hit to Google revenue.

Business & Finance in others, failed to make clear that the strategy could involve a payout.

House Republicans are said to be nearing a deal on a plan that would boost military spending well above the limit imposed by current law. In some editions Tuesday, a Business News article about the company, which sells internet-connected bikes and subscriptions to cycling classes, incorrectly said subscriptions generated 60% of revenue.

A Neuberger Berman

money manager has been selling put options on stocks, a strategy that enables his funds to make extra income, but one that also could require a payout on the options in a market downturn. An article on Tuesday about market volatility, which was published on Page One in some editions and in

Company executives have repeatedly highlighted the ads in recent quarters as a growth driver for its core search-ad business. Such ads now account for roughly 52% of clicks on retailers' Google search ads, up from about 25% three years ago, according to digital-marketing firm Merkle Inc.

Google will need to comply with the order regardless of any appeals or court action. Google has three months to pay Brussels. If it chooses to appeal, it has the option of transferring a bank guarantee pending the outcome of the appeal.

The fine and broad remedy order mark an escalation in Brussels' fight over whether the Mountain View, Calif., firm has used its dominance as a cudgel to promote its own services at the expense of competitors.

They are also the first to come from multiple probes the commission has opened into Google. Three have resulted in formal charges: on comparison shopping, on Google's Android mobile operating service and on its AdSense advertising service. Google has rejected accusations it breaches EU competition law and said it disagrees with the concerns in other areas.

News Corp., owner of The Wall Street Journal, is an interested third party in the shopping case, meaning it can participate in the investigation. The company has also formally complained to the EU about Google's handling of news articles in search results.

The EU's decision in the shopping case could expedite its probes into Google's conduct with other services. Ms. Vestager said the finding of Google's dominance in search in the shopping case would be a starting point for a legal review in other search services.

Tuesday's move also highlights its divergence with U.S. regulators in their approach to Google. The Federal Trade Commission closed a probe into Google's search practices in 2013 after the company agreed to voluntary changes. Some firms have been lobbying U.S. regulators to reopen the case.

—Jack Nicas contributed to this article.

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CORRECTIONS & AMPLIFICATIONS

Monthly subscription fees generate about 20% of Peloton Interactive Inc.'s revenue, according to the company's chief financial officer. In some editions Tuesday, a Business News article about the company, which sells internet-connected bikes and subscriptions to cycling classes, incorrectly said subscriptions generated 60% of revenue.

A Neuberger Berman money manager has been selling put options on stocks, a strategy that enables his funds to make extra income, but one that also could require a payout on the options in a market downturn. An article on Tuesday about market volatility, which was published on Page One in some editions and in

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U.S. NEWS

Schools, Colleges Deal With Costly Mold

Aging structures are ripe for problems; Indiana University spends \$568,220

BY MELISSA KORN
AND TAWNELL D. HOBBS

Jennifer Matos rushed her 4-year-old daughter, Sapphira Holmes, to the emergency room last September after noticing the girl's chest heaving as she breathed.

Sapphira, three weeks into prekindergarten at Oak Springs Elementary in Austin, Texas, was given oxygen and put on a breathing machine. Ms. Matos said a doctor mentioned that the asthma symptoms could be caused by mold exposure.

According to an Austin Independent School District report, a classroom inspection requested by Ms. Matos found high levels of *Aspergillus* or *Penicillium* mold—common triggers for allergy-like responses.

The problems in Austin are among dozens of documented cases in which K-12 schools and colleges nationwide have detected mold in the past year. Fixing the problem costs anywhere from a few hundred dollars for replacement air-conditioner parts or new carpeting, to hundreds of thousands of dollars for more comprehensive cleaning and repairs.

While mold is present outdoors and in many buildings, poorly maintained pipes and air conditioners in aging structures, which are often closed for weeks or months between semesters, make classrooms and dormitories particularly ripe for the fungal growth, mold and facilities experts say.

The University of Richmond, Northwestern University, East Carolina University and Beloit College all contended with mold problems in dormitories



A school district in northern California, left, had to make repairs due to mold; Sapphira Holmes, right, had breathing problems, and mold was found at her Texas school.



JENNIFER MATOS, JON RAY

this past school year.

Jessica Monberg started feeling ill her first week of freshman year at Indiana University last fall, and coughing fits and bouts of fatigue grew worse as the semester wore on.

School officials saw mold, including in an air vent, and an inspection turned up moderate levels of *Aspergillus* or *Penicillium*. “I just had a huge allergic reaction,” said Ms. Monberg, who is 19 years old.

The school ultimately spent \$568,220 cleaning and fixing nearly 1,000 air handling units in two dorms in February.

“We wanted to make sure that we didn’t have, pardon the pun, a growing problem,” said Thomas Morrison, vice president for capital planning at Indiana University.

Nevada-based Dr. James Craner, who evaluates patients who have been exposed to mold and other environmental or occupational hazards, said opting for cheap, quick fixes or ignoring the potential danger of water intrusion problems comes at a long-term cost.

Appropriately detecting and

Health Effects: One Student’s Tale

Doctors say people can be sensitive even to common molds, and there is controversy over what causes them to react.

Texas Christian University cleaned air systems after it was notified that a basketball player, Gabe Adzich, had become ill last

fall with symptoms including tingling hands, dizziness, fatigue and chest pains. The ailments began soon after he moved into his dorm for freshman year.

By November, he had migraines and memory problems. A battery of tests led to diagnoses including anxiety, esophagitis and malignant growths in Mr. Adzich’s colon, he and his mother said.

A private environmental in-

removing mold, he said, is “a construction and economic issue with significant public-health implications.”

Jon Ray, superintendent of the Klamath-Trinity Joint Unified School District in Humboldt County, Calif., said his district has had to put roughly \$65 million into repairs, demolition and new construction after it found wet ceiling tiles in 2014 that led to the discovery of widespread mold and other issues across six of the district’s seven schools.

Environmental tests found elevated levels of *Basidio-*

spores, as well as *Stachybotrys*, which produces dangerous mycotoxins.

The district, with an annual operating budget of \$19 million, tapped state funds and is hoping for federal money to handle the rest of the remediation on 1950s-era buildings, which includes dealing with lead paint and asbestos. Klamath-Trinity has had to cancel weeks of classes over the past year and a half and is still only about halfway done with the project.

“The mold was a problem. The cleanup was a bigger problem,” Mr. Ray said.

spector hired by Mr. Adzich’s mother in November found a number of common mold types in the dorm room, as well as *Basidiospores*, which are rare indoors, according to the inspection report, which was viewed by The Wall Street Journal.

TCU hired an independent air-quality firm that found mold that “did not constitute a health risk” to occupants, a school spokeswoman said, but the

school cleaned the air register and duct work in the room “as a precautionary measure.”

TCU has been cleaning the air systems in all residence halls, a project it expects to complete in August.

It also sent the Adzich family a \$10,000 check to cover property the family said had been contaminated.

—Melissa Korn and Tawnell D. Hobbs

Maine Battles Over Tax on Wealthy

BY JON KAMP

As Maine lawmakers try to avoid a government shutdown, they are debating whether to keep a new tax on high-income earners that voters backed seven months ago.

If lawmakers can’t hash out a deal during budget negotiations before the fiscal year ends Friday night, the state known as “Vacationland” risks shutting down just ahead of Independence Day.

So lawmakers in Maine, where the Legislature is closely split between Democrats and Republicans, will have to decide soon what to do with a 3% additional tax on household income topping \$200,000 that voters endorsed in November to help pay for education. The tax went into effect Jan. 1.

State House and Senate Republicans, as well as Republican Gov. Paul LePage, want to

eliminate the tax, while Democrats want to retain it but have offered to lower the rate.

Mr. LePage said Tuesday he was willing to risk a shutdown to avoid passing a two-year budget he believes would cause lasting damage. Mr. LePage called it a “job-killing surtax” that was already affecting small businesses. “I believe we’re going to shut down Friday night,” he said.

“We’re in a very precarious place right now,” said Sara Gideon, the Democratic speaker of the Maine House, in an interview late Monday. “We still haven’t been able to land on an agreement.”

The debate over taxing the wealthy is also percolating in other states. In Massachusetts, lawmakers recently voted to put a proposed surtax on income over \$1 million on the 2018 ballot. Meanwhile, in Connecticut, Democratic Gov. Dannel Malloy has backed off

from additional taxes on higher income earners because previous increases haven’t solved the state’s persistent fiscal problems.

In Maine, the conflict goes back to a ballot referendum in November in which voters endorsed adding the high-in-

Voters backed 3% surcharge to fund education, but GOP officials balk.

come tax with the goal of raising \$320 million for education funding over two years.

Detractors of the tax, including the Maine State Chamber of Commerce, which urges a repeal, say the tax will hurt small businesses. The tax pushed Maine’s top marginal

—Richard Rubin contributed to this article.

“This tax gives our competition in other states an edge in recruiting,” said Melissa Smith, chief executive at Wex Inc., a payment-processing firm in South Portland, Maine.

Supporters, meanwhile, argued it would force Maine to finally live up to another voter-backed measure from 2004 that the state keeps missing: a requirement that state government cover 55% of the tab for education.

Proposals to scrap the tax irk supporters who say this violates Mainers’ will. “We’re going to defend what the people voted on,” said John Kosinski, the campaign manager at Stand Up for Students, the ballot-initiative group.

—Richard Rubin contributed to this article.

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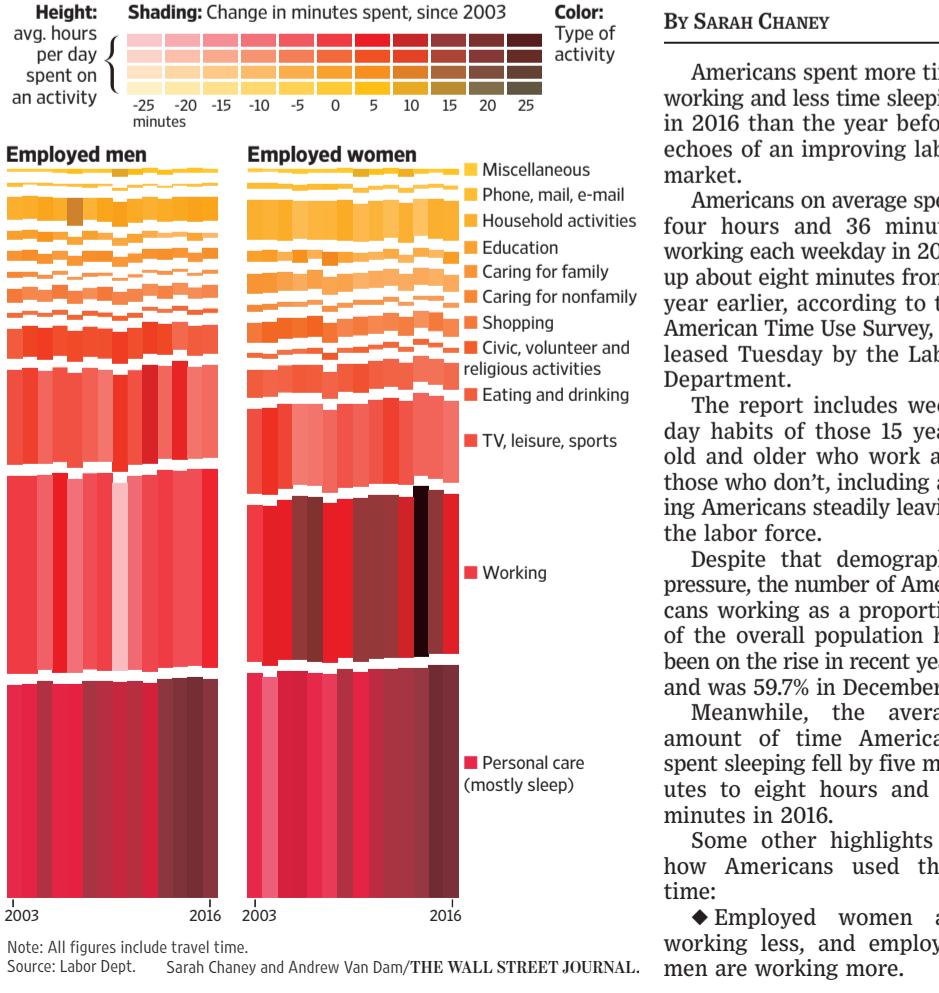
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Whose Workday Is Changing

Amid overall growth in work hours in 2016, employed men and women saw different trends in how they use their time.

How Americans spend an average weekday



Note: All figures include travel time.

Source: Labor Dept. Sarah Chaney and Andrew Van Dam/THE WALL STREET JOURNAL.

BY SARAH CHANEY

Americans spent more time working and less time sleeping in 2016 than the year before, echoes of an improving labor market.

Americans on average spent four hours and 36 minutes working each weekday in 2016, up about eight minutes from a year earlier, according to the American Time Use Survey, released Tuesday by the Labor Department.

The report includes weekday habits of those 15 years old and older who work and those who don’t, including aging Americans steadily leaving the labor force.

Despite that demographic pressure, the number of Americans working as a proportion of the overall population has been on the rise in recent years and was 59.7% in December.

Meanwhile, the average amount of time Americans spent sleeping fell by five minutes to eight hours and 30 minutes in 2016.

Some other highlights of how Americans used their time:

◆ Employed women are working less, and employed men are working more.

Nearly 10,500 people were interviewed for the 2016 survey, the Labor Department said.

U.S. NEWS

Intraparty Disputes Stall GOP's Agenda

Delays over health bill and budget threaten to push tax-overhaul plan close to midterms

BY KRISTINA PETERSON
AND RICHARD RUBIN

WASHINGTON—The Republican-controlled Congress is struggling to overcome intraparty fissures that have been expanding since the rise of the Tea Party in 2010, threatening to derail its legislative ambitions this year.

On Tuesday, Senate GOP leaders opted to delay a vote on their bill that would dismantle and replace much of former President Barack Obama's Affordable Care Act in the face of resistance among Senate Republicans over the bill's policy planks.

Just hours earlier, House Republicans decided to punt until after the July 4 recess on unveiling their budget for fiscal 2018—a necessary prerequisite for their push to overhaul the tax code—to iron out their own differences.

The delays bogging down marquee elements of the GOP agenda left Republicans and President Donald Trump with little legislative achievements after nearly six months in power. Republicans, who control the executive and legislative branches for the first time since early 2007, have dwindling time to make significant policy changes before the 2018 midterm-election politics



President Donald Trump, center, met with Senate Republicans in the White House on Tuesday after their health bill hit a snag.

moves action on all of the GOP's other legislative priorities to later in the year. Most notably, the effort to revamp the U.S. tax system may slow as a result, despite Republicans' insistence they can complete a major tax bill this year.

To get to a tax bill that can also pass on a party-line vote, Republicans have to finish the health bill, one way or the other, and then complete a budget resolution that unlocks speedier procedures known as reconciliation for the tax bill.

Senate Finance Committee Chairman Orrin Hatch (R, Utah) said the longer the health debate, "the more difficult it is going to be to do true tax reform."

One other roadblock in the tax effort is the intraparty dispute slowing the progress of the House GOP budget.

Although House Republicans have agreed on the overall spending levels for military and non-military spending for fiscal year 2018, they remain divided over how big a cut to include for mandatory spending on big safety-net programs such as Medicaid, food stamps and welfare.

With Congress in session only three weeks in July, lawmakers will face a crush of major policy deadlines before their August recess.

"It's frustrating," said Rep. Roger Williams (R., Texas). "We've got to begin to get things done."

—Siohan Hughes
and Natalie Andrews
contributed to this article.

overwhelm the Capitol.

"It's almost like we're serving in the minority right now. We just simply don't know how to govern," said Rep. Steve Womack (R., Ark.).

Democrats, who are united in opposition to GOP plans, said Republicans' stalled agenda reflected GOP leaders' inability to wrest compromise from the dueling factions of

their party.

"There's virtually nothing to show for six months of so-called Republican leadership" said Sen. Dick Durbin (D., Ill.).

The biggest setback Tuesday came in the Senate, where Majority Leader Mitch McConnell (R., Ky.) said he would move a vote expected this week on the GOP health-care bill until after next week's re-

cess in the face of continued opposition from both centrist and conservative Republicans.

Lawmakers will now have to face energized opponents of their bill at home, compounding the challenge of securing the support of 50 GOP senators to pass the bill. After its own fits-and-starts, the House passed its version last month.

Asked about the possibility

that members could bolt over recess under pressure from activists at town halls, Mr. McConnell, emerging from a hastily called meeting at the White House with Senate Republicans, all but shrugged.

"Some members have town halls and some don't, we'll see what happens," he said.

Pushing the Senate health-care vote into July likely

Insurers Pine for the Individual Mandate

BY ANNA WILDE MATHEWS

Senate Republican leaders on Monday unveiled a new provision in their health bill designed to prod people to maintain their insurance coverage, a tweak made after insurers had complained an initial version of the legislation threatened to undermine the individual insurance market.

But industry officials say it isn't clear how much the new clause would stabilize the markets or draw in the young, healthy enrollees insurers crave.

Insurers applauded the tweak, which would impose a waiting period of six months on people who try to buy plans after having a gap in coverage of 63 days or more. The idea: Motivate consumers to maintain continuous coverage, rather than jumping into the market when they get sick or need a medical procedure.

But insurers and experts also said it wasn't clear that



Insurers desire healthy enrollees to help offset costs of sick ones.

the new six-month lockout period or other provisions would fully make up for the impact of another important part of the Senate bill: dumping the Affordable Care Act's mandate that requires most people to have insurance.

Many insurers feel that the ACA requirement, and the tax penalty associated with it,

helps bring young, healthy enrollees into the market. Healthy enrollees help offset the costs of sicker consumers and hold down premiums.

"Any loosening up in the mandate is detrimental to the risk pool," said Dave Dillon, a vice president at Lewis & Ellis, an actuarial consulting firm, and fellow at the Society of

Actuaries. "I don't see that six-month waiting period as being very effective to encourage enrollment."

Paul Markovich, the chief executive of Blue Shield of California, said the new continuous-coverage provision is "helpful," but he would like to see more. "I don't think that's as strong an incentive for individuals to stay in the pool" as the individual mandate, he said.

Overall, he said, the Senate legislation could help steady the marketplaces in the short term, partly by including two years of federal payments for cost-sharing subsidies and providing new federal stabilization funding that could help blunt costs for insurers. But "when you get to the longer term, it will be much more challenging" to keep the individual market steady.

Martin Hickey, chief executive of New Mexico Health Connections, a nonprofit insurer, said getting rid of the

individual mandate would likely push up his company's rate increase on marketplace plans for next year by 10 to 20 percentage points, and he didn't expect that amount would be reduced by the inclusion of the six-month lockout requirement.

The continuous-coverage penalty might "actually drive more sick people into the pool" and lead to even greater rate increase," he said.

The Congressional Budget Office, in its analysis of the Senate bill suggested that, largely due to the elimination of the individual mandate, premiums for individual plans would be 20% higher in 2018 than under the ACA, and 10% higher in 2019.

The CBO also said the lockout would ultimately "slightly increase the number of people with insurance" though the Senate bill as a whole would leave the individual insurance market smaller by around seven million people.

Nursing Homes Balk at Senate Bill

BY RUTH SIMON

Nursing-home executives are intensifying their opposition to the Senate's health-care overhaul, concerned that the proposed multibillion-dollar cuts to Medicaid would gravely wound the industry.

Before Senate Republicans postponed a vote on the legislation Tuesday, a conference call organized by the American Health Care Association drew nearly 800 participants. They were asked to contact their senators and representatives to discuss the bill's potential impact and to involve employees and family members of residents in the lobbying effort.

"This is the biggest threat that the sector has faced in at least 20 or 25 years," said Mark Parkinson, the trade group's president.

Medicaid covers expenses of more than 60% of the U.S.'s roughly 1.4 million nursing-home residents, according to the nonprofit Henry J. Kaiser Family Foundation. At least 21% of Medicaid funding pays for nursing homes and other long-term-care providers. Nursing-home care typically costs \$82,000 a year per resident, according to Kaiser estimates.

LeadingAge, a national association of 5,600 nonprofit nursing homes and other providers of aging services, planned to alert members on Wednesday to use the July 4 recess to set up meetings with legislators in their district offices and to invite them to communities to speak with residents.

"From our perspective, the recess comes at a great time," said LeadingAge Chief Executive Katie Smith Sloan.

Since January, LeadingAge members have sent more than 18,000 letters to Congress opposing the cuts.

The Senate bill would reduce federal spending on Medicaid by \$772 billion over the next decade, according to an analysis released by the nonpartisan Congressional Budget Office on Monday.

"Those are pretty deep reductions," said Barbara Lyons, a senior vice president at Kaiser Foundation. "As states try to manage the deep reductions in federal Medicaid spending, it's hard to see how nursing-home facilities could escape."

States may respond by limiting eligibility for people who need long-term care, she said. They may also reduce payments, which could jeopardize efforts to improve care.

HEALTH

Continued from Page One
Congress' August recess. If that doesn't occur, the path ahead would become more difficult and other parts of the GOP agenda would be at risk. Success, on the other hand, could boost momentum for other Republican priorities such as a tax overhaul.

Republican senators said the delay had become unavoidable, especially after the nonpartisan Congressional Budget Office found the bill would result in 22 million more people uninsured than the ACA over the next decade.

"It's the only way forward. People have issues that need to be addressed," said Sen. Bob Corker (R., Tenn.). Tuesday, who has said he has some concerns about the bill but hasn't come out against it. "I read the CBO report this morning at about 4 a.m., and as you go through it, it raises questions and they're legitimate."

GOP leaders will try to hammer out a compromise in coming days. "The hope is that we can at least have an agreement on what we can get enough votes on this week and turn to it when we get back," said Sen. Marco Rubio (R., Fla.).

Others were less optimistic. Sen. Shelley Moore Capito (R., W.Va.), who objected to the level of Medicaid cuts in the bill, said she isn't sure "how or if" Republicans can come together behind a final version.

Democrats said Republicans' struggles reflected the bill's underlying problems, particularly that it would re-

What's in Store For the Senate Bill?

Here's what to expect as the debate on health care moves forward:

How did the Congressional Budget Office's analysis of the bill change the legislative dynamics?

The nonpartisan Congressional Budget Office released a report Monday that estimated 22 million more people would be uninsured over a decade under the Senate GOP health bill than under current law. The analysis also showed the bill would lower the federal deficit by \$321 billion over 10 years.

Less than 24 hours after the CBO report was released,

Senate Majority Leader Mitch McConnell delayed a vote on health care until after Congress's July 4 recess. GOP leaders had wanted to hold a vote this week but struggled to placate the party's different wings.

Which GOP senators aren't ready to vote yes?

To get a bill passed, Mr. McConnell can only afford to lose two votes from his slim 52-48 majority. As of now, at least nine Republicans say they are opposed to the Senate bill.

The conservatives say the Senate GOP plan doesn't go far enough to lower health-care costs for consumers, and that Republicans should offer a more robust bill repealing Democrats' Affordable Care Act.

Others say the bill doesn't do enough to protect the ACA's

Medicaid expansion, while still others are concerned about restrictions on funding for women's health organization Planned Parenthood, among other reasons.

What is the schedule?

Mr. McConnell had wanted to wrap up this process before the July 4 break, but the real deadline seems to be before the August recess. Congress goes to recess for the month of August and during that time many Republicans may face tough town halls with constituents in their districts. GOP leaders fear political pressure over the recess—as well as the fact that Republican leaders will want to move on to other business such as a tax overhaul—could doom the bill.

—Joshua Jamerson

Key centrists—including Ms. Collins, Sen. Lisa Murkowski of Alaska and Sen. Cory Gardner of Colorado—were seated near the president.

Mr. Trump opened the meeting with exhortations to get the bill passed, saying "we're getting very close."

He added, "We have really no choice but to solve the situation," arguing the ACA is collapsing, an assertion disputed by Democrats.

Mr. McConnell, speaking outside the White House, said "we made good progress" inside. He said Mr. Trump had heard from conservative Republicans about their calls for insurance-market changes, and from others about the future of Medicaid.

"The one thing I would say is that I think everybody

around the table is interested in getting to yes," he said, "because we know the status quo is simply unacceptable and unsustainable, and no action is simply not an option."

Separately, Mr. Pence had half a dozen meetings Tuesday afternoon, including with Messrs. McConnell and Portman, and hosted another four senators for dinner at the vice president's residence.

Both chambers have to pass the same legislation, and there are several paths to do that. The fastest way would be for the House to vote on the version that passes the Senate. Rep. Mark Meadows (R., N.C.), chairman of the House Freedom Caucus, a group of conservative House Republicans, said amendments would need to be added to get enough Republicans there to support it.

If it's predominantly the bill that's currently in the Senate without significant amendments, there would not be enough votes in the House or the Senate to pass it," Mr. Meadows said.

Republican leaders hope the delay gives them time to build support, but they acknowledge it could give opponents time to mobilize against the bill. "The politics of this doesn't get any easier the longer you wait," said Sen. John Thune (R., S.D.). But he added, "If we can make some changes that improve the policy in a way that makes it more likely that we can get 50 of our senators to vote for this, then this was a good judgment on behalf of the leader."

—Louise Radnofsky, Natalie Andrews, Byron Tau and Michelle Hackman contributed to this article.

U.S. NEWS

Gorsuch Shows Promise for The Right

BY BRENT KENDALL
AND JESS BRAVIN

WASHINGTON—Justice Neil Gorsuch early on has lined up consistently with the Supreme Court's most conservative justices, much as President Donald Trump promised.

Justice Gorsuch didn't join the court until April, after the justices had already conducted much of their business this term, which began last October. Nevertheless, the new justice has spoken up early and often, with Monday's closing day of the court's session providing some of the most notable examples so far.

Justice Gorsuch wrote a dissent, joined by Justices Clarence Thomas and Samuel Alito, objecting to the court's decision to require Arkansas to treat same-sex couples the same as heterosexual partners when recording birth certificates for their newborns.

He was particularly critical of the court's decision to rule against Arkansas without first hearing the state's defense at oral argument.

In the court's most prominent action Monday, Justices Gorsuch and Alito joined a Thomas dissent to the court's decision to allow President Donald Trump to implement only a limited version of his travel ban for now. The president, citing national security, has sought a temporary ban on U.S. entry for people from six Muslim-majority countries.

The dissenters would have permitted the president to enforce all the terms of his ban while the Supreme Court gives full consideration to the case.

The court's newest member also joined Justice Thomas's dissent from the court's decision not to hear a case about

Trump appointee joins Justices Alito and Thomas in two early dissents.

the scope of an individual's right carry a gun outside of the home for self-defense. The dissent criticized a lower-court ruling against gun owners as indefensible.

"Justice Gorsuch seems to be comfortable right next to the other two very conservative justices," said Vikram Amar, dean of the University of Illinois law school. There may be issues down the line where he diverges from other conservative justices, "but those issues didn't arise yet," Mr. Amar said.

Given the new justice's lengthy record as a federal appeals court judge, "I don't think there are many surprises," said Leonard Leo, executive vice president of the Federalist Society, who advised Mr. Trump on Justice Gorsuch's selection.

The new justice already is showing his commitment to deciding cases by sticking closely to the text of statutes, "and he is very skeptical of an overly expansive judicial role," Mr. Leo said.

Justice Gorsuch on several early occasions has framed his opinions as exemplifying judicial restraint. In his one majority opinion, which was unanimous, the new justice wrote that companies that purchase debts aren't subject to provisions of a consumer-protection law when seeking to collect on their own behalf.

If changes in the law, which was designed to rein in the "repo man" and other third-party collectors, need to be made to address the advent of a new industry that purchases debt to collect for itself, "these are matters for Congress, not this court, to resolve," Justice Gorsuch wrote.

Despite Justice Gorsuch's flurry of activity early on the high court, legal observers said it would take time to discern his place on the court spectrum.

"It's too early to make definitive judgments about anything," said Adam Charnes of Kilpatrick Townsend & Stockton LLP, a former law clerk to Justice Anthony Kennedy.

Consensus Marks High Court Term

By JESS BRAVIN
AND BRENT KENDALL

WASHINGTON—The Supreme Court term that ended this week was marked by caution emanating from the court's center, a dynamic that saw the justices move in a relatively modest manner as they sought consensus on high-profile cases.

The court's conservatives prevailed in most of the cases during the term, but their liberal colleagues—who lost the chance to direct the court's long-term trajectory following President Donald Trump's election—gave up more ground than they might have preferred, winning some influence over outcomes.

This move toward consensus could be seen in the term's two final opinions, which Chief Justice John Roberts steered in a way that produced decisions viewed as measured, forgoing rulings that conservatives would have championed as total wins.

This week, there were seven votes to open a state grant program to church-run schools on the same terms as public and private schools; two of the most liberal justices, Ruth Bader Ginsburg and Sonia So-

tomayor, dissented, but two other left-leaning justices joined the majority opinion.

There also were seven votes—and not the same seven—to confine that decision narrowly to programs similar to the playground-resurfacing fund in dispute in the case. The justices left the "religious uses of funding or other forms of discrimination" for another day. Two deeply conservative justices, Clarence Thomas and Neil Gorsuch, dissented from that part, but other conservatives signed the majority opinion.

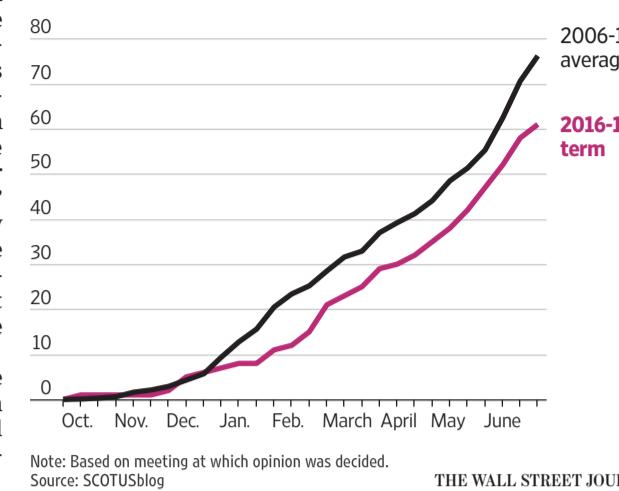
The same dynamic could be seen in the court's decision on Mr. Trump's temporary travel ban on residents of six predominantly Muslim countries.

Ahead of arguments next term over the ban's legality, the court allowed Mr. Trump to temporarily exclude "foreign nationals who lack any bona fide relationship with a person or entity in the United States." But it left intact lower-court orders blocking the president from categorically banning other foreign citizens with qualifying relationships, such as those who have relatives, job offers or invitations to study in the U.S.

The majority opinion was

Behind the Curve

Number of Supreme Court opinions issued



Note: Based on meeting at which opinion was decided.

Source: SCOTUSblog

THE WALL STREET JOURNAL

unsigned. Justices Thomas, Gorsuch and Samuel Alito stated they would let Mr. Trump's administration implement the full ban, making it clear that six other justices chose compromise.

The court's search for consensus on decisions intensified after Justice Antonin Scalia's death in February 2016. That left the justices divided into four-member conservative and liberal camps for an extended period when Senate Republi-

cans declined to consider then-President Barack Obama's court nominee.

Several justices have publicly said that a 14-month span with no natural majority on divisive issues forced them to search for common—and therefore, narrower—ground on which five or more of the eight could comfortably stand.

The court did find agreement on some rulings that could have a considerable impact on the law, including a

unanimous decision that bolstered the rights of disabled students to expect more than a bare-bones education from public schools.

It also endorsed robust protections for free speech, notably in a case that found the government couldn't refuse to register trademarks that some may deem disparaging or offensive.

On the court's business docket, the justices in several cases tightened rules for where lawsuits can be filed against corporations, with little dissent.

It is unclear, however, whether the court's recent comity will continue when the justices reconvene in October. Mr. Trump's advisers said the president selected Justice Gorsuch because he believed his nominee would stake out sharply conservative positions rather than seek consensus, and so far he has met expectations.

Moreover, as conservatives grow more comfortable in their restored majority, the impulse to compromise on defining issues may fade.

"I think we could get a sense of the character of the court with Justice Gorsuch on it very soon," said Vikram Amar, dean of the University of Illinois College of Law.

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U.S. NEWS

EPA to Roll Back Protection On Water

BY ELI STOKOLS

President Donald Trump's administration is moving ahead with plans to dismantle another piece of the Obama administration's environmental legacy, the rule that sought to protect clean drinking water by expanding Washington's power to regulate major rivers and lakes as well as smaller streams and wetlands.

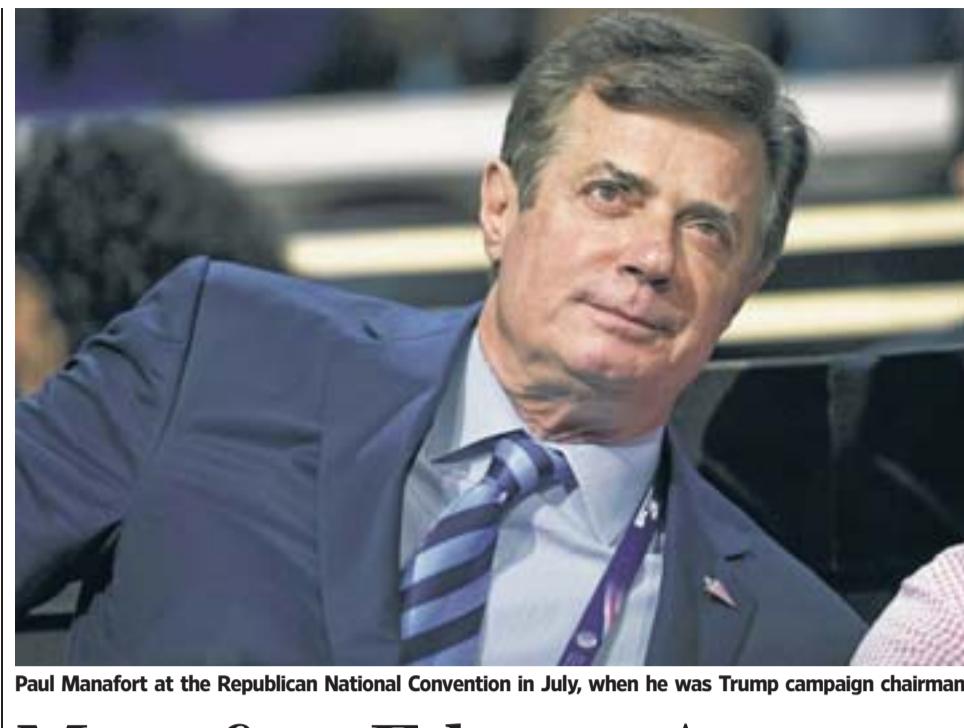
The Environmental Protection Agency, Department of the Army and U.S. Army Corps of Engineers are proposing a new rule that would rescind the Obama administration's Waters of the United States, or WOTUS, rule and "recodify the identical regulatory text" that existed before its adoption in 2015, according to a press release sent out Tuesday afternoon.

That action, the agencies contend, would "provide certainty in the interim" while a new rule-making process is undertaken.

Tuesday's move is another sign the new presidential administration and the EPA under administrator Scott Pruitt intend to prioritize the economic concerns of industry and agricultural interests over environmental concerns and, more broadly, to erase significant pieces of former President Barack Obama's legacy.

"We are taking significant action to return power to the states and provide regulatory certainty to our nation's farmers and businesses," Mr. Pruitt said in a statement.

Aimed at clearing up decades of jurisdictional and legal uncertainty and protecting more American's drinking water from contamination, the rule greatly expanded the federal government's authority to limit pollution in major bodies of water.



Paul Manafort at the Republican National Convention in July, when he was Trump campaign chairman.

White House Aides Seek Out Lawyers

BY PETER NICHOLAS AND CAROL E. LEE

As investigations intensify into whether the Trump campaign colluded with Russia in the 2016 presidential campaign, at least 10 White House officials and former aides have retained lawyers or are moving to do so.

President Donald Trump, Vice President Mike Pence and senior adviser Jared Kushner, Mr. Trump's son-in-law, have hired private attorneys, as have former campaign advisers Michael Caputo, Boris Epshteyn and Roger Stone, among others.

The growing roster of legal counselors could further complicate communication inside a White House that has been rocked by divisions, and risks adding one more distraction for an administration that has struggled to keep the public focused on its policy agenda.

Asked about the White House's management of the investigations, Andrew Card, chief of staff to former President George W. Bush, said, "I don't fault them for the way they've had to learn this process. But I'm hoping they do not get distracted."

Kellyanne Conway, counselor to Mr. Trump, said, "It's business as usual here in the White House, where the president's packed schedule and the breakneck pace have been unchanged."

Past administrations have taken different approaches in parrying investigations. Former President Bill Clinton had White House attorney Lanny Davis manage press inquiries into ethics investigations during his second term, hoping to create a firewall between the probes and his agenda.

Faced with a special counsel investigating the outing of Central Intelligence Agency covert agent Valerie Plame, some of Mr. Bush's White House aides hired their own attorneys.

As of now, the Trump White House relies heavily on the

president's chief outside lawyer, Marc Kasowitz, and a team that includes longtime Republican communications specialist Mark Corallo and another outside attorney who is a practiced TV commentator, Jay Sekulow, to defend the president.

Robert Mueller, a special counsel hired by the Justice Department, is conducting the Federal Bureau of Investigation probe of Russia activities in the 2016 election. Mr. Mueller took over after Mr. Trump fired James Comey as FBI director, after he initiated the investigation last year.

Senate and House committees are also examining whether any Trump advisers colluded with Russians. The White House has denied wrongdoing.

White House Chief of Staff Reince Priebus is a lawyer and hasn't retained counsel, nor has Ms. Conway, who was Mr.

The growing roster of legal counselors could further complicate communication.

Manafort Files as Agent Of a Foreign Government

BY ALAN CULLISON AND BYRON TAU

WASHINGTON—President Donald Trump's former campaign chairman Paul Manafort registered Tuesday as an agent of a foreign government, acknowledging for the first time that a small part of his lobbying work for Ukraine's former president was aimed at influencing U.S. policy makers and journalists.

The Justice Department filing by Mr. Manafort, who for years advised the ousted Ukrainian President Viktor Yanukovych, came after his work in Eastern Europe fell under scrutiny during the U.S. presidential election, leading to his resignation last year as Mr. Trump's campaign chairman. His filing also acknowledged that his firm, DMP International, was paid more than \$17 million for his lobbying work for a Ukrainian political party.

Ukraine was the longtime battleground where Russia and the West sought influence

in the years before Moscow seized the country's Crimean peninsula and Mr. Yanukovych fled to Russia in 2014.

Lobbying work on the behalf of foreign governments to influence political activities in the U.S. is tightly controlled by the Foreign Agents Registration Act. The law includes substantial criminal penalties for violations but hasn't been aggressively enforced.

Mr. Manafort, a lobbyist and Republican operative who has cultivated an international client list over the years, is one of several associates of Mr. Trump facing scrutiny by the Federal Bureau of Investigation and several congressional committees, according to people familiar with the matter. Both Mr. Manafort and former Trump administration national security adviser Mike Flynn are being investigated for potential criminal violations of FARA, these people said.

The FBI has also said it is investigating allegations that

Russia interfered in last year's presidential campaign. Russia has denied meddling in the election.

Mr. Manafort and Mr. Flynn have both denied any wrongdoing.

Mr. Flynn's attorney declined to comment.

Jason Maloni, a spokesman for Mr. Manafort, has previously said that Mr. Manafort has asked for and followed guidance from authorities on how to appropriately account for his lobbying work.

"Today, Paul Manafort registered with the Department of Justice's FARA unit for his work on behalf of Ukraine's Party of Regions," Mr. Maloni said Tuesday. "He started this process in concert with FARA's unit in September, before the outcome of the election and well before any formal investigation of election interference began."

The White House referred questions to Mr. Trump's personal attorney, who didn't immediately respond to a request for comment.

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WORLD NEWS

U.S. Warns Syria Over Chemical Weapons

American military prepares for possible strike if Assad regime launches attack

By DION NISSENBAUM
AND THOMAS GROVE

The U.S. military stepped up preparations for a possible strike against the Syrian regime after Washington said it picked up signs that President Bashar al-Assad was preparing to use chemical weapons again.

The White House set the stage for a new showdown with Mr. Assad and his allies with an unusual warning late Monday that the Syrian regime would pay a "heavy price" if it launches another chemical-weapons attack on its own people.

The statement came after the U.S. learned Syria had armed a warplane with chemical weapons that could be used at any time, U.S. officials said Tuesday.

U.S. officials said they hoped the blunt public threat would deter Mr. Assad from using such weapons, but began devising military options if President Donald Trump decides to strike Syria again.

In April, Mr. Trump ordered a cruise-missile strike on a Syrian airfield after a chemical attack widely blamed on the Assad regime killed more than 80 people in Syria's Idlib province.

Secretary of State Rex Tillerson raised the issue in a call with Russian Foreign Minister Sergei Lavrov on Monday as the U.S. pressed Moscow to constrain its Syrian ally, ac-



Syrians in Idlib province buried the bodies of victims in a suspected toxic gas attack in April. The U.S. has picked up signs the regime is preparing to use chemical arms.

cording to a U.S. official.

On Tuesday, Nikki Haley, the U.S. ambassador to the United Nations, told a congressional hearing that the White House statement was meant to be a warning to Russia and Iran, Mr. Assad's two major allies in the six-year Syrian war.

Russia and Iran responded to the White House warning with their own criticisms of American involvement in the Middle East.

Dmitry Peskov, the Kremlin spokesman, said Moscow considers "such threats to a lawful government unacceptable," according to Russian news agencies.



On Twitter, Iran's Foreign Minister Javad Zarif suggested that the U.S. threats would detract from the fight against Islamic State, also known as

ISIS. "Another dangerous U.S. escalation in Syria on fake pretext will only serve ISIS, precisely when it's being wiped out by Iraqi & Syrian people," he tweeted.

In Syria, Mr. Assad visited a Russian air base on Tuesday, where he was filmed climbing into the cockpit of a Russian warplane. A Syrian government official denied that the regime has chemical weapons.

The U.S. warnings come amid a recent rise in battlefield confrontations between the Syrian regime and American forces battling Islamic State in Syria, and the confrontations threaten to widen

into a more serious clash with the regime.

The new standoff was triggered by surveillance of the Shayrat airfield that the U.S. said was used in April to launch the earlier chemical-weapons attack. The strike Mr. Trump ordered in April targeted that airfield.

Images of dead and dying children as a result of that April attack spurred outrage at the time, and Mr. Trump cited the images in saying the attack had changed his view of the conflict and Mr. Assad.

For the first time since the April strike, U.S. officials said Tuesday they had new intelligence

showing the Syrian regime had moved a warplane into a shelter associated with chemical weapons at the Shayrat airfield.

Capt. Jeff Davis, a Pentagon spokesman, said the U.S. has seen "actions suggestive of intent to use chemical weapons."

The U.S. has been tracking developments at Shayrat for several days and indications that Syria is preparing to use chemical weapons have become "more compelling" in the last 24 hours, he said Tuesday morning.

—Maria Abi-Habib
and Asa Fitch
contributed to this article.

European Cities Tap Brakes on Diesel Vehicles

By WILLIAM BOSTON

BERLIN—Large European cities from Munich to Madrid are banning or restricting diesel vehicles amid mounting alarm over toxic emissions, presenting a major challenge to European car makers who sell millions of them.

National governments have been slow to react to a string of scandals that have exposed diesel engines as far bigger polluters than advertised. But these cities, goaded by environmental groups, are emerging as the leaders of an ant-diesel movement that is forcing Europe's car industry to rethink its future.

Among the cities considering or seeking a ban on diesel vehicles or an environmental tax are BMW AG's hometown Munich, and Stuttgart, which hosts Daimler AG and Porsche SE. Their message to Europe's car makers: If you can't clean diesel, we will.

"Cities are sending a signal to the public and manufacturers that there is a preference for clean vehicles," said Ray Minjares, a researcher at the International Council on Clean Transportation. The group un-

covered emissions cheating by German car maker Volkswagen AG that has drawn attention to the issue over the past two years.

The scandal, which has since spread to other auto makers, started in the U.S. But less than 5% of U.S. cars are diesels, compared with half of all new European cars sold—some 85 million on the road.

The European Union took center stage after it set aggressive targets to reduce carbon-dioxide emissions to fight climate change.

European auto makers, especially the Germans, bet big on diesel as their main tool to reduce carbon-dioxide emissions. Diesel burns more efficiently than gasoline, so it gets better mileage and emits less carbon dioxide. The industry pushed it and won support from European governments, which have subsidized diesel through lower taxes since the 1990s.

Climate change isn't the only issue. A study co-written by Mr. Minjares concluded that just one pollutant from diesel engines caused 107,600 premature deaths world-wide in 2015. Around 80% of them were in Europe, China and India.

Urban Areas Use Fees, Bans in Drive To Limit Emissions

■ Paris Banned diesel vehicles made before 1997 and by July will cover all made before 2001. Pledged total ban by 2025.

■ Madrid Pledged to ban diesels from city center by 2025 and restricted them during smog alerts.

■ London Created 'ultra low emissions zone' in city center and will expand a daily toll on polluting vehicles in 2019. It

plans to replace diesels in municipal fleets and public transportation.

■ Athens Diesel banned from city center after 2025.

■ Oslo Banned diesel cars for a day in January. Installed tolls on roads to the city, with steeper fees for high-emissions vehicles. Fees will rise in October.

■ Munich, Stuttgart, Hamburg Drafting plans to restrict or ban older diesels from city centers. Hamburg plans to replace all diesels in city fleets and public transportation by 2030.

—WSJ staff reports

But car makers will be hard-pressed to shift from diesel and still meet European greenhouse-gas targets. Demand for electric cars is still less than 2% of global auto sales. All sales of new electric vehicles, including plug-in hybrids, accounted for just 1% of the 14.6 million new cars sold in the EU last year.

German car makers and unions are worried about the impact on their livelihoods.

More than half of the European sales of Germany's top brands, including BMW, Mercedes-Benz, Audi and Porsche, sport diesel engines.

Dieter Zetsche, CEO of Daimler, which owns Mercedes, said this week that "driving bans are a political response, but will not lead to real change because they can't really be implemented."

Germany's largest industrial union, IG Metall, also objects,

in part because they say bans would disproportionately hurt poorer drivers. Car makers, it says, should make older engines cleaner while politicians should promote electric vehicles and invest in technology to improve traffic flows.

"Such a sweeping demand is nonsense," Roman Zitzelsberger, head of IG Metall's southwestern Germany chapter, said this week.

The German auto industry is offering a trade-off: It has offered to update software on middle-age diesel vehicles on the road in Germany to bring them in line with modern emissions standards if bans are dropped. But nearly half of the 15 million diesel cars on the road in Germany are too old to fix.

The mayors driving the movement say they have little choice. As traffic hubs, they suffer some of the world's most toxic air. And since the Volkswagen scandal discredited "clean diesel," a barrage of court orders is forcing them to address the issue.

"It is correct and important to discuss driving bans," Dieter Reiter, lord mayor of Munich, said this month.

Germany Opens Path To Vote on Gay Marriage

By ANTON TROIANOVSKI

BERLIN—German lawmakers cleared the way for a vote this week to legalize same-sex marriage after Chancellor Angela Merkel dropped her opposition to it.

Ms. Merkel said Monday she believed whether people of the same sex could marry should at some point be voted on in parliament, despite her center-right party's platform defining marriage as the union of a man and a woman.

"I would like to lead this discussion toward a situation in which one can vote one's conscience," Ms. Merkel said.

On Tuesday, Ms. Merkel's challenger for the chancellorship in the September election, Martin Schulz of the center-left Social Democrats, demanded a vote by the end of the week, when the lower house of parliament adjourns for the summer. Ms. Merkel's Christian Democrats signaled they wouldn't try to block a vote.

have called for years for an end to policies they complain hurt savers and pensioners.

The dilemma for ECB officials is that while eurozone growth is accelerating, outpacing the U.S. in the first quarter, the area's inflation rate remains weak. It slid to 1.4% in May, some way below the ECB's target of just under 2%.

Nevertheless, Mr. Draghi said fears of deflation, a destructive cycle of price and wage declines, had passed. These worries played into the ECB's decision to launch QE in the first place.

"Deflationary forces have been replaced by reflationalary ones," he said.

Mr. Valli of UniCredit said the ECB might reduce its monthly bond purchases to €40 billion in the first half of next year, followed by a further reduction to €20 billion a month in the second half of the year. That would be a slower pace of stimulus reduction than many analysts expect.

However, the ECB is expected to face a challenge if it wants to extend QE much beyond the middle of next year. The central bank is soon expected to start running short of bonds to buy, particularly German debt, due to self-imposed constraints in the design of QE.

ECB

Continued from Page One
ing program has had a large impact on financial markets, and Tuesday's moves indicate that investors are girding for the day it ends.

Until now, the ECB's top officials have carefully avoided discussing the future of their bond-buying program, also referred to as quantitative easing, which is due to continue through December. They worry that such a discussion could lead to a repeat of the turmoil in financial markets four years ago, known as the taper tantrum, when the Fed signaled it would wind down its QE. That might upset the region's economic recovery.

On Tuesday, though, Mr. Draghi appeared to shift course. He argued that leaving the ECB's policy unchanged as the euro area's recovery strengthened would amount to increasing its stimulus—a hint that policy makers will instead start to reduce their bond purchases rather than maintain the status quo.

"Today Draghi moved his first step towards indicating that ECB monetary policy will become less [stimulative] in

2018," said Marco Valli, an economist with UniCredit in Milan.

Pressure has been mounting on the ECB to change course as evidence accumulates that its aggressive stimulus is bearing fruit and as political uncertainty in the region fades following Emmanuel Macron's election as French president.

"Political winds are becoming tailwinds," Mr. Draghi said. "There is newfound confidence in the reform process, and newfound support for European cohesion, which could help unleash pent-up demand and investment."

The eurozone has notched 16 straight quarters of economic growth, creating more than six million jobs, and business- and consumer-confidence indicators have risen to multiyear highs.

The change comes as the Fed signals it will continue to raise interest rates over the coming years. Fed officials indicated earlier this month they are on course to raise borrowing costs once more in 2017, after increasing the bank's benchmark rate twice this year to the current range between 1% and 1.25%. The U.S. central bank also plans to begin reducing the amount of bonds it holds.

Earlier this month, the ECB took a tiny step toward ending

its stimulus by signaling it probably wouldn't cut interest rates any further below zero.

Many analysts expect the central bank to announce in September or October that it will start early next year to taper, or wind down, its QE program.

Mr. Draghi didn't directly address the question of timing. He instead emphasized the positive developments in the eurozone, including quickening economic growth and

reduced political uncertainty.

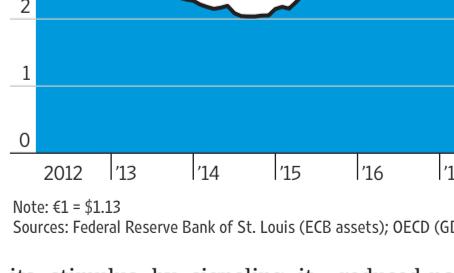
Michael Schubert, an economist at Commerzbank in Frankfurt, said the latest remarks were "another sign suggesting that the central bank is moving towards an exit" from its stimulus.

Still, the ECB chief stressed that moves to stop bond purchases would "have to be made gradually," and only when the path of growth and inflation was "sufficiently secure."

Growth Factor

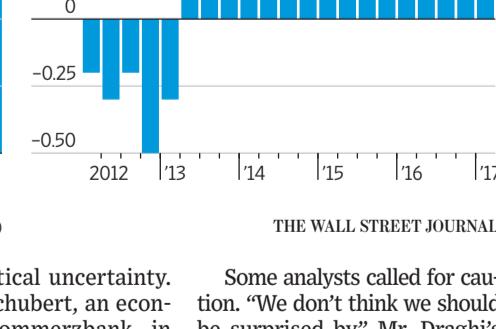
The European Central Bank has aggressively expanded its bond holdings in recent years, but President Mario Draghi hinted its purchases may slow as the eurozone economy accelerates.

ECB assets



Note: €1 = \$1.13
Sources: Federal Reserve Bank of St. Louis (ECB assets); OECD (GDP)

Quarterly change in eurozone GDP



THE WALL STREET JOURNAL.

WORLD NEWS

Brazil Leader Rejects Calls to Quit

BY PAUL KIERNAN
AND PAULO TREVISANI

BRASÍLIA—Brazilian President Michel Temer on Tuesday vowed to stay in power and fight the bribery charges filed against him, inflaming a bitter political divide in a country battered by successive corruption scandals.

Mr. Temer, who was charged by the country's attorney general on Monday with accepting about \$150,000 in bribes and agreeing to take about \$11.5 million more, maintained his innocence and rejected the accusations as "fictitious." He also disparaged the evidence—contained in a plea bargain by Joesley Batista, the former chairman of meatpacking giant JBS SA—saying it came from a "confessed bandit."

"They want to stop the country, stop the government, in a political act, with fragile and precarious charges," Mr. Temer said in a televised address, apparently referring to Attorney General Rodrigo Janot and his team of prosecutors. "When you're going to attack the institution of the presidency, it's necessary to have the utmost caution and have robust evidence, proof. The charges can't



EVARISTO SA/AGENCE FRANCE PRESSE/GETTY IMAGES

President Michel Temer rejected a bribery charge during a televised speech in Brasilia on Tuesday.

be an insinuation."

The charges and the president's defiant response escalated a conflict that has raged in Brazil's capital since Mr. Batista's allegations became public in May. On one side are Mr. Temer and the mostly conservative career politicians who make up his main support base.

On the other are prosecutors leading the most significant corruption purge in the country's history, allied, at the moment, with opposition legislators seeking to force a Brazilian president from office for the second time in little more than a year.

The two sides will face off over the coming weeks in Con-

gress, where two-thirds of legislators must vote to allow Mr. Temer to be put on trial before the Supreme Court for the case to go forward. If that happens, the president would be suspended from office for up to 180 days.

Many analysts believe Mr. Temer currently has the political support he needs to stave

off prosecution. "But new facts could emerge and change the scenario," said Thiago Vidal, a political scientist at Brasilia's Prospectiva consulting firm.

Some of Mr. Temer's supporters cast the charges as an antidemocratic push by the attorney general and prosecutors. "It's not those who have voted who are calling the shots anymore," Sen. Jarder Barbalho said on Tuesday.

Opposition politicians seized on the charges, ridiculing Mr. Temer for becoming the first Brazilian president ever charged with a criminal offense while in office.

The distinction may be a fine one, however. President Dilma Rousseff was impeached last year and ousted from office on charges of manipulating the budget—a move she criticized as politically motivated.

"Result of the 2016 coup: the country is left in the hands of the only [sitting] president charged with corruption," she said in a tweet Tuesday.

Mr. Temer and his staunchest allies rejected calls that he resign and call new elections, saying that would derail economic reforms at a time when Brazil is emerging from its deepest recession on record.

Caracas In Chaos As Maduro Maneuvers

BY ANATOLY KURMANAEV
AND JUAN FORERO

CARACAS, Venezuela—President Nicolás Maduro said a helicopter dropped grenades Tuesday on the supreme court in a terror attack, though some of his political foes called his claims a diversion tactic orchestrated to deflect from government attempts to neuter state institutions outside its control.

Mr. Maduro said he had activated "the entire armed forces" after announcing on state television that four grenades were dropped from a small blue helicopter that officials said was piloted by a rogue policeman. No one was injured and there were no signs of damage.

At the same time, the government-controlled court late Tuesday published a decision that gave investigative powers to the human-rights ombudsman, a close ally of the president. That potentially allows officials to usurp the powers of Attorney General Luisa Ortega, who had in recent weeks grown critical of the government while pledging to investigate corruption.

Soldiers also surrounded the opposition-controlled Congress, clashing with lawmakers. The soldiers carried in boxes of equipment, which opposition congressmen said was a prelude to the government takeover of the building ahead of next month's plans to rewrite the constitution.

Opposition congressmen tried to remain defiant, with Julio Borges, among the more prominent of Mr. Maduro's foes, telling reporters, "Neither bullets, threats or attacks will throw us out of here." Mr. Borges, though, had been pushed from a room in the Congress by a soldier in a video that was posted on Twitter and elsewhere.

Colombia Rebels Give Up Last of Their Weapons

BY KEJAL VYAS

Juan Manuel Santos's government. The group's leader said the FARC would now become a political party.

"Goodbye to weapons, goodbye to war, hello peace," Rodrigo Londoño, long known by the nom de guerre Timochenko, said on a stage before government officials and diplomats gathered to mark the disarmament's completion. "Yesterday we were a people's army. Today we are the people's hope."

Mr. Santos, who shook Mr. Londoño's hand, said peace opened possibilities for greater economic growth while allowing the state to build schools and hospitals in

once-violent regions. "That country is possible, and it begins to be forged today," Mr. Santos said.

The deal with the FARC, however, has divided Colombia, polarizing politics ahead of next year's presidential election. Two of Mr. Santos's predecessors, Álvaro Uribe and Andrés Pastrana, vocally opposed the peace deal and recently said they would work together to name a candidate ahead of that vote.

The election is thus all but guaranteed to be a referendum on the peace initiative, though analysts say the accord will be hard to overturn.

FERNANDO VERGARA/ASSOCIATED PRESS



The FARC's disarmament was marked in Buenavista on Tuesday.



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IN DEPTH

BILLS

Continued from Page One
ler, is in charge of doling out limited funds to organizations demanding payment—a job she likens to handing out crumbs to starving children. She predicted unpaid bills will soon top \$16 billion. “It is almost hard to say those numbers out loud because they seem so insane, but that’s where we are right now,” she says.

Any solution to the state’s dismal finances will need a three-fifths legislative majority to pass. Looming behind the fiscal train wreck are an estimated \$250 billion in unfunded pension liabilities, the worst in the nation, according to Moody’s Investors Service. S&P Global Ratings has warned that it could lower the state’s rating to junk as early as this week if it doesn’t pass a budget.

The Republican draft budget includes a temporary income-tax increase. Gov. Rauner has also pushed for spending cuts in areas including state pension benefits, which are protected under the state constitution, and social services. He also wants to freeze property taxes and ease workers-compensation protections to attract new businesses.

Democrats, who are completing their own spending plan, complain that some provisions in the Republican plan, such as changes to workers-compensation insurance and a local property-tax freeze, are outside the scope of the budget.

The governor’s spokeswoman says mismanagement of the state’s finances pre-dated his term, and that the governor is working “to find consensus on a budget that is truly balanced and...will ensure Illinois thrives in the long-run.”

A spokesman for Mr. Madigan, the house speaker, says a compromise has been hard to broker because the two men’s visions on how to fix the state are so far apart.

Ripple effect

Illinois remains the business center of the Midwest with numerous Fortune 500 companies based in and around Chicago, major rail infrastructure and one of the nation’s busiest airports. That hasn’t stopped the deadlock from rippling through towns from Rock Island on the Mississippi River to Charleston in central Illinois. Hospitals and



Professor Mary Konkle decided to leave Eastern Illinois University when she no longer had funding for equipment for her research.

doctors are feeling the brunt as the state delays Medicaid payments and insurance payments for state employees.

Peoria-based OSF Health-care, a network with 10 Illinois hospitals, is owed about \$115 million for bills over four months old, the equivalent of 18 days of operating expenses, says Chief Financial Officer Michael Allen. “We have to be cautious about our future,” he says. “There’s just no end in sight.”

The state owes Illinois dentists \$225 million, and some of those bills go back 23 months, according to the Illinois State Dental Society. Some dentists in college towns or other areas with lots of state workers are selling their receivables to keep their heads above water. Others are asking state employees to pay in cash, says Ronald Lynch, a dentist in Jacksonville.

“There are dentists who have to do this just to survive,” says Dr. Lynch. “It’s very stressful.” Dr. Lynch, who hasn’t asked for such cash payments, says he is owed about \$250,000, forcing him to forgo a salary so he can continue to pay bills and his employees.

Health care is the capital’s biggest employer apart from the state itself. Springfield’s two hospital systems—Memorial Health and HSHS St. John’s—say they together are owed more than \$200 million by the state. Edgar Curtis, Memorial Health’s chief executive, says he has put off a \$100

million capital-expansion project because of the uncertainty. “We hate to see projects being shelved because of what is going on at the state level,” he says.

The Coliseum building at the state fairgrounds in Springfield closed indefinitely earlier this year after the state failed to come up with funds needed for repairs. The closure has cost the city tourism dollars from horse shows and other events.

Springfield Mayor James Langfelder, a Democrat, says sales-tax revenue has declined by \$2 million since 2015, which he attributes to state employees making fewer purchases. On top of that, the state owes the city \$5 million for utilities on buildings it rents from the city.

“At first, we tried to meet with legislative representatives, we tried to highlight the urgency of this,” says Mr. Langfelder, referring to the impact of the budget crisis on the city. “Now, you are almost numb to the fact. We just do whatever is in our control.”

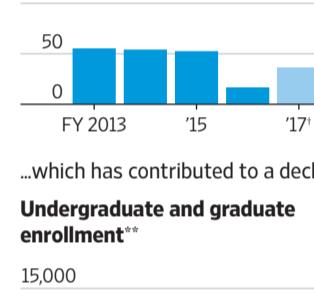
Over the past two years, Eastern Illinois University has received at least \$53 million less than it would have if the average funding levels of the prior five years had held.

Professors in the chemistry department haven’t been able to print in color since the department’s printer ran out of yellow ink a year ago. Biochemistry professor Mary

Trouble on Campus

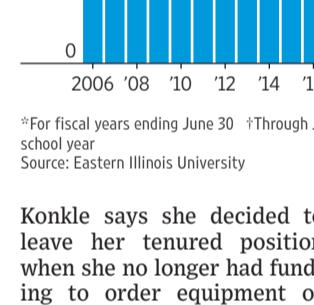
State funding for Eastern Illinois University has declined, leading to financial trouble...

State funding for Eastern Illinois University*



..which has contributed to a decline in enrollment and employment.

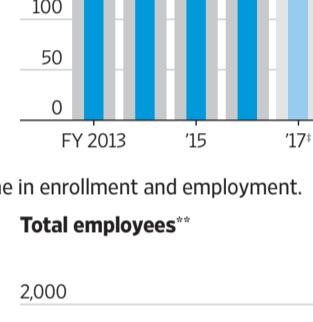
Undergraduate and graduate enrollment**



*For fiscal years ending June 30 †Through June 6 **Budgeted ***At the beginning of the school year

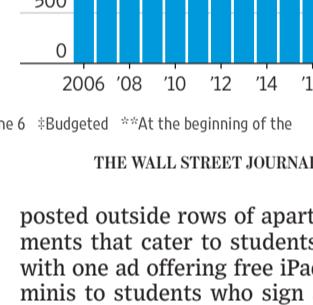
Source: Eastern Illinois University

Revenue vs. expenditures*



..which has contributed to a decline in enrollment and employment.

Total employees**



*For fiscal years ending June 30 †Through June 6 **Budgeted ***At the beginning of the school year

Source: Eastern Illinois University

THE WALL STREET JOURNAL.

then, the department is notifying contractors that all construction work is to shut down on June 30,” says Gianna Urge, spokeswoman for the Illinois Department of Transportation. “Contractors will be advised to secure work zones to ensure their safety during any potential shutdown.”

Among the projects under way is a multiyear, \$40 million rebuilding of several main thoroughfares that cut through the heart of Urbana, home of the state’s flagship university.

The roads are now effectively closed, limiting access to retail businesses, says Urbana Mayor Diane Marin.

“We’re on a very tight construction schedule, and a lot of the work has to be done this summer before 44,000 students come back,” she says. “So even a slight delay is a big problem.”

Some social-services agencies have given up on receiving state funding. Others have closed entirely, leaving some rural communities without mental-health clinics, domestic-violence shelters and drug-treatment clinics, despite an opioid crisis gripping some towns downstate.

Moving out

Illinois has lost more residents than any other American state for the third year in a row, with 90% of the state’s counties seeing a drop in population, shrinking the state’s tax base. In 2016, a net of 37,508 people left, according to census data, putting the population at its lowest in nearly a decade.

Illinois was one of just eight states in the country, and the only Midwestern one, to lose residents last year.

“It’s not just the budget crisis; it’s that people don’t have any confidence in what the state is going to do next,” says Laurence Msall, president of the Civic Federation, a nonpartisan Chicago-based government-watchdog group backed by business leaders. “There is fear of an enormous tax increase. The uncertainty is driving people from the state.”

In 2014, the state’s gross domestic product was growing faster than any other bordering state. In 2016, Illinois grew slower than all bordering states except for Iowa, with which it was tied.

In the Quad Cities, a metro area that spans the Mississippi and encompasses both Illinois and Iowa, population on the Illinois side has decreased by 2.5% between 2010 and 2015. Cities on the Iowa side have grown 3.7%.

Among those who have crossed the river is Kelly Daniels, an English professor at Augustana College in Rock Island, Ill.

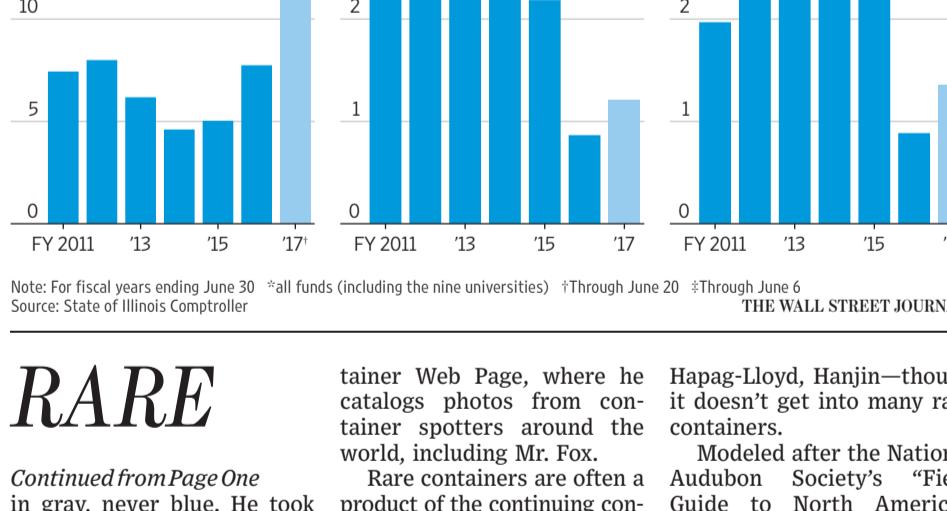
Mr. Daniels bought a home in Rock Island a decade ago, in part because of an incentive that helped cover part of his down payment. Now married with a young child, Mr. Daniels was looking for a larger house when he decided to move. He was tempted by lower property taxes and what he saw as Iowa’s relatively brighter prospects, compared with Illinois’ dysfunction.

“It’s not like Iowa is paradise,” said Mr. Daniels, who grew up in California.

—Heather Gillers contributed to this article.

Budget Pinch

With no state budget for two years, Illinois has let bills stack up and has reduced spending on higher education and infrastructure.



Note: For fiscal years ending June 30 *all funds (including the nine universities) †Through June 20

Source: State of Illinois Comptroller

RARE

Continued from Page One

in gray, never blue. He took carefully composed photos to submit to a website that serves as an unofficial encyclopedia of shipping containers.

Containers may seem pretty uniform, riding trains and trucks or stacked near ports and warehouses.

People like Mr. Fox know better. A small group of connoisseurs has taken up “container spotting,” hanging around shipping yards to identify the globe-trotting metal boxes by color, size, vintage, origin country and other details.

Rare finds are what “makes it all worth it,” said Mr. Fox, an Indianapolis-based logistics-company salesman. “Blue Gateway container!”

Finding an unusual box “is analogous to the satisfaction that bird watchers get from spotting a very rare breed of bird,” said Matt Hannes, who maintains the Intermodal Con-

tainer Web Page, where he catalogs photos from container spotters around the world, including Mr. Fox.

Rare containers are often a product of the continuing consolidation in the global shipping industry. Names and logos disappear off the boxes as companies get bought or go bankrupt, but a few oldies manage to sneak by. Savvy spotters may get excited by an old Polish Ocean Lines logo or a rust-colored container labeled UES.

Other unusual containers include ones from the world’s smallest shipping companies. Spotters also prize first sightings of new logos, such as the bright blue boxes of the newly formed China Cosco Shipping, or the alligator logos on MOL containers.

For more-casual container watchers, there’s “The Container Guide,” a waterproof field guide that fits in the average pants pocket. Published by Craig Cannon and Tim Hwang, it tells the stories of big shipping companies whose containers are commonly seen—Maersk,

Hapag-Lloyd, Hanjin—though it doesn’t get into many rare containers.

Modeled after the National Audubon Society’s “Field Guide to North American Birds,” the book’s renderings show container logos and hues.

Mr. Hwang said the book appeals to “two types of infrastructure nerds.” For some it is visceral—they are awestruck by the massive scale of seaports and container shipping.

For others, it is scientific. “They get really into the data element of it—mapping and tracking containers in and out of Oakland port terminals, for example.”

To Joe Romano, the Container Guide is a way to make sense of the constant hum of activity at the Port of Tacoma, Wash., near his home. When he is out for a run or a bike ride and sees a container he isn’t familiar with, he goes home and gets out the guide to look it up.

“I’ve threatened friends with picnics on the waterfront where we take binoculars and spot containers,” said Mr. Ro-

mano, a 36-year-old school librarian, adding that he is “sort of a lone wolf” among his friends and family.

He has been keeping his eyes out for a refrigerated Maersk box, which he has never seen. “Maersk might not be the most boutique one to spot,” he said, “but it’s my favorite as a layperson in the world of container spotting.”

For many of the Container Guide’s readers, the HBO detective series “The Wire” raised the container’s profile when the show’s 2003 second season showed longshoremen. Containers, of both the 20-foot and 40-foot variety, have also become more visible in daily life as they are increasingly being repurposed in backyard storage, retail spaces and even housing.

At Fast Lane Transportation’s Southern California container-storage facility, President Patrick Wilson said he occasionally sees people taking photographs of his yard from the adjacent highway, which he has found odd.

“I never thought it might be somebody that’s just an enthu-

siasm,” he said. Mr. Wilson conceded “it’s a little interesting” when he sees markings on a container he’s never spied before.

Mr. Fox, on a spotting trip this week in what he called “the industrial armpit of Indianapolis,” strolled through a yard of containers stacked up to four high. “They’re so mesmerizing, so beautiful, so strange,” he said, gazing up at a stack of forest green, teal, red, yellow and brown containers.

His rare finds that day, other than the blue Gateway, were a brand-new blue Cosco 20-footer and a Seaco refrigerated box with an HNA logo.

None of those matched his prize of a few years ago.

“There was a Holy Grail for me,” he said, a container with

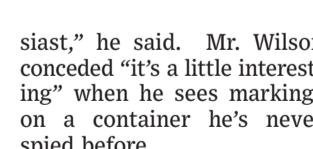
the letters “CAST” in a checkbook bank-routing-code font, from an old Canadian shipping company. One day, a container-yard gatekeeper he had befriended called, telling him there were some CAST boxes on the lot headed for the scrapyard.

Mr. Fox rushed over to document them. “That was just the height for me. I mean, it was one of them.”

Mr. Fox’s wife, Kaylyn, said her husband’s container spotting wasn’t amusing on their honeymoon last year when the couple met up in Brussels with an avid enthusiast who runs a website where users can look up containers’ alphanumeric codes.

He drove the newlyweds to the ports of Antwerp and Rotterdam, where Mr. Fox spent two 12-hour days photographing a variety of boxes: A beat-up MOL open-top, a Container-world 20-footer he calls “an incredible unicorn,” a CATU 20-footer that “had eluded me for years.”

“We ate at many Belgian truck stops,” Mrs. Fox recalls. “I got a little tired of shipping-container talk.”



A rare Gateway container

GREATER NEW YORK

Riders Panic as Train Derails, 39 Injured

Hundreds made risky move to flee through the subway tunnels; 'It...was a horror movie'

BY MELANIE GRAYCE WEST
AND PAUL BERGER

Passengers aboard a New York City subway train that derailed Tuesday morning in Manhattan first felt the violent lurch of the train cars. Then there was darkness.

In the next several minutes, some passengers said they were forced to make what seemed like a life-or-death decision: wait for help or escape the train to the subway tunnels.

According to the Fire Department of New York, 39 people were injured in the derailment that happened at about 9:40 a.m. on an A train traveling southbound between 135th Street and 125th Street stations in Harlem. None of the injuries were life-threatening.

But inside the train cars, tensions rose among panicked riders, with some breaking through windows to enter other cars and with many others weighing whether to stay on the train or "take my chances on the track," said Manhattan resident Kirk James, who was aboard the derailed train.

"It literally was a horror movie," said Mr. James, who decided to stay.

Joseph Lhota, the new chairman of the Metropolitan Transportation Authority, said the train derailed after the emergency brakes automatically engaged, not because of a problem on the tracks.

The train "bucked forward, it bucked backwards" and then two cars derailed, scraping a side wall, Mr. Lhota said during a news conference.

The agency's interim executive director, Veronique Hakim, said a preliminary visual



NRK NYC VIA TWITTER

Firefighters helped passengers from the derailed subway train evacuate through a darkened tunnel.

inspection of the scene showed that the derailment damaged the track, switch and the concrete wall.

Mr. Lhota said the derailed train had to be removed before the MTA could assess the full extent of the damage to the tracks and other equipment.

Service was suspended on the A, B, C, D, E, F and M trains, and there were extensive delays on those lines.

Passengers were able to

exit from the derailed train via two cars that came to a rest inside the 125th Street station. Still, some panicked passengers evacuated through the rear of the train onto the tracks, "which we never encourage," Mr. Lhota said.

In addition to the derailed train, three other trains, carrying an estimated 800 people, were stuck in tunnels between 110th and 135th streets. Some 200 firefighters and 100

police officers went down to the tracks to escort passengers. FDNY commissioner Daniel Nigro said some 500 people "decided to leave the trains" and walk through tunnels to escape. "It's a very dangerous thing," Mr. Nigro said.

Mr. James, the passenger aboard the derailed train, said he was deep into a podcast, riding in a car in the back of the train when suddenly the train "braked really hard" and

"everyone went flying."

After the train stopped, according to Mr. James, a clinical assistant professor of social work at New York University's Silver School of Social Work, there was no announcement of what happened or any direction on what to do next. That caused tensions to rise, he said. "Folks started to panic," said Mr. James.

Tuesday's derailment follows a recent spate of inci-

dents in which passengers have let themselves out of stalled trains in tunnels. The MTA appealed to passengers to stay inside cars and to wait for directions from train crew.

Beth DeFalco, an MTA spokeswoman, said customers should never leave a train on their own, but wait for first responders. The third rail has 750 volts of direct current.

—Zolan Kanno-Youngs contributed to this article.

New Push for Deal on School Control

BY LESLIE BRODY

Gov. Andrew Cuomo on Tuesday called an extraordinary legislative session Wednesday to extend mayoral control of New York City public schools for one year.

His office said he had discussed the special session with legislative leaders but didn't detail any specific conditions attached to the extension.

A spokeswoman for the Democratic-controlled Assembly said its members had been called back to Albany for a session at 1 p.m. Wednesday and would review whatever proposal the governor sends.

Scott Reif, a spokesman for the Republican-controlled Senate, said late Tuesday afternoon that negotiations were continuing. "Is there a deal? No," he said. "At this point there is no bill to consider."

A spokesman for New York City Mayor Bill de Blasio said the special session was "a big step in the right direction."

Lawmakers ended their legislative session officially last Wednesday with no agreement on renewing mayoral control of New York City schools, which expires Friday.

If lawmakers don't renew it, the nation's largest school district would revert to a decentralized system. Many have



ED REED/MAYORAL PHOTOGRAPHY OFFICE

Mayor Bill de Blasio at a City Hall rally this month urged Albany to extend mayoral control of the New York City schools.

called that system dysfunctional, but some critics of mayoral control say it gives Mr. de Blasio too much power, he hasn't done a good enough job fixing the schools and parents have too little say.

Mr. de Blasio argues it is crucial for one person to be fully accountable for the district of 1.1 million children, and the authority allows for systemwide change, such as his expansion of free preschools.

One of the main sticking points hinged on charter schools. A bill promoted by the Senate would lift the cap on the number of charter schools that could open in New York City, a condition the Assembly

balked at.

Senate Majority Leader John Flanagan, a Republican from Long Island, has no charters in his district but he has been backed by donors who see them as escapes from failing district schools. Charters aren't usually unionized and operate free from many constraints of district bureaucracy.

Assembly Speaker Carl Heastie, a Democrat from the Bronx, has been backed by teachers unions, whose leaders charge that charters drain money from traditional public schools and don't take their fair share of hard-to-serve students.

While the state cap on char-

ters has been part of Albany horse-trading, there is still room for New York City's charter sector to grow under current limits. The New York City Charter School Center says there are 23 charters left to be issued in the city, and 124 elsewhere in the state.

Charter advocates want the cap eliminated, saying tens of thousands of children are on waiting lists for seats at the city's 216 operating charters.

The charter sector scored a likely win last week when the SUNY Charter Schools Institute, which helps oversee many charters, proposed regulations that would let charters certify their own teachers. That change would help the city's largest charter network, Success Academy Charter Schools, and other schools grow and deal with teacher turnover.

Susie Miller Carello, executive director of the institute, said currently most faculty at charters must be state certified. She said she expects the SUNY board of trustees' charter school committee to pass the proposal this fall after public comment. Supporters say charters need more flexibility and state certification doesn't reflect teaching talent, but opponents say the change would water down standards.

city could lose \$2.9 billion in personal income tax revenue, Fitch said, leading to an immediate budget gap. Moody's said Tuesday the city's personal income tax revenue would decline by more than 60%.

Fitch said a lapse could ultimately affect credit ratings for New York City municipal bonds, and those of several other cities across the state secured by personal income taxes.

"Fitch expects the extensions to ultimately be extended before they expire, but Fitch will take any rating actions it deems appropriate if this expectation is not met," the ratings firm said June 23.

On Tuesday, S&P said it estimated revenue for the Transi-

More Video Used Against Officers

BY MARIANA ALFARO

Civilians are increasingly including video evidence in complaints against New York Police Department Officers, according to a study by an independent police review organization.

The New York City Civilian Complaint Review Board reported that 794 of the 4,426 complaints it closed in 2016 included some form of video evidence, an increase from 43 closed complaints out of 4,268 investigated complaints in 2012.

The study comes as civilian recordings of police activity have led to investigations of alleged overuse of force by officers.

The CCRB also reported that 2% of the 15,006 complaints it closed between Jan. 1, 2014, and Dec. 31, 2016, included allegations of police officers interfering with civilian recordings of their activity.

Civilian recordings are protected by the First Amendment and help increase transparency when reviewing cases of alleged police misconduct, the study said.

"Video evidence is a very important tool for us in making those determinations so it is important for us to preserve video to make sure we can get an accurate picture of what is going on on the street," said Jonathan Darche, the CCRB's executive director.

A spokesman for the NYPD

On Camera

Civilian-generated video evidence is becoming more common in police-misconduct investigations



Source: NYC Civilian Complaint Review Board

THE WALL STREET JOURNAL.

declined to comment.

The CCRB concluded that 28% of the allegations of police interference in civilian recordings in the last three years were substantiated.

An allegation is considered substantiated if the officer searched or seized a recording device without a warrant, deleted a file from a device or destroyed the device itself the report. An unsubstantiated allegation means the recording interfered with police activity or places civilians or officers in danger.

Only 6% were unfounded, while 11% showed lawful interference had occurred.



MARY ALTAFFER/ASSOCIATED PRESS

Rating Firms Worry Over Albany Inaction

Albany lawmakers failed to approve a series of tax extenders tied to an elusive agreement over mayoral control of public schools, leading to warnings from the three major credit-ratings firms.

Fitch Ratings, S&P Global Ratings and Moody's Investors Service cited lawmakers' failure to approve a routine measure allowing New York City to levy personal income taxes. That tax extender suffered when lawmakers linked it to deadlocked legislation renewing mayoral control of New York City

schools.

The Legislature also failed to pass measures affecting tax revenue in 53 counties and three other cities outside New York City.

New York Gov. Andrew Cuomo has summoned Albany lawmakers to special session to reach a deal on mayoral control. The ratings firms said they expected the tax extenders would eventually be approved before they were allowed to expire in November and December. But they said any lapse of the extenders could have a severe impact on local governments.

If the measure allowing New York City to levy personal income tax isn't approved by Dec. 31, when it expires, the

city could lose \$2.9 billion in personal income tax revenue, Fitch said, leading to an immediate budget gap. Moody's said Tuesday the city's personal income tax revenue would decline by more than 60%.

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On Tuesday, S&P said it estimated revenue for the Transi-

tional Finance Authority, which funds the city's capital projects, could decrease by 15% in fiscal 2018 if the tax extender is allowed to lapse.

Maria Doulos, a vice president of the Citizens Budget Commission, a nonpartisan watchdog group, said it was unfathomable that Mr. Cuomo and lawmakers would allow the series of tax extenders to lapse.

"The personal income tax is so essential to New York City and to funding its operations that there is no way this won't be renewed," Ms. Doulos said. "We're not terribly worried about it. We think it will be in whatever deal they come up with on mayoral control."

—Mara Gay

GREATER NEW YORK

METRO MONEY | By Anne Kadet

A Novel Investment in Others' Success

In New York, a city of financial extremes, disparate lives can be strangely connected. Take Tony Davis, a wealthy Manhattan investor. The success of his latest venture depends, in part, on how 25-year-old Chantice St. Louis, who lives in a Brooklyn public-housing project, performs at her new job.

Mr. Davis and a co-investor sank \$750,000 into a bond issued by C4Q, a startup nonprofit in Long Island City, Queens, that provides free coding classes to low-income adults. The security is backed by the future earnings of this June's crop of 88 graduates who agreed to pay back 12% of their salaries for two years.

It's a risky investment for Mr. Davis, a hedge-fund co-founder and former Goldman Sachs banker. If the grads don't land high-paying jobs, he won't be repaid, much less earn the expected 6.6% return.

But he's not just seeking financial gain. His investment will help C4Q scale up—its incoming class in August is expanding to 144 students hoping to move from low-wage service gigs to higher-paying tech jobs.

And if this newfangled funding model works, it could help nonprofit coding schools across the U.S. expand and train more students.

It's unusual for a non-profit job training program to request a giveback from students, says Michael Hamm Remaley, senior vice president at Philanthropy New York, an association of grant makers. "This is new to me," he says. But most such programs, he notes, train students for relatively low wage jobs.

C4Q's founder, Jukay Hsu, a self-described "super nerdy



ROB WILSON

kid," has an unusual background. The Taiwanese immigrant grew up in Flushing, Queens, and attended city schools before graduating from Harvard. Then, unlike his pals who went into banking and consulting, he joined the Army.

He was struck by the ingenuity and intelligence of the soldiers who never got past high school. "Some of the smartest, hardest-working people I ever met were in the military," Mr. Hsu says.

Returning from Iraq in 2011, he was disappointed to see how many people were missing out on the tech boom transforming the city. He resolved to offer minorities the training and cultural immersion he'd encountered in the military to help them cross the divide.

He's a persuasive fellow. With the help of backing from outfits such as Google, Blackstone and LinkedIn, C4Q has taught 200 students to code since 2013. Of 2016's class of 100, 12 didn't make it, but of graduates, 90% are working, Ms. Hsu says. Their average salary rose from

\$18,000 to \$85,000, he adds.

Ms. St. Louis, who lives in Sheepshead Bay, is a typical grad. She was enrolled in community college in 2013 when her mom took several months off from work to recover from surgery. Determined to help pay for food and rent, Ms. St. Louis took two jobs at the mall. The family scraped by, but her grades were a disaster. The year ended in an academic dismissal.

She worked the next two years at places like Bed Bath & Beyond, typically earning about \$350 a week. "But I wanted to go back to school pretty bad," she says. "I couldn't keep working those dead-end jobs."

Last summer, while scooping at a Brooklyn ice cream parlor, a customer told her about C4Q.

The 10-month coding program was the biggest challenge she's faced—eight hours a day of lectures and programming, covering material she at times found incomprehensible. She sometimes felt like quitting.

"But this felt like the last

opportunity I might have," Ms. St. Louis says. "I put a lot of pressure on myself."

When she graduated on June 12, she had two job offers. She's now a web developer at a small Brooklyn startup, earning \$65,000 a year. She says she respects the obligation to pay 12% back.

"I can make a difference for my community and get other people involved in tech," Ms. St. Louis says.

At this point, the C4Q math doesn't work at all. Even if every grad lands an \$85,000 job, their contribution doesn't nearly cover the program's current cost of \$30,000 per student. That would require growth on a massive scale.

But for now the new model will help the program expand and lessen its reliance on donations. And if it can attract philanthropic investors such as Mr. Davis, it is crazy to think Wall Street money might follow.

"That's why we're excited about it," Mr. Jukay says.

anne.kadet@wsj.com

Governor Is Pressing for 'Mini Budget'

BY JOSEPH DE AVILA

Connecticut lawmakers have hit a budget impasse that if unresolved could lead to deep spending cuts.

Gov. Dannel Malloy, a Democrat, said he doesn't expect the Legislature to pass a two-year budget before the current fiscal year expires on Friday. He called on the Democratic-controlled Legislature to pass a "mini budget" for a three-month period to buy lawmakers more time.

"It's clearly in everyone's best interest," Mr. Malloy said. "Doing nothing will make things worse."

But Democratic Speaker of the House Joe Aresimowicz on Tuesday said he and the rest of the Democratic House caucus aren't convinced that a mini-budget is the right answer. It is a temporary spending plan that only delays making painful decisions, he said.

Mr. Aresimowicz said he would agree to vote on a mini-budget only "when I see the groundwork, the parameters or the foundation to what could be a two-year biennium budget that moves the state of Connecticut forward."

The state faces a two-year budget hole of \$5.1 billion. A new labor agreement signed by public-union leaders and the Malloy administration on Sunday would help reduce the gap to \$3.53 billion. Rank-and-file union members still need to approve the deal.

If no temporary budget is approved by the Legislature by Friday, the governor said he would issue an executive order to keep state operations running and would slash funding for social services, mental-health and ad-



THE STATE CAPITOL IN HARTFORD

diction services and education.

"They are going to be bad," Mr. Aresimowicz said of the spending cuts. "But the lesser of two evils is not good enough for the state of Connecticut."

State Sen. Len Fasano, the top Republican in the state Senate, criticized the Demo-

'Doing nothing will make things worse,' says Connecticut Gov. Dannel Malloy.

crats for not having a full budget ready for a vote before the end of the fiscal year. "Connecticut is at a fiscal crossroads," He said. "Inaction is not what we should be doing."

Republican House Minority Leader Themis Klarides said it was too early to tell if her caucus would support a mini-budget.

"We are in the middle of analyzing that now," Ms. Klarides said.

Town Tries Again On Airport Noise

BY JOSEPH DE AVILA

East Hampton lost its legal fight to exert more control over the town's municipal airport to reduce aircraft noise. Now it wants Congress to help out.

Larry Cantwell, the town supervisor of this community of 21,500 residents on the eastern end of Long Island, said East Hampton would seek federal legislation to allow the town to pass restrictions to address the rising number of aircraft-related noise complaints.

More than 26,000 noise complaints were registered in 2016, up 8% from the previous year, according to the town.

The town will also ask the Federal Aviation Administration for permission to set restrictions on the municipal airport, which has about 25,000 takeoffs and landings a year. Most of them happen during the busy summer months when people flock to the Hamptons and the town's population quadruples.

"The airport is an asset of the town of East Hampton," Mr. Cantwell said. "There ought to be some tools available to the community, that are reasonable, to run their

own airport."

U.S. Rep. Lee Zeldin, a Republican who represents East Hampton, supports the town's efforts to gain local control of the airport. "Congressman Zeldin will continue working closely with East Hampton Town regarding options moving forward at this point," a spokeswoman for Mr. Zeldin said.

The town is seeking help from Congress and the FAA after failing on Monday to get the U.S. Supreme Court to consider the town's appeal in a case where the Second U.S. Circuit Court of Appeals ruled that restrictions enacted by East Hampton in 2015 to address airport noise violated federal aviation law.

The town had set morning and evening curfews on flights and limited the number of trips certain aircraft can make to reduce noise at the airport, but air-charter operators later sued the town in federal court.

In court filings to the Supreme Court, the attorneys for the aviation companies said the town's dispute should be "properly addressed to Congress, not the court."

A lawyer for the aviation companies didn't return a request for comment.



Steven A. Cohen and his wife Alexandra, below, gave the Museum of Modern Art one of its largest gifts ever. Above, an exhibit in May.

Art Museum Receives a \$50 Million Gift

BY CHARLES PASSY

Hedge-fund investor Steven A. Cohen and his wife Alexandra have given \$50 million to the Museum of Modern Art, officials with the New York cultural institution announced Tuesday.

The gift, which comes through the Cohens' foundation, ranks as one of the largest in the museum's history. The money will go to a capital campaign that is funding a \$450 million renovation and construction project.

Overall, the project will

add 50,000 square feet of exhibition space to the museum, bringing the total to 175,000. The first phase of the project was unveiled earlier this month.

Mr. Cohen, an art collector, has served on MoMA's board since last year.

The Cohens' gift "will have an extraordinary impact on our ability to present exhibitions at a scale that is virtually unprecedented," MoMA Director Glenn D. Lowry said in a statement.

In recognition of the gift, the museum will name its

largest contiguous gallery in honor of the couple, calling it the Steven and Alexandra Cohen Center for Special Exhibitions.

In 2013, Mr. Cohen's SAC Capital Advisors LP pleaded guilty to criminal insider trading charges and paid \$1.8 billion in penalties. Mr. Cohen's settlement with regulators has restricted him from supervising a registered fund until 2018.

Mr. Cohen, who is 61 years old, is currently planning a comeback in the hedge-fund business.

GREATER NEW YORK WATCH

NEW YORK CITY

Rent Going Up 1.25% For One-Year Leases

The New York City Rent Guideline Board voted Tuesday night to raise rents 1.25% on one-year leases and 2% on two-year leases.

The measure, approved in a 7-2 vote and taking effect in October, will affect more than one million New Yorkers living in rent-regulated apartments.

The increases were at the low end of a possible range outlined by the board in a preliminary vote in April—1% to 3%

tenants with one-year leases and 2% to 4% for those who opt for two-year leases.

The move follows two years of rent freezes. The year before that there was a 1% increase on one-year leases, approved a few months after Mayor Bill de Blasio took office.

Landlords sought higher increases, saying their costs have risen sharply over the past year.

The percentage of income spent on rent in New York City declined in the latest available census figures to its lowest level in five years, according to data compiled by the board.

—Roundup

NEW YORK STATE

Indictment Against Senator Dismissed

An Albany judge on Tuesday dismissed an indictment against state Sen. Rob Ortt, saying the evidence the grand jury considered wasn't legally sufficient.

Mr. Ortt, a Republican who represents Niagara and Orleans counties, was indicted on corruption charges in March and accused of being part of a scheme to arrange a no-show job for his wife.

In a statement, Mr. Ortt said: "It is my hope that this ruling today will force Mr. Schneiderman

to think twice before concocting baseless charges to serve his own radical progressive political agenda again," referring to New York State Attorney General Eric Schneiderman.

A spokeswoman for Mr. Schneiderman, a Democrat whose office brought the charges, said the office disagreed with the ruling and was considering its options. "Nothing in today's opinion changes the fact that Meghan Ortt received money for a politically connected no-show job," she said. "Only in Albany would a Senator argue that receiving money for a politically connected no-show job isn't a crime."

—Corinne Ramey



A private jet arrives at the East Hampton Airport this month.

HEATHER WALSH FOR THE WALL STREET JOURNAL

LIFE & ARTS



FOOD & DRINK

BY ELLEN BYRON

BEER AND BELGIAN waffles could be a delicious pair. So could ale and eggs.

So says Anheuser-Busch InBev NV, Harpoon Brewery, Dogfish Head Craft Brewery, Founders Brewery Co. and other brewers, who are rolling out morning-friendly beers and hosting brunches to entice people to consider beer at a new time of day.

Restaurants are finding that beer on morning cocktail menus appeals to diners who crave new flavor pairings or a lower-octane alcoholic beverage early in the day compared with traditional vodka or Champagne-based drinks.

Around six in 10 Americans are likely to drink alcohol with their weekend brunch, and 21% say they drink beer at brunch, according to Nielsen CGA.

Pairing beer with food is on the rise, helped by new beer flavors, including fruits, spicy or tart notes and beers blended with juice, tea and soft drinks. In 2017, 26% of total U.S. beer launches were flavored beers, up 31% since 2013, according to Mintel.

"We're looking for occasions that beer isn't already a part of," says Christina Perozzi, education director for **Goose Island Beer** Co., owned by Anheuser-Busch.

The brewers' efforts to capture new beer drinking moments come as beer volumes are slipping in the U.S. and globally. Beer volumes, measured in 9 liter cases, fell 1.8% around the world last year, according to industry tracker IWSR.

Ms. Perozzi runs a training program with wholesalers to get them to persuade restaurants to offer beer at meals. She hosts a brunch of smoked salmon Benedict, orange French toast, and Greek yogurt with Goose Island's Sofie, a wine-barrel aged beer with orange peel and spicy white-pepper notes.

After biting into an eggs Benedict at a recent breakfast in New York, Ms. Perozzi sipped Sofie from a short stemmed glass. "The tannins of Sofie cleanse the creamy coating on your tongue," she says. "The saltiness of the hollandaise sauce pairs well, too." Ms. Perozzi acknowledges that brunch

A New Eye-Opener: Beer for Brunch

Brewers try to break into the brunch game by offering new beer cocktails and flavored drinks; brewmosas and micheladas.



Six in 10 Americans are likely to drink alcohol with their weekend brunch. A recent brunch at Harpoon Brewery, above.

sweets, like maple syrup or whipped cream, can be challenging flavors to match with Sofie, but other fruit-flavored beers would work well.

"It's interesting that people ask how can beer pair with breakfast when really the Bloody Mary only pairs well with pulled-pork shoulder," she says.

Felipe Szpigiel, president of Anheuser-Busch's High End business unit, which includes Goose Island and Stella Artois says: "We want to make beer more sophisticated."

Jeanine Chan, a 45-year-old university program representative in

San Diego, goes out for brunch about twice a month, and in recent months started ordering beer instead of a mimosa. "I tend to go more savory with breakfast these days, and beer pairs better," she says. It goes particularly well with her latest favorite dish, chilaquiles, which includes corn tortillas, salsa, eggs, queso fresco, beans and Mexican rice. But beer with waffles, pancakes or cinnamon rolls? "No way," she says. "I would order a mimosa."

Nielsen CGA research shows that 45% of brunch drinkers would often order mimosa; 36% a Bloody Mary and 27% a champagne cocktail.

Andy Husbands, chef and owner of Tremont 647 in Boston, started promoting beer with brunch about four years ago, including a Harpoon IPA with a squeeze of fresh grapefruit juice. His latest cookbook includes a recipe for a michelada. "It's a Bloody Mary with beer," he says. "It's nice, light and refreshing."

Mr. Husbands says his restaurant's beer sales at brunch are on the rise in part because customers appreciate beer's lower alcohol content compared with cocktails made with spirits. "I'm a 47-year-old man—you give me two Bloody

Marys and I'm taking a nap," he says. "You can have a beer and still accomplish the honey-do list."

Last Sunday at 10 a.m., Harpoon Brewery in Boston hosted 130 attendees at a brunch of eggs, home-fries, huckleberry-candied bacon, pretzel bagels, fruit salad and its UFO Huckleberry beer. "You know it's the perfect brunch-time beer," the company says in its promotion for the \$40 ticket.

"I don't think that enough brewers have paid attention to the fact that brunch is now a significant drinking occasion," says Harpoon CEO Dan Kenary. "It's become a ritual where people sit at a table for extended periods, and a flavored beer really complements those brunch foods."

Dogfish Head Craft Brewery in Milton, Del., this year started offering brunch at its Rehoboth Beach pub every weekend after doing so occasionally for about 10 years. Dogfish Head, known for culinary-inspired beers, makes several breakfast-inspired versions, including its Beer for Breakfast stout, named after The Replacements song and brewed with maple syrup, roast coffee, and scrapple, a pork-and-spice mash. "That's the pièce de résistance," says Sam Calagione, Dogfish Head's founder and chief executive.

On Thursday, Snooze an A.M. Eatery, a 20-restaurant brunch chain based in Denver, plans to introduce the Snooze Shandy, a cocktail of Belgian-style beer, lemonade, lime juice and spicy Ancho Reyes liqueur. The shandy joins beer cocktails including brewmosas and micheladas on Snooze's extensive "morning cocktails" list.

Founders Brewery Co. in Grand Rapids, Mich., makes breakfast stouts including a Kentucky breakfast stout, called KBS, which is brewed with coffee and chocolates and then cave-aged in oak bourbon barrels for a year. The brewery has hosted brunches featuring its breakfast stouts, but Dave Engbers, co-founder and president of Founders, says the beer drinks well any time of day.

"I'd say the vast majority of the beer probably isn't drunk at breakfast," says Mr. Engbers. "If it was, we wouldn't get a whole hell of a lot done in the day."

FROM TOP: F. MARTIN RAMIN/THE WALL STREET JOURNAL (4); SIMON SIMARD FOR THE WALL STREET JOURNAL

WORK & FAMILY | By Sue Shellenbarger

THE FAMILY MEMORY YOU THINK YOU HAVE



WHAT ARE THE ODDS that your most vivid family memory isn't totally accurate?

Parents are often surprised by what their teens and young adult children remember from childhood. Children and parents may turn imagined events into memories, misremember details or interpret shared events differently. And grown children often recall incidents parents have forgotten or blocked out.

Taking time to compare memories and hash out the differences can help family members make peace with lingering issues that they never thought they could resolve.

Mary Dell Harrington has no recollection of walking down the driveway of her Larchmont, N.Y., home to meet her daughter's school bus one afternoon 12 years ago. Ms. Harrington had just gotten word that her beloved 80-year-old father had suffered a stroke in a distant state, and she was upset.

Her 21-year-old daughter, Annie Berning, was 9 at the time. She re-

calls the moment clearly.

"I can see the outfit she was wearing," she says. It was a longish blue skirt and sunglasses that hid her mother's tears. Before Ms. Harrington could tell Annie the news, Annie asked her to drive her to the mall. When she learned a moment later that her grandfather had fallen ill, Ms. Berning felt sad and overwhelmed, she says. As the family cared for him and later prepared to attend his funeral, she began feeling guilty about asking for a trivial favor in the midst of a family crisis.

Ms. Harrington was dismayed to learn her daughter still harbored some guilt when the topic came up recently. She reassured her that asking to go shopping hadn't been inappropriate or unkind. Ms. Berning says she found the conversation comforting.

"Talking about these stories gives you a chance to clear up tiny misconceptions, or tell your children it's OK," says Ms. Harrington, a writer and co-founder of Grown

Please see MEMORY page A13

LIFE & ARTS

MY RIDE | By A.J. Baime

This '67 Dodge Still Makes Beautiful Music



David Dweck, a real-estate investor from Boca Raton, Fla., with his girlfriend, Elysa Stark, and his 1967 Dodge Charger, photographed in Cleveland.



David Dweck, 55, a real-estate investor from Boca Raton, Fla., with his girlfriend, Elysa Stark, and his 1967 Dodge Charger, as told to A.J. Baime.

This year marks the 50th anniversary of the Summer of Love, and the 50th birthday of my Dodge Charger. The year 1967 was a huge year for cars and music. I was 5, and it all had a big impact on me.

I wanted to do something special, so I shipped my 1967 Charger to Cleveland. I flew my kids Evan and Gabriella in. Along with my girlfriend Elysa, we took a Father's Day road trip, motoring to the Rock & Roll Hall of Fame in Cleveland, then to a car show in Akron. After that, my kids left and Elysa and I drove the Charger through Pennsylvania to the Jersey shore, playing a soundtrack of 1967 music along the way.

When I was a kid, my parents drove Dodges, and in high school I drove their 1972 Dodge Dart with the famous slant six engine. When I grew up, I wanted to experience those cars again, so I began a small collection of cars. The most special is my 1967 Charger.

The Charger was first unveiled for model year 1966, during the first wave of muscle cars. The Mustang was already a sales phenomenon, and the Camaro was about to become one. The original Charger body style only lasted two years, so my 1967 is a rare vehicle today.

I found my car online for sale in Idaho in 2013, and I paid a mechanic a hundred bucks to look at it.

I paid \$21,000 for the car and had it shipped to Florida. When it arrived, it exceeded my expectations. It's a performance car, but also a great cruising mobile. I made one modification: I put a CD player and a subwoofer in the trunk, and a speaker box in the back of the car.

Over four days on Father's Day weekend, I put about a thousand miles on the Charger. It performed like a champ. I blared "Sgt. Pepper's Lonely Hearts Club Band," the Doors and the Rascals. But when I reached the Jersey shore, I had to play some Springsteen. As the Boss sings in "Jungleland": "Barefoot girl sitting on the hood of a Dodge..."

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LIFE & ARTS



Floating Points performing earlier this month. His new album, 'Reflections—Mojave Desert,' draws heavily from nature.

MUSIC REVIEW | By Jim Fusilli

Sonic Beauty Sought in the Desert

AFTER PERFORMING in August at the FYF Festival in Los Angeles, Sam Shepherd, who writes, records and performs as Floating Points, stopped outside of Joshua Tree National Park in the Mojave Desert to rehearse with his band. So smitten was he with the environment that he decided to practice outdoors, letting the sound reverberate amid the rocks and flora. The music echoed back at the quintet as if delayed electronically, and the rustling wind altered the instruments' sounds. Intrigued, Mr. Shepherd decided to record his new music in this natural setting.

The result is "Reflections—Mojave Desert" (Luaka Bop), out on Friday. Mr. Shepherd and group play music that draws from the forward motion, skittish rhythms and synthetic colors of electronica, but their performances also feature elements of prog rock and, with Mr. Shepherd on a Fender Rhodes electric piano, '70s jazz and funk. The desert's ambient sounds are present too, both in their original form—with a parabolic microphone, Mr. Shepherd captured the wind careening through the rock formations—and as electronic samples. Crossing genres with ease, "Reflections—Mojave Desert" doesn't fit neatly into any category and it's never less than absorbing.

The album reflects Mr. Shepherd's growth as a musician and bandleader. He studied piano at Chetham's School of Music in Manchester, England, and performed in jazz combos. While studying for his doctorate in neuroscience and epigenetics from University College London, he played piano every day. "Music was my release from science," he said when we spoke by phone last week. While an academic environment that encouraged free thought was satisfying, Mr. Shepherd said he never thinks in scientific terms when composing or performing, instead relying, however subconsciously, on earlier musical training.

His first singles and EPs are solo efforts—high-quality electronic music that revealed his skills as a pianist as well as a producer. But while recording his first full-length album, 2015's "Elaenia," Mr. Shepherd said he yearned to play with accomplished musicians rather than make all the sounds himself. Bassist Susumu Mukai, guitarist Alex Reeve and drummer Leo Taylor sat in on those sessions. Along with guitarist Matthew Kirkis, they now constitute Mr. Shepherd's unit on tour and the new disc. While "Elaenia" emerged as a supple collection of jazz-funk, "Reflections—Mojave Desert" leans more often toward rock. When Messrs. Kirkis and Reeve send stinging guitar solos above the sound-



scape, the music soars as Mr. Shepherd, deploying a battery of synthesizers and electric pianos, improvises discreetly and adds accents when the opportunity arises. Though several of the tunes were composed in advance of the recording sessions, Mr. Shepherd said they all rely on improvisation for added life.

On "Reflections—Mojave Desert," several songs tilt heavily toward prog rock, particularly "Silurian Blue" and "Kelso Dunes," with Mr. Taylor pounding away effectively in the latter. The 31-year-old Mr. Shepherd told me he knew very little about prog rock; he recently visited the exhibition "Pink Floyd: Their Mortal Remains" at the Victoria and Albert Museum in

London, not so much to learn about their music as to check out their gear from the '60s and '70s. (He says he now appreciates the band's "Meddle," released in '71.)

Though tracking down hard-to-get albums in U.S. record shops while on tour is a favorite activity, he said, "my music references are abysmal." He acquired the 1970 self-titled record by the British jazz-fusion group Affinity, and later, as he was listening to one track, his girlfriend entered the room and began to sing along. When Mr. Shepherd expressed his surprise that she knew such obscure music, she pointed out that Affinity was playing "I Am the Walrus" by the Beatles. Mr. Shepherd had never heard it before.

But prog rock and jazz fusion are part of contemporary music's vocabulary, Mr. Shepherd and band draw from them with ease. Following the mid-2016 stint in the Southern California desert, the band continued to tour, performing the new material. Mr. Shepherd said they grew bolder as improvisation reigned.

"Reflections—Mojave Desert" is accompanied by a film directed by Anna Diaz Ortúñoz that presents scenes from the environment in which the music was recorded. (Keen-eared listeners will note that some of the tracks in the film differ from what's on the album.) Mr. Shepherd said he and the group will continue to explore recording in various spaces to capture how the setting shapes its music. Drawing for a moment on his background as a scientist, he said the new album is "proof of concept" that his music can be informed by external forces. In the case of "Reflections—Mojave Desert," nature is a co-conspirator, helping Mr. Shepherd and band press his music beyond where it had been before.

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

MEMORY

Continued from page A11
and Flown, a blog for parents of 15- to 25-year-olds.

Recalling a memory isn't like replaying a mental video. More often, memories are reconstructions of facts, inferences and imagined details that people patch together after the fact, helping them build a sense of identity. Parents and children alike may forget difficult moments they don't want to recall.

Children and teens are most likely to remember events that are both emotional and relevant to the developmental stage they're in at the time, a 2016 study shows.

Playing sports was important to Annie's brother Walker Berning as a teenager. He was a football, baseball and hockey player and also ran track. His most vivid memories from that time are of injuries that sidelined him, including a clipped Achilles tendon in a schoolyard accident that kept him off the baseball diamond for a while. Now 26, Mr. Berning is a Washington, D.C., financial analyst.

Twins and siblings who are close in age sometimes claim memories that actually happened to the other sibling, such as winning a swim competition, a 2001 study says.

Children perceive the passage of time differently than adults, says Robyn Fivush, a psychology professor at Emory University. Adults can track time on a phone or calendar, but a few days can feel like weeks to a child, causing him to remember events as lasting longer than they actually did.

That generation gap has become a running joke in the Wingens family. Helene Wingens's two older sons, Andrew, 25, and Jonathan, 20, vividly recall a baby nurse staying with the family for several weeks after their young brother David was born 16 years ago. Every time it comes up, Ms. Wingens wonders what they're talking about. Ms. Wingens, a Livingston, N.J., writer, insists the



ilie sometimes tell and retell stories that cast a child in the same role over and over, as a screw-up or a maverick, without regard for the fact that she has changed and moved on, Dr. McLean says. This can feel confusing to teens or young adults.

Parents might dwell on stories about how sensitive a teen was as a child and how she cried a lot, while the teen may be trying to cobble together a more mature self-image, insisting, "No, I'm not sensitive at all. I'm strong!" says Dr. McLean, a psychology professor at Western Washington University in Bellingham, Wash.

As she presses family members to revise their view, Dr. McLean says, the teen learns to stand up for herself.



Siblings Annie and Walker Berning in 2003, top, and in 2013 with their parents, Mary Dell Harrington and Mel Berning, above.

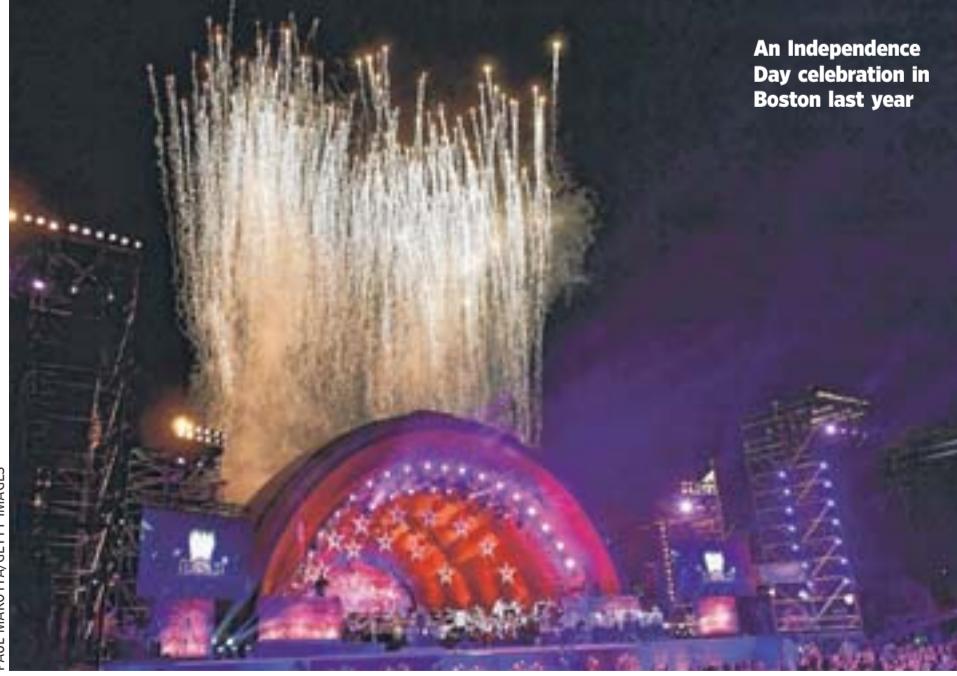
LIKE ALL RED-BLOODED Americans, I love fireworks, whether in the sky or on the stage. Anyone who isn't thrilled by the high-wire theatricality of a virtuoso performer needs to have his hypothalamus examined. I also love the Fourth of July, the national holiday on which it's customary to set off skyrockets of the nonmusical kind. Alas, the classical musicians of today seem increasingly disinclined to display the heart-on-sleeve patriotism that led Van Cliburn to open his recitals with "The Star-Spangled Banner," and to play it with the utmost splendor and conviction. Were an American pianist to lead off a recital with the national anthem nowadays, he'd surely toss it off with a slyly ironic wink.

This is undoubtedly one of the reasons why I've never heard a concert performance of either of the two most spectacular exercises in flag-flying pianistic patriotism that I know, Louis Moreau Gottschalk's "The Union" and Vladimir Horowitz's transcription of "The Stars and Stripes Forever." The other reason is that both pieces are monstrously, knuckle-crunchingly hard to play. But they make for irresistibly pleasurable listening, and you can hear them whenever you want via Amazon or on YouTube.

Gottschalk's given names obscure the fact that he was America's first important native-born composer. In "The Union," composed in 1862, he proudly wore his nationality on his sleeve. The piece's subtitle, "Concert Paraphrase on National Airs," situates this seven-minute medley of three patriotic songs in its proper musical context: It's an all-American version of a Liszt-style operatic fantasy, a showpiece in which familiar melodies are cleverly woven together, then festooned with fantastically complex technical stunts. In "The Union," though, the melodies are not arias by Rossini or Verdi but "Hail, Columbia," "The Star-Spangled Banner" and "Yankee

SIGHTINGS | By Terry Teachout

PIANO PIECES THAT LIGHT UP THE FOURTH



An Independence Day celebration in Boston last year

Doodle." A fervent opponent of slavery, he dedicated "The Union" to Gen. George B. McClellan, and two years later, performed it for Abraham Lincoln at the White House.

While we don't know what Lincoln thought

of "The Union," it's hard to imagine that he was anything other than delighted by the unabashedly elaborate ruffles and flourishes with which Gottschalk decorated his homely tunes. Were his purpose not so self-evidently

sincere, one might almost call the results campy. Indeed, I can't help but wonder whether Tony Kushner might possibly have had "The Union" in the back of his mind when he subtitled "Angels in America" "a gay fantasia on national themes."

Vladimir Horowitz brought off a comparable feat of patriotic prestidigitation when he transcribed "The Stars and Stripes Forever," the most famous and beloved of John Philip Sousa's 137 marches for military band. Horowitz, a refugee from Soviet Russia who became a naturalized U.S. citizen the following year, heard an Arturo Toscanini performance and decided to arrange the march as a gesture of gratitude to his new-found homeland. The results were an instant hit when he unveiled the piece in Minneapolis in 1945.

For pianists, the most remarkable aspect of the transcription comes in the repeat of the march's trio section, in which a solo piccolo plays a sparkling obbligato over the second theme. In one of his most sensational pieces of fingerwork, Horowitz simultaneously plays the theme, the piccolo obbligato and the oom-pah accompaniment—with only two hands. (Pro tip: He plays the theme with his thumbs.)

Horowitz never published his "Stars and Stripes Forever" transcription, but various admirers have taken it down by ear, and at least one of their versions is available in sheet-music form. Don't bother trying to play it yourself, though, unless you're a super-virtuoso—or unless you happen to have three hands. Better to listen agog to Horowitz's 1951 recording, or to Leonard Pennario's equally spectacular 1974 recorded performance of "The Union." Fireworks have never sounded so good.

Mr. Teachout, the Journal's drama critic, writes "Sightings," a column about the arts, every other week.

SPORTS

GYMNASTICS

A Call for Culture Change

Investigator paints ugly picture of USA Gymnastics and its leadership

BY LOUISE RADNOFSKY AND REBECCA DAVIS O'BRIEN

AN INVESTIGATOR appointed by the U.S. gymnastics federation on Tuesday issued a report that sharply criticized the sport's national governing body in the wake of a sexual abuse scandal and called for dozens of changes to upend the sport's culture and operations.

Deborah Daniels, a former federal prosecutor, was hired by USA Gymnastics to review the organization's practices after accusations that it improperly handled dozens of child abuse allegations made against coaches. Daniels' report stopped short of looking at the organization's actions in specific cases—including a wave of sexual assault claims made against the women's Olympic team physician Larry Nassar and civil litigation against the organization in California and Michigan.

Nassar has pleaded not guilty and denied wrongdoing, and the federation is fighting the lawsuits.

The sweeping set of 70 recommendations painted an ugly picture of the circumstances that have rocked the federation, prompting the resignation of its president and casting a cloud over Olympic glories in 2012 and 2016.

USA Gymnastics said its board unanimously accepted the report, recommendations, and a new policy to protect the welfare of participants. Board chairman Paul Parilla said he offered "our deepest regrets" that athletes had been harmed but did not address the report's specific findings.

"USA Gymnastics is very sorry that anyone has been harmed during his or her gymnastics career, and we offer our deepest regrets to any athlete who suffered abuse or mistreatment," he said. "We are determined to do better."

Daniels's report called for USA Gymnastics' board to take a more active and independent approach to overseeing the organization and—in one of many rebukes of the organization's leadership under former president Steve Penny—called out the "excessive" and at times "inappropriate power" the president has over the organization.

Penny resigned in March under pressure from the U.S. Olympic Committee, after 12 years in charge; he received an approximately \$1 million severance package. In a statement, Penny said the sport is "filled with people who care about the safety of the young athlete, and recognize that a safe environment is a prerequisite to enjoyment and success in the sport. I am hopeful and optimistic that the Daniels report helps USA



Former USA Gymnastics doctor Larry Nassar in court on June 23.

Gymnastics build on the previous efforts of the organization."

Former Olympic champion Dominique Moceanu, a longtime critic of the gymnastics federation and the abusive atmosphere that has pervaded the sport's elite levels, said the report should have come out a decade ago. She criticized USA Gymnastics for only taking the step to pursue an independent investigation not by choice,

'We are determined to do better,' said USA Gymnastics board chairman Paul Parilla.

but rather in the face of public pressure from the controversy surrounding Nassar.

"If it wasn't for that, they would have let all this other stuff go and been happy," Moceanu said of the federation's leaders.

The report described the potential for a "follower" mentality among the board members, with few in-person meetings and a perception that the members were a clique with limited experience or willingness to address issues such as preventing child abuse. The report found that the board's "Ethics, Grievance and Safe Sport" committee "appears...to spend much of its time reviewing com-

pensation arrangements of Board members to determine whether to permit them under the Board's conflicts of interest policy."

The report said most in the sport had previously operated under rules that said they "may notify" the governing body if abuse was suspected, with officials often believing they could only take reports directly from a victim or victim's parents, and sometimes attempting to investigate them themselves first.

Going forward, every adult in the sport must notify law enforcement "promptly" if they have any reason to believe abuse may have occurred, or have their membership in the organization revoked, the report said. The Wall Street Journal reported in February that USA Gymnastics had waited five weeks to report a national team member's concerns about Nassar to law enforcement, after conducting its own investigation first. Daniels said in her definition, "promptly" should mean "not even hours" go by.

Among specific changes, Daniels said that the national team's training center at the Karolyi Ranch—deep in a national forest outside Houston—needed to watch more closely over gymnasts as young as 11, training there without their parents, and make it possible for them to call home despite the lack of reliable cellular service there.

—Matthew Futterman contributed to this article.



Fans celebrate in the streets following the announcement that Qatar will host the 2022 World Cup. Russia won a bid for the tournament in 2018.

MOHAMED FARAG/EUROPEAN PRESSPHOTO AGENCY

SOCER

FIFA RELEASES SECRET REPORT

BY JOSHUA ROBINSON
AND MATTHEW FUTTERMAN

LONDON—One of the most closely-guarded documents in world sport, an internal report on the process that awarded soccer World Cup hosting rights to Russia and Qatar, was released on Tuesday after nearly three years of secrecy.

While it showed no explicit ethical wrongdoing by the Russian and Qatari bid teams, the document shed new light on the 2010 decision by FIFA, soccer's world governing body, to award them the 2018 and 2022 tournaments. The report, produced by former U.S. federal prosecutor Michael J. Garcia, also provided a number of previously undisclosed examples showing rampant favor-mongering among members of FIFA's ruling executive committee that led to the demise of the body's top officials.

Garcia described a "culture of expectation and entitlement" on the committee, adding that certain "members displayed a disregard for ethical guidelines and an attitude that the rules do not apply to them."

FIFA made the sudden decision to publish the report on its website despite its years under wraps after a German newspaper said on Monday that it had obtained a copy. In a statement, the organization said the newly appointed leaders of its Ethics Committee had planned to discuss publishing the report at meeting next week, a move their predecessors had opposed.

The Garcia report, when it was first delivered in the late summer of 2014, in many respects marked the beginning of

FIFA's modern turmoil.

More than half of the 22 sitting executive committee members at the time of the Russia and Qatar awards have since been dismissed amid allegations of ethical wrongdoing. Many of the individuals in the report have also left FIFA or been disciplined by the organization since Garcia's report.

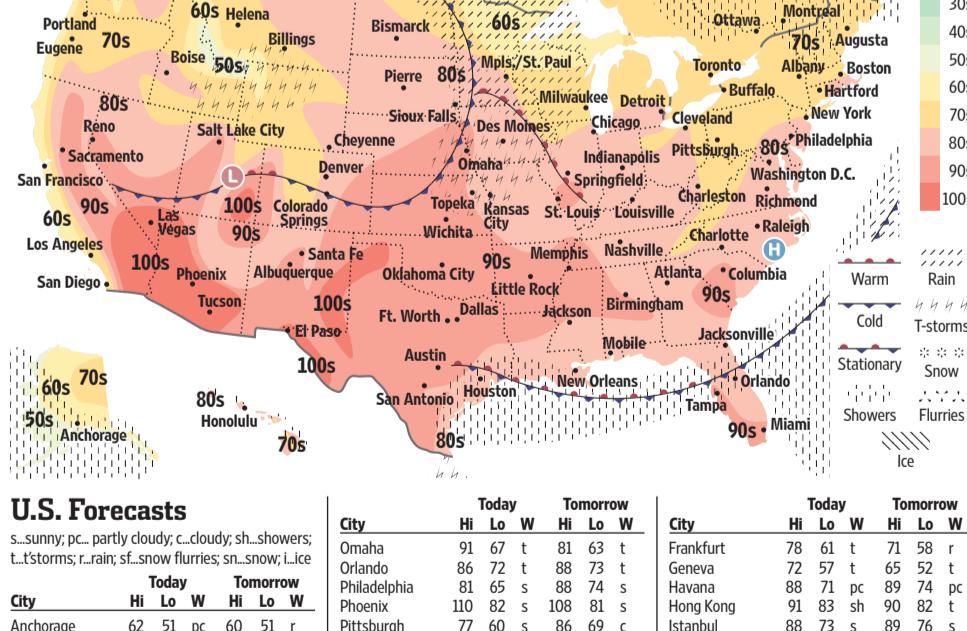
The document is filled with sordid details of other alleged pay-for-play schemes among the sport's top officials, bid leaders and consultants.

Extensive email exchanges show Harold Mayne-Nicholls, former chairman of the Bid Evaluation Group for the 2018 and 2022 FIFA World Cups and former Chilean Football Association President, seeking training for his sons and a coaching job for his brother-in-law at a sports academy in Qatar.

Reynald Temarii, the executive committee member from Tahiti, opted to appeal his banishment from FIFA just days before the vote. That prevented that vote from going to another member who likely would have chosen Australia. Weeks later, an executive committee member from Qatar paid Temarii €300,000. The FIFA committee members have previously denied wrongdoing.

The most astounding revelation in the report has little to do with payoffs or favors. According to the report, the executive committee never discussed the June heat in Qatar, where temperatures regularly reach 120 degrees. That realization later forced the organization to shift the 2022 tournament to December, costing FIFA hundreds of millions of dollars in U.S. media rights fees.

Weather



U.S. Forecasts

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Today Hi Lo W Tomorrow Hi Lo W

OPINION

Expect a Coverup



BUSINESS WORLD
By Holman W. Jenkins, Jr.

In the Sunday Washington Post's 7,000-word account of what President Obama knew about Russian election meddling and what he did about it, one absence is notable. Nowhere in the Post's lengthy tick-tock is Mr. Obama presented with evidence of, or described as worried about, Trump collusion with Russia.

Moscow intervened in the election eight ways from Sunday, but it's clearer than ever that what's occupied Americans for the past six months are baseless accusations about the Trump campaign.

Among the evidence on Mr. Obama's desk was proof that Vladimir Putin was personally directing the Russian espionage effort. For a variety of sensible reasons, though, the White House and U.S. intelligence also concluded that Russia's meddling was "unlikely to materially affect the outcome of the election."

President Obama made at least one inevitably political calculation: Hillary Clinton was going to win, so he would keep relatively mum on Russian interference to avoid provoking "escalation from Putin" or "potentially contaminating the expected Clinton triumph," in the Post's words.

Strangely missing from the Post account, however, is one Russian intervention, revealed

by the paper's own earlier reporting, that may really have, in farcical fashion, elected Donald Trump.

This was FBI Director James Comey's ill-fated decision to clear Hillary Clinton publicly on intelligence-misconduct charges. His choice, it now appears, was partly shaped by a false intelligence document referring to a nonexistent Democratic email purporting to confirm that then-Attorney General Loretta Lynch had vowed to quash any Hillary charges.

On April 23, the New York Times first alluded to the document's existence in an 8,000-word story about Mr. Comey's intervention.

On May 24, the Post provided a detailed description of the document and revealed that many in the FBI considered it "bad intelligence," possibly a Russian plant.

On May 26, CNN adumbrated that Mr. Comey "knew that a critical piece of information relating to the investigation into Hillary Clinton's email was fake—created by Russian intelligence—but he feared that if it became public it would undermine the probe and the Justice Department itself."

"In at least one classified session [before Congress]," CNN added, "Comey cited that intelligence as the primary reason he took the unusual step of publicly announcing the end of the Clinton email probe.... Comey did not even mention the other reason he gave in public testimony for

acting independently of the Justice Department—that Lynch was compromised because Bill Clinton boarded her plane and spoke to her during the investigation."

Why has this apparently well-documented, and eminently documentable, episode fallen down the memory hole, in favor of a theory for which there is no evidence, of collusion by the outsider Mr. Trump?

Russia may have indeed affected the election, through the farcical Mr. Comey.

The alternative history is incalculable, but consider: If Mr. Comey had followed established practice, the Hillary investigation would have been closed without an announcement, or the conflicted Ms. Lynch or an underling would have cleared Mrs. Clinton. How would this have played with voters and the media? Would the investigation's reopening in the race's final days, with discovery of the Weiner laptop, have taken place? Would the reopening have become public knowledge?

The noisy, obnoxious ways Russia meddled amounted to nothing. The public was able to discount them. It was only through a bumptious act of our own law-enforcement community, in a way the public didn't know at the time may

have been influenced by planted Russian intelligence, that the Kremlin conceivably really may have affected an extraordinarily close race in the Electoral College.

What also emerges from the Post's tick-tock, as well as from public testimony by U.S. intelligence chiefs, is that Russia did not seek to hide its meddling. The Russian goal was to sow confusion and bring disrepute on the U.S. leadership class. If so, any investigation of Russian meddling that fails to focus on the Comey actions will amount to a coverup.

Expect a coverup: The truth is absolutely unacceptable to the establishment that Special Counsel Robert Mueller represents. There is no appetite for the truth among Democrats: They cling to Mr. Comey's legal exoneration of Mrs. Clinton in the server matter.

There is no appetite among Republicans: Messrs. Comey and Mueller are Republicans, promoted in their careers by Republican presidents. There is no appetite in the Trump White House, which doesn't want its win tainted in history by a Russian dirty trick.

There is no appetite in the Kremlin. Mr. Putin knows that relations with the American superpower are slipping toward an all-out hostility that he can't afford.

In the U.S., to acknowledge the truth would be to complete the task Russia set itself in discrediting the U.S. leadership class.

A coverup is the only way to go.

Tear Up the GOP Health Bill and Start Over



POLITICS & IDEAS
By William A. Galston

The fate of the Affordable Care Act may be determined this week, and no one can claim ignorance of the stakes. Republican leaders in the Senate drafted their proposed replacement, the Better Care Reconciliation Act, behind closed doors without hearings or committee consideration. But the Congressional Budget Office has pierced the Orwellian packaging to make clear the consequences of the coming vote. Senators cannot say they weren't warned, and neither can the American people. Here are the highlights:

If the BCRA becomes law, 22 million fewer people will be insured by 2026 relative to current law—about the same reduction as the American Health Care Act passed by the House—increasing the uninsured total by about 75%. The BCRA does more than repeal the ACA's Medicaid expansion; it changes the structure and funding of the entire program. Spending on Medicaid would be reduced by \$772 billion—26%—below the current baseline over the next decade. As a result, 15 million would lose their coverage under Medicaid, which is the main safety net for poor and near-poor Americans as well as for the elderly in nursing homes.

Subsidies for health insurance purchased on the individ-

ual market would be cut by \$408 billion, reducing participation by a projected seven million. The benchmark insurance plan under the BCRA would cover, on average, 58% of health-care costs, down from 70%. This means much higher deductibles. Because the BCRA allows insurance companies to charge older Americans five times as much as young adults, up from only three times as much under current law, people 50 to 64 would be hit especially hard. For those in this age bracket making \$30,000 a year or less, the share without insurance coverage would more than double, from about 12% to 26%.

The Republican mantras of "flexibility" and "choice" can no longer conceal the underlying reality: Cutting public support for health care by \$1.2 trillion over the next decade means depriving vast numbers of Americans of health security. These people would be forced to rely on the kindness of strangers. They would turn to small-town and rural hospitals that already run on thin margins. Hospitals that cannot absorb the costs of uncompensated care will shut down, worsening the already serious shortage of health care in sparsely populated regions, which voted overwhelmingly for Donald Trump in 2016.

Twenty-one Republican senators represent 14 states that have expanded Medicaid under the ACA. This June, the Urban Institute estimated the effects of the AHCA, which BCRA

The Senate plan increases the number of uninsured 75%. There's a better way.

443,000. Iowa's Joni Ernst and Chuck Grassley: 191,000. Kentucky's Rand Paul and Mitch McConnell: 535,000. Louisiana's John Kennedy and Bill Cassidy: 387,000. Montana's Steve Daines: 87,000. Nevada's Dean Heller: 257,000. North Dakota's John Hoeven: 32,000. Ohio's Rob Portman: 815,000. Pennsylvania's Pat Toomey: 613,000. West Virginia's Shelley Moore Capito: 195,000.

Some Republican voters may like that the BCRA lowers taxes on manufacturers and high-income people by \$541 billion over a decade. But I wonder how many GOP senators will present this spreadsheet, showing massive reductions in coverage, to their constituents during the July 4 break.

As Speaker Paul Ryan might

say, there is a better way: scrap this entire approach and write a new bipartisan bill. Last week Republican Gov. John Kasich of Ohio and Democratic Gov. John Hickenlooper of Colorado offered a roadmap. "As governors from opposite sides of the political aisle, we feel that true and lasting reforms are best approached by finding common ground," they wrote. "All Americans will come out on the losing end if we simply replace one divisive plan with another."

This week a bipartisan group of health-care experts, represented by Lanhee Chen of the conservative Hoover Institution and Ron Pollack of the liberal Families USA, presented their consensus in an op-ed for this newspaper. Messrs. Chen and Pollack suggested means-tested subsidies for low-income Americans, "reasonable limits" on the tax-exclusion for employer-sponsored insurance, "carefully developed state testing" as a "primary engine" for Medicaid reform, and increased flexibility for states, subject to "safeguards" to prevent funds intended to help the poor from being diverted up the income scale or for other purposes. Overall, they wrote that these "incremental policies" would "help families of limited means secure the care they need."

If Republicans are serious about improving health care rather than scoring ideological points at their constituents' expense, this is the path they will pursue.

A Secondhand Book Is a \$3 Time Machine

By Danny Heitman

My 16-year-old son loves to read as much as I do, but unlike me, he prefers to savor his nonfiction and novels on an electronic reader. Although I'm thrilled when any young person enjoys reading regardless of format, I wonder if my teenager is missing out on the joys of used books.

This came to mind recently when I attended a used-book sale. I go every year, and I often spot complete sets of Dickens, Twain or Poe labeled with the personal library seals of their former owners. When I find several volumes from the same donor, I can't help but wonder if a household bookshelf has been emptied, perhaps because someone died or moved into a nursing home. I've come to regard the hints of personal history in these books as a sheltering presence, like lingering in an old church for an hour or two.

This year, for three bucks,

I took home a first-edition copy of the American anthropologist Loren Eiseley's 1975 memoir, "All the Strange Hours." The first page bore an inscription: "To Gar. Christmas 1976. From Mickey."

The first page bore an inscription: 'To Gar. Christmas 1976.'

"Gar" sounded like a nickname, which made me feel as if I were eavesdropping on an intimate conversation. Within the fourth chapter, I found a longer message from Mickey, written in cursive on a yellowing sheet of loose-leaf paper: "Gar—I ended up having to send you my very own copy (still crackling new) of this because, believe it or not, I haven't been able to get to the bookstore to get you a copy. Getting ready to wrap it for you, I started reading parts of

it again. I know you will enjoy reading every page of it. Have a nice Christmas. Hope to see you soon. Greetings also to Peggy. Love, Mick."

Secondhand books remind me that the world of reading spans time as readers reach across the years to shake hands with each other. Eiseley isn't read much today, but before his death in 1977, he was a big deal. His books sold well and were eagerly anticipated, which Mickey's note conveys. My vintage copy of "All the Strange Hours" had landed me in a yuletide some four decades ago, when Jimmy Carter had just defeated Gerald Ford for the presidency, and readers raw from raging inflation and Watergate would surely have found respite in reading a naturalist's memoir.

In '84, Charing Cross Road," Helene Hanff celebrated old books as torches passed between generations. "I do love secondhand books that open to the page some previous owner

Mr. Heitman, a columnist for the Advocate in Baton Rouge, La., is author of "A Summer of Birds: John James Audubon at Oakley House."

BOOKSHELF | By Brian C. Anderson

A Parade Of Discontent

Radicals Chasing Utopia

By Jamie Bartlett
(Nation Books, 390 pages, \$18.99)

From Islamists to angry populists to militant environmentalists, liberal democratic societies face growing pressure from movements that want to shatter the status quo and replace it with a new and (to them) better order. In "Radicals Chasing Utopia," the British journalist Jamie Bartlett sets out to describe and understand this new spirit of radicalism. The consensus that defines "normal" political ideas, he says, has been blown apart—and that's a good thing. Not everyone will agree.

Mr. Bartlett provides a series of profiles of radicals in action. First up: the "transhumanists," technophiles who believe that man and machine should merge and that "any rational person should spend their every waking moment on a quest to stay alive." Mr. Bartlett joins Zoltan Istvan Gyurko, the Los Angeles-based presidential candidate of the Transhumanist Party, as he campaigns across several states in an "immortality bus" remade to look like a coffin. The trip culminates in Washington, where Zoltan posts a Transhumanist Bill of Rights on the Capitol Building. It demands government support for life extension, the elimination of physical disabilities and rights for cyborgs.

It all seems a bit silly. The beat-up bus leaks oil, and Zoltan has little hope of getting on ballots, let alone winning many votes. But in Mr. Bartlett's view, the transhumanists are at least talking about the social implications of the technologies coming our way, fast, including artificial intelligence and

genetic manipulation. What would happen if, as Zoltan desires, we "solve" the problem of aging? Soon, Mr. Bartlett argues, we won't be able to ignore such questions.

Mr. Bartlett also hits the road with Pegida, an anti-Islamist organization founded in Germany in 2014 and now branching out into other European countries. Pledged to defend "Fortress Europe" from Islamic terror and meddling continental bureaucrats alike, and often using inflammatory rhetoric, Pegida has drawn crowds of 30,000 to its demonstrations in Germany. Chancellor Angela Merkel has denounced the group as having "hatred" in its heart, yet Mr. Bartlett finds the Pegida members he meets in Britain and Denmark to be multiracial, polite and capable of saying things that, "on the face of it, were explicitly anti-fascist." At one Pegida rally that Mr. Bartlett attends, it's the left-wing activists protesting the event who ignite violence.

Pegida is woefully misguided, in Mr. Bartlett's view. In part, he blames the "self-reinforcing bubbles" of social media for the group's exaggerated sense of the Islamist threat and for its belief that the Muslim faith and a free society are incompatible. But he concedes that the movement has raised genuine concerns about immigration and terrorism levels that most European political parties haven't been addressing.

Spending time with eco-warriors, transhumanists, anti-Islamist activists and other disgruntled opponents of the status quo.

Pegida's ideas have become increasingly mainstream, Mr. Bartlett notes. A strong believer in the threat of climate change, he wishes that environmental activists could be as effective. Of all the movements vying for attention these days, he says, "climate-change activism has arguably the most persuasive *casus belli*." He participates in an illegal direct-action occupation of the U.K.'s largest coal mine but sees it as a largely symbolic gesture. Without mass support, putting the fossil-fuel industry out of business is a fantasy, he concedes, however popular green causes may be among entertainers, journalists and professors.

What makes winning broad democratic backing unlikely, Mr. Bartlett says, is the "activists' paradox": the tendency of radical groups to create powerful subcultures that can be off-putting to the unconverted. In the case of the greens with whom he is protesting, they're mostly white, college-educated and similarly attired, and they share a range of insider references and practices, including wiggling fingers to signal agreement in group meetings. "You might have heard it expressed like this," Mr. Bartlett writes: "I'm all for the environment, but those eco-warriors are weird."

"Radicals Chasing Utopia" introduces us to other colorful characters. We meet the Tamerians, residents of a back-to-nature village in the Portuguese countryside, started in the 1990s by a German psychoanalyst and his partner, a self-declared medium. Mr. Bartlett finds the group's free love, communal child rearing and animal whispering too cultish but commends its eco-friendly Stirling engines and solar batteries. He details the dramatic success of Italy's populist Five Star Movement, established by the comedian Beppe Grillo in 2009 to protest political corruption and now the second-largest party in the country. And he hangs out with the libertarian optimists who want to found the Free Republic of Liberland, located in a (currently) uninhabited swamp on the Croatian side of the Danube. Throughout, Mr. Bartlett is a friendly guide, with a reporter's eye for detail and a willingness to engage with his subjects.

Citizens of liberal democracies should listen to radicals, Mr. Bartlett says, because "they might be right," and radicalism "is the source of new ideas, renewal and change." This can be true, as the American civil-rights movement showed. But an equally important reason to listen, Mr. Bartlett thinks, is that radicals might be wrong, which is also instructive. He even suggests that free societies should accept in their midst radical Islamists, whose hatred of democracy can give "life and meaning to the arguments in defense of individual liberty."

It's a noble claim, but too sanguine. The liberal-democratic idea has achieved freedoms and widespread prosperity wherever it has taken root. From its inception, though, it has had fierce critics who have despised it for its messy political compromises and its supposed spiritual emptiness. These critics have dreamed of futures beyond conventional liberties, beyond bourgeois values, and they have inflicted enormous harm on decent societies in the name of their utopias. We should remember this lesson of history, especially now.

Mr. Anderson is the editor of the Manhattan Institute's City Journal and the author of "Democratic Capitalism and Its Discontents."

OPINION

REVIEW & OUTLOOK

The GOP's Schumer Option

Senate Republicans on Tuesday delayed a vote on their health-care bill until after the July 4 recess, and the timidity and opportunism of too many Senators suggest they may never get 50 GOP votes. We hope they understand that if they fail, Republicans will be entrusting their political health-care future to the brutal generosity of Democratic Leader Chuck Schumer.

The idea persists in some media and GOP ranks that if the Senate bill dies, this will produce a blossoming of bipartisanship. The left will have been repudiated by ObamaCare's woes, and the right by the GOP Congress's failure. Everyone can then sit down in the glorious middle and work out a compromise. It's a lovely thought—like peace on Earth and the end of original sin. It is also a fantasy.

If Republicans fail, Democrats will have zero political incentive to cooperate except on their policy terms. Americans know that Republicans run Congress and the White House, and that they promised to do something about the problems of ObamaCare. Do Republicans really believe voters in 2018 will blame GOP failure on the President who left town two years ago? Democrats can tell you how well that strategy worked in 2010.

Then there's who Republicans would negotiate with—and over what. Last week Governors John Kasich (R., Ohio) and John Hickenlooper (D., Colo.) offered a five-point bipartisan reform outline that was laughable in its lazy generalities: "Improve affordability... Restore stability to insurance markets."

Well, sure, but how? Reaching these goals requires hard policy choices on which the parties are philosophically divided. Democrats want to stabilize markets with more taxpayer money and federal rules. Republicans want to deregulate markets and let insurers offer more plans that better suit the variety of insurance con-

sumers. Democrats want to expand Medicaid to cover ever-more Americans. Republicans, or at least most of them, want to put Medicaid on a budget to provide better coverage to the neediest.

When Senate Republicans reached out to Heidi Heitkamp this spring to negotiate on health care, the North Dakota Democrat told Politico she had these demands: No per capita Medicaid block grants to the states and no rollback in ObamaCare's Medicaid expansion. And that was merely "the price of admission for me sitting down." Ms. Heitkamp is the second most conservative Senate Democrat after West Virginia's Joe Manchin.

Ms. Heitkamp would never get a real chance to negotiate in any case. If their current effort fails, Republicans would then need 60 Senate votes to pass anything, and that gives Mr. Schumer the whip hand. His price for cooperating would include the Medicaid status quo; preserving the individual and employer mandates; tens of billions in higher subsidies to lure insurers back into the failing exchanges; and probably a limit on the policy flexibility the Trump Administration could allow states.

Does that sound like something Rand Paul might support? Or Mike Lee? The more conservative Republicans who defect, the more Mr. Schumer would demand in return for more Democratic votes. Majority Leader Mitch McConnell would have to scramble to find even 15 Republicans to vote with Democrats as the GOP majority splinters.

This is the Senate reality, not some Kasich Kumbaya circle. Republicans can either set aside their narrow self-interest and fix ObamaCare on their terms, or they can collapse in disarray and bail it out on Mr. Schumer's. In 2018 they can defend an accomplishment or try to explain away a failure. Americans will know the difference.

Supreme Court Religious Bonus

Good news: Monday's Supreme Court ruling on religious liberty was even better than we thought. The Justices ruled 7-2 that a church could not be banned from a public benefit program merely because it is a church. On Tuesday the Justices extended that principle by overturning a ruling that struck down Colorado's school voucher program on religious grounds.

In 2011, Colorado's Douglas County adopted a Choice Scholarship Program to let 500 students attend a local private school. But groups including the American Civil Liberties Union sued. The Colorado Supreme Court killed the program citing the state's version of the Blaine Amendment, one of many state anti-Catholic laws from the 1800s to prevent public money from funding religious schools (*Doyle v. Taxpayers for Public Education*).

The Douglas County School District and the Institute for Justice, which represents three families in Colorado, appealed to the Supreme Court in 2015, but the Justices held the petition pending the resolution of *Trinity Lutheran v. Comer* on Monday. On Tuesday the Court vacated and remanded *Doyle* to the lower court for reconsideration in keeping with *Trinity Lutheran's* holding that Missouri's application of the Blaine Amendment violated the First Amendment's Free Exercise Clause.

The High Court typically vacates and remands only when the Justices think there is a

"reasonable probability" that the lower court got it wrong. Colorado's do-over is a warning to other states that might use Blaine Amendments to derail school choice programs that threaten teachers unions and the public school monopoly.

The win comes at a good time for school choice advocates who have been building momentum in the states. In May three families successfully challenged a Montana rule that prevented a voucher program from being used at religious schools. On Monday the Georgia Supreme Court unanimously upheld a program of tax credits for scholarships to some 13,000 students to attend private schools.

School choice is spreading because parents want the chance to get their child a better education than they receive in local public schools. Sometimes that enhanced opportunity is offered by religious schools, and the First Amendment does not allow the state to discriminate on the basis of religion.

Judicial liberals have interpreted Monday's *Trinity Lutheran* ruling as applying only to school playgrounds. But in his concurrence Justice Neil Gorsuch wrote that the Court's playground decision should be understood broadly because jurisprudence must be governed by general principles. "The general principles here do not permit discrimination against religious exercise," he wrote, "whether on the playground or anywhere else."

Christie's Insurance Shakedown

New Jersey Governor Chris Christie made his reputation prosecuting political corruption, but he now sees nothing unseemly about shaking down the state's largest health insurer to backfill the budget and fund new anti-opioid spending.

The lame-duck Governor has given up fixing New Jersey's tax-and-spend culture, but he still hopes to achieve some success rehabilitating drug addicts. That's laudable. But since the state is short on cash, he's bludgeoning the not-for-profit Horizon Blue Cross Blue Shield to pay the bill.

Horizon is the state's sole health services corporation, meaning it pays state and federal taxes—\$543 million last year—but doesn't make distributions to shareholders. The insurer covers about 3.8 million Garden State residents including 900,000 Medicaid recipients and controls about 55% of the individual market.

In February Mr. Christie demanded that Horizon hand over \$300 million annually of its \$2.4 billion reserve to expand addiction treatment. Many states are expanding rehab programs with Medicaid funds and taxpayer dollars, and the Republican U.S. Senate health-care reform includes an additional \$2 billion for opioid treatment.

Mr. Christie accuses Horizon of maintaining an excessive surplus—in New Jersey, any surplus appears excessive—but Horizon's reserve hews to industry standards and is smaller on a risk-adjusted basis than those maintained by most state Blue Cross Blue Shield affiliates. A healthy cushion is particularly critical amid ObamaCare uncertainty. If the federal individual mandate is lifted while New Jersey maintains a guaranteed-coverage

requirement, the reserve could prevent premiums from soaring.

When Horizon undershot the Governor's bid by offering \$135 million, Mr. Christie began targeting the insurer in terms that recall Barack Obama's tirade against Wellpoint for raising premiums after ObamaCare passed. Last week the state

Department of Human Services, which answers to the Governor, slapped Horizon with a \$15.5 million fine for mishandling Medicaid claims and misreporting its finances. Horizon disputes the charges.

Now Mr. Christie is offering schools a \$125 million boost if Democrats turn Horizon into a public charity. The state Senate this week is debating legislation that would give the Department of Banking and Insurance wide latitude to determine if Horizon has breached its "charitable commitment." If the state insurance commissioner deems that its reserve is "inefficient," Horizon would be required to produce a plan to "improve the overall health status of all New Jersey residents" that would include "responding to emerging health care issues in New Jersey" like substance abuse.

To add injury to insult, Democrats are also proposing to deem Horizon "an insurer of last resort." The designation would require the insurer to cover the state's sickest patients without compensation from other insurers or the state. Horizon would have no choice but to increase premiums to comply.

Mr. Christie's raid is a tax and regulatory mugging masked as public charity. If this succeeds, is any business or nonprofit—perhaps Princeton's \$22 billion endowment is also excessive—safe in New Jersey?

The 'bipartisanship' to expect if Senate Republicans fail.

lieve the Paris treaty and other global accords provide the platform and inspiration for technological advancements to emerge and revolutionize our perspective on energy.

MEGAN E. COPSEY
Baton Rouge, La.

Mr. Lomborg correctly notes that the first round of pledges will fall far short of the stated goal of 2 degrees Celsius, and cites the failed Kyoto Protocol as evidence for Paris's likely failure, but he misconstrues the long-term logic of the agreement, as well as the way in which Paris is importantly different from Kyoto. First, every five years pledges are reviewed and ratcheted up, aiming to foster trust, cooperation and peer pressure between parties and gradually build toward more ambitious targets. Also, Kyoto had binding emissions cuts, whereas Paris has voluntary commitments to allow flexibility to account for countries' political and economic feasibility constraints.

The global energy economy is an aircraft carrier, not a speedboat. The point of Paris is to create a sea change in how countries think about climate: to see it as deeply tied to their economic and geopolitical interests so that they begin to invest more in renewables and put a price on carbon. Mr. Lomborg ignores the geopolitical dimension of Paris. The Obama administration's most important strategic diplomatic achievement was to elevate climate to the same status as core issues in international cooperation, such as trade and security. In the new reality, if you're a bad actor on climate, countries can leverage this against you and make it harder for you to get what you want on a range of issues.

DAVID STOREY
Brookline, Mass.

LETTERS TO THE EDITOR

Pollution Used to Mean More Than Just CO₂

A regrettable outcome of the media-hogging climate-change debate is that the measure of pollution by nations has been reduced to carbon-dioxide emissions, a rather benign compound apart from its relationship to climate change. In "The Charade of the Paris Treaty" (Review, June 17) Bjorn Lomborg succumbs to this myopic view when he states that President Trump "failed to acknowledge that global warming is real and wrongly claimed that China and India are the 'world's leading polluters.'" Mr. Trump is actually on to something if we were to broaden the definition of pollution, as we once did, to include polluting chemicals that contaminate water, air and the land, including habitats. Nations like China and India are among the most egregious polluters when this more liberal and comprehensive definition of pollution is applied.

THOMAS M. DORAN
Plymouth, Mich.

The real problem with global accords on climate change isn't that they would make no meaningful difference but rather the lack of education for ourselves, others and future generations on the reality of climate change. The Paris treaty is the beginning of a modern global discussion on climate change, not the end. It sparked conversations at dinner tables about our individual environmental impacts as well as our collective global ambitions.

The points brought to light by Mr. Lomborg aren't incorrect but should be reserved for the next level of climate-change discussion. While the science of the Paris treaty may not satisfy the most ardent environmentalists, the treaty itself was a strong step in the right direction by the leading global carbon producer. I be-

lieve the Paris treaty and other global accords provide the platform and inspiration for technological advancements to emerge and revolutionize our perspective on energy.

Just last month the nation's insurance commissioners wrote to the Trump administration requesting assurances that cost-sharing reduction payments will continue, noting that this is critical to the "viability and stability of the individual marketplace." No such assurance has been provided. President Trump appears on a mission to destroy health-insurance markets by creating instability through his own actions and thereby depriving millions of Americans of health-care coverage.

DAVE JONES
California Insurance Commissioner
Sacramento, Calif.

'Guns Before Cops Arrive' Raises Many Issues

Regarding Daniel Lee's "We Need Guns Before the Cops Arrive" (op-ed, June 19): It's refreshing to read an article that supports the right to self-defense as enshrined in the Second Amendment rather than the usual antigun hysteria that is typical today. Those on the left love victims, as victims allow them to perpetuate their message of division. Mr. Lee mentions that reinforcements took three minutes to arrive at the site where Rep. Steve Scalise was shot. In the recent London terror attack the police took eight minutes. A lunatic can do a lot of damage in that time.

Letting people carry guns brings risks, but so does letting them drive cars and allowing different political opinions. As they say, freedom isn't free.

STEVE PECK
Santa Clara, Calif.

In Georgia, Identity Politics Bites the Hand That Feeds It

Regarding your editorial "The Real Georgia Lesson" (June 22) about the stunning loss of Democrat Jon Ossoff even after spending more money on his congressional campaign than anyone else in the history of our republic: Hillary Clinton's postpresidential election shaming of Georgia's "misogynists" led them to vote for the woman candidate, in this case a Republican. Had she not embarrassed them for their narrow-minded voting last November, they might have voted for the male candidate, who was a Democrat. Lesson: Identity politics can backfire.

CARL SCHUSTER
Honolulu

Pepper ... And Salt

THE WALL STREET JOURNAL



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OPINION

The Justices Lay Down the Law

By David B. Rivkin Jr.
And Lee A. Casey

In one of the last decisions of its term, the U.S. Supreme Court dealt a clear rebuke to politicized lower courts. The justices' unanimous ruling in *Trump v. International Refugee Assistance Project* upholds both the integrity of the judiciary and the Supreme Court's own authority.

The case came to the justices from two federal appellate courts. They had upheld trial judges' orders halting enforcement of President Trump's "travel ban" executive order, which temporarily limits entry to the U.S. by nationals from six countries. The court will hear the appeal on the merits in October. On Tuesday it held unanimously that the executive order can be immediately enforced, with narrow exceptions, until they address the merits of these cases in the fall.

In the travel-ban case, a high-court 'compromise' delivers a unanimous rebuke to political judges.

The challenges to the order claimed it violated the First Amendment's protection of religious freedom and exceeded the president's authority under immigration law. Both the substance and tone of these decisions created an unmistakable impression that a portion of the judiciary has joined the anti-Trump "resistance." Not only did the lower-court judges defy clear and binding Supreme Court precedent, they based much



AGENCE FRANCE PRESSE/GETTY IMAGES

Protesting Trump's executive order outside the Supreme Court, Jan. 30.

of their legal analysis, incredibly, on Candidate Trump's campaign rhetoric.

The high court didn't rule entirely in the administration's favor. By a 6-3 vote, with Justices Clarence Thomas, Samuel Alito and Neil Gorsuch dissenting, it held that the individuals who originally challenged the order could continue to do so, as could a carefully defined class of "similarly situated" persons with "close familial" relationships to individuals in the United States, along with institutions that can show a "formal, documented, and formed in the ordinary course" relationship to a U.S. entity.

That, the court specifically cautioned, is not an invitation for evasion by immigration advocates: "For example, a nonprofit group devoted to immigration issues may not contact foreign nationals from the designated countries, add

them to client lists, and then secure their entry by claiming injury from their exclusion."

That exception, Justice Thomas noted for the dissenters, was a "compromise"—most likely the product of Chief Justice John Roberts's effort to achieve a unanimous decision. Given the circumstances, this was a good outcome. It lends the imprimatur of the full court to the rebuke of the lower courts, and avoids the kind of partisan split that prevailed in both the Fourth and Ninth Circuit Courts of Appeals. All nine justices are also now on record supporting the proposition that the vast majority of foreign nationals cannot claim a constitutional right to enter the United States.

When the court reviews the merits of the case in the fall, however, such considerations will be out of place. While courts can adjudicate cases involving immigration and

other foreign affairs issues, judicial engagement in this space is fundamentally different than in domestic affairs. In an area of decision-making that involves both institutional knowledge of international affairs and continuous access to classified information, great deference is in order from the courts. If the courts wade into this area, they would undermine both national security and respect for the judiciary. The perception that judging is swayed by political or ideological considerations would be particularly calamitous in this area. Better a 5-4 decision articulating this view clearly than a unanimous but equivocal one.

The odds of a clear outcome are good. As Justice Thomas pointed out, his colleagues' "implicit conclusion" is that the administration is likely to prevail on the merits. The high court's own precedent in this area is clear. Nonresident aliens have no constitutional right to enter the U.S. When denying entry, the president need only provide a "facially legitimate and bona fide" justification. As the court held in *Kleindienst v. Mandel* (1972), once that justification is established, there is no further inquiry or balancing for the courts to make.

Any other decision would be both inconsistent with the court's precedent and injurious to the Constitution's separation of powers. It would also compromise the president's ability to defend the nation at home and abroad and cause grave harm to the judicial branch in maintaining its own critical constitutional role.

Messrs. Rivkin and Casey practice appellate and constitutional law in Washington.

ObamaCare's Victims Need Relief Now

By Thomas E. Price

America faces an urgent crisis in its health-care system. Costs are skyrocketing and choices are disappearing on the individual and small-group markets. Many people now confront the real challenge of having no choice in their health coverage.

One of them is Doug Lake, an Iowa radiologist who came to the White House last week to share his story. His daughter, who suffers from a rare cardiac condition, is covered by an insurer that plans to pull out of ObamaCare's exchange in their state next year. Only one insurer remains in their county, and that company has requested a 43% increase in premiums.

More than 1,000 counties have only a single insurer. Doug Lake lives in one—and rates are going up 43%.

The situation is even worse elsewhere. As of this week, 49 counties across the country do not have a single insurer offering plans on the exchanges next year.

This year more than 1,000 counties had only one insurer in the ObamaCare market, meaning millions of Americans had no meaningful choice. Meanwhile, the insurers that did stay in the market increased premiums for their midlevel plans by an average of 25%. Premiums on the individual market are up about \$3,000 since ObamaCare was implemented. Think about what else that money could buy!

It is too early to know how much premiums will rise next year, but reports so far indicate that double-digit increases again will be the norm.

These are not simply numbers on a page: They represent real people with real stories, facing real health-care and financial crises.

Dudley Bostic, a pharmacy owner in Tennessee, can no longer afford to provide health insurance for her employees because of ObamaCare's mandates. Candace Fowler, a Missouri homemaker who was recently diagnosed with a serious neurological condition, lives in a county where there are slated to be no insurers selling ObamaCare plans next year. Tommie McClain, a student in Clinton, Mo., who suffers from chronic migraines, faces the possibility of zero choices in his county, too.

The good news is that Congress has the chance to help Doug, Dudley, Candace, Tommie and the millions of other Americans suffering under this law by undoing the damage done by ObamaCare and fulfilling the promises President Trump has made.

The bill recently introduced in the Senate would get rid of the individual mandate, which in 2015 alone caused 6.5 million Americans to pay \$3 billion in penalties to the IRS because they did not want or could not afford a government-dictated health plan. It would directly repeal some of ObamaCare's most costly regulations while giving states flexibility to waive others if they develop innovative ways to provide coverage and bring down costs.

The Senate's plan also would repeal hundreds of billions of dollars in onerous taxes. It would put Medicaid on a sustainable spending path and give states a real chance to reform the program to make it work for the people who rely on it.

The Trump administration, recognizing the need for urgent action, began offering Americans relief from ObamaCare starting in February. The Department of Health and Human Services has reviewed thousands of pages of ObamaCare rules and taken more than a dozen distinct actions, with additional positive steps in the works.

But administrative action is constrained by the failed law Americans all live under. If Congress acts this summer, the Trump administration will have significantly expanded ability to offer relief, and the country will have taken a huge step toward truly patient-centered health care.

Under ObamaCare, insurers are either running for the exit doors or proposing huge premium increases. Americans instead deserve a market where companies clamor to offer competitive plans to as many customers as they can. That is what Congress has the chance to make possible, and it can't come a day too soon.

Mr. Price is secretary of health and human services.

A Better Direction for Black Lives Matter

Will Black Lives Matter soon suffer the fate of other separatist "black power" movements in the 1920s and 1960s, which captured America's attention for a period but ultimately did little to help advance the black underclass?

The Black Lives Matter movement got its start after George Zimmerman's 2013 acquittal for fatally shooting Trayvon Martin and found its footing a year later when Michael Brown was shot dead after attacking a police officer in Ferguson, Mo. By 2016, BLM activists were being hosted by President Obama and disrupting campaign events for Hillary Clinton and Bernie Sanders. Today, major news organizations such as National Public Radio and the Washington Post turn to BLM representatives for comment on race-related stories.

An obituary for a movement that has become so prominent so fast seems premature, but a recent BuzzFeed article that included interviews with dozens of BLM-linked activists was pessimistic about the group's future. Factions have formed, infighting is common and objectives are unclear. "Black Lives Matter is still here. Its groups are still organizing. But Black Lives Matter is on the verge of losing the traction and momentum that sparked a national

shift on criminal justice policy," wrote reporter Darren Sands. And "activists largely agreed that the identity of the movement, its existential purpose and aim, remains unresolved."

Some BLM leaders want to integrate political institutions further. Others want the organization to expand its focus to immigrants' rights. Still others want to create a society "free from pain being inflicted on it by police, racist structures, and capitalism." Apparently, there are places in the world where blacks living in noncapitalist societies are thriving in comparison with their U.S. brethren.

On a certain level, the decision by BLM activists to single out policing as a major obstacle to black advancement has always defied comprehension. Police shootings have fallen dramatically in recent decades. In New York City, for example, cops shot 314 people in 1971, 93 of them fatally. In 2015, New York police shot 23 people, killing eight. Which means that police shootings and fatalities in the nation's most populous city have declined by more than 90% over the past 4½ decades. A 2016 paper released by Harvard economist Roland Fryer examined the use of force by police since 2000 in some of the country's largest urban areas and found that "blacks are 23.8 percent less likely to be shot at by police relative to whites."

In theory, there is no reason

these activists couldn't play a more useful role in helping blacks overcome obstacles and take advantage of opportunities that were unavailable to previous generations. But that would mean abandoning nonsensical narratives that scapegoat law enforcement for high black crime rates and instead picking more substantive fights with fellow progressives.

Rather than scapegoat police, why not focus on bad schools and job-killing regulations?

Why not side with the hundreds of thousands of black children nationwide who linger on waiting lists for charter schools that have a proven record of narrowing the achievement gap? Why side with progressive politicians who stunt the growth of charters out of deference to powerful teachers unions that oppose school choice?

A University of Illinois at Chicago paper released earlier this month reports that 85% of black teenagers in Chicago are out of work, versus 73.4% of whites. Among 20- to 24-year-olds, the black jobless rate is 60%, or more than double the rate for comparable whites. In 2014, Chicago Mayor Rahm Emanuel approved legislation

that raises the minimum wage in increments by more than 57% by 2018. Studies have long shown that younger and less experienced workers are particularly sensitive to rises in the wage floor. And even minimum-wage hikes that don't put people out of work can leave them worse off.

A new National Bureau of Economic Research report looked at the consequences of Seattle's decision to raise its minimum wage to \$13 last year from \$9.47 in 2015. The researchers concluded that the increase "reduced hours worked in low-wage jobs by around 9 percent, while hourly wages in such jobs increased by around 3 percent. Consequently, total payroll fell for such jobs, implying that the minimum wage ordinance lowered low-wage employees' earnings by an average of \$125 per month in 2016." When are BLM activists going to take the Democrats to task for promoting policies that harm minority workers disproportionately? When the unemployment rate for black teens reaches 100%?

Of course, improving educational and employment prospects for the black underclass would lower black crime rates and thus go a long way toward reducing encounters with police, the goal that is so near and dear to the Black Lives Matter movement. It's a win-win, but first the activists have to decide whether the real goal is to help black people or to help themselves.

Trump's Best Deal Ever: Privatize the Interstates

By Vernon L. Smith

President Trump, please consider a major expansion in your thinking. You've promised to rebuild America's crumbling roads, bridges and airports, and you've proposed to privatize air-traffic control. Now privatize the interstate highway system, including all those bridges in need of repair and major upgrading.

The stimulus programs of

2008-09 both fell short of their promise to rebuild. And how many times do we have to learn that the gasoline tax, intended exclusively for highway construction and maintenance, isn't used that way? The government keeps failing even to fill potholes and resurface bumpy roads.

But the richly interconnected highway network really could be auctioned. Between major highway intersections there are alternative

routes that could be auctioned to different bidders, assuring drivers of a choice of toll roads, along with state and local freeway alternatives. That competition would keep tolls affordable.

Perhaps most important, surface transportation rights of way would be opened to new mass-transit innovations at a time when driverless vehicles are making their entrance. A few autobahns might also compete more effectively with short- to medium-haul airline routes, but you will need to resist airline opposition.

You should also consider auctioning off the Bureau of Land Management's extensive grazing lands. Better incentives through ownership, or long-term leases, mean better stewardship and innovation. But neighboring farmers and ranchers won't like the impact on their land prices.

How could you use the money from highway and land sales to benefit all Americans—and improve your own popularity? By creating a new Permanent Citizens Fund, invested in stocks, bonds and real estate world-wide. Every citizen would hold an equal share, with annual dividends paid in cash.

Better highways, more land for productive development plus a permanent fund sending checks to every citizen. A guaranteed basic

income financed from public assets waiting to be monetized and put to work. You might even get the progressives' vote. Have you ever made such a great deal?

Proceeds could provide a permanent basic income to every citizen. Pie in the sky? Ask an Alaskan.

If you think it's pie in the sky, ask an Alaskan. The Alaska Permanent Fund, initiated in 1976 to distribute oil revenue, has a market value I estimate at \$72,000 for each Alaskan citizen. Annual dividends began in 1982, when the public corporation that administers the fund cut the first checks for \$1,000. Little wonder that Alaska is second among all the states in income equality.

After highways, bridges and federal acreage, your next project would be to start auctioning all U.S. mineral, oil and gas resource rights for deposit to the fund. These assets also belong to the people, not the government. Can a Washington outsider pull it off?

Mr. Smith is a professor at Chapman University and the 2002 Nobel Laureate in Economics.

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WORLD NEWS

North Korea Singles Out Trump

Comments comparing president's policies to Nazism reflect harder, more personal, stance

BY JONATHAN CHENG

SEOUL—North Korea's state media described President Donald Trump's "America First" policy as "Nazism in the 21st century," and compared the U.S. president to Adolf Hitler, in the harshest language that Pyongyang has directed at the Trump administration.

Mr. Trump's policy "is the American version of Nazism far surpassing the fascism in the last century in its ferocious, brutal and chauvinistic nature," Pyongyang's state-controlled Korean Central News Agency said in a report published Tuesday.

The language reflects North Korea's hardening line on Mr. Trump, as the U.S. president turns up the heat on the regime nearly six months into his administration.

While North Korean propaganda regularly targets the U.S. with military threats, it has remained quiet until recently on the president himself.

Typically, North Korea has given new leaders in Washington and Seoul a wider berth at the beginning of their terms, as Pyongyang feels out their likely policies. Relations with the Obama administration soured in 2012 after a rapprochement between the two countries ended and North Korea ramped up its rhetoric against the president.

Shortly after Mr. Trump took office in January, the U.S. government approved visa ap-



President Donald Trump in May said he would be honored to meet Kim Jong Un, seen this month, 'under the right circumstances.'

plications for Choe Son Hui, a top North Korean diplomat, to visit New York for back-channel talks, signaling a possible willingness to engage in dialogue. But the State Department eventually nixed the meeting following the killing of Kim Jong Nam, the half brother of North Korean dictator Kim Jong Un, in Malaysia.

Since then, the U.S. military has conducted several flyovers near the Korean Peninsula using B-1B bombers and directed a Navy aircraft carrier group to the region—all to North Korea's consternation.

In April, U.S. Secretary of State Rex Tillerson called for more diplomatic isolation of North Korea.

"The world has never seen peace since the emergence of the American-first principle," the KCNA report said.

The U.S. Embassy in Seoul declined to comment on the remarks.

Mr. Trump said in a May interview with Bloomberg News that he would be honored to meet Kim Jong Un "under the right circumstances."

Robert Carlin, a visiting scholar at Stanford University's Center for International Security and Cooperation, said the harsher rhetoric from Pyongyang, including recent articles in North Korea's party mouthpiece calling Mr. Trump a "reckless war maniac" and a "lunatic," comes after several months in which North Korea refrained from making personal attacks on Mr. Trump.

"The coarsening language toward the administration, and toward the president himself, seems to reflect a slowly sharpening discussion within the regime," Mr. Carlin, a former longtime Central Intelligence Agency analyst, wrote in an analysis for 38 North, a North Korea-focused blog.

In Tuesday's article, the North complained about sanctions on the country, which KCNA described as "an unethical and inhumane act, far exceeding the degree of Hitler's blockade of Leningrad."

The article also described Mr. Trump's decision to withdraw the U.S. from the 2015 Paris climate-change agreement as a violation of international norms that surpassed the horror of the Nazis' concentration camps.

Beijing Defends Efforts to Boost Jobs

BY LINGLING WEI

DALIAN, China—Premier Li Keqiang made a strong defense of his signature program aimed at bolstering China's new economy as traditional drivers lose steam, saying the initiative has led to significant job creation.

The "mass entrepreneurship and innovation" program, put in place in 2014 and intended to encourage individuals and businesses to jump into technology-oriented industries has created millions of new jobs annually in the past few years, helping the nation keep its jobless rate under 5%, Mr. Li said at the plenary session of the annual June meeting of the World Economic Forum, which started Tuesday.

The Chinese government has given priority to employment in its pursuit of inclusive growth that can benefit the public overall, Mr. Li said, adding that the program had led to "unimaginable job growth."

His remarks come as concerns grow over the health of the world's second-largest economy. Mr. Li said China has sufficient capabilities to manage the risks, pointing to the country's high savings rate and Chinese banks' capital buffers. He also urged foreign investors to be "bullish about China."

Mr. Li also vowed not to resort to stimulus measures to jump-start China's economy. Instead, he said, China will continue to focus on structural changes.

Chinese Stocks Held Hostage to Nation's Insecurities



CHINA'S WORLD

By Andrew Browne

ing it a reserve currency. There's a good chance it will disappoint in much the same way.

Shortly after the IMF bestowed recognition of what it called Beijing's efforts to build a "more open and market-based economy," it all started going awry.

Domestic investors lost faith in the economic outlook amid slowing growth and explosively rising debt. As the yuan slumped, capital fled the country. Alarmed, the central bank dove back into currency-control mode and clamped down on capital outflows—reversing years of market opening.

Today, yuan deposits in Hong Kong, the leading offshore center for Chinese currency trading, have shriveled. And we're back to a loose yuan peg against the dollar.

Crises have a way of exposing the government's deep-seated fears of market forces. The regime sees rises and falls in the stock indexes as a barometer of public

confidence toward its performance, and the true test of the MSCI's cautious welcome of domestic "A" shares will come next time they take a dive.

In 2015, when a bubble burst, the government panicked. It ordered massive buying by state-owned companies, scared off short sellers with legal threats and put all initial public offerings on ice.

Some lessons have been learned. However, the mainly technical improvements that finally convinced the MSCI

media companies to stop streaming video and audio, part of a censorship drive to combat "negative speech." Immediately, Nasdaq-listed Weibo, which has staged a remarkable revival in the past two years on the strength of video ads, lost \$1 billion in market value.

Optimists reckon that the IMF and MSCI moves strengthen the hand of Chinese technocrat reformists, who seek to use internationalization of the markets to spur more fundamental changes to the operations of wasteful state enterprises and spendthrift local governments.

But the forces of resistance are stubbornly entrenched. Whatever happened to the theory, popular in the Clinton administration, that rewarding China with membership in the World Trade Organization in 2001 would lead to ever-expanding market opportunities for U.S. businesses, if not democracy?

It turned out that China's WTO accession, rather than

ushering in a new era of reforms, represented their high point. Today, China's domestic markets are closing and state enterprises are skewing competition against multinationals as never before.

Likewise, the IMF's gift to China was the signal for retrenchment, not advance.

Will the MSCI arrangement produce different results? Domestic investors weren't impressed: the indexes hardly budged on the news.

Still, there's plenty of international interest. No matter that China's casino-like bourses are dominated by mom-and-pop investors, and plagued by insider trading: They are too big to ignore. With a capitalization of \$7.5 trillion, they trail only the U.S. in size.

Chin-Ping Chia, MSCI's head of Asian research, compared adding China to the indexes with "the opening of the Great Wall."

Now that the barrier has been breached, though, the incoming armies of investors should gird for a struggle.

WORLD WATCH



UNCOLLECTED: Garbage began to fester in Athens when striking city workers stopped removing it even as summer temperatures in the Greek capital soared past 96 degrees Fahrenheit on Tuesday.

citor said the authorities were looking for traces of involvement by Russia, which has supported pro-Russian rebels in the conflict in eastern Ukraine.

Authorities said Col. Maksym Shapoval's car exploded from a device placed under the chassis.

Ukraine has seen a spate of murders within its borders since Moscow's annexation of Crimea in 2014.

—Thomas Grove

UNITED KINGDOM

Scotland Delays Plan For New Referendum

Chief minister Nicola Sturgeon reversed her earlier plan to push for a second independence referendum before Britain departs the European Union, saying instead she would revisit the issue once Brexit negotiations

are completed, likely toward the end of next year.

Tuesday's about-face came after Ms. Sturgeon's Scottish National Party, which went into the June 8 election with a pledge to hold a second vote on Scottish independence after a no decision in the first, lost seats in the U.K. Parliament, mainly to the Scottish Conservative Party.

—Wiktor Szary

The U.S. estimates there are 20 million trafficking victims globally.

China was moved in the report to Tier 3, a category that includes Iran, North Korea, Russia and Syria. In last year's report China was on the Tier 2 watch list.

Myanmar was upgraded to the Tier 2 category in this year's report after it was listed last year in Tier 3.

China was downgraded to Tier 3 status in this year's report in part because it has not taken serious steps to end its

China Demoted in U.S. Report on Trafficking

BY FELICIA SCHWARTZ

WASHINGTON—The U.S. stepped up its criticism of China in a global assessment of human-trafficking practices released on Tuesday, a move likely to inflame tensions with Beijing.

The State Department report details U.S. concerns in China about state-sponsored forced labor, sex trafficking and China's treatment of North Korean citizens who are forced laborers there. More broadly, the annual report examines trafficking and ranks countries based on how they are confronting the problem.

The U.S. estimates there are 20 million trafficking victims globally.

China was moved in the report to Tier 3, a category that includes Iran, North Korea, Russia and Syria. In last year's report China was on the Tier 2 watch list.

Myanmar was upgraded to the Tier 2 category in this year's report after it was listed last year in Tier 3.

China was downgraded to Tier 3 status in this year's report in part because it has not taken serious steps to end its

own complicity in trafficking—including forced laborers from North Korea that are located in China," Secretary of State Rex Tillerson said at an event at the State Department.

Mr. Tillerson presented the report at the State Department accompanied by Ivanka Trump, a daughter of President Donald Trump and a presidential assistant.

"Ending human trafficking is a major foreign-policy priority of the Trump administration," Ms. Trump said.

Susan Coppedge, the U.S. ambassador-at-large for trafficking issues, said the decision to downgrade China wasn't connected to broader efforts to press Beijing on other policy issues. "The minimum standards that are in the law don't really allow for consideration of strategic relationships," she said.

The year's assessment covers more than 180 countries and incorporates information from April 2016 through March 2017.

China's Foreign Ministry defended Beijing's efforts to fight human trafficking, saying "the outcomes are for all to see."

IRAN

Tehran Blasts U.S. Ban On Some Travelers

Iranian Foreign Minister Javad Zarif criticized the Trump administration's temporary ban on travelers from six Muslim-majority countries after the U.S. Supreme Court decision to allow its partial implementation.

After the court on Monday narrowed the scope of the ban but allowed it to go into effect, Mr. Zarif on Tuesday tweeted that it was discriminatory and didn't accomplish its objectives.

"A bigoted ban on Muslims will not keep [the] U.S. safer," he said. "Instead of policies empowering extremists, [the] U.S. should join the real fight against them."

—Aresu Egbali and Asa Fitch

UKRAINE

Car Bombing Kills Intelligence Officer

A senior military intelligence officer was killed when a bomb detonated under his car in the Ukrainian capital, Kiev, on Tuesday, the Defense Ministry said, in an act the government is treating as terrorism.

Ukraine's Chief Military Prose-

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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Cyberattacks Hit U.S. and Europe

Ransomware outbreak like the one that hit last month strikes Merck, Rosneft, others

Cyberattacks wreaked havoc across Europe and the U.S. on Tuesday in a confidence-shaking attack that appeared to stem in part from an obscure Ukrainian tax software product.

By Robert McMillan,
David Gauthier-Villars
and James Marson

The virus, whose victims included major global companies from **Merck & Co.** to PAO **Rosneft**, bore similarities to last month's global ransomware attack but was in some ways more insidious, security experts say.

The attack, which security experts dubbed Petya, exposed fresh weakness in the computer systems that run modern-day societies as the virus rapidly spread unimpeded across Ukraine, Russia and other European and U.S. locations.

Researchers were still investigating late on Tuesday the source of the outbreak, which locked digital files and demanded payment for them to be returned at more than 100 companies and institutions.

But two companies investigating the outbreak say that a



Technicians work on a flight timetable at the Boryspil airport outside Kiev. The virus hit targets in several countries.

software update from Kiev-based Intellect Servis was a principal—and inadvertent—source. The company described itself as a victim of Tuesday's attack, saying the virus had disrupted its own operations. It said that when it released its latest software on

June 22 it didn't contain any virus.

Some experts disagreed with that assessment. The software was pushed out to customers and then quietly spread within corporate networks before being triggered on Tuesday, said Craig Wil-

liams, security outreach manager with Cisco Systems Inc., a networking hardware company, Kaspersky Lab ZAO, an antivirus company, also cited Intellect Servis as a main source of the outbreak but saw no evidence of triggering mechanism.

The cyber security department of Ukraine's national police warned on its Facebook page that preliminary analysis suggested the accounting software was "only one of the vectors of the attack." The Russian security firm Group-IB

Please see HACK page B2

VALENTYN OGIRENKO/REUTERS

Apollo Raises Record Total for Buyouts

By WILLIAM LOUCH

Apollo Global Management LLC, the private-equity firm co-founded by billionaire investor Leon Black, has raised \$23.5 billion for the world's largest-ever buyout fund.

The record-breaking fund-raising is the latest demonstration of a surge in investor appetite for leveraged buyout funds, extending a run of records in recent months.

People familiar with the matter said Apollo had hit its \$23.5 billion target, outlined last month in a filing with the Securities and Exchange Commission, and is set to close the fund "imminently." One person said a formal closing could happen as soon as this week and that the final amount could come in higher than \$23.5 billion.

On closing, it will be the largest pool of capital ever gathered by a buyout firm, exceeding the \$21.7 billion that Blackstone Capital Partners V LP collected in 2007. The fund is also significantly larger than the \$18.4 billion flagship fund Apollo raised in 2013.

Mr. Black said on a February earnings call that the Apollo flagship fund would be the biggest "single driver" of assets under management at the firm. The company, which has \$197 billion in assets under management, is also raising \$3.5 billion for a distressed-debt fund.

The fund adds to the mound of uninvested capital that private-equity firms are sitting on.

Faced with increasing competition for assets from sovereign-wealth and pension funds, buyout houses have slowed the rate at which they have deployed capital. The value of deals struck by buyout firms has declined.

Please see APOLLO page B14

INSIDE



UPS SET TO FREEZE PENSIONS

BUSINESS NEWS, B3



ACTIVIST FUNDS TAKE AIM AT EUROPE

MARKETS, B15

Blue Apron Spends to Tighten Customer Ties

BY ELIOT BROWN

dishes such as hoisin beef and vegetable stir-fry with Fairy Tale eggplant.

In just five years, meal-kit maker **Blue Apron Holdings Inc.** has ripened from an idea batted around by three friends in New York City to a company on the verge of an initial public offering with 1 million customers and more than \$790 million in annual revenue.

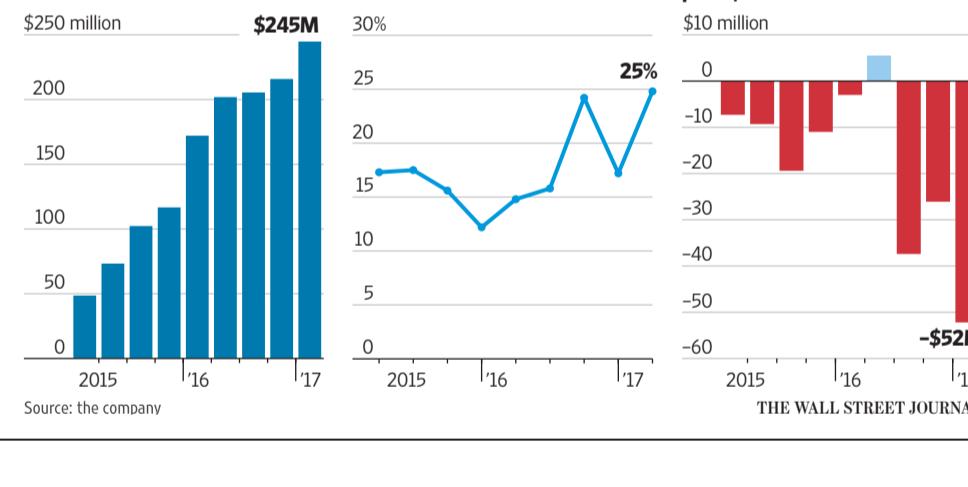
As the company works to whet investors' appetite before a stock-market listing expected this week, its financial statements expose an inherent threat to growth: Finding loyal customers is getting hard.

Blue Apron packs gourmet ingredients in a box and ships them to customers who pay \$10 a meal per person to make

Please see IPO page B2

Boxed In

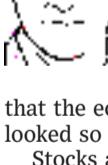
Sales are rising as Blue Apron finds new customers, but a heavier marketing burden is contributing to losses.



THE WALL STREET JOURNAL.

HEARD ON THE STREET | By Justin Lahart

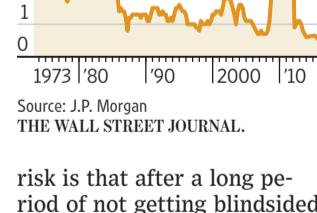
If You Think Stocks Are Dull, Look at the Economy


Volatility has disappeared from the stock market. One simple reason is that the economy has never looked so calm.

Stocks are having one of their quietest periods in history, despite the unsettled politics and uncertain direction of policy both in the U.S. and abroad. The average daily swing in S&P 500 in the soon-to-be-completed second quarter has been 0.3 percentage point, the lowest in more than half a century.

One factor underpinning the lack of volatility in stocks is that economic volatility, both in the U.S. and abroad, is extraordinarily low. The

A World of Calm
Three-year rolling standard deviation of the annualized quarterly change in global gross domestic product
5 percentage points



Source: J.P. Morgan
THE WALL STREET JOURNAL.

risk is that after a long period of not getting blindsided by the economy, investors may be too complacent.

Over the past three years, the standard deviation of the

annualized change in U.S. gross domestic product—how far it has tended to swing each quarter from its underlying trend—is just 1.5 percentage points, or about as low as it has ever been. It is a trend that is being matched elsewhere, with global GDP exhibiting the lowest volatility in history.

A portion of the decline in GDP volatility, both in the U.S. and globally, probably stems from slower economic growth. But other economic measures that aren't all that low relative to history, such as U.S. job growth and corporate profits, also are exhibiting low volatility. So there are other factors at work.

Some are longstanding. Government spending isn't

as lumpy as it used to be. The service sector, which is inherently less choppy than manufacturing, counts for more of the economy. Technology has given businesses better insight into inventory levels, reducing the risk of getting caught with a pile of unsold goods.

In the years since the financial crisis, the Federal Reserve and other central banks have acted like the overprotective parents of a toddler, rushing in whenever the economy looked as if it might stumble. That risk-averse behavior has extended to businesses, making them unwilling to take chances. Housing activity has been consistently soft throughout the recovery.

Globally, economic volatility has been muted not only because individual economies are shaking less, but because they have become less correlated with one another, points out J.P. Morgan economist Joseph Lupton. Like a diversified portfolio, they are offsetting each other, bringing overall volatility lower.

For investors, low economic volatility is a good thing, because they get hit by fewer surprises. But it also can lure them into complacency and leave them more vulnerable when things bounce around again. Indeed, the economy was unusually placid right before both the dot-com bust in 2000 and the financial crisis in 2008. That changed in a heartbeat.

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HACK

Continued from the prior page
agreed, saying it saw companies infected via malicious email attachments.

Many victims of the ransomware were told to pay a \$300 ransom demand in the digital currency bitcoin. Still, others saw not only financial but political motivations behind the attack, which struck the day before Constitution Day, a Ukrainian national holiday.

"I think not only is it out there trying to make a profit, but it's also making a very clear political statement: it's intentionally trying to damage businesses that interact with the Ukrainian tax system," Mr. Williams said.

Anton Gerashchenko, an adviser to Ukraine's interior minister, said the cyberattacks could be connected to the holiday and blamed Russia.

Russia denies state hacking.

During the May attack, a virus dubbed WannaCry inflicted damage by locking computer systems that were old or weren't adequately patched, demanding ransom. That attack hit hospitals in the U.K., car factories in France and smaller businesses across the continent.

WannaCry was stopped in part because the virus included a "kill switch" that allowed security researchers to stop its spread. But many computers likely remain vulnerable to the underlying Windows computer flaw that WannaCry leveraged. Although security experts said that Petya may

not jump from infected company to infected company as quickly as WannaCry, the new virus uses new techniques that allow it to spread more quickly within corporations.

"This is going to continue," said Mikko Hypponen, chief research officer with cyber security company F-Secure Corp. "This is going to go on all night. This is going to go on tomorrow."

In Ukraine, the Infrastructure Ministry, a telecom company, the state postal service, the airport in Kiev, energy firms and several banking institutions have been hit by the virus, Ukrainian authorities said. The extent of the operational disruption was unclear at the affected companies.

By midday on Tuesday, the

They seem to be infecting as many people as possible,' says a security vendor.

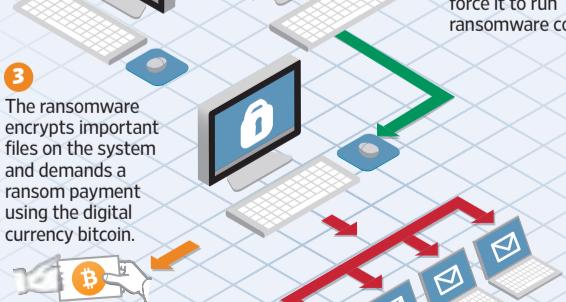
attack had infected more than 100 institutions in Ukraine, Russia and other former Soviet Republics, experts said.

"It does not seem to be targeting anyone in particular," said Catalin Cimpanu, chief security strategist of computer security vendor BitDefender LLC. "They seem to be infecting as many people as possible."

The ransomware was designed to spread within corporate networks running Microsoft Corp.'s Windows operating system, but didn't appear to be harming consumers.

How Ransomware Works

- 1 Ransomware typically starts with an unsolicited email, typically designed to trick the victim into clicking on an attachment or visiting a webpage.



Source: staff reports

THE WALL STREET JOURNAL.

BUSINESS & FINANCE

Wireless Reseller Model Is Spotty

BY RYAN KNUTSON

In a potential deal with Sprint Corp., two big cable operators, Comcast Corp. and Charter Communications Inc., are seeking the ability to sell Sprint's wireless service under their own brands.

Such reseller offerings allow a company to provide wireless service without owning or operating a network. There are dozens of companies in the U.S. that piggyback on others' networks. These include TracFone and Straight Talk, which run on multiple carriers, and Consumer Cellular, which uses AT&T Inc. and

T-Mobile US Inc.

These arrangements are becoming important as bigger companies with more serious wireless ambitions consider offering them.

The companies that act as mobile virtual-network operators, or MVNOs, traditionally don't invest in network improvements because, as resellers of cellular service, they don't own the infrastructure.

The big four carriers dictate prices so there is a limit to how low resellers can set their own fees. Some MVNOs failed years ago, including earlier attempts by cable companies.

In the U.S., MVNOs manage

the wireless connections for 38 million devices.

T-Mobile is the biggest provider of connections to resellers with 12 million, followed by Sprint with five million, according to UBS Group AG.

For wireless carriers, MVNO agreements offer an additional source of revenue. Providing lines to an MVNO is highly profitable because the wireless carriers don't have to pay for marketing or acquisition costs.

But an MVNO's customers don't bring in as much revenue as customers who sign up directly. A carrier could even find itself losing its own subscribers to an MVNO using its

own network.

Earlier this year, Comcast launched an MVNO that uses Verizon Communications Inc.'s network, and Charter says it plans to launch a similar MVNO soon. Verizon agreed to enter into MVNO deals with the cable operators in 2011 as part of a \$3.6 billion agreement to buy access to wireless airwaves the firms owned.

Comcast and Charter could gain an edge on telecom rivals by marketing "quad play" service with an MVNO on top of phone, TV and broadband.

◆ Heard on the Street: A sector still in need of relief.....B16

A Peek at Portable Eye Care



INNER VISION: An eyesight test was conducted on Tuesday in London using a Peek portable eye examination kit. A charitable foundation, committed to promoting eye care in low- and middle-income countries, owns the manufacturer of the devices.

IPO

Continued from the prior page
percentage of revenue rose to 25% in the first quarter from 15% a year earlier, contributing to a \$53 million loss compared with a small profit in last year's first quarter.

A Blue Apron spokeswoman declined to comment. The company said in securities filings that it expects marketing costs as a percentage of revenue to be lower in coming quarters as it is in the midst of implementing a new strategy to spend heavily.

This predicament strikes at the heart of countless startups that sell products online, offer monthly subscription boxes or deliver just about anything at the tap of an app.

"With hyper adoption also comes hyper abandonment," said Brendan Witcher, an analyst at Forrester Research Inc. "What the market needs to do with these startups is wait until the novelty effect has worn off—that is really the key."

Food delivery has been par-

ticularly tough. Well-funded startups that have shut down include cooked meal-delivery companies such as Maple, SpoonRocket and Sprig Inc., which closed last month.

Blue Apron launched in 2012, after Matthew Salzberg left his job at venture-capital firm Bessemer Venture Partners and started the food company with two friends. Blue Apron quickly took hold among a variety of age groups and geographies—not just urban millennials. By 2015, the company had raised nearly \$200 million from investors such as Bessemer and mutual-fund company Fidelity Investments and was valued at \$2 billion despite having only 300,000 customers.

Over time, Blue Apron has lowered the cost of buying and delivering food—to 69% of the company's revenue in early 2017 from 93% in 2014—in part by building warehouses and owning its own wine label and beef farm. But profits haven't followed as expected.

To find more customers, Blue Apron has blanketed con-

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BUSINESS NEWS

UPS Set To Freeze Pensions For 70,000

BY PAUL ZIOBRO
AND VIPAL MONGA

United Parcel Service Inc. will freeze pension plans for about 70,000 nonunion employees, seeking to contain the burden of a retirement fund with a nearly \$10 billion deficit.

The package carrier is the latest major U.S. corporation seeking to corral rising pension obligations, which have swollen after years of low interest rates. The collective deficit in pension plans of S&P 1500 companies totaled \$408 billion at the end of last year, according to consulting firm Mercer.

The Atlanta-based company, which is spending billions to expand its network to handle the surge in e-commerce shipments, said Tuesday it will freeze pension benefits in five years for nonunion workers. It will move those individuals to 401(k) accounts and contribute funds to those retirement plans.

UPS has more than 434,000 workers worldwide, with more than 80% in the U.S. Most of them are unionized and won't be affected by the changes. But the move could set up a showdown with the United Brotherhood of Teamsters, which represents 268,000 UPS workers and is preparing to negotiate a new contract.

A pension freeze puts UPS in line with a wide swath of American corporations. In 2014, 37% of Fortune 500 companies with defined benefit plans had frozen them in some way, compared with 35% with open plans, according to the consultancy Willis Towers Watson. That was the first year that frozen plans outpaced all other types, including closed or terminated. As recently as 2010, half of large companies with defined benefit plans were open.

UPS is trying to make a dent in a U.S. pension deficit that reached \$9.85 billion at the end of 2016, according to its annual report. The plans, with \$41.07 billion in obligations, were 76% funded at that point, down from nearly 90% at the end of 2013.

Like most corporate pension sponsors, UPS fell victim to historically low interest rates. Companies calculate the value of future benefits based on interest rates. Obligations

are measured at the end of each year.

\$9.85B

The package carrier's U.S. pension deficit at the end of 2016

rise when rates fall. A precipitous drop in interest rates—which have stayed lower for longer than many pension managers expected after the financial crisis—helped drive up the shipper's deficit.

While interest rates have pushed up the obligations, UPS helped compound the problem, by neglecting to add enough to the plan to make up the difference. Although the company contributed almost \$5 billion into its fund between 2012 and 2016, it only made minimum contributions required by law in 2012. In 2013 it put no money into the plan.

UPS says it has adequately funded its pension. While it didn't make a contribution in 2013, its pension deficit went down more than \$3.6 billion that year due to interest rate changes. "We make funding decisions for each year and over a longer time horizon," UPS Finance Chief Richard Peretz said in an interview.

Teamsters spokesman Galen Munroe declined to comment.

UPS's pension struggles mirror broader funding problems among companies that offer retirement benefits. The median S&P 1500 pension plan's funded status was 76% at the end of 2016, according to a report by the financial strategies group at Citigroup Inc.

Companies are required by law to close those gaps over time, but the deficits have persisted, even though S&P 1500 firms collectively have contributed more than \$550 billion into the plans from 2008 to 2016.

Nestlé Scrambles to Score Points

Share buybacks, acquisition search are part of plan flushed out by investor pressure

BY SAABIRA CHAUDHURI
AND BRIAN BLACKSTONE

Nestlé on Tuesday announced plans to launch a \$20.8 billion share buyback, focus its capital spending on categories like coffee and pet care and look for consumer health-care acquisitions, a move that comes after it found itself the target of activist investor Third Point LLC.

Nestlé wasn't expected to deliver an update to shareholders until September, but its plans were fast-tracked amid investor pressure that culminated with Third Point founder Daniel Loeb on Sunday night publishing a letter on how Nestlé should change its business. His recommendations include more share buybacks and a sale of Nestlé's stake in French cosmetics giant L'Oréal SA.

Mr. Loeb began amassing shares in Nestlé early this year, according to a person familiar with the matter, and now owns 1.25% of the company. Nestlé shares jumped following Mr. Loeb's letter, which promised the company's growth and earnings would "dramatically improve" if his recommenda-



A Nestlé Purina plant in France. Pet-care products are among the categories the company will emphasize for capital spending.

tions were followed.

"All seems to have happened very quickly, but probably not a huge surprise given the strength of the balance sheet and pressure from Third Point and others," said Jon Cox, head of Swiss equities at Kepler Cheuvreux.

Nestlé applied for Swiss regulatory approval of its share buyback last week, and received the go-ahead on Tuesday.

Under new Chief Executive

Mark Schneider, Nestlé has already dropped a sales-growth target that investors had labeled as outdated after the company fell short for four straight years. Mr. Schneider also recently said Nestlé would look to sell its U.S. confectionery business.

Nestlé on Tuesday indicated it could make more divestitures, saying it "will continue to adjust its portfolio in line with its strategy and growth

objectives." There have been calls for Nestlé to consider selling its frozen-food arm, which includes brands like Lean Cuisine and Stouffer's.

Nestlé will kick off a share buyback of up to 20 billion Swiss francs next week that will run through June 2020. In addition to investing in beverages, infant nutrition and other high-growth categories, the company said it would also look to make acquisitions

in consumer health care that "build on" the faster-growing parts of its core food and drinks business. It didn't specifically refer to its frozen and prepared-foods business, although Nestlé is the world's largest packaged-food company.

Third Point declined to comment on Tuesday.

◆ Activist funds take aim at Europe..... B15

Amid Slump, Shipping Mogul Wants Tankers

John Fredriksen has been looking to expand his fleet despite a glut of vessels and low oil prices

BY COSTAS PARIS

OSLO—Shipping magnate John Fredriksen is trying to buy more oil tankers despite a glut of vessels afloat, a messy restructuring of an offshore-drilling company he leads and two unsuccessful takeover attempts of rival tanker firms.

The self-made billionaire, who also is a major player in offshore oil drilling and salmon farming, says he is working 17-hour days as he looks to expand his fleet of the most voluminous tankers—known as very large crude carriers, or VLCCs.

"We used to be the biggest VLCC owner, but now we are No. 4," as his tanker company, Frontline Ltd., was overtaken by rivals, said Mr. Fredriksen in a rare interview earlier this month.

"I'm looking to invest more than two billion [dollars] in acquisitions," he said, noting he is primarily looking to acquire companies outright rather than buy tankers from rivals.

An oversupply of cheap oil and too many tankers chasing too little cargo have, respectively, hit drilling and shipping hard. Mr. Fredriksen reckons shipping companies will scrap three times as many tankers this year as they did last year, with fewer new vessels coming to market.

"Around 150 very large crude carriers, or about 20% of the existing fleet, will be scrapped over the next couple of years," said the 73-year-old, known in the industry as "Big John." "To have a say in the market you have to have size, so I'm looking to buy tankers all the time."

The price of a five-year-old VLCC has fallen 17% to around \$58 million over the past year. Amid this drop, Frontline pressed a \$765 mil-



John Fredriksen, whose holdings include Frontline, with his daughters Kathrine, left, and Cecilia.

lion, hostile takeover for Norway's DHT Holdings Inc. earlier this year.

DHT fought off that effort, prompting Mr. Fredriksen to drop his bid and turn his sights on U.S.-listed Gener8 Maritime Inc., a deal that would have created the world's largest tanker fleet if sealed. But the talks with Gener8 fell apart over price, according to a person familiar with the matter.

Frontline CEO Robert Hvide Macleod on Monday said the company is still hunting, but isn't currently involved in any takeover activity. "We believe the market will offer good opportunities in the future, and our

strategy is to continue expanding the fleet," Mr. Macleod said.

Despite some consolidation among container liners, shipping remains a highly fragmented industry, marred by overcapacity and lengthy price wars. Dozens of companies that ship containers, oil and commodities like iron ore and grain have declared bankruptcy over the past three years. Others have fallen deeply into the red as freight rates lurk well below break-even levels.

"The tanker market is depressed, so his quest to make Frontline even bigger seems odd," said Mike Sapountzoglou, a director at Athens-

based ship-management and financing company Flagship Navigation Ltd. "But it will eventually recover and Fredriksen is renowned for his sense of timing."

Mr. Fredriksen said U.S. hedge funds and Chinese state-owned shipping companies were responsible for the cratering of the global shipping market over the past few years. Industry executives say around \$30 billion was put into shipping from 2009 to 2015 by U.S. investors, exacerbating a capacity glut.

The son of a Norwegian shipyard welder, Mr. Fredriksen dropped out of high school and moved to Beirut

to trade oil. He later supplied fuel to the U.S. Air Force during the war in Vietnam. His tankers moved crude out of Iran during that nation's war with Iraq in the 1980s.

He gave up his Norwegian citizenship in 1996 and became a citizen of Cyprus. He also has offices in Singapore and Bermuda, where taxes are substantially lower than in Norway.

Mr. Fredriksen has said his empire would be passed to his twin daughters, Katherine and Cecilia, who are increasingly taking responsibilities in the group.

Apart from Frontline, Mr. Fredriksen controls dry-bulk shipping company Golden Ocean Group, vessel-leasing firm Ship Finance International Ltd., Seadrill Ltd. and the world's biggest Atlantic salmon producer, Marine Harvest ASA. He is worth more than \$9 billion according to Forbes.

Mr. Fredriksen owns 24% of Seadrill and serves as the company's chairman. Seadrill, which operates 49 oil rigs and has an additional 13 under construction, faces a July 31 deadline to restructure some \$10 billion of debt.

The company's rigs, which formerly commanded daily leases of up to \$800,000, now draw about \$200,000 after cheap oil from U.S. shale drilling flooded the market. In May the company said it had made significant progress with its banks on the terms of a restructuring plan that would likely require filing for bankruptcy protection in the U.S. or U.K.

"It's hard to answer if it will come out of restructuring, but as long as I back it, we'll be OK," said Mr. Fredriksen, declining to elaborate.

"In the past, we've dealt with messier situations than Seadrill, but we came through."

Court Approves Car-Maker Concessions on Takata

BY PEG BRICKLEY

Takata Corp.'s U.S. units Tuesday won approval for novel arrangements that will see the world's largest car makers step up to make sure the parts maker stays in business despite massive product-liability claims.

Judge Brendan Shannon signed off on "unusual" agreements between Takata U.S. and the car makers that are its biggest customers and biggest creditors, finding the pacts essential "to maintain and ensure the value of the corporate enterprise."

At the start of the week,

Takata filed for insolvency protection in Japan and chapter 11 bankruptcy protection in the U.S., facing insurmountable damage claims for defective air bags that have killed or injured people and triggered a massive recall.

Instead of a bankruptcy loan, Takata U.S. turned to its biggest customers for financial support. Manufacturers like General Motors Co., Toyota Motor Corp., Subaru Corp., Honda Motor Co., Ford Motor Co. and Volkswagen AG have agreed to business concessions that will keep the cash flowing as the parts maker moves toward a sale of its business.

Auto makers have been funding recalls, and they will be financing Takata's U.S. chapter 11 case, too, under the agreements approved on an interim basis by Judge Shannon at the company's bankruptcy court debut Tuesday.

Tuesday's ruling means Takata's plants will stay in operation, more than 14,000 people will remain on the job and the largest auto recall in U.S. history will stay on track. Companies including Toyota, Honda, Volkswagen and GM pledged quick pay and steady orders for Takata to make sure they will have replacement parts for the millions of vehicles

caught up in the recall.

The end goal is a sale of the bulk of Takata's global business to Key Safety Systems Inc. for \$1.6 billion. The crucial date for Takata is Feb. 27, 2018, one year from the date the Japanese company cut a \$1 billion plea deal with the U.S. Justice Department.

Takata still owes \$850 million to the Justice Department and needs to close the deal with Key to get the cash. If Takata doesn't have the money by February 2018, the Justice Department can reopen the criminal case and pursue charges related to what Takata told customers about the

safety of its air bags.

Defective inflation mechanisms can explode, sending shrapnel flying inside cars. Seventeen deaths in the U.S. have been blamed on Takata's exploding safety systems, said Kevin Dean, one of the plaintiffs' lawyers pursuing lawsuits against the company.

Many more people have been injured, some of them seriously, Mr. Dean said.

Representatives of people with death or personal-injury claims are expected to apply for seats on an official committee that will represent them in Takata's U.S. bankruptcy case, Mr. Dean said.

TECHNOLOGY

WSJ.com/Tech

Samsung Is Refurbishing Galaxy Note 7

BY EUN-YOUNG JEONG
AND TIMOTHY W. MARTIN

SEOUL—Samsung Electronics Co. is quietly rejuvenating its tarnished Galaxy Note 7 smartphone.

A refurbished version of the premium smartphone, whose global recall last year garnered unwanted attention for the South Korean technology giant after some caught fire, is coming to retailers' shelves on July 7 with different components under the name Galaxy Note 7 FE, according to people familiar with the matter.

The FE stands for "Fandom Edition," one of the people said.

The device will initially be available for consumers in South Korea, with relatively modest inventory for release in other countries yet to be announced, one of the people said, adding that Samsung is expected to release at most 400,000 devices among three

major telecommunications companies in South Korea.

The refurbished Note 7 will be priced below 700,000 South Korean won (\$618), although smartphone prices are generally adjusted up to the point of release because of fluctuating market conditions, said one of the people familiar with the matter.

A spokeswoman for Samsung declined to comment. Samsung said in late March that it planned to sell refurbished or rental versions of the Galaxy Note 7 but didn't specify timing or targeted markets.

Details about the Galaxy Note FE's release date and pricing were earlier reported by South Korea's semi-official Yonhap News agency and local trade media.

Samsung recalled around three million Galaxy Note 7 devices last year after reports of some devices catching fire—a debacle that cost the company



About three million Galaxy Note 7 devices were recalled last year. Samsung's flagship store in Seoul.

at least \$5 billion and led to a ban on the devices on various airlines.

The South Korean company concluded earlier this year that the overheating in some devices came from design and manufacturing problems with the devices' batteries.

Samsung said the defect affected 330 out of the three million Note 7 phones that it sold.

Analysts said the revived Note 7 wouldn't compete with or cannibalize sales of the Galaxy S8, Samsung's latest flag-

ship smartphone, which was released to much fanfare in April.

Unlike the Galaxy S series, the Galaxy Note smartphones feature a larger screen and a stylus, endearing them to a loyal base of fans.

"The Note 7 is a unique product for Samsung," said Tom Kang, a Seoul-based analyst at Counterpoint Technology Market Research. "This is a product for Note-series fans so it's going to address a different market segment from the S8."

Mr. Kang added that sales of

Galaxy Note 5 devices—the Note 7's immediate predecessor, since Samsung skipped the number "6" in its Note series—have remained robust in the absence of a viable follow-up in the Note series.

Samsung ceded the No. 1 spot in the global smartphone market to rival Apple Inc. in the last three months of 2016, thanks in large part to the Galaxy Note 7 recall fiasco. Samsung regained the title in the first quarter of 2017, according to market-research firm Counterpoint.

Microsoft, Rival Box Team Up On Cloud

BY JAY GREENE

Microsoft Corp. cut a deal Tuesday with competitor Box Inc. to form a partnership on cloud-computing technology in an effort to get ahead in the emerging business.

Box, like Microsoft, offers web-based document-storage services. In years past, Microsoft might have shunned helping a rival, but three years into Chief Executive Satya Nadella's tenure, it is working more with competitors to win over customers. "This is an example of where Microsoft has really changed over the last three or four years," said Scott Guthrie, executive vice president of the company's Cloud and Enterprise group.

Box provides file-sharing and storage services to customers looking to stash documents, videos and other types of data online. Microsoft's Azure cloud-computing service offers a technical foundation upon which companies like Box can run their services, in addition to its cloud-computing applications, such as its OneDrive online service that competes with Box.

The two companies will now work to better integrate their products and sell the combined services. In addition, Box will offer its products on Microsoft's Azure cloud-computing service. And Box also intends to use Microsoft's artificial-intelligence technology, which could help customers with such tasks as video search and translation services, Box co-founder and CEO Aaron Levie said.

Box already partners with Microsoft's cloud-infrastructure rival Amazon.com Inc. Customers can choose to run Box's services in Amazon Web Services data centers. Box will continue to work with Amazon, but Mr. Levie said the new deal, which includes integration with Microsoft products as well as joint sales efforts of combined services, "goes well beyond what we've done with Amazon."

The deal also opens up markets for Box where customers are required to keep their data stored in the countries in which they reside. In April 2016, the company introduced Box Zones to address data-sovereignty issues; the service is now available in eight countries.

A Box spokesman said the new partnership will allow Box to take advantage of Microsoft Azure's global footprint and offer in-region storage in six additional countries.

The combined sales effort will begin shortly. The technology integration should occur over the next two quarters, Mr. Levie said.

For Microsoft, the deal builds on efforts to work with rival technologies. Mr. Guthrie compared the move to Microsoft's embrace of the rival Linux operating system as well as its decision to make its Office productivity suite of programs available on Apple Inc.'s iPad.

Box isn't as fierce a rival to Microsoft as Linux and Apple have been. The companies have worked together before. More than a year ago, they agreed to make Box's services work more smoothly with Office. Still, Mr. Levie said he noticed Microsoft's "new tone and tenor" in working with rivals, rather than just battling them.

Square To Offer Consumer Loans

BY PETER RUDEGEAIR

Square Inc., the technology company best known for processing payments for small merchants across the U.S., is now angling to lend to consumers, too.

This week, the San Francisco-based firm run by Twitter Inc. co-founder Jack Dorsey, started telling some of its small-business clients that it would soon be willing to provide credit to their customers.

The initiative, which follows the launch of a consumer-oriented Square prepaid debit card, is part of a broader push from the company to branch out beyond its original products—small, white credit-card readers that merchants plug into a mobile phone or tablet.

Offering consumers financing options for their purchases brings Square into competition with financial-technology companies such as PayPal Holdings Inc., Affirm Inc. and GreenSky LLC, as well as consumer lenders including Syncrony Financial that offer credit cards tied to specific retailers.

It also means Square will be on the hook for consumer defaults, which have recently ticked up at some online lenders and credit-card companies.

Square plans to hold the consumer loans on its balance sheet, but as volume grows it could look to sell loans to outside money managers, as it does with its small-business credits unit.

Starting this week, loans in Square's new program will be made available to residents of six states—California, Colorado, Florida, New Jersey, New York and Virginia. Plans to roll the program out nationwide are unclear.



Fergie performs at Pandora Summer Crush last year. The internet radio service is contending with the rise of subscription music platforms.

Pandora Co-Founder Steps Down

BY ANNE STEELE

Pandora Media Inc.'s co-founder and chief executive, Tim Westergren, is resigning from the company as the internet radio service contends with the rise of subscription music platforms.

President Mike Herring and marketing chief Nick Bartle are also leaving the company, Pandora said Tuesday.

Finance Chief Naveen Chopra has been named interim CEO, and Pandora's board will begin searching for a successor, the company said. Mr. Chopra joined the company on Feb. 28.

"Over the past several weeks, the board has taken a number of steps to refocus and reinforce Pandora," board member Roger Faxon said in prepared remarks. "As listeners continue to move from traditional terrestrial radio to

more dynamic and flexible offerings, it is the board's belief that this transition continues to present a massive opportunity, and that Pandora is in an ideal position to capture an increasing share of this audience."

Mr. Westergren, a musician, returned to Pandora's helm in March last year in a bid to help it strike crucial licensing deals—a management strategy that has yielded mixed results for technology companies—and shortly after it bought ticketing company Ticketfly.

Pandora launched a \$10-a-month music service earlier this year amid steep competition from other streaming providers such as Spotify AB and Apple Inc.'s music service. The recorded-music industry, whose global revenue has dropped 60% since 2000, has been betting on growth in paid-streaming services to

make up for declining CD and digital download sales.

But Pandora's stock has lost 24% of its value during Mr. Westergren's most recent CEO stint. Mr. Westergren, who has composed film scores and toured with the soft-rock band YellowWood Junction as a keyboardist, previously served as Pandora's chief creative officer and treasurer from 2000 to 2002, as CEO and president from 2002 to 2004, and as chief strategy officer from 2004 to 2014.

Earlier this month, Pandora secured a \$480 million investment agreement with satellite-radio company Sirius XM Holdings Inc., capping a review of strategic options announced in May. When the deal closes, SiriusXM will name three directors to Pandora's board, with one of the picks serving as chairman.

Pandora also announced a

deal to sell Ticketfly to Eventbrite Inc. for \$200 million, down significantly from what Pandora originally paid in 2015.

Pandora board member Tim Leivek praised Mr. Westergren for stepping in "at a critical time" to "reset relations with the major labels, launch our on-demand service, reconstitute the management team and refortify our balance sheet by securing an investment from Sirius XM."

Shares of Pandora, down 35% so far this year, rose 0.4% to \$8.49 in Tuesday trading.

Pandora also said Tuesday that it named Jason Hirschhorn, founder and CEO of digital-content curation company ReDEF Group, to the company's board. Mr. Hirschhorn previously held positions at Myspace Inc., Sling Media Inc. and MTV Networks.

NOTICE OF REDEMPTION

STATE OF MARYLAND

State and Local Facilities Loan of 2009, Second Series A

Redemption Date: August 15, 2017

NOTICE IS HEREBY GIVEN of the election by the State of Maryland to redeem on August 15, 2017 (the "Redemption Date") \$88,090,000.00 aggregate principal amount of its general obligation bonds designated State and Local Facilities Loan of 2009, Second Series A (the "Bonds") stated to mature and bearing interest as follows:

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08/15/2019	\$8,270,000	4.00%	100.00	574192U73
08/15/2020	\$9,865,000	5.00%	100.00	574192U81
08/15/2021	\$11,790,000	5.00%	100.00	574192V23
08/15/2022	\$16,275,000	5.00%	100.00	574192V49
08/15/2023	\$17,620,000	5.00%	100.00	574192V64
08/15/2025	\$23,105,000	5.00%	100.00	574192V80

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STATE OF MARYLAND

Qualcomm Loses Bid to Dismiss FTC Case

BY TED GREENWALD

A U.S. federal judge ruled against Qualcomm Inc.'s motion to dismiss a Federal Trade Commission case that alleges the large supplier of smartphone chips used its position in the market to compete unfairly.

The Monday ruling by U.S.

District Judge Lucy Koh is a setback—though not an unexpected one—in Qualcomm's broad legal battle over its business practices. That fight includes a separate lawsuit filed by Apple Inc. against Qualcomm that makes similar legal arguments.

Judge Koh's decision that the government's case could advance rejected Qualcomm's claim, filed in April in a Northern California federal district court, that the FTC's complaint failed to support even basic elements of an antitrust violation.

The FTC says Qualcomm, whose technology is used in almost all smartphones, acts unfairly by refusing to sell its chips to handset makers that don't buy a license to use the technology—which is deemed essential to cellular communica-

cations—and by refusing to sell licenses to competing chip makers. The government says Qualcomm further impaired competition by using its dominant position to compel Apple to use its chips exclusively.

Motions to dismiss such suits generally have slim chances of acceptance, legal experts said, because the judge is required to accept the plaintiff's factual allegations as true and the defendant

must persuade the judge that a lawsuit presents no grounds to argue the case.

"We respect the Court's decision, which is based on the legal standards that apply at this early stage of the case," said Qualcomm general counsel Don Rosenberg in a written statement, adding that "the FTC will have the burden to prove its claims which we continue to believe are without merit."

The case was filed in the waning days of the Obama administration, and Maureen Ohlhausen, then the commission's lone Republican, dissented from the FTC's move to file the lawsuit.

If Republicans were to become a majority on the commission, she may call a vote on whether to withdraw the case.

Regarding the notice of International Competitive Bidding For Acquisition Of Firearms To Be Used By Special Forces Military Police Of The State São Paulo - Brazil, Published In The Wall Street Journal, Wednesday, June 14, 2017, Please note the following correction: Tender Offer Of: 5,000 (Five Hundred) Firearm Tactical, 40 Auto Caliber Pistol Semi-Automatic System Action Should read: Tender Offer Of: 5,000 (Five Thousand), Firearms, .40 S & W Caliber, Semi-Automatic Pistol.

MANAGEMENT

Scientists Are Useful Beyond R&D Work

BY LAUREN WEBER

Looking for a way to lift productivity? Hire nerds.

Companies with a higher proportion of scientists and engineers are more productive than their peers, even when those workers aren't directly involved in the research-and-development tasks that drive the most obvious forms of innovation, a new paper from the National Bureau of Economic Research suggests.

The authors studied manufacturing plants and found that, for example, a plant with 10 scientists and engineers among its 100-person workforce would be 4.4% more productive than a plant with the same number of employees but no scientists and engineers. The researchers used a measure of productivity that captures improvements from firms investing in technology or hiring better-educated workers.

Some 80% of industrial scientists and engineers work in roles outside of formal R&D, such as information technology and operations. Their knowledge is critical to firms' ability to improve processes, fix broken systems and implement technologies, says Richard Freeman, a Harvard University economist and co-author of the paper.

When organizations change accounting or human-resources systems or adopt new production processes, "they can't just wave a wand and say 'now the workplace operates this way,'" says Mr. Freeman. "You need people who have to make decisions and find ways to make it work in their workplaces."

Analyzing data between 1992 and 2007, the authors found that the value scientists and engineers bring even to non-R&D roles derives from their training, says Mr. Freeman.

When an Edgy Firm Offers a Top Job

Stint at a pot grower, vendor of intimacy aids or matchmaking service could be a résumé black mark

By JOANN S. LUBLIN

Executives, beware of marijuana and adult toys. Joining an edgy enterprise such as a cannabis producer or marital-aids business could make it difficult to land a good role at a mainstream company later.

Marijuana-industry experience "is not something that would be in our [management] assortment

YOUR EXECUTIVE CAREER

anytime soon," says Brian Cornell, chief executive of Target Corp. "We have to be thoughtful about who we recruit," because decisions must match the retailer's family values, he adds. Would Mr. Cornell ever hire an executive with marijuana-company experience? "I'd probably think long and hard about it," the Target leader replies.

Offbeat businesses often attract ambitious people eager to make their mark in a burgeoning field. But a senior manager's stint at an adult entertainment company or personal matchmaking service could become a résumé black mark unless the role delivers highly valued expertise, executive recruiters and leadership coaches say.

"There will be career consequences from going to an offbeat company," warns Jane Howze, a managing director for The Alexander Group, an executive-search firm.

"Recruiters and employers will look at your impact there and whether you previously worked for a more conventional business."

Marijuana growers frequently confront this dilemma in their recruiting efforts.

"It has been challenging hiring C-suite talent," says Derek Peterson, chief executive of publicly held Terra Tech Corp., which grows and sells marijuana for legal medical use in several states. He



Chris Postler, COO of Pure Romance, which sells 'relationship enhancement products' for women.

cautions management prospects that banks might close their accounts or reject mortgage applications because marijuana violates U.S. law.

"The people you end up with as executives are people truly willing to take a risk," Mr. Peterson observes.

Mike James says he worried about the possibility of harming his career before he left his top management role at a nutritional-supplements firm to join Terra Tech's predecessor in 2010. So, he kept working for his old employer during four years as the part-time chief financial officer of his new employer.

Thirty states and Washington, D.C., have legalized marijuana for at least medicinal use, but the U.S. government still considers it an illegal and dangerous drug. U.S. sales of legal marijuana should reach

\$19 billion by 2021, up from \$5.9 billion last year, predicts Arcview Group, a marijuana investment and research firm.

Many executives with Wall Street backgrounds move into the marijuana business "because they can see the growth trajectory," says Troy Dayton, Arcview's CEO.

Mr. James, now Terra Tech's full-time CFO, expects most conventional companies would employ him in the future. But "I will not be applying for a job at Target," he vows.

During their next job search, executives of an offbeat company should tout transferable skills such as a record of innovation, career advisers suggest. "It is absolutely about the leader's personal brand, not the industry's brand," says Elaine Varelas, managing partner at Keystone Partners, a career transition and leadership

development firm.

This approach succeeded several years ago when a female executive left Playboy Enterprises Inc., famous for nude photos. She emphasized her team-building skills at the

Executives of an offbeat firm should tout transferable skills in their next job hunt.

well-known entertainment business. "Find that positive spin," she recommends.

The executive soon got hired by a professional-services firm. "They thought it was really cool that I had worked for Playboy," she recalls.

Chris Postler also hesi-

tated to join an edgy business. Nearly four years ago, Pure Romance LLC wooed the bank financial analyst for a middle-management position. The Cincinnati firm uses a predominantly female independent sales force to sell "relationship enhancement products" for women.

In Mr. Postler's Catholic family, such wares "had been taboo for a long time," he says. He turned down Pure Romance's offer four times.

Mr. Postler changed his mind after Chief Executive Chris Cicchinelli promised that he might become second-in-command someday. Mr. Cicchinelli says he believed at the time that Mr. Postler "could help us set strategy and execute."

Recruited by Pure Romance in 2014, Mr. Postler landed his first executive post the following year. But he didn't lose his unease about its products "until way into my employment," he says. He was named chief operating officer in January.

Pure Romance has grown so fast—with 2016 sales climbing 24% to \$203 million—that mainstream businesses now court Mr. Postler for senior operational spots. "Because their growth stagnated, they are looking for that growth magic from a new executive," he says. He has no plans to quit Pure Romance.

At Ivy International SA, a matchmaking concern, men's fears about career damage crimped efforts to recruit a male executive for the management team. Ivy clients pay as much as €250,000 (\$280,000) for personalized dating services. Many male applicants consider Ivy a frivolous business with a stigma that would discourage conventional future employers from taking them seriously, says Inga Verbeeck, CEO of the Belgium-based firm, which she founded in 2012. Her first male executive finally arrived in June.

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THE PROPERTY REPORT

This Mall Could Be the Last of Its Kind

Growth of online shopping and discount retailers has severely crimped the model

By ESTHER FUNG

It has been three years since a major new shopping mall opened in the U.S. Despite some early success, the project could be the last of its kind.

Luxury mall operator **Taubman Centers** Inc. constructed the 862,000-square-foot Mall at University Town Center in Sarasota, Fla., after years of planning and a number of studies showed the region was underserved by retail and would continue to enjoy population growth.

Taubman started working on the project in 2004 but had to pause during the financial crisis, and conducted another study in 2010 before plunging ahead. The mall had space for four department stores, but in the end Taubman went with three—**Macy's**, Saks Fifth Avenue and **Dillard's**—and devoted the remaining space to parking.

The upscale mall is doing well, thanks in part to strong tenants such as Apple Inc. and **Tesla** Inc., which are reliable traffic generators. Taubman Centers, which doesn't publish sales numbers for individual malls, said the sales per square foot there is comparable with the average of its entire portfolio, which was around \$776 for the year ended in March. Grade A malls typically have sales a square foot above \$600.

Despite the strong performance, however, Taubman, a real-estate investment trust based in Bloomfield Hills, Mich., doesn't have any other mall projects planned in the



The Mall at University Town Center in Sarasota, Fla., opened three years ago and is doing well, but no one has finished a big, enclosed shopping center since then.

U.S.

"We have every expectation that not many malls are going to be built, but we didn't expect this to be the last," said Bill Taubman, chief operating officer of Taubman Centers.

Appetite for building enclosed malls of more than 800,000 square feet has dried up. Department stores, once dependable foot-traffic generators, are closing locations amid stiff competition from off-price retailers and the growth of online shopping.

A mall construction spree in the 1970s and 1980s has left in its wake aging properties at a time when there is little capital available for upgrades. As anchor stores close, more mall

space sits idle and foot traffic wanes.

In all, there are roughly 1,200 malls in the U.S., and some analysts see the figure bottoming out at 500 to 800.

As of the current quarter, there were 612 superregional malls, which typically have a gross floor area of 800,000 square feet or more, only two more than there were in 2010. From 2002 to 2009, there were 37 such malls built. The number of smaller enclosed malls of 400,000 to 800,000 square feet stands at 599, up by 16 since 2010. From 2002 to 2009, 40 such malls were constructed.

But other categories of retail are flourishing. The num-

ber of neighborhood shopping centers and strip centers has jumped by 2,303 since 2010 to 114,683. These centers typically offer a narrower range of goods and feature tenants such as grocery stores, laundromats and other necessity-based services that cater to nearby residents.

Grade A malls in dense neighborhoods with above-average household incomes are still doing well, and their landlords argue that consolidation in the industry works in their favor.

The Mall at University Town Center, for instance, is benefiting from the recent closure of the Macy's store at a competing mall, Sarasota

Square, located 14 miles south.

"Most markets are already served by existing retail centers," said Mr. Taubman. He said there will be major retail development projects in the future, but with a different model from the boxy, enclosed suburban malls of the past few decades.

In the New Jersey Meadowlands, mall owner and developer Triple Five Worldwide Group of Cos. is building the American Dream, a long-delayed 3 million-square-foot mall expected to focus mainly on entertainment-focused tenants.

Another niche mall project is the Westfield World Trade Center mall located in a Man-

hattan transport hub that opened in 2016.

But unless department stores figure out a way to reverse their sales slumps, it is unlikely that many traditional enclosed malls will be built in the years ahead, analysts said.

The building of superregional malls has fizzled in part because of retailers pulling back expansion plans.

"There was a time you had a deeper bench of anchors, said Jeffrey Donnelley, managing director of real estate and lodging equity research at Wells Fargo. "But now not all of those anchors are in expansion mode, and even if they were, not every site works for them."

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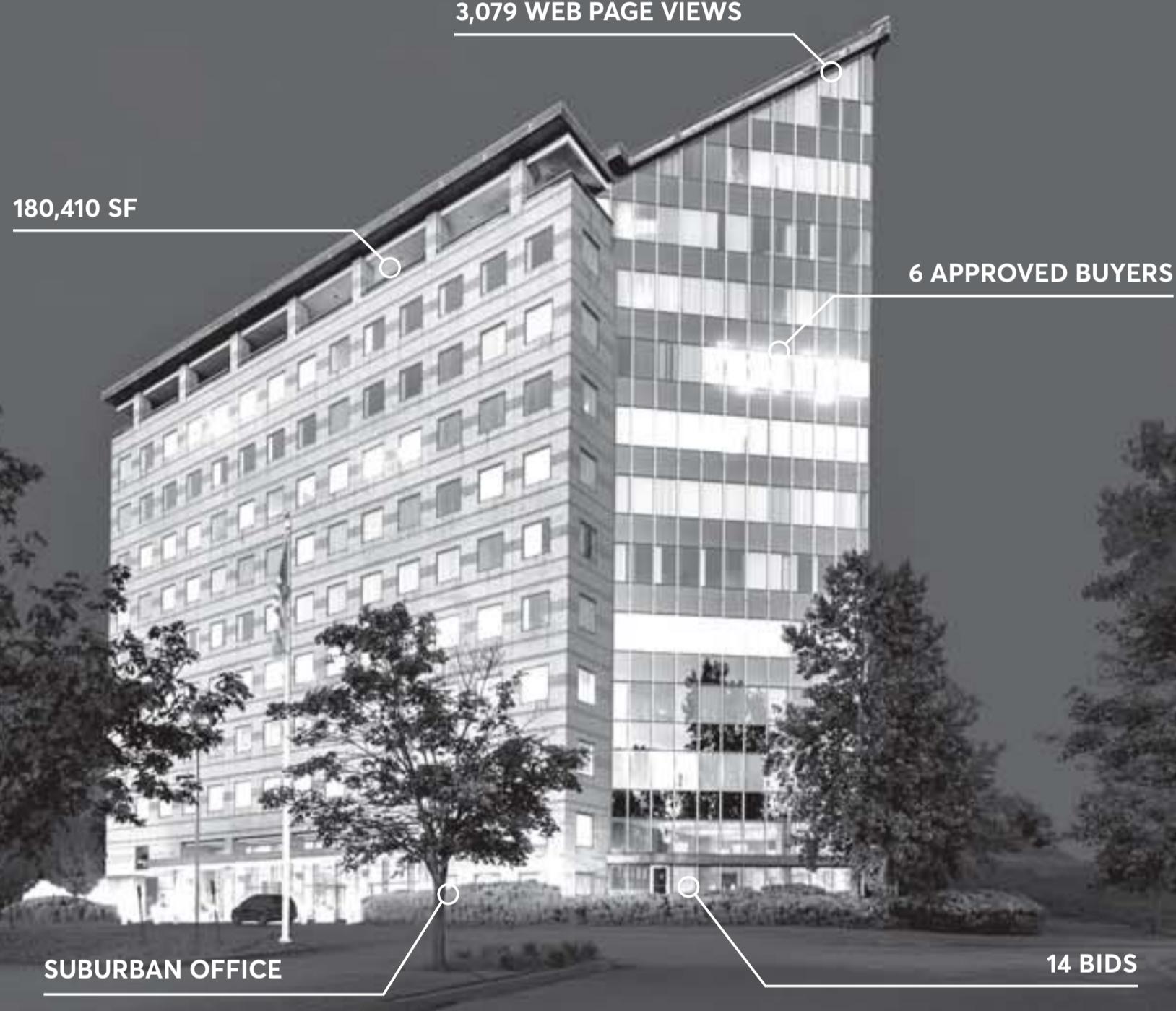
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Plots & Ploys

APARTMENTS

Rents, Vacancies Are on the Rise

The U.S. apartment market delivered a mixed performance in the second quarter as rents increased along with the number of empty apartments.

The national vacancy rate climbed to 4.4% for the quarter from 4.2% a year earlier, according to data released by Reis Inc. Nonetheless, average rents across the U.S. increased 3% year to year in the second quarter to \$1,335 a month. That was the smallest year-over-year increase since 2011.

Rents increased or remained flat in all but two of 79 metro areas. That is in contrast to the first quarter, when rents declined in 23 metro areas.

Two of the country's largest and priciest rental markets continued to struggle. Rents in New York declined 1% compared with a year earlier, while San Francisco rents fell 0.3%, according to Reis.

—Laura Kusisto

ANBANG INSURANCE

City Official, Union Urge Transparency

A member of the Santa Monica, Calif., City Council and workers in the hotel industry are asking for new ownership disclosure rules as concerns rise over foreign capital coming into the industry.

Chinese firm **Anbang Insurance Group** Co. purchased Strategic Hotels & Resorts Inc. from **Blackstone Group** LP last year, taking control of Loews Santa Monica Beach Hotel, the largest hotel in Santa Monica.

Anbang's chairman, Wu Xiaohui, has been detained by investigators, said people familiar with the matter. Employees at Anbang said the person now in charge is the Communist Party's top representative at Anbang, Chen

Ping, according to a previous report in The Wall Street Journal. Anbang said previously that Mr. Wu has "authorized relevant senior executives" to manage Anbang in his absence.

Anbang didn't respond to requests for comment.

—Esther Fung

LABOR

Worker Shortage Squeezes Developers

About two-thirds of the contractors who are struggling with the labor shortages gripping the construction industry say it has become a challenge to finish jobs on time, according to a new survey.

More than one-third of contractors said they are being forced to turn work down and 58% said they are putting in higher bids, said the survey sponsored by **USG Corp.** and the U.S. Chamber of Commerce.

Three-quarters of those who said they are having difficulty finding skilled labor said they are simply asking their employees to work harder.

"Basically they're just making people work harder as a way to cope," said Steve Jones, senior director of Dodge Data & Analytics, which was the research partner of USG and the chamber on the project.

The survey was conducted as part of the development of a new economic indicator launched this month named the USG + U.S. Chamber of Commerce Commercial Construction Index. It was designed to gauge such trends as backlog, revenue projections, access to financing and labor issues.

Two-thirds of the contractors surveyed predicted there would be more workers in the next six months. But 61% of the respondents reported problems finding skilled laborers in such trades as concrete, interior finishes, masonry, electrical and plumbing.

—Peter Grant

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THE PROPERTY REPORT

Witness: Magnate Knew of Altered Metric

Case over accounting scandal at American Realty ties Schorsch to a crucial decision

BY PETER GRANT

The chairman of a real-estate empire involved in one of the biggest accounting scandals in years participated in a key conversation the night executives finalized a quarterly earnings report at the center of the case, according to the government's star witness.

Testifying this month in a federal courtroom in Manhattan, Lisa McAlister, the former chief accounting officer of **American Realty Capital Partners**, described a frantic, all-night session on July 28, 2014, when she and other executives tried to figure out how to deal with the fact that an important metric—adjusted funds from operations—had been improperly inflated by about \$12 million in the previous quarter. Some of those conversations, she said, involved former American Realty Chairman Nicholas Schorsch.

Ms. McAlister's lawyer, Caroline Mehta, said Ms. McAlister had no comment beyond her testimony.

Lorin Reisner, a lawyer representing Mr. Schorsch, said in an email last week that Mr. Schorsch "has acted lawfully and properly in all respects." Mr. Reisner added: "Given the ongoing trial, it would be inappropriate to comment on statements made by counsel or witnesses."

The defendant in the criminal securities fraud case is American Realty's former chief financial officer, Brian Block. In his opening statement, Daniel Tehrani, an assistant U.S. attorney, alleged Mr. Block "fudged the numbers just enough" that night to get the adjusted funds metric "back to what they wanted," according to the trial transcript.

Mr. Block has denied the charges. His lawyer, Reid Weingarten, said in his opening statement at the jury trial that his client used a "legitimate new add-back" that night and that he believed "he was entirely justified doing what he did." Mr. Weingarten declined to comment beyond the court testimony.

American Realty reported earlier this year that it is cooperating with federal investigations that were launched in 2014.

The testimony of Ms. McAlister, who has pleaded guilty for her involvement in the alleged fraud and making false statements, shines light on the internal workings of Mr. Schorsch's empire. She has provided the most detailed ac-

Many Civil Suits, No Criminal Charge

Nicholas Schorsch, who built American Realty as part of a commercial real-estate empire valued at more than \$30 billion, faces numerous civil actions but hasn't been charged by the government. Much of his empire collapsed after the company announced in October 2014 that reporting errors that had been identified by company executives in the second-quarter report were "intentionally not corrected."

Former Chief Financial Officer Brian Block and former Chief Accounting Officer Lisa McAlister were forced to resign at that point. In December 2014, Mr. Schorsch resigned from the boards of American Realty and 15 other companies he was overseeing.

American Realty, which owns more than \$15 billion in retail, office and industrial assets, has changed its name to **Vereit Inc.**

count to date of Mr. Schorsch's alleged connection to critical accounting decisions.

Under cross-examination, Ms. McAlister admitted she lied in a letter to the Occupational Safety and Health Administration after she left American Realty claiming to be a whistleblower. She also acknowledged making inaccurate statements in a \$50 million defamation lawsuit she filed against American Realty that was later withdrawn. She is cooperating with the gov-

American Realty was said to be obsessed with hitting its financial projections.

ernment to reduce her sentence and "will do anything to stay out of jail," Mr. Weingarten said, noting that she has two children with special needs.

"The very best thing I can do for my kids today is tell the truth," Ms. McAlister responded.

Ms. McAlister described in her testimony a corporate culture at American Realty that was obsessed with hitting its financial projections on Wall Street, particularly the adjusted funds from operations metric. She said the company spelled out its goals on this metric on mouse pads that were delivered to employees.

"We must always hit our own numbers," Mr. Schorsch wrote in an email, according



Nicholas Schorsch, shown in 2014, built American Realty Capital Partners as part of a more than \$30 billion empire.

to Ms. McAlister's testimony.

In early 2014, as American Realty executives were preparing the company's first-quarter report, they were having difficulty hitting projections. She said the company was able to reach its goal by using an "incorrect" method for calculating adjusted funds from operations, or AFFO.

In the next three months leading up to American Realty's second-quarter filing, company executives discussed the discrepancy on numerous occasions but it wasn't resolved, Ms. McAlister testified. "Fixing the first-quarter mistake would mean that the total AFFO reported in the second-quarter filing would be lower than expected," said Assistant U.S. Attorney Tehrani in his opening statement.

The company was scheduled to report its second-quarter earnings on July 29. The previous evening, Ms. McAlister testified, she was on a conference call with Messrs. Schorsch and Block when the subject of adjusted funds from operations arose.

By that time, Mr. Block had calculated the correct number using the right method. But doing that would mean reporting a funds from operations number that was less than what the company had reported in the first quarter and lower than what Wall Street expected, she said.

"Nick just said, 'It's in the deferred financing costs. There's your answer,'" Ms. McAlister testified. "You know what you need to do."

Final summations are expected this week.

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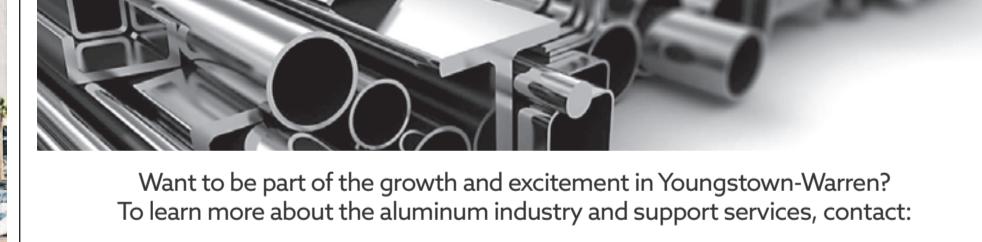
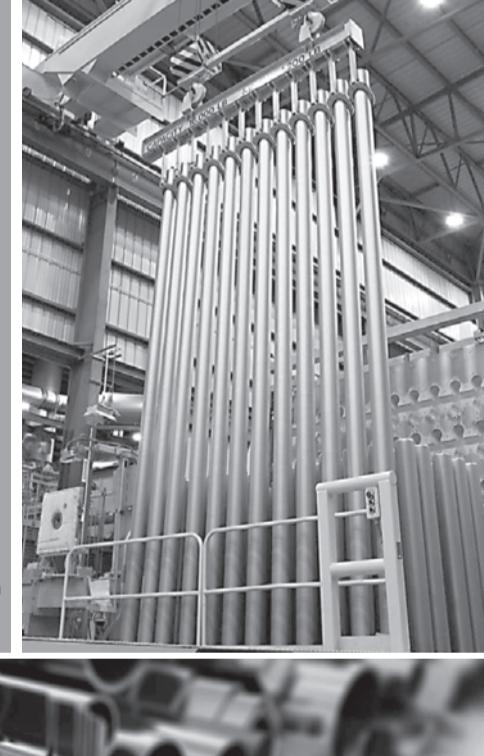
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(Source: Quarterly Census of Employment & Wages, Bureau of Labor Statistics, 2016 Annual Averages & Aluminum Association/John Dunham & Associates study)

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The following explanations apply to the New York Stock Exchange, NYSE Arca, NYSE MKT and Nasdaq Stock Market stocks that hit a new 52-week intraday high or low in the latest session. % CHG=Daily percentage change from the previous trading session.

Tuesday, June 27, 2017

NYSE highs - 73		NYSE Arca highs - 19												NYSE Mkt highs - 2		NYSE Mkt lows - 3		Nasdaq highs - 70		Nasdaq lows - 36		
Stock	Sym	52-Wk % Hi/Lo Chg	Stock	Sym	52-Wk % Hi/Lo Chg	Stock	Sym	52-Wk % Hi/Lo Chg	Stock	Sym	52-Wk % Hi/Lo Chg	Stock	Sym	52-Wk % Hi/Lo Chg	Stock	Sym	52-Wk % Hi/Lo Chg	Stock	Sym	52-Wk % Hi/Lo Chg		
AUOptronics	AUO	4.95 - 9.6	ColeyArthSpn	CUSH	25.82 - 0.2	KB Home	KBH	23.46 - 0.2	TetraTech	TTI	2.61 - 1.1	#BchSP500VXST VXX	VXX	12.19 - 3.3	Amarin	AMRN	3.75 - 1.2	Handy&Harman	HNN	33.95 - 7.9		
AberdeenGrChIn	GCH	11.54 - 1.3	CrownHoldings	CKX	58.80 - 0.1	LG Display	LPL	16.97 - 3.4	WarriorMetCo	HCC	15.10 - 0.0	DexEx300Cna	DAG	34.39 - 0.3	Atrion	ATRN	34.65 - 0.9	Stamps.com	STMP	153.25 - 0.8		
AlexandriaEstARE	ARE	122.28 - 0.3	DE InvDivInc	DDF	20.20 - 0.8	LazardWorldDv	LOR	11.16 - 1.0	Immunogen	IMGN	7.00 - 4.1	SterlingCorp	STR	12.24 - 0.0	GarrisonCapital	GARS	8.00 - 0.4	iFresh	IFMK	115.00 - 1.4		
Americo	AMC	7.60 - 5.6	DTE EnergyDebt	DTY	27.42 - 0.6	LibertySGd	ASC	5.04 - 0.8	ThirdPointReins	TPRE	14.45 - 0.3	Cushing30ETN	PPLN	20.20 - 1.9	Insulet	PODD	50.56 - 2.4	KangHealthCare	KANG	123.1 - 2.1		
AmericanExpress	AXP	83.52 - 0.1	EQT GP	EDGA	30.16 - 2.4	MGMGrowthPrd	DGK	29.71 - 0.2	DeutscheCSA	DSR	27.15 - 0.1	#BchSP500DvnXVIZ	XVZ	24.19 - 0.2	BisonCapAcq	BCAU	10.15 - 0.5	StrongbridgeBio	SBBI	7.90 - 1.0		
Aramark	ARMK	41.72 - 1.2	EasterlyGovPfd	DEA	21.81 - 0.1	NuMtgOpPfd2	DMT	24.61 - 0.4	ProShrUrvitCn	UVX	8.91 - 0.6	BlackLnd	BLX	38.83 - 2.5	TactileSystems	TCMD	28.79 - 0.6	LiquiditySvcs	LOQT	6.05 - 5.4		
ArmstrongShipping	ASC	8.75 - 1.2	FPL Corp Pfd	NEEP	27.07 - 0.4	OwensIllino	OMC	23.50 - 0.7	DeutcheLstCn	DSR	27.15 - 0.1	CarTherap	CARA	11.38 - 1.4	Parthenon	TIG	22.43 - 1.7	NIC	EGOV	18.90 - 2.8		
ArmourResPfdG	ARRp	25.09 - 0.6	FirstCash	FCFS	58.63 - 0.1	PCM Fund	PCM	11.41 - 0.0	ShwBrnHldCp	LDH	95.39 - 0.2	CalStnBcp	CFNB	19.00 - 1.4	KinredBiosci	KIN	8.80 - 4.9	TexasRoadhouse	TXRR	51.91 - 1.1		
AshfordHospPfd	AHAtp	25.10 - 0.2	FPT InterDurPfd	FPF	24.75 - 0.8	PIMCO CmndOpd	PKO	56.94 - 0.4	VoyaAspPfdDiv	TEA	10.58 - 0.3	CenturyPark	CPC	11.05 - 2.4	MeridianWasteWt	MRDW	0.29 - 2.41	Genitix	TRUP	23.23 - 0.0		
Bankrate	RATE	12.95 - 2.4	Genpact	G	33.07 - 0.5	PebblebrookHotl	PBD	11.95 - 0.8	ShwBrnCmndOpd	CHAU	22.56 - 0.5	LindbladExped	LIND	16.73 - 0.2	AltaMed	VSE	10.00 - 0.0	RighteousAuto	FRSX	8.70 - 8.3		
BectonDickinson	BDX	196.01 - 0.1	GoldmanSachsPfd	GSpJ	28.04 - 0.1	ProLogis	PLD	59.49 - 0.6	ChinaDistanceEd	EDL	9.03 - 1.4	ChinaCommCrdt	CCR	3.42 - 0.3	MalibuBus	MBU	25.83 - 0.8	GarrisonCapital	GARS	8.00 - 0.4		
BlockHdMgt	HRB	31.61 - 0.1	HFTC	HF	34.62 - 0.1	ProtoLab	PRLB	68.70 - 3.2	Covanta	CVA	13.35 - 1.1	ComTech	CTYH	0.95 - 0.4	NvSglobal	NVEE	43.90 - 1.3	Oncobiologics	ONCO	0.95 - 0.29		
CapOneNatl	CAE	16.99 - 0.7	Hersha E	HTPE	25.48 - 0.1	QwestNts2057	CTD	25.30 - 0.3	LejuHoldings	LEJU	42.13 - 0.1	NeuroDerm	NDRN	16.12 - 0.5	VircoMfg	VIRC	5.40 - 1.9	Onkobank	ODIV	10.30 - 3.8		
CapitalOnePfd	CFP	26.33 - 0.2	Instructure	INST	30.18 - 0.2	RogersComm	B NC	48.87 - 0.3	MarathonOil	MRO	11.22 - 0.3	NewYorkCntr	NYCP	26.50 - 2.3	PDC Energy	PDE	41.11 - 4.1	Presbia	WBMD	65.00 - 0.8		
CitiesRiverLake	CLR	101.27 - 0.7	DevTechHoldings	ITGR	43.65 - 0.4	RyIBkScot pfd	RBSPh	26.67 - 0.1	PhoenixNewMedia	FENG	2.95 - 0.0	Northstar	NTRS	9.75 - 1.3	QuinparioAcpn	QPAC	9.70 - 0.4	Quinpario	RTR	0.50 - 23.6		
ColonyNtStPng	CLNSP	27.25 - 2.7	ICE	65.71 - 1.6	ShawComm	B SJR	23.09 - 0.7	Smucker	SJM	120.16 - 1.5	PathS500VXMT VZ	VZ	22.37 - 1.0	Aveo Pharma	AVEO	2.22 - 2.7	GiltB Yeldco	YLCO	12.34 - 0.6	DigitalAlly	LYEN	3.24 - 1.2

Mutual Funds | WSJ.com/fundresearch

Explanatory Notes

Data provided by LIPPER

Top 250 mutual-funds listings for Nasdaq-published share classes with net assets of at least \$500 million each. NAV is net asset value. Percentage performance figures are total returns, assuming reinvestment of all distributions and after subtracting annual expenses. Figures don't reflect sales charges ("loads") or redemption fees. NET CHG is change in NAV from previous trading day. DATA YTD/RET is year-to-date return. 3-YR%RET is trailing three-year return annualized.

e-Ex-distribution. f-Previous day's quotation. g-Footnotes x and s apply. j-Footnotes e and s apply. k-Recalculated by Lipper, using updated data. p-Distribution costs apply. 12b-1 r-Redemption charge may apply. s-Stock split or dividend. t-Footnotes p and r apply. v-Footnotes x and e apply. x-Ex-dividend. z-Footnote x, e and s apply. NA-Not available due to incomplete price, performance or cost data. NE-Not released by Lipper; data under review. NN-Fund not tracked. NS-Fund didn't exist at start of period.

Tuesday, June 27, 2017

Fund	Net NAV	YTD Chg %	% Ret	Fund	Net NAV	YTD Chg %	% Ret	Fund	Net NAV	YTD Chg %	% Ret	Fund	Net NAV	YTD Chg %	% Ret	Fund	Net NAV	YTD Chg %	% Ret	
Balanced	105.72	-0.8	4.9	GrowCoK	162.94	-3.15	19.3	LSBalncd	15.33	-0.8	7.9	IntGrowY	40.49	-0.07	16.8	PRIMECAP Odyssey Fds	REITAdm	119.01	-1.04	3.6
Income	13.77	-0.12	1.2	InvGB	7.93	-0.02	2.8	LSGwth	16.14	-0.08	9.8	Parnassus Fds	41.91	-0.36	7.0	REITAdm	110.40	-0.01	1.2	TgtRe2050
Int'l Stk	43.83	-0.04	15.0	InvGrd	11.28	-0.04	2.9	LSInvAlmCI	22.65	-0.13	5.5	Principal Investors	12.74	... 15.8		ST BondAdm	10.47	-0.01	1.2	TgtRetInve
191.25 - 1.49	6.0			LowPwr	5.31	-0.21	7.3	LP	10.68	-0.03	1.5	Prudential CI Z & I	10.68 - 0.03	1.5		ST BondAdm	10.81	-0.03	2.7	TgtRetInve
DoubleLine Funds	192.05	-0.01	14.3	LowPrStk	53.08	-0.21	7.4	Maglin	95.07	-0.09	10.2	RTBDz	14.49 - 0.06	4.4		ST BondAdm	21.84	-0.09	1.2	Wells
DoubleLine Funds	192.05	-0.01	14.3	Maglin	95.07	-0.09	10.2	OTC	102.97	-0.29	23.6	TotRetBd	10.26 - 0.02	3.7		Wells	26.31 - 0.12	4.7		Wells
Federated Inst	6.39 - 0.04	9.7		Purith	22.25	-0.13	8.5	Prith	11.09 - 0.03	2.9		TotRetBd	10.81 - 0.03	1.5		Wells	40.91 - 0.05	6.1		Wells
StratIValDis	6.39 - 0.04	9.7		RsErnMgk	19.85	-0.12	20.6	RsErnMgk	11.29 - 0.03	2.9		TotRetBd	11.37 - 0.02	4.8		Wells	37.33 - 0.19	7.3		Vanguard INDEX FDS
500DlxInst	84.98 - 0.69	9.1		TotalBnd	10.69 - 0.03	2.9		RsErnMgkGrd	11.29 - 0.03	2.9		TotRetBd	11.37 - 0.02	4.8		Vanguard	500	-1.81	9.1	Vanguard
500DlxInst	84.98 - 0.69	9.1		rsTotalBnd	10.69 - 0.03	2.9		rsTotalBnd	11.29 - 0.03	2.9		TotRetBd	11.37 - 0.02	4.8		Vanguard	500	-1.81	9.1	Vanguard
500DlxPrem	84.98 - 0.69	9.1		rsTotalBnd	10.69															

MARKETS DIGEST

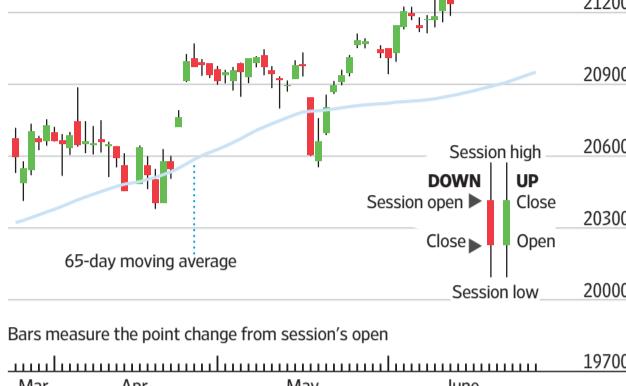
EQUITIES

Dow Jones Industrial Average

21310.66 ▼98.89, or 0.46%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 20.74 18.55
P/E estimate * 18.17 17.02
Dividend yield 2.33 2.65
All-time high 21528.99, 06/19/17

Current divisor 0.14602128057775



Bars measure the point change from session's open
19700

Mar. Apr. May June

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2419.38 ▼19.69, or 0.81%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.09 24.22
P/E estimate * 18.76 17.93
Dividend yield 1.95 2.17
All-time high 2453.46, 06/19/17



Mar. Apr. May June

Nasdaq Composite Index

6146.62 ▼100.53, or 1.61%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 26.15 22.54
P/E estimate * 21.33 19.00
Dividend yield 1.10 1.29
All-time high 6321.76, 06/08/17



Mar. Apr. May June

5580

Bars measure the point change from session's open

19700

Mar. Apr. May June

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
Dow Jones										
Industrial Average	21440.60	21310.66	21310.66	-98.89	-0.46	21528.99	17409.72	22.4	7.8	8.1
Transportation Avg	9465.21	9383.67	9383.67	-58.36	-0.62	9593.95	7252.63	29.4	3.8	4.7
Utility Average	729.16	719.54	720.66	-9.91	-1.36	737.51	625.44	3.0	9.3	8.0
Total Stock Market	25288.77	25063.01	25063.02	-211.33	-0.84	25399.65	20954.24	19.6	7.7	6.8
Barron's 400	647.17	640.27	640.34	-5.85	-0.91	650.48	500.94	27.8	6.4	6.1

Nasdaq Stock Market

Nasdaq Composite	6234.32	6146.62	6146.62	-100.53	-1.61	6321.76	4691.87	31.0	14.2	11.8
Nasdaq 100	5761.04	5671.60	5671.60	-105.99	-1.83	5885.30	4290.47	32.2	16.6	13.8

Standard & Poor's

500 Index	2440.15	2419.38	2419.38	-19.69	-0.81	2453.46	2036.09	18.8	8.1	7.3
MidCap 400	1753.54	1736.58	1736.58	-14.17	-0.81	1769.34	1442.50	20.4	4.6	6.8
SmallCap 600	856.72	847.50	847.58	-6.86	-0.80	866.07	679.84	24.7	1.1	7.6

Other Indexes

Russell 2000	1420.61	1403.38	1403.52	-13.12	-0.93	1425.98	1107.30	26.8	3.4	5.7
NYSE Composite	11787.60	11716.92	11716.92	-41.94	-0.36	11833.34	10161.16	15.3	6.0	2.2
Value Line	523.82	518.98	518.98	-3.54	-0.68	529.13	442.54	17.3	2.5	1.0
NYSE Arca Biotech	3981.37	3852.20	3852.32	-127.93	-3.21	4016.86	2834.14	30.9	25.3	11.7
NYSE Arca Pharma	548.77	543.64	543.64	-5.18	-0.94	554.66	463.78	6.1	12.9	1.2
KBW Bank	93.73	92.47	92.83	0.70	0.76	99.33	62.13	49.4	1.1	9.2
PHLX® Gold/Silver	83.80	81.62	81.78	-1.06	-1.28	112.86	73.03	-12.3	3.7	-6.2
PHLX® Oil Service	130.38	127.73	127.97	-0.29	-0.23	192.66	127.17	-20.9	-30.4	-25.4
PHLX® Semiconductor	1072.61	1048.52	1048.66	-29.26	-2.71	1138.25	665.75	57.5	15.7	18.6
CBOE Volatility	11.31	9.80	11.06	1.16	1.16	22.51	9.75	-41.0	-21.2	-0.6

\$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
SPDR S&P 500	SPY	9,510.6	241.53	0.20	0.08	243.26	241.30
Van Eck Vectors Gold Miner	GDX	9,059.9	22.24	-0.02	-0.09	22.28	22.20
General Electric	GE	7,755.2	27.25	0.04	0.15	27.39	27.17
PwrShrs QQQ Tr Series 1	QQQ	6,966.1	137.99	-0.04	-0.03	140.61	137.87
Altaba	AABA	3,419.7	53.64	...	unch.	54.24	53.64
Comcast Cl A	CMCSA	2,776.7	39.29	0.04	0.10	39.29	39.25
PulteGroup	PHM	2,215.6	24.11	0.04	0.17	24.34	24.07
Micron Technology	MU	2,146.3	31.84	0.18	0.57	32.50	31.61

Percentage gainers...

CareTrust REIT	CTRE	9.1	20.00	1.01	5.32	20.00	18.99
AVEO Pharmaceuticals	AVEO	185.5	2.16	0.07	3.35	2.20	2.05
Velocity 3x Inv Crude ETN	DWT	99.6	39.60	1.17	3.04	40.06	38.47
Array BioPharma	ARRY	48.0	8.68	0.21	2.48	8.72	8.47
VEREIT	VER	172.6	8.41	0.20	2.44	8.41	8.21

...And losers

AeroVironment	AVAV	32.0	29.89	-2.60	**-8.00**	34.48	29.30

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COMMODITIES

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Futures Contracts

Metal & Petroleum Futures

	Contract		Open		High hilo		Low		Settle		Chg		Open interest	
Copper-High (CMX)-25,000 lbs.; \$ per lb.			Open	High	hi	lo	Low	Settle	Chg	interest				
June	2,617.0	2,646.5	2,617.0	2,646.5	2,646.5	2,617.0	2,646.5	2,646.5	0.0215	426				
Sept	2,638.0	2,669.5	2,626.0	2,661.5	2,661.5	2,626.0	2,661.5	2,661.5	0.0230	113,656				
Gold (CMX)-100 troy oz.; \$ per troy oz.														
June	1251.60	1251.80	1245.90	1246.40	1246.40	1245.90	1246.40	1246.40	0.10	219				
Aug	1245.20	1253.80	1241.80	1246.90	1246.90	1241.80	1246.90	1246.90	0.50	299,282				
Oct	1248.40	1257.30	1245.50	1250.60	1250.60	1245.50	1250.60	1250.60	0.50	15,246				
Dec	1252.20	1260.60	1249.80	1254.20	1254.20	1249.80	1254.20	1254.20	0.50	99,403				
Feb'18	1254.80	1263.30	1254.80	1257.60	1257.60	1254.80	1257.60	1257.60	0.50	12,038				
June	1265.10	1270.00	1265.10	1264.30	1264.30	1265.10	1264.30	1264.30	0.60	7,007				
Palladium (NYM)-50 troy oz.; \$ per troy oz.														
June	878.75	878.75	878.75	875.25	875.25	878.75	875.25	875.25	-5.60	7				
July	870.00	874.00	870.00	870.70	870.70	870.00	870.70	870.70	-4.35	30				
Aug	860.80	860.80	858.10	858.10	858.10	858.10	858.10	858.10	-6.15	3				
Sept	865.20	867.20	854.35	858.35	858.35	854.35	858.35	858.35	-5.60	33,442				
Dec	852.05	856.95	845.20	848.60	848.60	845.20	848.60	848.60	-6.40	2,574				
Platinum (NYM)-50 troy oz.; \$ per troy oz.														
June	925.40	926.80	925.40	917.80	917.80	925.40	917.80	917.80	2.10	4				
Oct	917.90	926.20	917.80	920.90	920.90	917.80	920.90	920.90	2.70	55,640				
Silver (CMX)-5,000 troy oz.; \$ per troy oz.														
June	16.425	16.555	16.425	16.576	16.576	16.425	16.576	16.576	0.016	2				
Sept	16.560	16.780	16.550	16.651	16.651	16.550	16.651	16.651	0.020	119,819				
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.														
Aug	43.49	44.44	43.32	44.24	44.24	43.32	44.24	44.24	0.86	543,105				
Sept	43.65	44.70	43.55	44.49	44.49	43.55	44.49	44.49	0.88	290,726				
Oct	43.96	44.94	43.80	44.73	44.73	43.80	44.73	44.73	n.a.	116,112				
Dec	44.50	45.50	44.35	45.31	45.31	44.35	45.31	45.31	0.91	316,719				
June'18	45.60	46.50	45.53	46.38	46.38	45.53	46.38	46.38	0.86	117,336				
Dec	46.26	47.22	46.26	47.11	47.11	46.26	47.11	47.11	0.78	159,638				
NY Harbor LubSD (NYM)-42,000 gal.; \$ per gal.														
July	1.3833	1.4211	1.3805	1.4137	1.4137	1.3805	1.4137	1.4137	0.0335	27,041				
Aug	1.3870	1.4272	1.3864	1.4193	1.4193	1.3864	1.4193	1.4193	0.0329	124,401				
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.														
July	1.4470	1.4691	1.4420	1.4598	1.4598	1.4420	1.4598	1.4598	0.0211	30,257				
Aug	1.4334	1.4596	1.4308	1.4517	1.4517	1.4308	1.4517	1.4517	0.0236	133,862				
Natural Gas (NYM)-1,000 MMBtu's; \$ per MMBtu.														
July	3.049	3.060	3.012	3.037	3.037	3.012	3.037	3.037	0.010	21,360				
Aug	3.067	3.084	3.038	3.064	3.064	3.038	3.064	3.064	0.015	278,665				
Sept	3.060	3.076	3.031	3.059	3.059	3.031	3.059	3.059	0.016	179,730				
Oct	3.085	3.103	3.060	3.088	3.088	3.060	3.088	3.088	0.017	177,313				

Cash Prices | WSJ.com/commodities

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

Tuesday

Energy

Other metals

Fibers and Textiles

Metals

Grains and Feeds

Foods

Metals

Food

Metals

Grains and Feeds

Fats and Oils

Metals

Grains and Feeds

Fats and Oils

Metals

Food

BIGGEST 1,000 STOCKS

WSJ.com/stocks

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISE and BATS. The list comprises the 1,000 largest companies based on market capitalization.

Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.

Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, June 27, 2017		Net		Net	
Stock	Sym Close Chg	Stock	Sym Close Chg	Stock	Sym Close Chg
NYSE					
ABB	ABB 25.32 -0.04	CBRE Group	CBG 36.40 -0.08	ExxonMobil	XOM 81.11 -0.13
AES	AES 11.50 -0.18	CBS A	CBS/A 65.06 -0.07	FMC	FMC 74.01 -0.76
Aflac	AFL 77.77 -0.26	CFSI	CF 26.87 -0.54	FederalRealty	FRT 127.44 -0.28
AT&T	T 37.70 -0.45	CIT Group	CIT 48.34 -0.17	FiatChrysler	FCAU 107.3 -0.13
AXIS Capital	AXS 64.00 -0.30	CMS Energy	CMS 47.02 -0.54	FibriaCelulose	FBR 10.06 -0.29
AbbottLabs	ABT 48.67 -0.24	CNA Fin	CNA 48.09 -0.16	FidelityNtlfn	FIN 44.52 -0.15
AbbVie	ABBV 72.39 -0.35	CoNOOC	CO 108.80 -0.58	FNVF	FNVF 15.70 -0.20
Accenture	ACN 121.19 -0.15	CPLFenergia	CPL 15.81 -0.12	FidelityNtlfn	FIN 85.22 -0.32
AcuityBrands	AYI 175.33 -1.23	CRH	CRH 35.62 -0.52	WUBA	WUBA 43.74 -0.55
Adient	ADNT 63.20 -1.63	Citi	CIT 49.14 -0.13	FirstData	FDX 194.30 -0.23
AdvanceAuto	AAPL 121.96 0.17	CMS	CMS 47.02 -0.54	FirstRepBank	FRC 98.90 -0.62
AdvSemiEng ASX	6.16 -0.06	CNA Fin	CNA 48.09 -0.16	FiatChrysler	FCAU 107.3 -0.13
Aegon	AEG 4.92 0.02	CNOOC	CO 108.80 -0.58	FibriaCelulose	FBR 10.06 -0.29
AerCap	AER 45.61 -0.03	CPLFenergia	CPL 15.81 -0.12	FidelityNtlfn	FIN 85.22 -0.32
Aetna	AET 151.19 ...	CRH	CRH 35.62 -0.52	WUBA	WUBA 43.74 -0.55
AffiliatedMtrs AMG	16.27.11 0.35	CoNOCOC	CO 108.80 -0.58	FirstData	FDX 194.30 -0.23
AgilentTechs A	58.88 -0.36	CPLFenergia	CPL 15.81 -0.12	FirstRepBank	FRC 98.90 -0.62
AgnicoEagle AEM	46.08 -1.19	CRH	CRH 35.62 -0.52	FiatChrysler	FCAU 107.3 -0.13
Agricor AGU	124.94 -0.54	Citi	CIT 49.14 -0.13	FibriaCelulose	FBR 10.06 -0.29
AirProducts APP	143.88 -1.08	CMS	CMS 47.02 -0.54	FidelityNtlfn	FIN 85.22 -0.32
AlaskaAir ALK	88.92 -1.95	CNOOC	CO 108.80 -0.58	WUBA	WUBA 43.74 -0.55
Albermarle ALM	104.47 -0.55	CPLFenergia	CPL 15.81 -0.12	FirstData	FDX 194.30 -0.23
Alcoa AA	31.63 0.45	CRH	CRH 35.62 -0.52	FirstRepBank	FRC 98.90 -0.62
AlexandriaRealEst ADR	121.60 0.32	Citi	CIT 49.14 -0.13	FiatChrysler	FCAU 107.3 -0.13
Alibaba BAB	141.53 -1.20	CMS	CMS 47.02 -0.54	FibriaCelulose	FBR 10.06 -0.29
Allegany Y	58.76 0.37	CNOOC	CO 108.80 -0.58	FidelityNtlfn	FIN 85.22 -0.32
Allegion ALLE	80.59 -0.82	CPLFenergia	CPL 15.81 -0.12	WUBA	WUBA 43.74 -0.55
Allergan AGN	246.09 -0.28	CRH	CRH 35.62 -0.52	FirstData	FDX 194.30 -0.23
AllianceData ADS	259.96 -0.95	Citi	CIT 49.14 -0.13	FirstRepBank	FRC 98.90 -0.62
AllianceBernstein AB	23.25 -0.05	CMS	CMS 47.02 -0.54	FiatChrysler	FCAU 107.3 -0.13
AlliantEnergy LNT	41.12 -0.57	CNOOC	CO 108.80 -0.58	FibriaCelulose	FBR 10.06 -0.29
AllisonTransm ALSN	37.34 -0.38	CPLFenergia	CPL 15.81 -0.12	FidelityNtlfn	FIN 85.22 -0.32
Allstate ALL	88.17 -0.25	CRH	CRH 35.62 -0.52	WUBA	WUBA 43.74 -0.55
AllyFinancial ALLY	20.99 -0.23	Citi	CIT 49.14 -0.13	FirstData	FDX 194.30 -0.23
AlticeUSA ATUS	32.84 -1.04	CMS	CMS 47.02 -0.54	FirstRepBank	FRC 98.90 -0.62
Altisys MO	75.38 -1.15	CNOOC	CO 108.80 -0.58	FiatChrysler	FCAU 107.3 -0.13
AllianceBernstein AB	23.25 -0.05	CPLFenergia	CPL 15.81 -0.12	FibriaCelulose	FBR 10.06 -0.29
Allianz Allianz	1.41 -0.05	CRH	CRH 35.62 -0.52	FidelityNtlfn	FIN 85.22 -0.32
Almex AMX	16.27.11 0.35	Citi	CIT 49.14 -0.13	WUBA	WUBA 43.74 -0.55
Almico ALM	5.88 -0.36	CMS	CMS 47.02 -0.54	FirstData	FDX 194.30 -0.23
AmericoEng AG	46.08 -1.19	CNOOC	CO 108.80 -0.58	FirstRepBank	FRC 98.90 -0.62
AmericaMovil AMX	15.97 -0.19	CPLFenergia	CPL 15.81 -0.12	FiatChrysler	FCAU 107.3 -0.13
AmericaMovil AMV	51.71 -0.29	CRH	CRH 35.62 -0.52	FibriaCelulose	FBR 10.06 -0.29
AmCampus ACC	48.33 -0.37	Citi	CIT 49.14 -0.13	FidelityNtlfn	FIN 85.22 -0.32
AEP AEP	70.72 -0.15	CMS	CMS 47.02 -0.54	WUBA	WUBA 43.74 -0.55
AmericanExpress AXP	83.08 0.12	CNOOC	CO 108.80 -0.58	FirstData	FDX 194.30 -0.23
AmericanF In FG	98.56 -0.44	CPLFenergia	CPL 15.81 -0.12	FirstRepBank	FRC 98.90 -0.62
AmerHomesRnt ADR	22.44 0.03	CRH	CRH 35.62 -0.52	FiatChrysler	FCAU 107.3 -0.13
AIG AIG	63.41 0.23	Citi	CIT 49.14 -0.13	FibriaCelulose	FBR 10.06 -0.29
AmerTowerREIT AMT	135.75 0.29	CMS	CMS 47.02 -0.54	FidelityNtlfn	FIN 85.22 -0.32
AmerWaterWorks AWK	80.07 -1.14	CNOOC	CO 108.80 -0.58	WUBA	WUBA 43.74 -0.55
AlpenaGlobalMgmt APX	4.83 -0.10	CPLFenergia	CPL 15.81 -0.12	FirstData	FDX 194.30 -0.23
Altria MO	57.38 -1.15	CRH	CRH 35.62 -0.52	FirstRepBank	FRC 98.90 -0.62
AlumofChina ACH	12.37 -0.06	Citi	CIT 49.14 -0.13	FiatChrysler	FCAU 107.3 -0.13
Ambev ABEV	5.46 -0.03	CMS	CMS 47.02 -0.54	FibriaCelulose	FBR 10.06 -0.29
Ameren AEE	55.89 -0.54	CNOOC	CO 108.80 -0.58	FidelityNtlfn	FIN 85.22 -0.32
AmericaMovil AMX	15.97 -0.19	CPLFenergia	CPL 15.81 -0.12	WUBA	WUBA 43.74 -0.55
AmericaMovil AMV	51.71 -0.29	CRH	CRH 35.62 -0.52	FirstData	FDX 194.30 -0.23
AmCampus ACC	48.33 -0.37	Citi	CIT 49.14 -0.13	FirstRepBank	FRC 98.90 -0.62
AEP AEP	70.72 -0.15	CMS	CMS 47.02 -0.54	FiatChrysler	FCAU 107.3 -0.13
AmericanExpress AXP	83.08 0.12	CNOOC	CO 108.80 -0.58	FibriaCelulose	FBR 10.06 -0.29
AmericanF In FG	98.56 -0.44	CPLFenergia	CPL 15.81 -0.12	FidelityNtlfn	FIN 85.22 -0.32
AmerHomesRnt ADR	22.44 0.03	CRH	CRH 35.62 -0.52	WUBA	WUBA 43.74 -0.55
AIG AIG	63.41 0.23	Citi	CIT 49.14 -0.13	FirstData	FDX 194.30 -0.23
AmerTowerREIT AMT	135.75 0.29	CMS	CMS 47.02 -0.54	FirstRepBank	FRC 98.90 -0.62
AmerWaterWorks AWK	80.07 -1.14	CNOOC	CO 108.80 -0.58	FiatChrysler	FCAU 107.3 -0.13
ApartmentGroup ADR	16.27.11 0.35	CPLFenergia	CPL 15.81 -0.12	FibriaCelulose	FBR 10.06 -0.29
ApartmentGroup ADR	16.27.11 0.35	CRH	CRH 35.62 -0.52	FidelityNtlfn	FIN 85.22 -0.32
ApartmentGroup ADR	16.27.11 0.35	Citi	CIT 49.14 -0.13	WUBA	WUBA 43.74 -0.55
ApartmentGroup ADR	16.27.11 0.35	CMS	CMS 47.02 -0.54	FirstData	FDX 194.30 -0.23
ApartmentGroup ADR	16.27.11 0.35	CNOOC	CO 108.80 -0.58	FirstRepBank	FRC 98.90 -0.62
ApartmentGroup ADR	16.27.11 0.35	CPLFenergia	CPL 15.81 -0.12	FiatChrysler	FCAU 107.3 -0.13
ApartmentGroup ADR	16.27.11 0.35	CRH	CRH 35.62 -0.52	FibriaCelulose	FBR 10.06 -0.29
ApartmentGroup ADR	16.27.11 0.35	Citi	CIT 49.14 -0.13	FidelityNtlfn	FIN 85.22 -0.32
ApartmentGroup ADR	16.27.11 0.35	CMS	CMS 47.02 -0.54	WUBA	WUBA 43.74 -0.55
ApartmentGroup ADR	16.27.11 0.35	CNOOC	CO 108.80 -0.58	FirstData	FDX 194.30 -0.23
ApartmentGroup ADR	16.27.11 0.35	CPLFenergia	CPL 15.81 -0.12	FirstRepBank	FRC 98.90 -0.62
ApartmentGroup ADR	16.27.11 0.35	CRH	CRH 35.62 -0.52	FiatChrysler	FCAU 107.3 -0.13
ApartmentGroup ADR	16.27.11 0.35	Citi	CIT 49.14 -0.13	FibriaCelulose	FBR 10.06 -0.29
ApartmentGroup ADR	16.27.11 0.35	CMS	CMS 47.02 -0.54	FidelityNtlfn	FIN 85.22 -0.32
ApartmentGroup ADR	16.27.11 0.35	CNOOC	CO 108.80 -0.58	WUBA	WUBA 43.74 -0.55
ApartmentGroup ADR	16.27.11 0.35	CPLFenergia	CPL 15.81 -0.12	FirstData	FDX 194.30 -0.23
ApartmentGroup ADR	16.27.11 0.35	CRH	CRH 35.62 -0.52	FirstRepBank	FRC 98.90 -0.62
ApartmentGroup ADR	16.27.11 0.35	Citi	CIT 49.14 -0.13	FiatChrysler	FCAU

BANKING & FINANCE

Wanted at the Fed: a Community Banker

White House searches to fill post but can't find someone willing to shed ownership

BY KATE DAVIDSON AND RACHEL WITKOWSKI

The Trump administration is struggling to find a nominee for the Federal Reserve board with community-banking experience, delaying plans to fill two other Fed vacancies, including a key regulatory post.

The problem: They can't find somebody willing to take the job.

Ethics rules require Fed governors and their immediate family members to divest themselves of holdings in any financial firms to avoid potential conflicts of interest. But many of the country's small banks are privately held and run by third- or fourth-generation executives.

Since President Donald Trump took office, at least three community-banker candidates who had been recommended for the job either bowed out or declined to be

considered over concerns about selling their stakes in their banks, according to people familiar with the matter.

This reluctance has held up the administration's plans to submit nominees for all three Fed board openings together to the Senate for confirmation. It could delay the community-banker nomination into the fall, the people said.

The divestiture requirement is "an impediment to the administration finding a community banker, unless they find a retired banker who's already divested their interests," said Camden Fine, chief executive of the Independent Community Bankers of America.

The problem isn't a new one—the Obama administration also had trouble finding a community banker willing to be considered for the position—but it has broader implications for the Trump administration's regulatory agenda.

Mr. Trump has three vacancies to fill on the seven-member Fed board. He also can nominate any board member to serve as vice chairman for supervision, a role created by the 2010 Dodd-Frank law but never



JB REED/BLOOMBERG NEWS

Randal Quarles is expected to be nominated to one of three openings on the Federal Reserve Board.

formally filled during the Obama administration.

Without a vice chairman for supervision, the Trump administration is missing a key player to carry out its plans for overhauling financial regulations, including rolling back portions of Dodd-Frank.

White House spokeswoman Natalie Strom said in a statement, "The President takes the responsibility of nominating individuals to the Federal Reserve board very seriously, as whoever he chooses will have a major impact on the future of U.S. economic policy. We are in the process of reviewing a wide range of incredibly qualified candidates for all the open positions on the board and will announce the President's selections at the appropriate time."

Mr. Trump is expected to nominate Randal Quarles, a

top Treasury Department official in the George W. Bush administration, to the regulatory post. Mr. Trump also is considering former Federal Reserve Bank of Richmond economist Marvin Goodfriend for another board slot.

The quest for a candidate with small-bank experience is part strategy, and part necessity.

Community bankers generally enjoy broad support on Capitol Hill. Packaging the nomination of a small-bank candidate with two other Fed nominees could make it easier for all three to win Senate approval, though the administration could choose to move ahead with two nominees.

Congress amended the Federal Reserve Act two years ago to require that at least one Fed board member have community-banking experience. The Obama administration sought out small bankers to meet the requirement but encountered similar difficulties as Trump officials.

"Just the prospect of having to sell, divest myself and my family of my organization—that does not support commu-

nity banking into the future in my opinion," said Rebeca Romero Rainey, CEO of Centinel Bank in Taos, N.M., who had been under consideration for a Fed seat during the Obama administration.

President Barack Obama nominated retired Bank of Hawaii CEO Allan Landon in early 2015, but the Senate never voted on his nomination, which expired when Mr. Obama left office.

Trump administration officials have been searching for possible Fed candidates since the weeks after the November election. During a March 9 meeting at the White House, Mr. Trump told a group of community bankers that he was very close to naming a person with small-bank experience to the Fed.

Once a regulatory nominee is selected, the process for security and ethics reviews takes about two months.

The administration could satisfy the community-banker requirement with a state bank regulator.

—Ryan Tracy
and Peter Nicholas
contributed to this article.

The Big Bicycle Roundup in China



ANTHONY LONDON NEWS PICTURES/ZUMA PRESS

SOME LOCAL COLOR: Officials in Hangzhou confiscated thousands of improperly parked bicycles owned by bike-sharing services, a booming business in China.

Wall Street Presses SEC Over EU Law

BY DAVE MICHAELS

WASHINGTON—The Securities and Exchange Commission is weighing how to alleviate the harshest side effects of a European Union law that could have U.S. repercussions for banks trying to comply with it.

The EU law, which goes into effect in January, will require investors to pay directly for investment research provided by banks' brokerage arms.

The EU measure aims to make research costs more transparent for end investors by breaking them out separately from the trading commissions that investment firms pay.

U.S. law discourages paying for research directly by imposing stricter legal obligations on brokers that accept separate payment for research. U.S. rules have for many years ac-

commodated the current arrangement, which dates to an era when commissions were fixed by exchange rules and brokers competed by offering extra services such as research reports. The extra responsibilities would entail higher legal costs and complicate brokers' roles as sellers of stocks and bonds, according to industry officials.

Wall Street wants to avoid that outcome, and two Republican lawmakers took up their cause on Tuesday at a Senate budget hearing by urging SEC Chairman Jay Clayton to find a solution.

Sens. Jerry Moran (R., Kan.) and John Boozman (R., Ark.) both asked Mr. Clayton to help U.S. firms avert the worst outcome—brokers withholding their research from European clients to avoid the repercu-

sions of the European regime, known as MiFid II, for Markets in Financial Instruments Directive.

"I am not certain that the power we have will be able to facilitate all relief that people

might want, but this is something that the staff is very much looking to do," Mr. Clayton said, adding that the SEC needs the cooperation of European regulators to fully ease the impact on U.S. firms.

"We are looking to ensure

the fear that people have—that research becomes restricted—does not occur," said Mr. Clayton, who didn't give details on how the SEC might provide the relief.

The rules targeting how research is financed are one of the most controversial aspects of MiFid II. Industry officials say it is especially murky how MiFid II's rules would apply to global asset managers that have significant operations in Europe but also invest in the U.S. and Asia.

One likely outcome of the proposed rules will be a significant scaling down of banks' investment-research divisions as they struggle to find customers willing to pay for research directly. Some banks and brokers already are taking a hard look at their less used analyst and research teams,

according to industry officials.

The Securities Industry and Financial Markets Association, the biggest trade group of U.S. broker-dealers, wants the SEC to clarify that complying with the European rules won't trigger stricter obligations in the U.S., such as restricting their ability to trade with customers who buy their research.

The SEC could temporarily exempt brokers from the fallout while U.S. and European regulators hash out how their rule sets can coexist without disrupting the business model of U.S. firms.

In the longer term, the agency also could issue legal guidance that grants more certainty to Wall Street that they can charge European clients separately for research without having to comply with stricter U.S. requirements.

FINANCE WATCH

PUERTO RICO

Bond Insurers Sue Oversight Panel

Bond insurers are suing Puerto Rico's financial oversight board over a \$9 billion utility debt-restructuring agreement, accusing the U.S. territory's financial supervisors of improperly withholding approval of the deal.

Assured Guaranty Ltd. and MBIA Inc.'s National Public Finance Guarantee Corp. on Monday asked for a court order requiring the federal board overseeing Puerto Rico's finances to accept a settlement covering its power monopoly.

The lawsuit represents a last-ditch attempt to keep the public power monopoly known as Prepa out of bankruptcy. But the

chances of salvaging the restructuring deal are slim given that Prepa owes a \$453 million debt payment on July 1.

The debt agreement has failed to gain sufficient support among the oversight board's seven voting members.

—Andrew Scurria

SNAP

Lockup Expiration Nears for Shares

A portion of Snapchat parent Snap Inc.'s reserved shares will be unleashed for trading next month and shareholders could be in for some turbulence.

The stock has swung widely since its initial public offering in March and could move even more as shares approach the

lockup expiration date. Until July 30, some Snap insiders and investors have been restricted from selling shares, according to data provider Dealogic.

About 60% of Snap's shares outstanding will be unlocked, according to MKM Partners, and another chunk of shares will be free to sell in August, for a total of over 80% of its shares released. Snap is down about 29% from its first trading day's close. On Tuesday, shares rose 0.3%, to \$17.34, near its IPO price of \$17.

Other internet stocks haven't performed well ahead of this date. Technology heavyweights like LinkedIn, Facebook and Twitter have fallen an average of 14% the week before the expiration date, according to MKM's Rob Sanderson, an internet analyst.

—Gunjan Banerji

APOLLO

Continued from page B1
out firms fell 14% in 2016, while deal count dropped 18%, according to Bain & Co.'s Global Private Equity Report 2017.

This, coupled with a strong fundraising environment, resulted in firms accumulating a record \$1.5 trillion of dry powder, according to the same report.

The rate at which Apollo has been able to deploy the money it raises is likely to have played a role in encouraging investors to back the fund.

Despite a wider slowdown, Apollo spent \$9.6 billion on private-equity deals in 2016, a record for the firm. The flagship strategy can switch

between buyout deals and distressed investments, boosting its capacity to spend.

Adding to the dry powder, London-based CVC Capital Partners gathered €16 billion (\$18.14 billion) earlier in June, the biggest fund ever raised by a European manager, while U.S. buyout giant KKR & Co. closed record Asia and North American funds at \$9 billion and \$13.9 billion, respectively.

Private-equity firms have generated consistently strong returns over the past decade, a performance that has fueled investor demand.

Over the past five years buyout shops have delivered an average net internal rate of return of 15.84%, according to data provider Preqin Ltd.

—Dawn Lim

Contributed to this article.

Madoff Sons' Estates in Settlements

BY ANDREW SCURRIA

The estates of Bernard Madoff's two deceased sons, Mark Madoff and Andrew Madoff, reached a \$23 million settlement to help make up for investors' losses in their father's Ponzi scheme.

The deal will strip "all assets, cash, and other proceeds" of the fraud from the estates of Mark Madoff, who committed suicide in 2010, and Andrew Madoff, who died of cancer in 2014, according to settlement papers filed Monday.

Under the deal, which ends nearly eight years of litigation against the brothers, the estates also withdrew roughly \$100 million in compensation claims in the court-supervised bankruptcy of Bernard Madoff's phantom securities firm.

Mark Madoff's widow, Stephanie Mack, as well as other entities connected to the brothers are also covered by the deal and will face no further asset-recovery efforts by liquidating trustee Irving Picard and the U.S. Justice Department.

Neither Mark Madoff nor Andrew Madoff was criminally charged in connection with their father's crimes; they insisted they knew nothing until he confessed to the scheme before his arrest in 2008.

"This settlement finally brings closure to Mark and Andrew's families," Martin Flumenbaum, a lawyer for the brothers' estates, said in a statement. "As we have stated from the outset, and as the facts have demonstrated, neither Mark nor Andrew was aware of Bernie Madoff's heinous fraudulent scheme."

Mr. Picard will receive half the settlement money to distribute to Madoff customers, adding to the \$11.6 billion he already has recovered on their behalf. The other half is earmarked for a separate victim compensation fund administered by the Justice Department that plans to distribute money to thousands of indirect investors who lost money in the Ponzi scheme but didn't recover anything in bankruptcy court.

Bernard Madoff is now serving a 150-year federal prison sentence related to the Ponzi scheme.

The bankruptcy trustee had filed a lawsuit demanding the return of more than \$153 million in allegedly tainted funds from the brothers, who were executives at Bernard Madoff's firm.

In July 2014, a third amended version of the complaint alleged that they deleted or altered records during an audit to conceal the fraud from regulators. It added information that the trustee said demonstrated the brothers' complicity in the fraud and how they allegedly benefited from it.

MARKETS

Activist Funds Take Aim at Europe

Cheap valuations and greater protection for minority shareholders support the trend

BY LAURENCE FLETCHER

Activist hedge fund **Third Point LLC**'s \$3.5 billion stake in **Nestlé** threatens to make life awkward for the world's largest packaged-food company. Several funds in Europe's nascent market for shareholder activism are already creating a nuisance for the region's companies for much less money.

Several managers have recently made trades in which they have snapped up shares in a European company controlled by a larger owner—often one trying to buy up the remaining shares of that company.

Using tactics ranging from letters to the board to threats of legal action, funds often allege unfair or abusive practices by the majority owner that they say could depress the value of their stakes. One possible outcome is that the bigger owner, either on merit or simply to put matters to bed, buys out the investor at a favorable price.

Hedge funds' calls for change are often strengthened because rules in some European countries can offer minority shareholders greater protection than they may be afforded elsewhere.

"The bet by the activist is that the bidder has got so much face invested in the company, are they really not going to pay an extra few percent?" said a senior executive at one of Europe's largest hedge funds, which runs more than \$10 billion in assets.

Elliott Advisors, the European affiliate of Paul Singer's **Elliott Management Corp.**, is involved in a number of such battles. These include a dispute with Japanese electronics maker **Hitachi Ltd.**, the majority owner of Italian rail signal-



Workers of STS Ansaldo in Italy. The Hitachi-owned rail-signaling company is involved in a dispute with Elliott Management.

ing firm **STS Ansaldo**.

STS didn't respond to a request for comment.

The hedge fund, which this year set up a website to put forward its case, has highlighted what it says "appears to be the collusive nature" of Hitachi's purchase. "Hitachi has vigorously contested this claim at each possible occasion. No evidence of collusion has ever been provided," said a Hitachi spokesman.

Paris-based activist **CIAM**, already involved in a long-running legal dispute with **Walt Disney Co.** over its actions in relation to Euro Disney, has this month filed a criminal lawsuit over the way **Altice NV** has used the assets of telecom company **SFR Group**, which it majority owns. Last month CIAM wrote to SFR's

board, expressing concerns about a fee it said would be paid to use Altice's brand. A spokesman for Altice said this issue had been "answered in a precise and complete manner without raising any comment" from CIAM.

"Majority shareholders often consider that minority shareholders don't exist," said Catherine Berjal, chief executive of CIAM, speaking more broadly. "We have to remind them that they do."

Reade Griffith, founding partner at London-based **Polygon Global Partners LLP** who runs \$850 million in event-driven assets, said minority-rights trades were an area he sees as particularly attractive.

"European regulatory regimes are generally more protective of minority sharehold-

ers than you see in U.S. We keep a particularly close eye on changes in the ownership stakes of majority shareholders as part of our investment process," said Mr. Griffith.

While individual situations will vary, these trades can be particularly attractive when markets are rising and the economy is improving, as has been the case in a resurgent Europe since the start of the year.

A large investor trying to buy a majority stake or the entire company may be a signal to a hedge fund that the target company's underlying business is improving more quickly than the market realizes.

Meanwhile, rules in Europe, while fragmented across countries, tend to give smaller shareholders more protection

than in the U.S. Thresholds at which minority shareholders can be forcibly 'squeezed out' of a company tend to be higher.

"A rising economy, in which people and companies are more confident about what's going on and where financing is readily available, is a perfect environment for squeezes," said Christopher Rossbach, managing partner of London-based investment company **J. Stern & Co.**

Europe could see more of such trades because the different rules in different countries make for greater opportunities for arbitrage, he said. "Investors are getting better at understanding and standing up for their rights," he said.

—David Benoit contributed to this article.

Euro Surges Vs. Dollar After Speech By Draghi

BY CHERSEY DULANEY

The euro notched its biggest daily rise against the dollar in a year on Tuesday after upbeat comments from European Central Bank President Mario Draghi fueled speculation

that the central bank could soon unwind its quantitative-easing program.

The euro surged 1.4% to \$1.1340, its biggest one-day percentage gain since last June.

In a closely watched speech at the ECB's annual economic-policy conference, Mr. Draghi said the ECB's stimulus will be gradually withdrawn as the eurozone economy improves.

The ECB is widely expected to announce in September or October that it will start to wind down its bond purchases in 2018.

Expectations for tighter monetary policy from the ECB have driven the euro up nearly 8% against the greenback this year, making it the best-performing developed-market currency.

Meanwhile, the dollar was mixed as investors digested comments from Federal Reserve officials and developments in Washington.

The WSJ Dollar Index, which measures the U.S. currency against 16 others, fell 0.4% to 88.35.

The dollar slid against the euro and oil-linked currencies such as the Swedish krona but rose against the Japanese yen and many emerging-market currencies.

In a speech Tuesday, Federal Reserve Chairwoman Janet Yellen reiterated her view that U.S. interest rates will continue to rise gradually.

Investors have been watching speeches from Fed officials closely after the central bank stuck to its projection for one more interest-rate increase in 2017 at its meeting earlier this month despite a recent slowdown in inflation.

ECB Remarks Spark Global Bond Selloff

BY MIN ZENG

European Central Bank President Mario Draghi sparked a broad wave of selling in government bonds of the developed world, highlighting investors'

CREDIT MARKETS vulnerability when major central banks pivot toward a less accommodative monetary policy.

The center of the selling was government bonds in the eurozone. The yield on the 10-year German bund, the benchmark for the eurozone's debt markets, posted the biggest one-day rise since December 2015, according to Tradeweb. Yields rise as bond prices fall.

The selling pressure spread to government bonds in Denmark, Sweden, the U.K. and the U.S., pushing up the yield on the benchmark 10-year Treasury note from its 2017 low

set Monday. The 10-year Treasury yield settled at 2.198%, up from 2.135% Monday.

In the U.S., the Bank of America Merrill Lynch MOVE index, which measures investors' expectations of price swings in the Treasury market, ticked up to 52.10 on Tuesday, after settling at 50.02 Monday for its lowest reading since its record lows in 2013. Shortly after the record lows, bond yields soared as investors were spooked by then Federal Reserve Chairman Ben Bernanke's comments that the central bank might start reducing bond buying soon. Bond investors who loaded up on Treasurys and riskier debt saw the value of their holdings fall.

Mr. Draghi hinted Tuesday that the ECB might start winding down its large monetary stimulus as the eurozone economy picks up speed, even as he warned against an abrupt

end to years of easy money.

The comment surprised many investors because Mr. Draghi appeared to be more hawkish compared with his comment earlier this month, fueling anxiety that the value

Mario Draghi hinted that the European Central Bank might start winding down its stimulus.

of government bonds would fall when the central bank starts to reduce its monthly large bond purchases.

"It is the risk that policy accommodation may be removed sooner than previously thought, spelling trouble for investors," said Christopher Sullivan, chief investment officer

at the United Nations Federal Credit Union.

The yield on the 10-year German bund rose to 0.37%, the highest close since May 24, from 0.249% Monday, according to Tradeweb. Italy's bond market was the hardest hit, with the 10-year bond yield soaring to 2.052% from 1.893% Monday.

The ECB's large bond-buying program, along with that from the Bank of Japan, has been a big factor pushing down global government-bond yields to their historically low levels over the past few years.

The buying has helped keep a lid on U.S. Treasury yields even as the U.S. labor market is approaching full employment and the Fed has raised interest rates four times since December 2015.

Tuesday's selling reminds bond investors of the broad ripples from central-bank poli-

cies as these banks become a large presence in the world's major government-debt markets. As the world's financial markets are increasingly correlated and with trading increasingly automated, a selloff or rally in one market easily transfers into other peers'.

Investors remember the 2013 taper tantrum in the Treasury market after Mr. Bernanke's comments. The selloff rippled to other bond markets, pushing up long-term borrowing costs and undercutting the growth momentum.

Brian Brennan, portfolio manager at T. Rowe Price, said the risk of a tantrum type of selloff is low at the moment. Still, he said government bonds are rich in valuation and investors tend to "frontrun" central-bank policies, which leaves bondholders vulnerable when sentiment sours. —Ben Eisen contributed to this article.

U.S. Stocks Log Biggest Daily Decline in a Month

BY AKANE OTANI AND RIVA GOLD

A broad pullback in U.S. stocks sent the Dow Jones Industrial Average and the S&P 500 to their biggest daily declines in more than a month.

LOSSES ACCCELERATED in afternoon trading on Tuesday, pulling 10 of the 11 sectors in the S&P 500 lower.

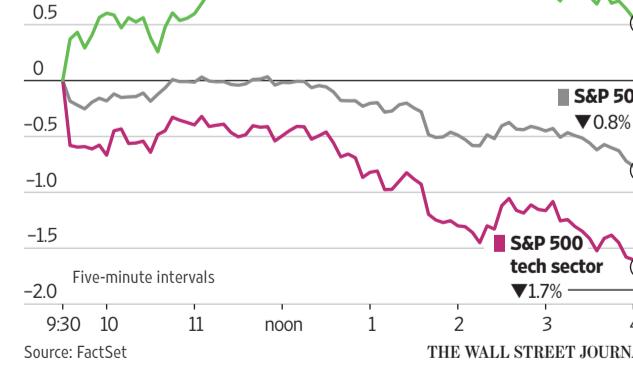
Financial stocks jumped with government-bond yields, while technology stocks—one of the leaders in the stock market this year—led declines.

It was the latest stumble for tech, which has rallied in 2017 as investors bet on companies they perceive to have relatively high growth potential. The tech sector has fallen 2.1% in the S&P 500 this month but is still up 17% this year.

Meanwhile, some traders said Senate Republicans' decision to delay a vote on their health-care overhaul was adding to concerns about the prospects for President Donald Trump's agenda.

Expectations of tax cuts, fiscal stimulus and infrastruc-

Slipping Technology shares led U.S. stocks lower Tuesday, despite a strong showing by financials.



ture spending helped stocks climb after the November presidential election.

Investors want this signed so we can move on to tax reform," said R.J. Grant, director of equity trading at KBW Inc.

The Nasdaq Composite fell 100.52 points, or 1.6%, to 6146.62, posting its biggest one-day percentage drop since June 9, the start of the recent

weakness in tech shares.

The Dow Jones Industrial Average lost 98.89 points, or 0.5%, to 21310.66, with declines in **Apple** and **Microsoft** shaving roughly 23 points off the index. The S&P 500 dropped 19.69 points, or 0.8%, to 2419.38. It was the indexes' biggest one-day declines since May 17.

Shares of Google parent Al-

phabet fell \$24, or 2.5%, to \$948.09, after the European Union's antitrust regulator fined Google €2.42 billion (\$2.71 billion) for favoring its own comparison-shopping service in search results. Chip maker **Nvidia** dropped 5.5%, or 3.7%, to 146.58, and Microsoft shed 1.32, or 1.9%, to 69.21.

"Google's had a nice run, and I think there are people taking off some exposure from the space prior to the month-end," said Mohit Bajaj, director of ETF trading solutions at WallachBeth Capital.

Rising government-bond yields rippled through the stock market, after European Central Bank President Mario Draghi expressed confidence that eurozone inflation would ultimately pick up as growth broadens, and hinted that the bank might start winding down its large monetary stimulus.

Utilities shares, which are often thought of as bond proxies because they pay relatively high dividends, fell 1.3% in the S&P 500 as U.S. government bonds weakened.

Meanwhile, financial stocks in the index rose 0.5%. Higher

rates tend to boost net-interest margins, a measure of lending profitability.

The euro climbed 1.4% to \$1.1340. The Stoxx Europe 600 dropped 0.8%, with technology and utilities shares among the biggest decliners.

Early Wednesday, Japan's Nikkei was flat, while Hong Kong's Hang Seng Index was down 0.3%. South Korea's Kospi, which has had a string of record closes, was down 0.1%.

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 \$124,329,262,900
Accepted bids \$40,000,012,900
*noncompetitively \$38,318,400

*foreign noncompetitively \$0
Auction price (rate) 99.930/778 (0.890%)

Coupon equivalent 0.903%

Bids at clearing yield accepted 14.25%

Cusip number 912796LLI

The bills, dated June 29, 2017, mature on July 27, 2017.

FIVE-YEAR NOTES

Applications \$83,352,058,500
Accepted bids \$38,132,873,500
*noncompetitively \$50,879,000
*foreign noncompetitively \$0

Auction price (rate) 99.628/909 (1.828%)

Interest at clearing yield accepted 1.751%

Cusip number 91282XW5

The notes, dated June 30, 2017, mature on June 30, 2022.

MARKETS

A Bond-Investing Conundrum Returns

Concerns arise that Fed moves might hurt the economy or affect asset-allocation plans

By MIN ZENG

The U.S. bond market is defying the Federal Reserve again.

The central bank has raised short-term interest rates four times beginning in December 2015 and pushed up the key policy rate by one percentage point. Yet the yield on the benchmark 10-year Treasury note settled at 2.198% on Tuesday, below the 2.269% where it settled before the Fed's first rate increase since 2006. Yields fall as bond prices rise.

The tension reminds some investors of the "conundrum" described by Alan Greenspan, then Fed chairman, in February 2005. Mr. Greenspan was puzzled by long-term Treasury yields that were ticking lower despite increases in the federal-funds target rate.

"I think it's part of the same conundrum, maybe just a bond-market conundrum redux," said Michael Collins, senior portfolio manager at PGIM Fixed Income.

Resolving that quandary is key to investors and Fed policy makers because of concerns the central bank's moves to normalize interest rates could dent the economic expansion, already the third longest in U.S. history. Some worry it could also affect asset-allocation strategies at a time when many are concerned that stock valuations could be stretched.

If low interest rates push investors into excessive risk-taking, the Fed may need to tighten monetary policy more drastically, a scenario that could cause a sharp pullback in stocks and other riskier assets and raise the threat of a U.S. recession, some investors said.

Recently, Eric Rosengren, president of the Federal Re-

Tug of War

Yields on long-term U.S. government bonds have fallen even as the Federal Reserve has raised interest rates, reflecting a disconnect between investors and the central bank. Demand for 10-year Treasurys has strengthened relative to shorter-term debt, as measured by falling premiums. Volatility is low, credit is relatively easy and the world remains awash in low and negative-yielding debt.

Term premium on the 10-year Treasury note*



Yield premium, 10-year Treasury note relative to two-year note



Bank of America Merrill Lynch MOVE Index**



National Financial Conditions Index†



Market value of bonds trading with negative yields within the J.P. Morgan Global Government Bond Index



*The extra compensation investors demand to hold the 10-year Treasury note instead of buying a series of shorter-term debt over the next 10 years.

**Measures implied Treasury-bond price swings based on options †Negative values indicate financial conditions that are looser than average.

Sources: Federal Reserve Bank of New York (term premium); Tradeweb (yield premium); Bank of America Merrill Lynch (MOVE index); Federal Reserve Bank of St. Louis (conditions index); J.P. Morgan (market value)

serve Bank of Boston, said that the era of low rates in the U.S. and elsewhere poses financial-stability risks. And Fed Vice Chairman Stanley Fischer said the world "cannot afford another pair of crises of the magnitude of the Great Recession

and the global financial crisis."

Fed officials don't want to see a sharp rise in bond yields either, some analysts said. The 10-year Treasury yield is a benchmark for global finance, so a big rise would push up long-term borrowing costs for consumers

and businesses and tighten financial conditions sharply, a scenario central bankers are trying to avoid, several said.

The Fed's conundrum is partly a result of investors' confusion about how to respond to the central bank's

plans, which also include paring back its large balance sheet later this year.

Yields have risen on short-term government debt, which is more sensitive to the central bank's policy outlook. But yields on long-term debt are

influenced by a variety of factors, including the economic and inflation outlook in both the U.S. and abroad.

In previous tightening cycles, a popular trade was to sell short-term debt and put money into long-term bonds, betting on the gap between the two yields to fall, which is known as a flattening yield curve. The 10-year Treasury's premium relative to the two-year note is trading near the lowest level since 2007.

But some investors are concerned that this trade may be getting crowded and could be vulnerable to a reversal if the Fed surprises investors with an aggressive approach in unwinding its balance sheet.

That balance-sheet reduction could push up the term premium for the 10-year note, say some analysts and investors. The term premium is the extra compensation investors demand to hold the 10-year Treasury note instead of buying a series of shorter-term debt over the next 10 years.

The premium has fallen below zero since March, a sign of heightened demand for the 10-year note. The premium traded at around negative 0.4% on June 23, according to the latest data from the New York Fed's website, near a record low of negative 0.77% in July 2016, when the 10-year yield closed at a record low of 1.366%.

Some money managers said the Fed's slow and cautious approach could reduce the chances of a repeat of the 2013 "taper tantrum," when the bond market was spooked by then Fed Chairman Ben Bernanke's comment over a possible cut in bond purchases.

Several said they planned to wait for the actual implementation of the Fed's balance-sheet reduction before making wagers on the yield curve.

"The old playbook may not work," said Jason Evans, co-founder of hedge fund NineAlpha Capital LP.

HEARD ON THE STREET

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FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Wireless Sector Waits for Relief

Cellphone Bills

Analysts' consensus estimates for capital expenditures in current fiscal year

AT&T	\$22.3 billion
Verizon	\$16.9
Sprint	\$5.6
T-Mobile	\$5.1

Note: Sprint's fiscal year ends in March.

Other carriers are on a calendar year.

Sources: FactSet; Bloomberg News (photo)

THE WALL STREET JOURNAL.



Sprint is in talks with Comcast and Charter Communications.

competitors because it would reduce the likelihood of industry consolidation through the hoped-for merger of Sprint and T-Mobile US. It also would lower the cost of offering wireless service for the two cable companies, further exacerbating wireless competition. The optimistic view is that Sprint is talking to the cable guys to get T-Mobile and its majority

owner Deutsche Telekom to agree to a deal on more fa-

vorables terms.

Shares of T-Mobile fell 3% Tuesday, while shares of Verizon Communications and AT&T declined 2% and 1%, respectively.

Comcast and Charter, both of which have a deal with Verizon to use its network for their wireless services, would get another national network to use at terms that could be significantly more favorable.

By using their existing infrastructure, the cable compa-

nies could cut the amount that Sprint needs to invest. That would account for the bulk of the \$35 billion to \$40 billion in savings that would come from a deal, according to New Street Research. A deal between Sprint and T-Mobile could save around \$44 billion, New Street says.

T-Mobile may still be Sprint's first choice for a partner, but even under a Republican administration, a merger with a close rival would come with significant regulatory risk. Sprint abandoned its earlier pursuit of T-Mobile in 2014 when regulators signaled they would block a deal. T-Mobile may be pushing for a high breakup fee, in addition to greater control over the combined company. By talking with cable, Sprint is showing T-Mobile it, too, has leverage. Investors need to watch for signs that the cable talks are merely a distraction from a merger of Sprint and T-Mobile. That deal would be a first step in easing the industry's struggles.

—Miriam Gottfried

OVERHEARD

Are young people getting lazier?

The millennial generation of people born after 1980 gets a lot of bad press, but data from the Labor Department's annual American Time Use Survey don't entirely support the negative stereotypes.

True, people between the ages of 25 and 34 worked less in 2016 than people the same age did 10 years prior. Among those employed, they worked an average 14 minutes less a day, according to survey results released Tuesday.

They also spent an average eight minutes more a day sleeping.

Compared with 2006, young people last year spent 15 minutes less a day watching television and seven minutes less a day purchasing goods and services, both arguably due to smartphones.

Millennials don't seem so bad. The real slackers may be the Labor Department, which still tracks time spent gardening, but not smartphone use.

Google Pays Small Price For Scale

For Big Tech, the benefits of scale come with a price.

That, at least, seems to be the main upset from the European Union's record-breaking fine against Google on Tuesday. At \$2.7 billion, the fine amounts to about 3% of parent company Alphabet's net cash. The real question is how Google does business in a world in which its scale conveys distinct advantages, along with some costs.

The answer is that business will stay big and will go on, though perhaps a bit more slowly and carefully.

Microsoft and **Intel** have been penalized by past EU rulings. But those penalties didn't cost nearly as much as some of their own bad business decisions, specifically ones that caused them to miss the first wave of the smartphone revolution.

Microsoft's market value of \$540 billion is approaching the peak it enjoyed when it ruled the PC market and is double the company's value from when the EU handed down its first big fine in 2004.

Microsoft has been able to use the scale of its network to propel its business forward, even in a world in which Windows doesn't power all the computing devices on that network.

Google enjoys the scale of a global network that powers a search business with no real challengers.

And that is the reality for Big Tech. Google, Microsoft, **Amazon.com**, **Apple** and **Facebook** are now of a size that will invite scrutiny by regulators. That scrutiny won't always be flattering, and will sometimes bear a cost. But scale in tech is difficult to dislodge, even for governments determined to do so.

—Dan Gallagher

Chip Maker Micron Technology Keeps Defying Skeptics

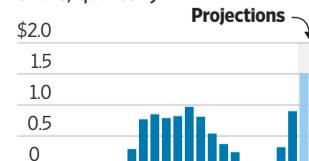
It is telling that just when **Micron Technology** is back to making serious money, the first question is: How long can that last?

The maker of DRAM and NAND flash memory chips reported just over \$1 billion in operating income in its last quarterly report and is expected to report another \$1.9 billion on Thursday for the period ended in May. That puts Micron on track to post more than \$5 billion in operating earnings for the fiscal year ending in August, which would be a company record.

Micron barely broke even on an operating basis in the latest fiscal year, so its

Memory Haze

Micron's adjusted earnings per share, quarterly



Source: FactSet

newfound fortune is particularly impressive. And investors have learned to be cautious, given the highly cyclical nature of the memory-chip business. Micron has lost money in

five of the past 10 fiscal years.

The stock also lost about one-third of its value in 2015 following a sustained decline in memory prices.

Micron's stock has since gained back most of that ground. And there is more room to run. While spot prices for DRAM have been flat to slightly down over the past few months, they are nearly twice their level from a year ago but still well off their peak over the past five years, according to DRAMEXchange. Prices for NAND flash are also still well below their peak. And pricing can still improve from new demand being

generated by growth markets such as data centers and cars as well as this year's smartphone cycle, which will include a 10th-anniversary edition of the iPhone.

The big question is whether supply will stay rational. The future ownership of Toshiba's NAND production business is still unclear. And several Chinese companies are building new memory-chip production facilities there to advance that country's technology industry. Some of those are expected to come online next year. Harlan Sur of J.P. Morgan predicts several years until those companies catch up and field compet-

itive products, in part given their lack of intellectual property. Still, it is a dynamic investors should watch closely.

Micron, in the meantime, benefits from an improving cost structure that has lifted gross margins to their highest in more than a decade. And its rapidly expanding bottom line has made the stock cheap at just 5.5 times forward earnings, despite its recent gains. With the memory market expected to stay strong through the rest of the year, investors shouldn't worry about throwing a few more chips down on this bet.

—Dan Gallagher