

# THE WALL STREET JOURNAL.

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## GE Names New CEO Amid Slump

General Electric Co. Chief Executive Jeff Immelt will step aside this summer, ending a 16-year run atop a conglomerate that he significantly re-

By Thomas Gryta,  
Joann S. Lublin  
and David Benoit

the company's once-sprawling financial business.

"I felt like 15 or 16 years was plenty of time to be CEO," Mr. Immelt, who turned 61 earlier this year, said in an interview Monday. "Doing it until I'm 65 didn't make sense for the company and didn't make sense for me."

The change comes as GE has been under pressure by activist investor Trian Fund Management LP to slash costs and boost profits in the company's core industrial business. Mr. Immelt recently laid out a two-year cost saving target and revamped GE's bonus program under pressure from Trian.

When Mr. Immelt took over in 2001, GE got about half its

annual profit from its finance arm, GE Capital, and was one of the country's biggest lenders. Now, the company relies on selling and servicing jet engines, power turbines, hospital machines and oil-and-gas equipment for nearly all of its profit.

Mr. Flannery, in a meeting for employees Monday that was broadcast on Facebook, said he would be taking a look at the conglomerate's entire portfolio of businesses.

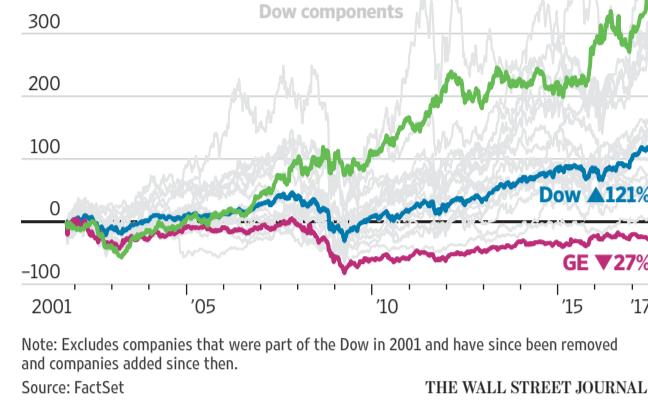
"I want to start with a fresh look around the company overall," he said, expecting to

Please see GE page A2

◆ New boss versed in deals... A2  
◆ Trian tensions may ease.... A2  
◆ Heard: Recharging returns.. B12

### Stock Shortfall

General Electric has been the worst performer in the Dow Jones Industrial Average since Jeff Immelt became its CEO in 2001.



Note: Excludes companies that were part of the Dow in 2001 and have since been removed and companies added since then.

Source: FactSet

THE WALL STREET JOURNAL.

GE's Jeff Immelt will step down as CEO this summer. He will be succeeded by John Flannery, the head of GE's health-care business. A1  
◆ The change in leadership may ease tensions with activist investor Trian. A2

◆ The Treasury proposed a broad rethink of financial regulations that would pare back curbs advanced by the Obama administration. A1

◆ Uber pushed out a top lieutenant of CEO Kalanick and installed a new voting board member with no prior ties to the company. B1

◆ Tech stocks declined for a second straight session, but several chip makers bucked the broader slump. The Dow fell 36.30 to 21235.67. B1, B11

◆ Authorities are probing the purchase of Coastal Energy, a deal that involved figures believed by investigators to be tied to the IMDB scandal. B10

◆ Viking plans to return \$8 billion to clients, saying downsizing gives the hedge fund more flexibility. B10

◆ Facebook is building a feature to let users subscribe to publishers directly from the mobile app. B4

◆ The Supreme Court issued a ruling that could allow cheaper, copycat versions of biotechnology drugs to be sold more quickly. B4

◆ Cybersecurity experts identified malware that knocked out electricity in Ukraine and warned U.S. companies of the risk. B4

◆ J.Crew announced a move it hopes will ease its debt load and give the firm more time to right its business. B3

### World-Wide

◆ Trump's travel ban was dealt another blow by a federal appeals court, which ruled that the president exceeded his powers. A3

◆ Sessions will testify before an open Senate panel and is likely to face questions about Comey interactions and Russian contacts. A4

◆ Trump was sued by two attorneys general, who allege payments by governments to his businesses are unconstitutional. A5

◆ The Army has commissioned a study to determine whether an anesthetic injection to the neck alleviates symptoms of PTSD. A1

◆ The White House asked Beijing to take action against firms and individuals that trade with North Korea. A6

◆ The Senate unveiled a package of additional economic sanctions aimed at punishing Moscow. A4

◆ Russian police detained hundreds of anticorruption protesters, including opposition leader Navalny. A9

◆ U.K. Prime Minister May told Conservatives she would take the party out of the "mess" she created after weak election results. A8

◆ France's National Front saw support crumble in Sunday's first round of parliamentary elections. A8

◆ Panama said it is breaking off all official contact with Taiwan and establishing diplomatic ties with China. A7

◆ Several donors pledged \$790 million for an effort to eradicate polio by 2020. A6

Ghost, a Swedish heavy-metal band, built a cult following over a decade using demonic pageantry and rhyming lyrics like "hypnotizing horns of ram" and "paralyzing pentagram."

Band members perform in eerie masks and keep their identities secret, adding to the group's mystique.

It all worked like a charm—

until a recent lawsuit unmasked the satanic musicians as a bunch of earthly beings.

In court papers and other documents, band members discuss such pedestrian matters as salaries, tour buses, laundry arrangements and how concert venues should prepare the bananas in their backstage spread.

"Don't put any fast food under our noses," the band tells venues.

In a realm where celebrities market their personal lives as much as their music, Ghost's anonymity was an anomaly that fans flocked to. The band's lead singer, Papa Emeritus, pairs skeletal face makeup with a pope hat bearing an inverted cross.

He performs while flanked by musicians known as Nameless Ghouls who wear silver-horned, mouth-less masks.

Please see GHOST page A10

### Warriors Wrest Back NBA Title

CHAMPS: The Golden State Warriors capped one of the greatest postseason runs in the history of the NBA, an unprecedented 16-1 romp through the playoffs, by winning the championship with a 129-120 win over the Cleveland Cavaliers in Game 5 of the Finals on Monday night. The victory gave the team its second crown in the last three years. A14



### BETS PILE UP ON WALL STREET'S FEAR INDEX

The VIX, which tracks volatility, spawned a giant trading ecosystem that could magnify losses

By ASJYLYN LODER  
AND GUNJAN BANERJI

Wall Street's "fear gauge" has neared all-time lows this year. That hasn't stopped retail investor Jason Miller from making a nice chunk of change betting it will go even lower.

The Boca Raton, Fla., day trader says he has made \$53,000 since the start of the year by effectively shorting the CBOE Volatility Index, nicknamed the VIX. That includes a white-knuckle day on May 17, when the VIX spiked 46% following reports that President Donald Trump had pressured former FBI Director James Comey to drop an investigation into former National Security Advisor Michael Flynn.

As the 40-year-old Mr. Miller recalls, he rode out the storm, confident the market

would revert to its torpid ways—which it did. "One person's fear is another person's opportunity," says Mr. Miller.

Volatility—or the lack of it—has become the central obsession of the markets as the S&P 500 trades around its all-time high. Invented 24 years ago as a way to warn investors of an imminent crash, the VIX has morphed into a giant casino of its own.

Volatility trading has wormed its way into many corners of the investing universe, including insurance products that guarantee retirement income and mutual funds that try to avoid the worst declines. Once the obscure province of academics and derivatives experts, volatility is now traded by would-be retirees alongside the most sophisticated hedge funds in the world.

Please see FEAR page A10

### This Satanic Band Demands Better Work Conditions

\* \* \*

Lawsuit unmasks mundane gripes over salaries, stinky costumes

By JOHN JURGENSEN

Ghost, a Swedish heavy-metal band, built a cult following over a decade using demonic pageantry and rhyming lyrics like "hypnotizing horns of ram" and "paralyzing pentagram."

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Please see GHOST page A10

## TRANSITION AT GENERAL ELECTRIC

# New Boss Is Versed in Deal Making

By JOANN S. LUBLIN  
AND KATE LINEBAUGH

John Flannery, the new leader of **General Electric** Co., brings to the corner suite a professional past that is more akin to a private-equity executive than an industrial operator.

The son of a bank executive, Mr. Flannery joined GE Capital in 1987 and worked around the globe buying and selling portfolios of undervalued assets. The Wharton M.B.A. made his mark leading the \$17 billion acquisition of Alstom SA's power business, the biggest industrial acquisition in the company's history.

Despite his financial background and long tenure at GE, Mr. Flannery has shown a willingness to break ranks. At GE's annual management retreat, Mr. Flannery stunned the crowd by abandoning the standard PowerPoint in his 2015 presentation, said people familiar with the matter.

"That takes guts because there are 600 people in the room," one of the people said.

One of four internal contenders to succeed Jeff Immelt for the top job, Mr. Flannery became the board's final pick based on his broad GE experience and inclusive leadership style, said another person familiar with the matter.

Mr. Flannery "is willing to contemplate significant change. He is quite bold in his thinking,"



John Flannery, left, who will succeed Jeff Immelt, right, as General Electric's chief executive, has a financial background.

said Shelly Lazarus, a longtime GE director. "He can cast a cold eye even though he is a very warm person." That was evident when Mr. Flannery took charge of GE's business-development team in 2013 and insisted on reviewing whether the company should stick with its assortment of businesses. "All of a sudden, everything was on the table," Ms. Lazarus said.

Mr. Flannery was born in

Alexandria, Va., and lived there for the first 10 years of his life with his two older sisters. His father worked for the Federal Deposit Insurance Corp. In 1971, Mr. Flannery moved to West Hartford, Conn., where his father was president of a small bank. He graduated from Fairfield University before going to business school at the University of Pennsylvania.

Like Mr. Immelt, he is a de-

voted Allman Brothers fan, going to some of the rock group's final concerts. He is a voracious reader of fiction and nonfiction, according to people familiar with the matter.

Mr. Flannery started working abroad for GE Capital in 1997 in Latin America and moved to Asia in 2005. He took a risk in 2009 by moving to India, where he ran the company's first separate profit-and-loss statement for a country.

After leaving India, he joined GE's corporate-headquarters team in 2013, where he ran mergers and acquisitions and showed a willingness to part with assets.

As head of strategic planning, Mr. Flannery pushed to exit from the underperforming appliances unit despite its long history inside GE, one person familiar with the matter said. Even though the business had been struggling for years, the company's earlier deal makers hadn't made the call to sell the business until Mr. Flannery took the job and Mr. Immelt agreed with him, the person said.

Mr. Flannery was also instrumental in the Alstom deal, arguing that the asset would be valuable to GE despite concerns about operating in France and improvements needed in the business, the person said. He negotiated directly with now-French President Emmanuel Macron, who was economy minister at the time, in a deal

that involved contentious negotiations, another person familiar with the matter said.

On Mr. Flannery's watch as head of GE's mergers-and-acquisitions team, he led the spinoff of its consumer-credit business, Synchrony Financial, and eventually sold its appliance business to a Chinese rival.

He stepped in to lead the health-care business in 2014 when the unit was struggling and some analysts called for GE to spin it off or sell it. Instead, Mr. Flannery and GE have doubled down. The unit, which makes imaging and diagnostic equipment, has been expanding into life sciences.

As chief executive, Mr. Flannery will receive a salary of \$2 million and a target bonus of \$3 million a year, according to a securities filing. Any long-term incentive paid to Mr. Flannery through 2018 will be made in stock.

Mr. Flannery will face different decisions than Mr. Immelt did when he took over in 2001 from Jack Welch, who had built up the conglomerate's media and financial business. Mr. Flannery faces calls for accelerated cost cuts and must complete a transformation begun by Mr. Immelt. "Jeff created the big apple," the first knowledgeable person said. "Now is time for John to polish it."

—David Benoit and Theo Francis contributed to this article.



Trian co-founder and activist investor Nelson Peltz

## Change May Ease Tensions With Trian

By DAVID BENOIT

In recent months, tension between **General Electric** Co. and activist investor Trian Fund Management LP had been gradually building as the industrial conglomerate's results and share price languished.

Now, with the planned departure of GE's longtime chief executive officer, Jeff Immelt, the chance of a public clash soon is greatly diminished.

Investors sent the stock climbing 3.6% to \$28.94 on Monday, adding nearly \$9 billion in market value, as new leader John Flannery promised a broad review of the business "with a sense of urgency."

Mr. Flannery is described by analysts and others close to the company as an executive who is in sync with Trian's thinking: He has a record of hitting financial targets, he is likely to focus on cash management, and he is driven by metrics that activists champion like return on spending and total stockholder returns.

Although Mr. Flannery spent much of his career in GE Capital and business development, he said he also had experience working abroad in emerging markets like India and running large business units. "I'm not coming to the table cold, if you will, about the company," he said on a conference call with analysts.

GE's succession planning process, which included external candidates, was narrowed to four internal candidates in about 2015: Mr. Flannery, finance chief Jeff Bornstein, Steve Bolze, who leads the power business, and the head of the oil and gas business, Lorenzo Simonelli.

Mr. Bornstein, who has been finance chief since 2013, will remain in that role and become a vice chairman. Mr. Flannery will take over as chairman of the board on Jan. 1. Mr. Simonelli will run a publicly traded oil and gas business that is being merged with Baker Hughes Inc., GE has previously said. It is unclear what role Mr. Bolze will play. Messrs. Bolze and Simonelli weren't available for comment.

Jack Brennan, the GE board's lead independent director, recently helped directors reach a consensus about Mr. Flannery. Over the past few weeks, Mr. Brennan called each board member and requested their preferred pick to succeed Mr. Immelt, according to Ms. Lazarus.

"You didn't have to give an answer," she said.

Ms. Lazarus said she endorsed Mr. Flannery because she liked his extensive international experience, humility and willingness to consider significant changes, including selling off big business units.

The other internal contenders "didn't know they didn't get it" until after Friday's board meeting ended, a person familiar with the matter said. Mr. Immelt said the company didn't plan to make any changes to its executive compensation plans to retain other top executives and was sticking to its recent financial forecasts.

Mr. Bornstein said he and Mr. Flannery have worked closely for more than 20 years and have a similar view in terms of return and capital allocation.

"He grew up as a corporate finance guy and has a deep understanding of value and value creation," Mr. Bornstein said on Monday's analyst call.

GE also said that Kieran Murphy, one of Mr. Flannery's lieutenants, would take over as CEO of the Healthcare unit. Mr. Murphy joined the company in 2008.

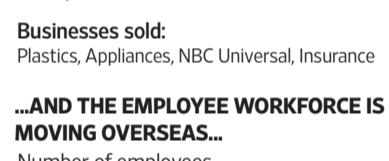
The chance for a public brawl was always smaller than in most activist situations, in part because the relationship started friendly. Mr. Immelt had been looking for support as he shed GE's towering finance business. Trian originally said the stock wasn't well understood and applauded Mr. Immelt's transformation, though it suggested more cost cuts and disciplined spending were needed.

## A Mixed Record

During his 16 years atop GE, Jeff Immelt sold off many of its consumer businesses and shrunk its once massive finance arm to focus on its industrial units.

### THE MAJOR REVENUE SEGMENTS AT GE HAVE SHIFTED...

#### Segments that shrunk



#### Businesses sold:

Plastics, Appliances, NBC Universal, Insurance

#### ...AND THE EMPLOYEE WORKFORCE IS MOVING OVERSEAS...

##### Number of employees



Note: Revenue excludes inter-segment sales.

Sources: FactSet (total shareholder return); company filings (number of employees and revenue)

nancial crisis. The conglomerate has refocused on its industrial businesses, shedding low-margin units like home appliances and striking a big oil-and-gas deal with Baker Hughes Inc. last fall.

But the company's shares have lagged behind peers and the broader stock market during Mr. Immelt's tenure, leaving it the worst performing current member of the Dow

Jones Industrial Average. The stock has fallen about 27% since Mr. Immelt took over days before the Sept. 11 terrorist attacks. Including dividends, GE gained 21% with Mr. Immelt at the helm, compared with a 207% rise in the S&P 500.

GE shares rose 3.6% to \$28.94 Monday.

Mr. Flannery is the former head of GE's India business

and former leader of its deals team.

On Mr. Flannery's watch, GE spun off its consumer credit business, Synchrony Financial; sold its appliance business; and purchased the energy business of Alstom SA.

He stepped in to lead the health-care business in 2014 when the unit was struggling and some analysts called for GE to spin it off or sell it. In-

GE, saying it is undervalued but supports Mr. Immelt.

◆ **February 2009:** Mr. Immelt forgoes 2008 bonus of \$12 million, and the shares hit a closing low of \$6.66 the next month.

◆ **February 2013:** GE sells its 49% stake in NBCUniversal to Comcast Corp. for \$16.7 billion.

◆ **April 2014:** Strikes deal to buy Alstom SA's power and grid businesses, its biggest ever industrial deal.

◆ **April 2015:** Mr. Immelt decides to sell off most of the GE Capital lending businesses.

◆ **October 2015:** Activist investor Trian Fund Management discloses it had taken a stake in

Wealth Management report article on Monday about college graduation rates.

In the June/July WSJ Magazine article about Gibbs Farm, one of the farm's Brahman cattle is pictured next to Bernar Venet's "88.5° ARC x 8" sculpture. The photo caption incorrectly identified the animal as a yak.

## Immelt's GE Years: The Reshaping Of a Conglomerate

Jeff Immelt became chairman and CEO of General Electric Co., one of the world's largest corporate conglomerates, in 2001. On Monday, the company said he would retire as CEO in August.

Here is a rundown of some of his accomplishments and the changes that occurred at GE under his leadership:

### ◆ Sept. 7, 2001:

Mr. Immelt becomes GE's chairman and CEO.

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## CORRECTIONS & AMPLIFICATIONS

A charity auction to have lunch with Warren Buffett opened on Sunday, June 4. A Business & Finance article on Monday about the auction for San Francisco charity Glide incorrectly suggested it opened Sunday, June 11.

Indiana's Frank O'Bannon grant was incorrectly called the Frank O'Brian grant in a

Wealth Management report article on Monday about college graduation rates.

In the June/July WSJ Magazine article about Gibbs Farm, one of the farm's Brahman cattle is pictured next to Bernar Venet's "88.5° ARC x 8" sculpture. The photo caption incorrectly identified the animal as a yak.

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

## U.S. NEWS

# Travel Ban Suffers Another Legal Setback

Appeals court rules Trump exceeded his powers; White House says order is lawful

BY BRENT KENDALL

A second federal appeals court blocked President Donald Trump from enforcing an executive order seeking to temporarily ban travel to the U.S. for people from six Muslim-majority countries, handing the White House another legal blow.

The San Francisco-based Ninth U.S. Circuit Court of Appeals ruled on Monday that Mr. Trump failed to provide sufficient justification for his ban and exceeded the scope of his broad powers to police U.S. borders.

"Immigration, even for the president, is not a one-person show," the panel wrote in a 78-page opinion.

The ruling follows a decision by a Virginia appeals court last month that held Mr. Trump likely disfavored Muslims in a way that violated the Constitution.

The Ninth Circuit's decision sidestepped difficult constitutional questions and instead



President Donald Trump spoke during a meeting of his cabinet on Monday at the White House.

relied upon narrower legal grounds that focused on the president's obligations under federal law.

The Justice Department, which is representing the president, filed emergency papers with the high court on June 1 seeking immediate implementation of the travel restrictions, as well as a full Supreme Court review of the president's executive order. The justices could act on the requests as soon as this week.

White House press secretary Sean Spicer said the White House is reviewing Monday's decision. "We can all attest that these are very dangerous times and we need every tool at our disposal" to prevent terrorists from entering the country, Mr. Spicer said. He said the administration is confident that the executive order is "fully lawful and ultimately will be upheld by the Supreme Court."

The ruling came in a case

from Hawaii, where state officials and a local resident sued the president.

"I stated from the beginning that the president must act in a way that follows the laws and Constitution of the United States," Hawaii Attorney General Douglas Chin said.

In addition to barring the travel restrictions, the Ninth Circuit prohibited the president from moving forward with his plan to temporarily suspend the U.S. program for

## Chaldean Christians Mobilize in Detroit

Attorneys and Chaldean community groups said they were working Monday to stop the deportation of at least several dozen Iraqi Christians arrested over the weekend in the Detroit area, arguing they could become targets of sectarian violence if they return to Iraq.

The arrests were part of an Immigration and Customs Enforcement sweep that began early Sunday morning that apparently focused on undocumented members of the community of Iraqi Christians,

known as Chaldeans, with past criminal convictions.

The roundup sparked outrage in the Iraqi Christian community well beyond Detroit, the largest concentration of Chaldeans in the nation. It quickly became the latest flashpoint in the Trump administration's stepped-up efforts to deport people with criminal records.

A spokesman for ICE said the people who were arrested were undocumented and had been convicted of serious crimes that included homicide, rape and assault. He said Iraq agreed to accept Iraqi nationals following recent negotiations with the U.S.

—Kris Maher

admitting refugees, based on similar reasoning.

The Ninth Circuit ruled the president could move forward with the section of his executive order that called for the federal government to review world-wide vetting procedures for visa applicants.

The Ninth Circuit said Mr. Trump's executive order violated provisions in the Immigration and Nationality Act that require him to offer sufficient support for his belief

that allowing U.S. entry for people from the six countries would be detrimental to the national interest.

The ruling said the order didn't provide "any link between an individual's nationality and their propensity to commit terrorism or their inherent dangerousness."

The court also said the president's order didn't demonstrate that current U.S. screening procedures for travelers are inadequate.



## Iowa Seeks to Rework Health Law

BY ANNA WILDE MATHEWS  
AND LOUISE RADNOFSKY

Iowa officials are seeking federal permission to alter major aspects of the Affordable Care Act in the state, in what could be a test of the ability to modify the health law through executive authority.

Trump administration officials said they were open to supporting the Iowa proposal to the extent possible under the current health law, and a White House official said the administration welcomed suggestions from states to tweak the ACA within their borders.

The Iowa proposal, which would offer one type of insurance plan and revamp the subsidies that help people buy coverage, among other changes, would be in effect for 2018, though it could be extended.

Iowa Insurance Commissioner Doug Ommen, a Republican, said the state must take emergency action to ensure that about 72,000 Iowans who have ACA plans aren't left without coverage options next year, af-

ter insurers said they would pull out. The proposal is meant as a stopgap measure, Mr. Ommen said, as Republicans in Congress work to pass a bill that would make significant changes to the law at a national level.

Iowa's gambit will get notice from around the country, experts said, and if approved could provide a model for state officials who want to change the ACA, particularly if efforts to overhaul or adjust the health law remain stalled at the federal level. The Iowa plan has some elements that go in directions similar to the health bill that passed the Republican-led House, though it has notable differences, as well.

More states are facing potentially big problems with their insurance exchanges as insurers announce plans to pull back next year. About 45 counties across three states—Missouri, Ohio and Washington—are poised to be without any products available through their insurance marketplaces in 2018. Other states, including Alaska, are seeking federal

waivers for programs to bolster their markets, but the Iowa proposal is more sweeping.

Still, the Iowa effort faces significant challenges—including questions about whether President Donald Trump's administration has the authority to approve all aspects of it. The White House official said

the administration is "open to maximizing opportunities" for states' proposals but "we're not going to stretch the law."

Iowa officials believe the federal government has flexibility to approve the plan, which aims to steady the Iowa individual insurance market, Mr. Ommen said. "If you don't have a stable market, no one has insurance," he said.

Iowa's largest insurer, Wellmark Blue Cross and Blue Shield, says it will reverse its plan to exit from the state's individual market and will sell plans in every county next year if the new proposal goes into effect.

Mr. Trump and other administration officials have sought to highlight insurance-market problems—including Iowa's—in their bid to push GOP health-care legislation through the Senate. Democrats have said Mr. Trump's administration is exacerbating strains on the insurance marketplaces by threatening to stop certain federal ACA payments that insurers said are vital.

The Iowa proposal would change important features of the federal health law. The ACA subsidies that enable lower-income people to buy health insurance would become flat payments tied to age and income. The proposal streamlines the insurance plans now sold under the law to one design at the ACA's most popular, "silver" tier of coverage.

*More states are facing potentially big problems with their insurance exchanges.*

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## Pennsylvania Moves to Fix Pension Problems

BY SCOTT CALVERT

Pennsylvania Gov. Tom Wolf signed a pension bill on Monday that the nonpartisan Pew Charitable Trusts says will be one of the most comprehensive state-level overhauls in the U.S.

The compromise measure will move most future state and public-school workers at least partly into 401(k)-style plans to help shore up the underfunded pension system and shift market risk from taxpayers to employees.

"I think we have a road map

to actually move out of the nightmare that we've been in for the last 20 years," Mr. Wolf, a Democrat, said in an interview Monday.

Pennsylvania is one of many states, including New Jersey, Illinois and Connecticut, grappling with rising pension costs and huge unfunded liabilities—the gap between promised benefits and the funding available to meet those obligations. A 2015 Pew report found that the nation's state-run retirement systems had a collective \$968 billion shortfall.

Pennsylvania's pension crunch dates to a 2001 move by the Legislature to sweeten benefits, combined with subsequent underfunding by state government and school districts, and weak investment returns, particularly after the 2008 financial crisis.

A 2010 law boosted the government pension contributions, and Mr. Wolf said the current bill represents a key second step.

The Pennsylvania School Boards Association applauded the bill, saying school districts have faced growing financial

pressure because legally required pension contributions have risen at an unprecedented rate.

Greg Mennis, director of Pew's public-sector retirement systems project, said the bill breaks new ground. "Our research indicates that this would be one of the most—if not the most—comprehensive and impactful reforms any state has implemented," he wrote in a letter to lawmakers.

Critics of the legislation say it would do little to address the state's roughly \$62 billion in existing pension debt.

## U.S. NEWS

# Across the Ocean, Young-Voter Wave Builds



### CAPITAL JOURNAL

By Gerald F. Seib

**A**s Britain's Conservatives sift through the rubble of their electoral disaster, a question with compelling relevance in Washington now arises:

Young voters upended the status quo in Britain. Could they do it in the U.S.?

Multiple forces were at work, of course, in the stunning outcome of the British election, which cost Prime Minister Theresa May and her Conservative Party their majority in Parliament. An uninspiring campaign, terrorism, second thoughts about the decision to exit from the European Union, even the downsides of the prime minister's attachment to the American president—all were factors.

But the decisive one may have been a surge of support for the opposition Labour Party among young voters. A postelection analysis by the

Financial Times found that young voters backed Labour over the Conservatives by 51 points more than the national average. By contrast, voters over the age of 65 backed the Conservatives by 32 points more than the national average.

That is a stunning generation gap—and a far wider one than seen just a few years ago. "Over the course of seven years, the partisan age gap has rocketed from 14 points to 83," the Financial Times wrote.

Those young voters propelled Labour leader Jeremy Corbyn, the trans-Atlantic version of Sen. Bernie Sanders, to his unexpectedly strong challenge to Mrs. May. This all represented a considerable turnaround from just 12 months ago, when young voters' failure to show up in such numbers was a significant factor in the vote in favor of Brexit, the departure from the EU.

"For many of Corbyn's supporters, this was the anti-Brexit election," writes Richard V. Reeves of the Brookings Institution in his postelection analysis. "Older voters voted overwhelmingly to leave the EU, while many pro-European youngsters stayed home. This time, they turned out."

Indeed, an exit poll by NME, a music-news organization, indicated that turn-



Labour Party leader Jeremy Corbyn, shown at right last week, is the U.K. version of Bernie Sanders.

ANDREW PARSONS/ZUMA PRESS

out among those aged 18 through 24 rose 12 percentage points over the last general election two years ago. Two-thirds of those young voters went for Labour.

Such findings are cause for concern for America's own conservative party, the Republicans, who face signs they could be confronting a similar wave among young voters. Democrats, in turn, will be heartened—though the story also carries cautionary notes for them.

The election of Republican President Donald Trump—brought about in part because young voters underperformed in key areas for Democrat Hillary Clinton—has prompted a surge of anti-Trump sentiment among young voters, as well as a rise in activism.

In the most recent Wall Street Journal/NBC News poll, 26% of those age 18 through 34 said they approved of the job Mr. Trump is doing, while 64% said they

disapproved. That 38-point gap stands in contrast to the findings among voters 50 to 64, where Trump approval essentially matched disapproval, and with voters 65 and above, where approval slightly topped disapproval.

Moreover, there are signs that this Trump disapproval is spilling over into his party more broadly. The Pew Research Center tracked party affiliation of voters from December 2015 through March of this year, and found that

23% of voters aged 18 through 29 who originally identified as Republicans or leaned Republican had defected to the Democrats.

Anecdotal evidence shows this move toward Democrats is accompanied by stronger activism among young voters. Significant parts of that youth movement have little to no use for the Democratic establishment, and some actually would prefer breaking out on their own. The divide was on full display over the weekend, when Mr. Sanders told a boisterous rally in Chicago: "The current model and the current strategy of the Democratic Party is an absolute failure."

**B**ut therein lies a warning for Democrats. The surge in activism by young voters is fueled not merely by anti-Trump sentiment but by a drive to push the party to the left. That almost certainly isn't a formula for picking off some swing congressional districts within their grasp, such as the one to be filled in Georgia on June 20.

In such districts, the key for Democrats is winning over centrists who may lean Republican but are turned off by Mr. Trump. As that suggests, young-voter fervor is a good thing for Democrats overall—but not necessarily everywhere.

## Senators Unveil New Sanctions On Russia

BY BYRON TAU

**W**ASHINGTON—The Senate late Monday unveiled a package of additional economic sanctions on Russia aimed at punishing Moscow for its military activities in Europe and the Middle East as well as alleged attempts to interfere in elections across the West.

A bipartisan group of senators announced new legislation that would require congressional permission to relax the current regime of sanctions as well as impose new restrictions on Russian actors linked to human-rights abuses, armed sales to the Syrian government or malicious cyberattacks on behalf of the Russian government.

The sanctions package was hammered out by the bipartisan leadership of the Senate Banking and Foreign Relations committees and could set up an unusual showdown between Congress and President Donald Trump's administration, which has been pushing for better relations with the Russian government.

Mr. Trump has been said to be leaning toward keeping the sanctions imposed on Russia by the Obama administration in place, but the new proposal would limit his ability to act without congressional approval.

Sanctions imposed by Congress and written into law have traditionally been stronger and harder to repeal than ones imposed by presidential administrations using executive orders.

The proposed legislation would also allow the U.S. to impose broad new sanctions on economic sectors in Russia including mining, metals, shipping and railways.

The bill comes after weeks of controversy in the nation's capital over charges of Russian interference in the 2016 election. U.S. intelligence agencies concluded in January that the Russian government conducted an influence campaign to boost Mr. Trump over Democratic rival Hillary Clinton, using stolen material and propaganda to influence U.S. domestic politics.

The Russian government has denied any involvement in the hacks, though Russian President Vladimir Putin recently suggested that Russian "patriotic" hackers may have been behind the cyber-intrusions that affected western elections.

The Russian sanctions would need to be passed by both Houses of Congress to become law. The White House didn't respond for a request for comment on whether Mr. Trump would sign a bill containing new Russia sanctions.



James Comey said Attorney General Jeff Sessions, center, didn't manage the former FBI director's relationship with the president.

and Mr. Comey, his subordinate. Mr. Comey also hinted that there were reasons Mr. Sessions had to recuse himself from the Justice Department's investigation into Russian interference in the 2016 election beyond what was publicly known.

In March, Mr. Sessions said he would recuse himself from any inquiry related to the 2016 campaign because he had played such a high-profile role in the Trump campaign. That

announcement came after revelations that Mr. Sessions had met twice with Russia's ambassador to the U.S. during the campaign but didn't disclose those meetings in his confirmation hearing.

A Justice Department spokesman last week rejected parts of Mr. Comey's descriptions of his interactions with the attorney general, and a spokeswoman on Monday said Mr. Sessions "believes it is important for the American peo-

ple to hear the truth directly from him."

Lawmakers are expected to press the attorney general on Mr. Comey's account of their interactions as well as the reasons for Mr. Sessions' recusal and his meetings with Russian Ambassador Sergei Kislyak during the campaign.

Deputy Attorney General Rod Rosenstein will take Mr. Sessions' place at the hearings before the appropriations committees. His announced

subject will be the Justice Department's budget, but he is likely to face questions on matters such as his role in the president's decision to fire Mr. Comey.

Mr. Trump fired Mr. Comey in early May, suggesting later in a television interview that the decision was driven in part by Mr. Comey's handling of the investigation into Russian meddling in the election.

—Louise Radnofsky contributed to this article.

## BANKS

Continued from Page One

from consumer groups and many Democrats.

The report is an "important step towards modernizing America's financial regulatory system so both economic growth and consumer protection are advanced," Tim Pawlenty, chief executive of the Financial Services Roundtable trade group, said in a statement.

Marcus Stanley, policy director for the advocacy group Americans for Financial Reform, which represents unions and consumer groups, said "every recommendation" in the report "weakens systemic or consumer protections."

"This would take things that have already been weakened by industry lobbying and dilute them away to nothing," he said.

The report responds to a Feb. 3 executive order from Mr. Trump, and a senior official said the GOP president signed a copy of it on Monday.

It focuses on lending, and is expected to be followed by further reports covering other topics, such as the money-

management and insurance industries. To prepare it, the administration met with dozens of industry representatives in recent weeks, as well as consumer advocates, financial regulators and other groups.

Administration officials said their focus was on helping small and midsize lenders, as opposed to larger ones that might be considered "too big to fail" without a taxpayer bailout. But the report's recommendations include issues affecting firms of all sizes.

Regulators would re-examine a litany of capital and liquidity rules affecting banks. Those rules limit lenders' risk-taking. Officials would re-examine lending standards for so-called leveraged loans to already-indebted companies, a big business for large banks.

Small banks would have more flexibility in making mortgage loans. Officials would open certain regulatory exams, such as "stress tests" and "living wills," to a formal notice-and-comment process—a change that officials in Mr. Obama's Democratic administration resisted because they thought it would limit regulators' flexibility.

Fewer banks would take

### Mnuchin Urges Lift Of Debt Ceiling

WASHINGTON—Treasury Secretary Steven Mnuchin said

Monday that the U.S. government can be funded through "the beginning of September" and urged lawmakers to raise the federal borrowing limit before they leave for their summer recess.

He reiterated remarks he made last week that if Congress doesn't raise the federal borrowing limit before August, Treasury has "backup plans" to fund the government but didn't elaborate

on what those plans entail.

"I want to make it clear that this is not the time frame that would create a serious problem," he said, but added, "Markets don't want us to wait. The sooner we do this, the better."

Asked for more specifics on when the government will run out of cash to pay its bills, Mr. Mnuchin said he would prefer not to give a range at this time.

Mixed messages and a dearth of details from the administration have led to confusion on Capitol Hill and in markets over when exactly Congress needs to lift the debt ceiling.

—Kate Davidson

those exams, and less often.

Regulators also wouldn't adopt new rules unless they meet a stricter cost-benefit analysis than some bank overseers currently use.

Among the most controversial recommendations are at least a dozen changes at the Consumer Financial Protection Bureau, a central part of Dodd-Frank. The report proposes the bureau lose its authority to examine financial firms on a con-

tinuing basis and not be able to set its own budget.

In other areas, the report avoids weighing in on controversial debates. It hedges on whether the consumer bureau should continue to be led by a single director, as opposed to a multimember board, though it says the former would be "the most straightforward" approach. It recommends the \$50 billion asset threshold at which big banks face stricter rules un-

## U.S. NEWS

# Virginia Democrats To Pick Path Ahead

BY REID J. EPSTEIN

ALEXANDRIA, Va.—Virginia's Democrats on Tuesday will be the first in the country to decide whether their party should choose a strident anti-Trump candidate over one pledging to work with elected Republicans.

Former Rep. Tom Perriello is betting opposition to President Donald Trump will be the biggest factor motivating voters in Tuesday's Democratic primary for governor.

His opponent, Lt. Gov. Ralph Northam, is pitching himself as an experienced hand who brings relationships with Republicans who control the state legislature.

With dozens of Democratic primary contests looming in 2018 House and governor's races, the Virginia contest will serve as the first indication of whether new liberal groups

Assembly. He has raised \$7 million to Mr. Perriello's \$4 million and has more than twice as many contributors.

Mr. Perriello, a one-term congressman defeated in the 2010 Tea Party wave, has support from Sens. Bernie Sanders and Elizabeth Warren. He launched his campaign in January promising to be a "firewall" against Mr. Trump, while Mr. Northam has spent years soliciting and racking up support across the state.

Mr. Perriello's television ads compare Mr. Trump to "authoritarians overseas" he confronted while working in the State Department during the Obama administration.

Mr. Northam has tried to ride the anti-Trump energy while also touting his experience in state government. In a TV ad, he diagnosed the president as a "narcissistic maniac." Mr. Northam said, "Virginians are looking for a leader who has experience and has relationships and knows how to get things done in Richmond." The White House didn't respond to a request for comment.

The winner of Tuesday's contest will likely face Republican Ed Gillespie, a former George W. Bush administration official who narrowly lost a 2014 race against Virginia Democratic Sen. Mark Warner. Mr. Gillespie has said he would campaign with Mr. Trump but hasn't embraced the president's rhetoric—he has aired Spanish and Korean language TV ads and pledged in another ad to be "a governor for all Virginians." Mr. Gillespie holds a sizable lead in polls against his two GOP opponents, including Corey Stewart, who was the Trump campaign's Virginia chairman.

Mr. Northam is backed by Gov. Terry McAuliffe, who is barred by Virginia law from seeking a second consecutive term, the state's two Democratic senators, its attorney general and every Democrat elected to the Virginia General Assembly.

A poll conducted by the Washington Post last month found Messrs. Northam and Perriello to be in a tie. Both Democrats held double-digit leads against Mr. Gillespie.



SPENCER PLATT/GETTY IMAGES

**The Trump International Hotel in Washington, D.C., is named in a new lawsuit against the president.**

## D.C., Maryland Sue Trump Over Emoluments Clause

BY JOE PALAZZOLO

A lawsuit filed Monday by attorneys general in Maryland and the District of Columbia alleges U.S. and foreign government payments to President Donald Trump's hotels and other businesses violate the Constitution.

The lawsuit, similar to one filed in New York by a government watchdog group in January, pivots on Mr. Trump's decision to place his business assets into a trust, rather than divest upon taking office. Mr. Trump tapped his two adult sons to run the **Trump Organization** in his absence.

Payments from domestic and foreign governments to Mr. Trump's hotels and other businesses violate constitutional provisions that prohibit U.S. officials from accepting "any present, Emolument, Office, or Title" from foreign states, and that bar the president from receiving compensation from the federal or state governments, other than his

salary, according to the lawsuit, filed in federal district court in Greenbelt, Md.

A Justice Department spokeswoman declined to comment on the new suit. Government lawyers have argued in the New York case that Mr. Trump's businesses place him in the company of past high-ranking U.S. officials who profited while in office, including 1970s Vice President Nelson Rockefeller who had holdings in major oil companies and other corporations that conducted business globally.

White House press secretary Sean Spicer on Monday suggested the lawsuit was politically motivated and the business transactions in question were commonplace for government officials.

Few courts have considered the emoluments provisions of the Constitution. Some legal experts say the Foreign Emoluments clause was intended to prevent U.S. officials from entering the employ of foreign governments, making it inapplicable to Mr. Trump's situation.

D.C. Attorney General Karl Racine and Maryland Attorney General Brian Frosh cite in their complaint "millions of dollars" in payments from foreign governments that lease space in Trump properties, patronize the president's hotels or otherwise conduct business with the Trump Organization. Mr. Trump receives benefits from the U.S. government as well, through his lease of federal property for the **Trump International Hotel** in Washington, D.C., the lawsuit says.

On Friday, lawyers for the Justice Department moved for dismissal of the New York lawsuit, which was filed by Citizens for Responsibility and Ethics in Washington. Department lawyers said in their brief that the nation's founders didn't intend for the constitutional provision to reach the president's private business pursuits.

—Rebecca Ballhaus contributed to this article.

## U.S. WATCH

### MONTANA

#### Gianforte Admits to Assaulting Reporter

A Montana judge ordered Rep.-elect Greg Gianforte to perform community service, take anger-management classes, and pay a small fine, after he pleaded guilty Monday to assaulting a reporter the day before he was elected.

Mr. Gianforte, a Republican, was accused of body slamming Ben Jacobs after the reporter for the *Guardian* asked him a question on May 24.

After an investigation, the Gallatin County sheriff filed a misdemeanor assault charge against Mr. Gianforte, casting a pall over his campaign in its final hours. Mr. Gianforte won the election the following day by six points.

Gallatin County Justice Court Judge Rick West ordered Mr. Gianforte to pay \$385 in fines and fees and to perform 40 hours of community service and 20 hours of anger-management classes.

—Natalie Andrews

### FLORIDA

#### Pulse Nightclub Victims Remembered

Church bells tolled 49 times, a giant rainbow flag hung from a government building and the names of the victims of the Pulse nightclub attack were read aloud at ceremonies Monday as people in Orlando and beyond remembered the worst mass shooting in modern U.S. history.

At 2:02 a.m., survivors, victims' families, club employees and local officials were gathered for a private service at the gay club at the exact time Omar Mateen opened fire a year ago and pledged allegiance to Islamic State. He was killed by police after a standoff.

The service began what would be almost 24 hours of solemn remembrances. During a midday service, speakers talked less about the tragedy and more about how residents came together in the aftermath.

—Associated Press

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## WORLD NEWS

# Pyongyang Trade Partners Targeted

U.S. urges China to act against networks that support North Korean weapons program

The Trump administration has asked Beijing to take action against nearly 10 Chinese companies and individuals to curb their trading with North Korea, according to senior U.S. officials, as part of a strategy to decapitate the key networks that support Pyongyang's nuclear-weapons program.

By Jay Solomon  
in Washington  
and Jeremy Page  
in Dandong, China

Although there is no firm deadline, the U.S. has indicated the Treasury Department could impose unilateral sanctions on some of these entities before the end of the summer if Beijing doesn't act, the U.S. officials said.

Without such action, U.S. officials fear that Pyongyang, which has conducted nine missile tests since President Donald Trump took office, would be able to develop a missile capable of carrying a nuclear warhead as far as the continental U.S. within a few years.

The Trump administration, like the Obama administration, has voiced hope China would increase pressure on Pyongyang, and it has praised Beijing's moves to reduce coal imports from its communist ally in recent months. Still, senior U.S. officials acknowledged that China has indicated in the past that it would punish North Korea, only to dash the hopes of successive U.S. administrations. As a result, the Trump administration needs to be prepared to act unilaterally, these officials said.

The U.S. officials declined to name the entities being targeted.

But several Chinese entities of concern are identified in a



The Friendship Bridge over the Yalu River, shown at left in April, connects the North Korean city of Sinuiju with Dandong, China.

JOHANNES EISELE/AGENCE FRANCE PRESSE/GETTY IMAGES

report released Monday by a Washington nonpartisan research group, C4ADS, which works to expose illicit trading networks. Those identified in the report include a Chinese businessman and his sister said to be connected to a ship intercepted by Egypt last year while smuggling 30,000 North Korean rocket-propelled grenades.

U.S. officials say the report is in line with part of the Trump administration's strategy toward North Korea. While C4ADS is a private organization, its reports have been shared widely with U.S. government agencies and Congress. The Justice Department used C4ADS findings in its indictment last September of a Chinese businesswoman and Communist Party member accused of aiding Pyongyang's military programs, according to current and former U.S. officials involved in the case.

While thousands of Chinese firms trade with North Korea, many are interconnected

through parent companies or shared ownership, according to U.S. officials and C4ADS. That means shutting down even a handful of these connected networks would make it harder for North Korean leader Kim Jong Un to finance and supply his nuclear program, current and former U.S. officials said.

to act alone and can reach North Korea if we choose."

China's foreign ministry didn't immediately respond to a request for comment. Beijing has said repeatedly that while it implements United Nations sanctions on North Korea, it is opposed to unilateral action and favors a negotiated solution.

Mr. Trump first asked Chinese President Xi Jinping to crack down on North Korean trade in April, U.S. officials said. It remains unclear whether Beijing would take action against the Chinese companies of concern to the U.S.

C4ADS said Chinese corporate and trade records show 5,233 local companies traded with North Korea between 2013 and 2016. Many of them share Chinese owners, addresses or other identifying features, it said.

"When countries are under extended sanctions...they look for the cracks and seams," said a senior U.S. diplomat involved in North Korea policy. "So everything goes to unlikely spots in the world where they are less likely to be tracked down."

tem," said David Thompson, author of the C4ADS report.

While noting that much of China's trade with North Korea is legal, the report identified several Chinese companies exporting potential "dual use" items that could be used either for civilian purposes or in North Korea's missile programs.

The Trump administration has been seeking in recent months to increase economic pressure on North Korea beyond just China, senior U.S. officials said. This has included dispatching top diplomats on missions to Europe, the Middle East, Southeast Asia and Africa, all places where the North Koreans have conducted trade.

"You need to deny these networks access to Chinese markets and more broadly the international financial sys-

tem," said Kersten Zhang in Beijing contributed to this article.

## Groups Move to End Polio By 2020

By BETSY MCKAY

The longstanding quest to eradicate polio is attracting a new injection of funds from donors around the world, as health leaders grapple with obstacles from ridding conflict areas of the virus to a shortage of vaccine.

**Rotary International**, the Bill & Melinda Gates Foundation and the Canadian government are among several donors who pledged \$790 million on Monday to vaccinate millions of children, conduct surveillance for the virus and other needs until 2020—the year in which health leaders hope to declare that polio has been eradicated. The pledges were to be made at a Rotary convention in Atlanta.

The Global Polio Eradication Initiative set the cost of polio eradication activities between 2013 and 2019 at \$7 billion. The new pledges leave about \$300 million still to be raised.

The GPEI has missed deadlines that it set for eradicating polio, a highly infectious virus that primarily affects young children and can cause paralysis. There is reason to hope the latest goal can be met, because there have been only five cases of polio in Pakistan and Afghanistan this year, countries where transmission of polio has never been stopped. Vaccination campaigns have improved, reaching children in communities hard to access before.

But some areas controlled by insurgent groups are still hard to reach. Polio resurfaced in Nigeria last year. There have also been six polio cases reported this year in Syria and the Democratic Republic of Congo.

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## WORLD NEWS

# A Taxing Shift Looms as India Revamps System

BY CORINNE ABRAMS  
AND DEBIPRASAD NAYAK

MUMBAI—India is bracing for a dramatic but risky overhaul of the country's tax system that authorities hope will draw millions of businesses into their tax net and boost the economy.

The initiative, set to kick off on July 1, aims to streamline India's cumbersome network of state and federal levies and ease commerce across state borders.

It is a big part of a larger effort, including the cancellation of large-denominated currencies last year, to improve tax collection from companies that make up India's huge informal economy. Some estimate the new system will add nearly 1 percentage point to India's growth in gross domestic product within a few years.

But the risks could drag on short-term economic growth, experts say. Among the hurdles

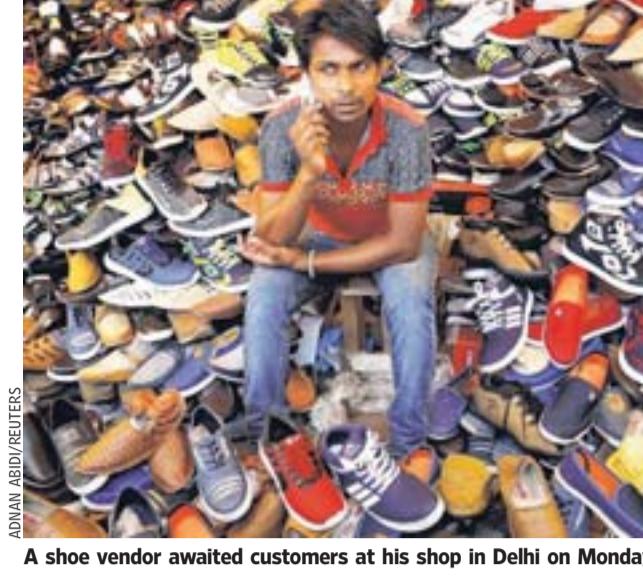
are getting millions of companies to register, educating them on how to file online, poor internet connections and widespread tax avoidance. The design of the new nationwide Goods and Services Tax—which replaces a value-added tax and other levies—is also more complex than many expected.

A chaotic rollout could roil an economy still hobbled by a cash shortage caused by the elimination of the bank notes in November.

"This is one of the biggest changes we have undertaken since independence," said Neelkanth Mishra, India equity analyst at Credit Suisse.

The government says it will implement the tax on schedule, simplifying the tax structure and lifting the economy.

India ranks 172nd out of 190 countries in the World Bank's ease-of-paying-taxes index. It has one of the worst tax-to-GDP



A shoe vendor awaited customers at his shop in Delhi on Monday.

ratios in the world, at 16.6%, compared with an OECD average of 34%. That deprives the government of revenue for improvements to education, health care, sanitation, infrastructure and other state priorities.

The new tax has already registered 80% of the 7 million current VAT business payers, the government says, and it hopes to bring in most of the rest. The challenge, experts say, will be registering millions of other small and midsize enterprises in India that aren't registered.

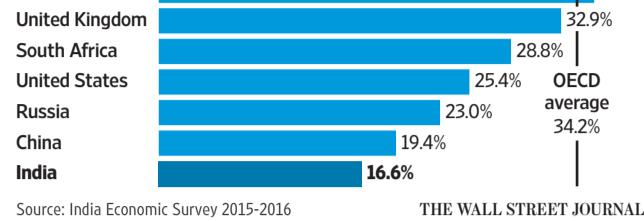
Among the more than 160 countries that use a value-added tax, India's is among the most complex. It has four tax brackets, exemptions for products like petroleum and additional levies on luxury goods. It will split revenue between states and the central government. The rules are the result of years of wrangling between political parties, states and central government in the world's biggest democracy, a country of 1.2 billion people.

Kunal Kumar Kundu, ana-

### Digging Deeper

India has one of the lowest tax-to-GDP ratios in the world. Policy makers hope a new goods-and-services tax could help change that.

#### Tax-to-GDP levels



Source: India Economic Survey 2015-2016

THE WALL STREET JOURNAL.

lyst at Société Générale, called it "the world's most complicated VAT framework," saying that compliance will likely be burdensome, particularly for small businesses.

HSBC initially projected that the system would add 0.8% to India's GDP growth but halved its projection after the government announced the multiple tax brackets.

"It's not ideal," said Pranjal Bhandari, HSBC's chief economist for India.

The new system requires most businesses with annual revenue above 2 million rupees (\$31,000) to upload their invoices every month to a portal that will need to be stable enough to accept billions of documents.

"I don't know whether [policy makers] know the complications in a small trade," said Biju John, a rubber dealer in the southern state of Kerala. "We are in rural areas, where internet connectivity is poor."

Businesses' invoices will be matched with those of their suppliers or vendors, who must provide their tax number before they can claim a credit.

Analysts commend the use of peer pressure to make businesses comply. But few expect implementation to be easy.

"India is trying to attempt what some of the leading economies do not have," said Abhay Laijawaal, head of India equities research for Deutsche Bank. "Even the United States does not have" such a system.

## Panama Drops Taiwan For China

BY EVA DOU

BEIJING—Panama said late Monday it is breaking off all official contact with Taiwan and establishing diplomatic relations with China.

A statement in Spanish signed by both countries and posted on the Panamanian president's website said: "The government of the Republic of Panama recognizes that there is only one China in the world" and that Taiwan forms "an inalienable part of Chinese territory."

Panama's decision, which is effective immediately, is the latest blow to Taiwan. The island will now have only 20 formal diplomatic allies.

Beijing considers Taiwan a renegade province and refuses formal ties with countries that recognize Taiwan as a country.

Taiwan's Foreign Ministry expressed "anger and regret" over Panama's move. It condemned Beijing for "tempting" Panama to cut off relations with Taiwan, saying China's continual effort to marginalize Taiwan has hurt the feelings of the Taiwanese public.

"It's another way of turning the screws on the Taiwan government," said William Stanton, the top U.S. diplomat in Taiwan from 2009 to 2012.

China's growing economic heft has pushed more of Taiwan's allies to switch diplomatic recognition to Beijing.

In a televised statement also posted on Twitter, Panamanian President Juan Carlos Varela said China is the second most important user of the Panama Canal and the No. 1 supplier of goods in the Colón free-trade zone.

—Jenny W. Hsu contributed to this article.

## Protests Swell Over China Housing Crackdown

Protests against Chinese property controls have grown in intensity in recent weeks, underscoring the challenge for the government in preventing public eruptions of anger as it cracks down on housing speculation.

By Dominique Fong in Beijing and James T. Areddy in Shanghai

In response to skyrocketing home prices, governments in China's big cities have set limits on the buying of multiple homes and higher down-payment ratios, which has left many unable to sell their homes and others worried they won't be able to buy in before prices rise further.

Protests over the new rules started in early May. In the latest and largest breakout, hundreds of people marched down a busy Shanghai shopping street this weekend.

Snapshots of the Shanghai protest quickly whirled through mobile-messaging app WeChat, showing scenes of protesters clashing with police and some being dragged away. In videos set against bright neon lights and in drizzly rain, the shrieks of whistles were



A man worked at a construction site of a residential skyscraper in Shanghai last November.

heard as fists pumped and the crowd chanted demands that the city loosen restrictions.

"So far, no Shanghai leader has come out to speak to us," said Li Pinger, a 40-year-old IT contractor at a local university who took part in Saturday's protest.

Ms. Li said she has been unable to move into an apartment she bought last year at a hotel project in Shanghai's Qingpu

District after the Shanghai government in May banned the sale of apartments built on land for commercial or office use and directed developers to convert thousands of units back to fit those purposes.

Ms. Li put up half of the 580,000 yuan (about \$85,000) for her apartment and took out a mortgage for the rest. Now, she feels trapped, she said: "I'm really angry."

In one office building far from the city center, occupants of the "offices" have built kitchens, showers and in one case, a loft sleeping area—all in defiance of a notice saying décor is limited to office functions.

The developer, Shanghai Tongying Real Estate Co., has proposed refunds or compensation for those who want to pull out since Shanghai issued

restrictions, according to a statement it published online. Some residents said leaving would require moving even farther out of town.

Shanghai's government had no official response to Saturday's protest. In a statement released late Monday, a local housing bureau suggested softening of policies applied to developers and buyers, though it stopped short of explicitly saying commercially-zoned units could be permitted for use as residences.

It is unclear how many people have been detained by police in Shanghai; some WeChat users say their friends have been held since Saturday. Other WeChat users in Beijing and Shanghai say police have come to their homes to ask them to go "drink tea," a euphemism for an interrogation.

Shanghai's police department didn't respond to calls or a fax for comment.

Beijing's housing authority said in late May that it would allow apartments that were bought before March 26 to be listed and sold, an apparent loosening of the previous blanket ban on the sale of them.

—Junya Qian in Shanghai contributed to this article

## Beijing Scolds Web Censors Amid Site Shutdowns

BY JOSH CHIN AND EVA DOU

BEIJING—The Chinese Communist Party's powerful disciplinary wing is taking aim at the country's internet censors for not pushing a party-line agenda, saying they were "irresolute" in implementing the policies of President Xi Jinping and "not trying hard enough to ensure political security."

The rebuke, published on Sunday by the Central Commission for Discipline Inspection, may shed light on censors' surprise shuttering last

week of dozens of Chinese celebrity news and gossip sites—an area previously considered safe from government scrutiny.

The commission's new report, taken together with last week's action, is another sign that the Communist Party under Mr. Xi is moving to reclaim ideological authority it surrendered after Mao Zedong's death, analysts said.

"The old Communist ideology is coming back," said Qiao Mu, a Beijing-based media scholar and prominent critic of government censorship. "Communism doesn't like entertain-

ment and gossip; it wants politics and class warfare."

The discipline inspection commission's report targeted the Cyberspace Administration of China, which is in charge of regulating internet content,

and had been in the works for months. Analysts say the Cyberspace Administration was likely aware of its findings before taking action last week to shut down at least 90 social-media accounts run by celebrity news and gossip sites.

Among the closed sites was the Weibo social-media account of China's self-pro-

claimed "No. 1 Paparazzo," Zhou Wei, who had amassed more than 7 million followers by publishing salacious stories about Chinese celebrities.

In meetings last week, au-

thorities told the country's top web portals, video-streaming sites and social-media plat-

forms that the accounts were being shut down to comply with privacy protections in the country's new cybersecurity law, the Cyberspace Adminis-

tration's Beijing and Guangzhou branches said.

The regulators also encour-

aged the platforms to do more

to promote the spread of "core socialist values" online.

The Cyberspace Adminis-

tration and Central Commis-

sion for Discipline Inspection didn't reply to requests for

comment.

If sustained, the crackdown on entertainment news would mark a dramatic reorientation of China's censorship machinery, which has previously ignored entertainment while grinding away at independent news reporting and expressions of political dissent.

—Wayne Ma and Lilian Lin contributed to this article.

## WORLD WATCH

### PAKISTAN

#### Man to Appeal Blasphemy Conviction

A man sentenced to death for committing blasphemy on Facebook plans to appeal the conviction, his lawyer said Monday, the first such punishment in Pakistan for blasphemy on social media.

A court in the central city of Bahawalpur on Saturday sentenced Taimoor Raza, 30 years old, to death after finding him guilty of insulting figures revered in Islam, including the Prophet Muhammad and his wives.

The verdict comes amid a government crackdown on blasphemous comments on social media.

Mr. Raza's lawyer, Fida Hussain Rana, said his client, a Shiite Muslim, was targeted after he had an argument about a sectarian matter with two Sunni Muslims on Facebook. Mr. Rana said that there was "absolutely no material evidence" to support the charges.

—Jenny W. Hsu contributed to this article.

### PANAMA

#### Former President Detained in Florida

Former Panamanian President Ricardo Martinelli, wanted for extradition to Panama, was detained Monday in Coral Gables, Fla., a U.S. official said.

Mr. Martinelli, a billionaire supermarket mogul who served as president from 2009 to 2014, was detained by U.S. Marshals, the official said.

He is wanted in Panama as part of multiple investigations of corruption and illegal wiretapping of political opponents while in office.

The official said Mr. Martinelli is scheduled to appear Tuesday in court in Miami, where charges against him will be unsealed.

Mr. Martinelli couldn't be reached for comment. The former president, who entered the U.S. in 2015, has denied the accusations against him, saying he is the victim of political persecution.

—José de Córdoba



MANILA PLEA: People gathered on Monday, Independence Day, to protest Philippine President Rodrigo Duterte's bloody antidrug crackdown.

MARK R. CRISTINO/EUROPEAN PRESSPHOTO AGENCY

## WORLD NEWS

# U.K. Leader Vows to Fix Election ‘Mess’

Prime minister seeks to calm Conservatives after results weaken party's grip on power

BY JENNY GROSS  
AND JASON DOUGLAS

LONDON—Prime Minister Theresa May addressed Conservative lawmakers for the first time since last week's election and sought to convince them that she would take the party out of the "mess" she created, after a disappointing outcome weakened her grip on power.

Mrs. May's failure to secure a majority in last week's vote puts the country's objectives in coming Brexit negotiations in flux. With no clear mandate, control over the shape of Brexit is likely to hang on lawmakers more than with Mrs. May's own views, raising the prospect that the U.K. is heading for a less-abrupt break with the European Union than seemed likely before the election.

The electoral gamble has damaged Mrs. May's authority within her party. At the Monday meeting, she sounded contrite and took responsibility for the disastrous election results.



Theresa May, center, met on Monday with her cabinet, its first meeting after the Tories failed to secure a majority in last week's vote.

LEON NEAL/PRESS POOL

"I'm the person who got us into this mess and I'm the one who will get us out of it," Mrs. May told a roomful of lawmakers, one who was there said.

Jacob Rees-Mogg, a Conservative lawmaker who backed leaving the EU, said Mrs. May answered questions from members of Parliament includ-

ing ones pertaining to the party's campaign strategy and its policy proposals.

"She was humble, she apologized and set out a clear purpose for the future," Mr. Rees-Mogg said. "She got the tone spot on."

But rumors swirled over how long she could last, and

to what extent she could see through the definitive break with the EU she had set out—including leaving the bloc's single market for goods and services to get control over immigration. Scottish leader Nicola Sturgeon said supporters of a clear break with the EU have been left dead in the

water in the wake of the election result. Ruth Davidson, the leader of the Scottish Conservative party, said she wanted to put economic advancement at the heart of any Brexit deal.

Mrs. May's team continued to seek a deal with a small Northern Irish party, the Democratic Unionist Party, which it

is hoping it can rely on to pass legislation through Parliament. The DUP is likely to demand concessions in exchange for its support.

Kathrin Muehlbommer, senior vice president of Moody's, said in a research note that the Conservative Party's reduced share of parliamentary seats may mean there is a higher likelihood of a Brexit involving compromises that Mrs. May wouldn't have earlier considered.

"This could potentially include a request to remain inside the EU single market or the customs union," Mrs. Muehlbommer said.

Like the Conservative Party, the main opposition Labour Party is also divided on what Brexit should look like. Labour leader Jeremy Corbyn and his close ally John McDonnell, the party's finance spokesman, have sent a strong signal that they believe the U.K. should quit the EU's single market for goods and services, as well as its customs union.

Mr. McDonnell, in an interview with broadcaster ITV on Sunday, said a Brexit deal that preserves Britain's single-market membership would be interpreted "as not respecting the result of that referendum," referring to last year's Brexit vote.

## National Front Loses Big in France

BY WILLIAM HOROBIN  
AND STACY MEICHTRY

PARIS—After knocking at the gates of power only a month ago, Marine Le Pen saw support for her far-right party crumble in Sunday's first round of parliamentary elections, dashing its hopes of becoming France's opposition party and an entrenched menace to the Europe Union.

President Emmanuel Macron's fledgling party, La République en Marche, trounced mainstream parties across the political spectrum but forced the once-buoyant antiestablishment National Front in particular into a reckoning. Ms. Le Pen on Monday faced a final election result that showed the momentum that had carried her in to last month's second-round presidential vote had perished.

National Front candidates garnered only 13.2% of Sunday's vote, compared with 13.6% in the last parliamentary election five years ago. Pollster Ipsos Sopra-Steria projected the party would end up with between one and five seats in the 577-seat National Assembly, compared with between 415 and 455 for Mr. Macron's party and its centrist ally.

What caused the collapse, pollsters and party officials say, is that the National Front's primarily young, working-class base decided to sit out the parliamentary races. Around 57% of people who voted for Marine Le Pen in the presidential election stayed home for the parliamentary ballot, Ipsos Sopra-Steria said. The abstention rate among Macron voters was 38%.

The numbers stand in contrast to the National Front's high expectations going into



Party leader Marine Le Pen left the voting booth on Sunday after casting her ballot in northern France.

### Fragile Front

The National Front is failing to convert Marine Le Pen's presidential scores into an improvement in parliamentary votes.

#### National Front's share of the nationwide vote

First-round presidential elections	2017	2012
	21.3%	17.9%
First-round legislative elections	2017	2012
	13.2%	13.6%

Source: French Interior Ministry

THE WALL STREET JOURNAL.

the 2017 races. In recent years, the party had drawn nearly a third of the vote in local, regional and European Parliament elections.

"This clearly marks a pause in a very, very strong progression," Ms. Le Pen said Monday while campaigning for a seat in the north of France.

Supporters who expected Ms. Le Pen to win the first

round of the presidential race were disappointed when she finished behind Mr. Macron. Her 33.9% score in the runoff also fell far short of the 40% she was hitting in the polls.

Ms. Le Pen promised to hold a party congress after the parliamentary elections to discuss the National Front's anti-euro stance, which many of the rank-and-file blamed

for her presidential loss.

"All voters have disappointment from the presidential election, and all they hear about is internal difficulties," said Jérôme Fourquet, a pollster with IFOP.

The party's best shot for landing a parliamentary seat is in Pas de Calais, an area hard-hit by migrant flows and industrial decline, where Ms. Le Pen herself is running.

Ms. Le Pen scored 46.02% on Sunday, nearly 30 points ahead of her La République en Marche rival, Anne Roquet.

But she and other National Front candidates face the same hurdle she tripped over in the presidential race: Those who voted for other candidates in the first round are expected to coalesce behind her rival.

◆ European elections split investors' wagers..... B12

## May Faces Pressure To Ease Up on Brexit

BY LAURENCE NORMAN  
AND VALENTINA POP

BRUSSELS—Pressure is mounting on U.K. Prime Minister Theresa May to seek closer ties to the European Union after Britain leaves the bloc in March 2019, following her election setback last Thursday.

Some senior Conservatives say the party's loss of its parliamentary majority in last week's vote was, in part, a rejection of Mrs. May's insistence on a clean break with the EU. They

say the government will struggle to pass legislation needed to

ANALYSIS prepare Britain for exit without a change in approach.

Ruth Davidson, the influential leader of the Scottish branch of the Conservative party, said last weekend the government should look again at its Brexit approach and "move to a consensus within the country about...what we seek to achieve as we leave."

Yet for Mrs. May, there are no easy alternatives.

For now at least, Mrs. May is suggesting her pre-election Brexit plans are unchanged. She says her government is ready to start negotiations with the EU team next week as planned, although no date was agreed during discussions in Brussels on Monday.

Her plan is for Britain to leave the EU's single market of goods and services.

Mrs. May has also pledged to take the U.K. out of the EU's customs union—which imposes zero tariffs on trade among EU members and a common set of tariffs on imports from nonmembers.

In the short-term, the least economically disruptive alternative would be to remain in the single market either inside the customs union or, like Norway, outside it. The Norway model has delivered strong economic benefits, yet it would require Britain doing two things Mrs. May has ruled out: maintaining freedom of movement of EU citizens into the U.K. and continuing large budget payments to the EU.

It would also continue to give EU courts a key role in shaping British rules.

"Make no mistake, the Norway option is not going to be an easy sell to euroskeptics, and has never been seen by Brussels as a credible model for the U.K.," said Mujtaba Rahman, Europe director with Eurasia Group, a London-based consultancy.

Another alternative would be to leave the single market but seek customs-union membership. That would ensure Britain retained the benefits of the EU's 38 regional and bilateral trade deals.

It would also help resolve one of the thorniest issues sparked by Brexit: how to avoid a hard border in Ireland—which is a specific pledge of the Northern Irish Democratic Unionist Party that looks set to enter an agreement to prop up a minority Conservative government.

But staying in the customs union would thwart perhaps the strongest economic argument used by Brexiteers: It would prevent Britain from being able to negotiate and sign its own trade deals.

—Jason Douglas in London contributed to this article.

## PTSD

Continued from Page One

lives or experiment on them."

Researchers are finding it difficult, though, to recruit volunteers for the study because likely candidates have already heard promising reports about the treatment from comrades, said co-principal investigator Kristine Rae Olmsted of RTI International, a nonprofit research organization hired by the Army to conduct the study.

Of the 240 patients that researchers hope to enroll, 80 would receive a harmless saline injection to distinguish the real shot's medical impact from any placebo effect. PTSD sufferers know they can get the genuine injection free from military hospitals without signing up for the study and risking getting a placebo, Ms. Olmsted said. "The problem," she said, "is word-of-mouth is very powerful."

Researchers began enrolling subjects last summer at military hospitals in Germany, Hawaii

and North Carolina. RTI said only 45 had volunteered.

Between 11% and 20% of Iraq and Afghanistan veterans suffer from PTSD in a given year, according to the National Center for PTSD, an arm of the Department of Veterans Affairs. Commanders worry that PTSD reduces the combat effectiveness of those still in the military and can make life a misery for those who have left it. Sufferers are often irritable, edgy and quick to anger.

The most common psychological treatments, called exposure therapies—in which a PTSD sufferer repeatedly revisits the traumatic event to weaken its effect—ease symptoms in about 60% of those with combat-related PTSD, according to an estimate by psychologist JoAnn Difede, director of the Program for Anxiety and Traumatic Stress Studies at Weill Cornell Medicine and New York-Presbyterian Hospital.

About the same percentage see at least some improvement from the most frequently used anti-PTSD drugs—selective sero-

tonin reuptake inhibitors—but only 20% to 30% see complete remission, according to 2014 research led by Dr. Difede.

Physicians such as Dr. Lynch who advocate use of the stellate ganglion block say it improves the effectiveness of traditional treatments.

The conundrum surrounding the new Army study highlights both the injection's promise and the frustration its advocates feel trying to win wider acceptance beyond the special-operations troops who are already convinced.

"Honestly, I feel like I've let people down," said Army Dr. Sean Mulvaney, a former Navy SEAL who practices at Fort Belvoir, Va., and said he had administered more than 600 stellate ganglion injections to PTSD patients. Among most military doctors, he said, "it's not getting traction."

The Department of Veterans Affairs said it has no specific policy regarding use of stellate ganglion blocks to treat PTSD among those who have left the military. Doctors use the injec-

tions for PTSD on a limited basis at their discretion, a VA spokesman said.

The prospects of generating scientific consensus are clouded by the nature of the population suffering from PTSD. Doctors say some veterans are problematic trial subjects because they have an incentive to stay sick—the VA pays benefits to those suffering from combat-induced PTSD. The elite commandos who have already become fans of the

injections have the opposite incentive—active-duty SEALs and Green Berets usually want to show improvement so they can stay with their teams, doctors said.

In the stellate ganglion procedure, doctors inject the anesthetic ropivacaine in the right side of the neck, using ultrasound to guide the needle to the area around the target nerves. The right side of the brain controls the fight-or-flight reaction.

Doctors surmise that in patients with PTSD, messages between the brain and body get stuck in a loop. The anesthetic resets the system.

The drug is marketed under the brand name Naropin by Germany's Fresenius Kabi AG and, according to RTI, costs less than \$2 a dose. Most patients require just one injection, although some return for a second shot, doctors said.

One of the patients is Dr. Lynch's commander, Brig. Gen. Donald Bolduc, a Green Beret who has served more than five years in Afghanistan. He was injured by an errant 2,000-lb. American bomb in 2001 and again in a 2005 helicopter crash.

Gen. Bolduc said he came home with symptoms from headaches and memory loss to excessive alertness and flashes of anger. He was diagnosed with PTSD in 2014 and received his first of two stellate ganglion blocks. His wife, he said, noticed the change in his demeanor on the drive home.

The shot "gives you the break to deal with things," he said.



Dr. Sean Mulvaney administers a stellate ganglion block.

U.S. ARMY

U.S. ARMY

## WORLD NEWS

# Three Afghans Allegedly Killed by U.S. Forces

U.S. soldiers allegedly killed three Afghan civilians after coming under fire in eastern Nangarhar province, local officials said, in the latest outbreak of violence that threatens to fuel anger with the government and its foreign allies.

By Jessica Donati  
in London and  
Ehsanullah Amiri  
in Kabul

The civilians were shot dead in Ghani Khel district on Sunday, according to the provincial governor's spokesman, Attaullah Khogyany. The U.S. military confirmed its forces had returned fire after coming under attack but said it hadn't officially heard of civilian casualties.

The violence follows a difficult few days for the U.S. and Afghan partnership. In the south of the country, a U.S. air-strike accidentally killed several Afghan policemen on Friday. A day later, an Afghan commando killed three U.S. soldiers during an elite operation in the east.

The Afghan civilian deaths come at a time when local anger with the government and its foreign allies is rising. A protest against the government over its failure to prevent a massive truck bombing in the diplomatic center of the capital has been under way for over a week.

The Afghan government is led by the majority Pashtun group, while many of the protesters belong to the Tajik minority; the two have clashed in the past.

The truck bomb earlier this month killed more than 150 people and wounded hundreds, in the most violent week in Kabul since the U.S. invasion in 2001.



Protesters rallied in St. Petersburg on Monday. Opposition leader Alexei Navalny has energized his followers by exposing what he calls examples of state corruption.

DMITRI LOVETSKY/ASSOCIATED PRESS

# Russia Police Detain Hundreds in Protests

BY JAMES MARSON

MOSCOW—Police detained hundreds of anticorruption protesters across Russia, including opposition leader Alexei Navalny, who is hoping to harness a surprise surge in rallies against the Kremlin to challenge President Vladimir Putin in elections next year.

The protests in cities from Vladivostok in the east to Norilsk in the Arctic were the first since the largest anti-Kremlin demonstrations in five years in March.

Riot police in Moscow dragged protesters out of a crowd carrying Russian flags

and shouting "Russia without Putin!" on one of the capital's main streets, as the unsanctioned protest mixed with official celebrations of Russia Day, a national holiday.

More than 150 people were detained in Moscow and some 500 in St. Petersburg, police told Interfax news agency. Monitor group OVD-Info put the Moscow figure at more than 700 detained.

"Detaining peace protesters, human rights observers and journalists is an affront to core democratic values," said White House press secretary Sean Spicer, calling on Moscow to release peaceful protesters.

Mr. Navalny has energized Russia's weak and divided opposition with videos and blog posts that expose what he calls egregious examples of corruption at the top levels of the Russian state.

He has spread his campaign for the presidency to cities across Russia in recent months, even though a conviction for embezzlement, which he calls politically motivated, may prevent him from running, and opinion polls show overwhelming support for Mr. Putin.

Police detained Mr. Navalny Monday near the entrance to his home, his wife said in a

message on his Twitter.

Mr. Navalny had received permission to stage a rally in Moscow, but he said Sunday he was switching the venue to the capital's main drag near the Kremlin, blaming authorities for pressuring companies into not providing equipment for a stage at the agreed location.

The General Prosecutor's Office said that a protest in the new location would be illegal, and warned that police would take measures to prevent disorder. Late Monday, a court jailed Mr. Navalny for 30 days on a misdemeanor charge of repeated violation of the

law on organizing public meetings, Interfax reported.

Members of Mr. Navalny's Anti-Corruption Foundation, which uses the internet to appeal to young voters, said electricity at their office was cut and their streaming video stopped, before they moved to a backup that worked.

Authorities had warned that people who appeared to be protesting would be detained. But thousands, many in their late teens and twenties, still came to Tverskaya Street in Moscow, where they swarmed around metal detectors that police had set up for the Russia Day celebrations.

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## IN DEPTH

# FEAR

Continued from Page One

Even investors who have never heard of the VIX are exposed to its gyrations. There's an estimated \$200 billion in so-called "volatility control" funds that use the VIX to decide whether to buy or sell stocks. "Tail risk" strategies, designed to steer clear of sudden slumps, often rely on it. Pensions such as the San Bernardino County Employees' Retirement Association have profited from bets the VIX would fall. Asset managers including AllianceBernstein incorporate volatility into retirement-date savings funds, adjusting stock exposure based on the severity of market swings. And insurance giant AIG sells annuities with fees that rise along with the VIX.

Lately, the VIX has been signaling a near-complete absence of fear, and the preternatural calm is making some people nervous. Opinion is divided on whether it is a bullish signal for stocks or a worrying sign of complacency. After all, the VIX also approached a record low in early 2007, just before the sub-prime crisis began unspooling. In recent days the VIX nudged higher, rising more than 10%, as technology stocks fell.

Some analysts see low volatility as a sign of increased efficiency, where shocks are more quickly absorbed by the markets. Others credit the growth of passive investing with overriding the herd mentality that exacerbates panicked selling. And yet another theory claims VIX trading itself has smoothed the market's jagged edges by allowing traders to easily offset risks.

Whatever the reason, becalmed stock markets have become a feature of the postcrisis world. Central bankers have lulled investors with record-low interest rates and flooded the market with cash. Even though the Federal Reserve is slowly withdrawing those supports, stocks have lost none of their appeal, notching new highs despite U.S. political turmoil.

This leads to the VIX paradox: The lack of fear scares some investors who say bloated stock prices portend a painful reckoning when monetary policy tightens.

### Bigger bomb'

"They're not adding to market stability. They're just building a bigger bomb," says Tom Chadwick, a New Hampshire financial adviser who uses VIX options to help protect his clients' portfolios from downturns. He says the Fed's policies have kept volatility artificially low for so long that the speed of any reversal will be more severe. "When this goes, you're going to see the mushroom cloud from Saturn."

The VIX was conceived after the Black Monday crash in 1987,

### A Recipe for Fear

The CBOE Volatility Index has spawned a booming marketplace that both expresses and influences how investors perceive risk.

#### BASIC INGREDIENTS

Traders buy and sell stock-market wagers, called **options**, to bet on the direction, timing, speed and severity of market moves. Prices change constantly as traders reassess the odds that their wagers will pay off. **The better the odds, the higher the price.**

It costs \$3.90 to buy an S&P 500 option...  
...betting on a 5% drop in the S&P 500 index in June\*.

But it's only 25¢ for an 18% drop.

#### CBOE VOLATILITY INDEX, OR 'THE VIX'

The VIX synthesizes thousands of options on S&P 500 futures, distilling the prices into a single number that measures expectations for the velocity of market turbulence, called **volatility**.

Recent VIX level indicated an outlook for continued calm.

The VIX hit 80 during the financial crisis, implying that anticipated gyrations will average more than 4% a day during the next 30 days.

#### VIX INSURANCE

Because stocks tend to fall much more sharply than they rise, the VIX typically spikes when stocks plummet, making it an attractive form of insurance.

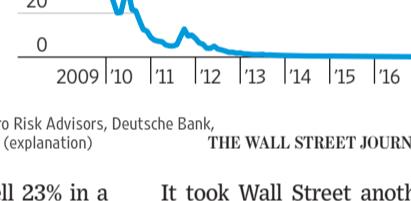
Stocks ↑ The VIX ↓

But there was no way to trade it until 2004 when CBOE Holdings Inc. launched standardized, publicly traded VIX futures. VIX options followed two years later.

#### FEAR GOES MAINSTREAM

VIX insurance comes at a cost. Exchange-traded products that track VIX futures typically lose money in the long term because of the idiosyncrasies of futures pricing.

Cumulative percentage change, shown monthly, in the price of the iPath S&P500 VIX Short-Term Futures ETN from its inception in January 2009



It took Wall Street another decade to figure out the VIX wasn't just a market weather vane but a potential gold mine. In the summer of 2002, newly minted billionaire Mark Cuban called Goldman Sachs Group Inc. looking for a way to protect his fortune from a crash. Because the VIX typically rises when stocks fall, he wanted to use it as insurance. But there was no way to trade it.

Devesh Shah, the Goldman trader who fielded the call, says he instead offered him an arcane derivative called a "variance swap," but Mr. Cuban wasn't interested.

Lamenting the lost opportunity, Mr. Shah met up with

Sandy Rattray, a Goldman colleague and erstwhile indexing buff with a knack for packaging investment products. What if, the pair speculated, they could tap the VIX brand and reformulate the index based on their esoteric swaps? "The world wanted to drink Coca-Cola," says Mr. Shah, who retired from Goldman as a partner in 2011. "They didn't want the white label."

These were the heady days after financial deregulation, and Wall Street was securitizing everything from weather reports to bundles of sliced-up mortgages. Turning the VIX into something tradable was nothing more than a math problem, says Mr. Rattray. The pair rewrote the VIX formula, expanding it to a larger universe of stock-market bets and making it possible to create a tradable futures contract.

Their equation synthesizes thousands of trades and distills them all into a single number meant to represent the collective expectations for the market. When the VIX is at its current level of around 10, it implies that traders believe the S&P 500 will move by an average of less than 1% a day during the next 30 days.

The more stocks move, the higher the VIX goes. Since the market typically falls much more sharply than it rises, the VIX tends to surge when the market crashes—hence its potential as insurance.

Messrs. Shah and Rattray handed their invention to CBOE Holdings Inc., the owner of the VIX trademark. Neither had any idea that their brainchild would transform the markets for years to come. "I didn't realize how big it would be," says Mr. Rattray, who is now the chief investment officer for Man Group PLC, an \$89 billion hedge fund. The formula allowed the CBOE to cash in its marquee index, launching VIX futures in 2004 and VIX options two years later. The firm billed VIX trading as a new risk-management tool, banking on the same appeal that had drawn Mr. Cuban. Trading grew steadily, but slowly.

Then the financial crisis hit, serving up a huge marketing opportunity. Amid an economic tailspin akin to the Great Depression, surging unemployment, and more than \$5 trillion erased from the S&P 500, the only thing rising in the U.S. was the VIX, which topped 80 in late 2008. Who wouldn't pay just a little bit more to protect their nest egg from the wipeout?

At Barclays PLC, a farsighted few realized access was a big problem. Trading futures and options was too complicated and costly for many investors.

The bank instead devised a product that tracks VIX contracts but trades on an exchange just like any a corporate stock. Suddenly anyone with a brokerage account could trade like the pros. The Barclays iPath S&P 500 VIX Short-Term Fu-

tures ETN launched in January 2009, just months before the S&P 500 hit a 12-year low.

VIX trading exploded. Terried investors piled into Barclays's new product and similar ones that followed, desperate for anything that might help them repair their dented fortunes. "I think of it as the great democratization of volatility," says Bill Speth, vice president of research and product development at CBOE. "Investors who never would have opened a futures account or traded an option could and did trade these exchange-traded products."

Amid the panic, investors were willing to pay to insure their portfolios. The costs would be a drag in bull markets, but looked like a small price to pay in the immediate wake of the crisis. "It was the Wild West," says Bill Luby, who quit a 20-year consulting career in 2005 to become a full-time trader. "If you knew the landscape, there was a lot of money to be made."

Trading the VIX, however, is a lot different from watching it on TV, and its idiosyncrasies left some investors feeling burned. No trading strategy can exactly replicate the VIX index, and traders rely on proxies like futures and options, which can veer widely from the VIX itself.

VIX exchange-traded products are especially susceptible

high and sell low almost every day, steadily bleeding money. A share of the original Barclays product, bought at its January 2009 debut, would be nearly worthless today.

This decay is difficult to comprehend, even for sophisticated investors, and leveraged funds can compound those losses. Market experts say the products are designed for short-term tactical trading, not long-term passive investment.

### 'Completely screwed'

When the VIX dipped in September, Larry Tabb, president and founder of the Tabb Group, a consulting firm, thought volatility would rise and bought an exchange-traded product that aims to double the daily gain of VIX futures. And even though the VIX rose 28% in October, the VelocityShares Daily 2x VIX Short-Term ETN lost money.

"It just kept going down and down and down," says Mr. Tabb, who blames himself for not reading up on its mechanics before buying. "I got completely screwed."

Janus Henderson Group PLC, owner of VelocityShares, declined to comment.

The flip side of the punishing decay favors short sellers, allowing them to profit when volatility is flat and sometimes even when it rises. Instead of buying insurance, selling it became the hot trade. Traders like Mr. Miller see spikes in volatility—such as those ahead of the U.S. presidential election—as opportunities to bet that the VIX will quickly collapse again.

Such bets have paid off in the past year as market shocks proved fleeting. The ProShares Short VIX Short-Term Futures ETF that, like Mr. Miller, shorts the VIX, is up 70% this year. Pravit Chintawongvanich, head of derivatives strategy for Macro Risk Advisors, estimates that traders and investors now have a near-record \$512 million at stake for every single-point move in VIX futures.

In a twist, the very funds that are meant to protect against volatility may make any correction worse, says Rocky Fishman, an equity-derivative strategist with Deutsche Bank. So-called "volatility control" funds aim to provide investors with a smoother ride by sidestepping the worst dips. A rising VIX signals the funds to shed stocks in favor of safer assets, accelerating the sell-off and spooking other investors into joining the exodus.

Rising volatility triggered \$50 billion in stock selling during the market gyrations of August 2015, and \$25 billion in the wake of the U.K.'s surprise vote to exit the European Union last year, according to Mr. Fishman. "It's a feedback loop that can make sell-offs unfold faster," says Mr. Fishman. "There are fund managers whose job it is to sell equities when volatility goes up. And that affects everyone."

Some of the most popular exchange-traded products invest in a combination of this month's VIX futures and next month's. To maintain their exposure, they sell the contracts that are nearing expiration and buy contracts for the following month. Put simply, they buy



*'It just kept going down and down and down,' says investor Larry Tabb.*

# GHOST

Continued from Page One

Without revealing their faces, the band walked the red carpet at last year's Grammys and accepted an award with Papa proclaiming that "a nightmare has turned into a dream."

Four Nameless Ghouls are now suing Papa—a 36-year-old whose real name is Tobias Forge—in a Swedish court. They have accused him of financially shortchanging them and renegeing on an agreement to make them partners and distribute the band's profits equally.

The suit identified all the band's members and has divided fans world-wide. Some have pored over the court documents and soaked up the behind-the-scenes details, while others resent the revelations for ruining Ghost's spooky image. The dispute "really messed up the whole mythos of the band," one fan complained online. "The lawsuit reduces them all to boring, flawed people."

Kathleen Higgins of Halifax, Canada, a pet-store manager whose husband plays in a Ghost tribute band, avoided news of the lawsuit online and said she was bummed out by the band's money squabbles and mundane affairs. "It's like watching a Broadway show. When I saw 'Phantom of the Opera' as a child I wasn't interested in who the actors were or what they ate for breakfast," she said.

In character, Papa is a sort of occult sect leader who leads

audiences in chants of "Belial, Behemoth, Beelzebub, Asmodeus, Satanas, Lucifer," incantations in the song "Year Zero." But ahead of the band's 2013 American tour, the front man was especially excited about Ghost's transportation upgrade.

"It will be a real tour bus on the U.S. bit!" Mr. Forge wrote to the band in an email included in the suit. "Had we taken the van we would [have] gotten a minimal profit, but not sufficiently large for us to endure a month in the van."

During concerts around that time, the band churned through a roster of songs such as "Death Knell" and "Satan Prayer." At one point, Papa handed out unconsecrated communion wafers and sang about the stench of "dead human sacrifices."

Afterwards, one of the Nameless Ghouls was tasked with cleaning the band's gamey vestments in his apartment building's communal washing machine in Sweden. "It was like getting the whole football team's dirty wash," Martin Persner, the former Ghoul, said in an interview. Minutes from a band meeting included with court documents noted him raising concerns about the dank wardrobe situation and asking if it was possible to do laundry at the concert venues. Mr. Persner, a longtime Ghost guitarist who left the band last year, didn't join the other Ghouls in filing suit.

As Ghost's popularity grew in recent years, its concerts—known to fans as "rituals"—became more elaborate, fea-



The Swedish doom metal band Ghost performs a live concert in Oslo. Except for the vocalist, Papa Emeritus (left), all band members are referred to as Nameless Ghouls.

GONZALEZ TERESA/DOKKEN/VALON/ZUMA PRESS

turing faux stained glass and burning incense. A confetti cannon shot fake money with Papa's scowling face printed next to the number 666. Friends and audience members recruited as "sisters of sin" dressed as nuns to administer the ersatz communion. Backstage protocol was more basic. A list of requests sent to concert venues, obtained by The Wall Street Journal, included Ghost's demands for cold cuts, beer and room-temperature bottled water. The band stipulated that bananas remain bagged in the catering area due to "a very

severe banana allergy" among the traveling crew.

At each tour stop, they asked for six local postcards plus stamps ("YES WE REALLY WANT THESE"), along with good chocolate ("NOT HER-SHEY!") and quality food. "You are what you eat and in this regard we want to stay healthy," Ghost noted in a dossier sent to venues.

When band members weren't on stage or discussing evolutions in Ghost's devilish mythology, they grappled with the earthly concerns of road life. In the cramped confines of the tour bus, sleeping

schedules conflicted, recalls Mr. Persner. Debates about which restaurants to eat at were common.

The ultimate behind-the-scenes clashes, however, were about money. Mr. Forge's legal response to the Ghouls' suit, filed last week, describes show-downs over the band's salaries, and claims the Ghouls were never more than musicians for hire. Their lawsuit "destroyed the mystery" of Ghost, Mr. Forge said, and their anonymity made them replaceable. He didn't respond to requests for comment for this article.

To be sure, some inquisitive and savvy Ghost fans were able to ferret out details about the musicians well before their identities were exposed in the suit. But for the band, concealing their everyday lives from the public was just a way to amp up the theater. The goal was to fuel rumors and "to create something larger than five dudes. Like comic book characters," said Mr. Persner, who went public separately in a YouTube reveal meant to promote his own band, Magna Carta Cartel.

Being shrouded in a cloak and mask had practical advantages, too. "There was never a bad hair day," said Mr. Persner.

-- Neanda Salvaterra contributed to this article.

# GREATER NEW YORK

## LIRR Summer Service Changes Detailed

Penn Station repairs to affect 9,600 riders as trains are canceled, diverted at rush hours

BY PAUL BERGER

Long Island Rail Road will cancel or reroute more than 30 trains each weekday during the morning and evening rush hours this summer when Amtrak closes several tracks at New York Penn Station to carry out emergency repair work.

Veronique Hakim, interim executive director of the Metropolitan Transportation Authority, which runs the LIRR, said Monday that the disruption would affect 9,600 passengers daily and create "a difficult and challenging summer." In the morning, 15% of trains will be canceled or diverted to a different station. In the evening, 19% will be canceled or originate elsewhere.

**Amtrak** will close several tracks at Penn Station from July 10 through Sept. 1 while engineers repair rails and switches following two low-speed derailments at the terminal earlier this year.

New Jersey Gov. Chris Christie announced in May that during the disruption all NJ Transit Morris and Essex Lines Midtown Direct trains would be diverted to Hoboken, where commuters would take a ferry or the PATH rail system to Manhattan.

### Junction Disruption

#### Of the 98 LIRR trains that terminate at Penn Station during peak morning times:

2 canceled  
5 diverted to Atlantic Terminal  
5 terminate at Jamaica  
3 diverted to Hunterspoint Avenue  
3 new services added  
16 trains to have additional cars

#### Of the 86 LIRR trains that originate at Penn Station during peak afternoon times:

7 canceled  
4 to originate from Jamaica  
3 to originate from Atlantic Terminal  
3 to originate from Hunter-spoint Avenue  
2 new trains added  
13 trains to have additional cars

tion during the morning and evening rush hours, as well as by running several new trains on the edge of peak times. Only a handful of trains would be canceled, she said. Rerouted trains will terminate at Hunterspoint Avenue, in Queens, and at Atlantic Terminal, in Brooklyn, where passengers would transfer to the subway.

Ms. Hakim said the MTA is adding additional capacity by providing ferry services to 34th Street in Manhattan from Long Island City and Glen Cove on Long Island by running 200 buses from eight park-and-rides.

New York Gov. Andrew Cuomo has criticized Amtrak's stewardship of Penn Station and in a statement on Monday

called the disruption "Amtrak's summer of hell," repeating an earlier description.

On Monday evening, many commuters were unaware that a revised summer timetable had been released.

Crista Bovenzi, who rides the Port Washington line, said she accepted that the repair work had to be done. "I say that now," she said, "but after a couple of months I am sure I will lose my patience."

"We appreciate the efforts our commuter partners are making," Amtrak said Monday in a statement.

During the disruption, Amtrak will cut six trains on its Northeast Regional service between Washington and New York.

## The 9/11 Tribute Center Moves to Larger Space

BY MELANIE GRAYCE WEST

The 9/11 Tribute Center in lower Manhattan has given tourists the opportunity to walk alongside a person who was affected firsthand by the Sept. 11, 2001, attacks.

That intimate experience, however, hasn't been paired with an impressive gallery for exhibits and teaching. Put together quickly in the shadow of Ground Zero, the 9/11 Tribute Center has operated in a relatively small space formerly used as a deli since 2006.

That will change this week, however, when the Center, primarily the work of the September 11th Families' Association charity, opens at 92 Greenwich Street. The museum's new home is a few blocks south of its former location and three times as large at 36,000 square feet.

The museum aims to use the new space to try to attract bigger tour groups. It has attracted some 450,000 people annually, with large groups limited to around two dozen. The goal is to accommodate hundreds at a time and draw in 1 million visitors a year.

Jennifer Adams-Webb, a co-founder and chief executive of the 9/11 Tribute Center, said she and a former board member looked at nearly every open site around the World Trade Center before settling on the new space, which has a small area at street level, galleries on the second floor and administrative and gathering space in the basement.

A lease of 36 years provides cost savings over the long term, Ms. Adams-Webb said. She conceded that moving away from the World Trade Center site is a concern, and that the museum would need to step up its marketing efforts.

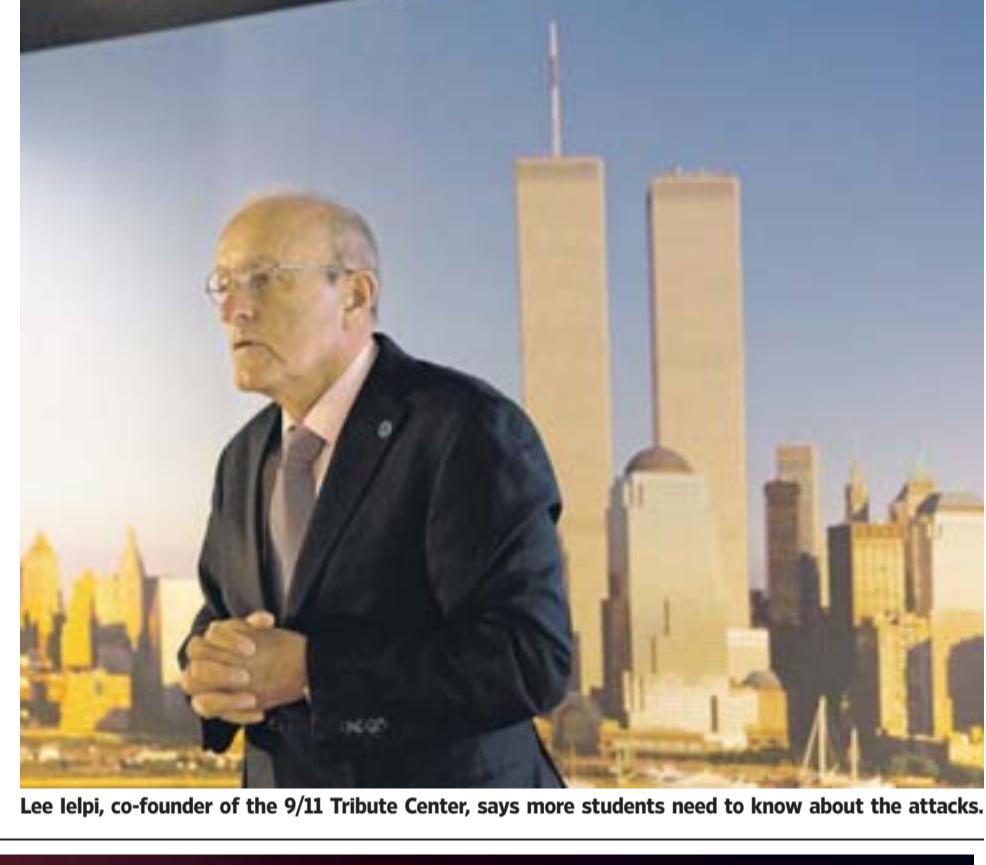
"The beautiful part of this location is that we are halfway between the Statue of Liberty and the World Trade Center," she said.

Overall, there is more space dedicated to the "dark part" of the day said Lee Ielpi, a retired firefighter, first-responder and the museum's other co-founder. Mr. Ielpi's son, Jonathan Ielpi, who also was a firefighter, died on Sept. 11.

In the absence of standardized or required curriculum in schools, few students know about 9/11, Mr. Ielpi said. The museum seeks to make up for that gap, he added.

they will be able to transfer free onto the subway. "We have chosen to focus on providing service," Ms. Hakim said.

The LIRR will add 36 cars to existing trains into Penn Sta-



Lee Ielpi, co-founder of the 9/11 Tribute Center, says more students need to know about the attacks.

CLAUDIO PAPAPIETRO FOR THE WALL STREET JOURNAL

# Cartier

## EXPERIENCE CACTUS DE CARTIER

JUNE 14TH - 29TH



ROOFTOP

CARTIER FIFTH AVENUE MANSION AT 52ND STREET

## GREATER NEW YORK

# Nassau Sues Drugmakers Over Opioids

By JOSEPH DE AVILA

Nassau County filed a lawsuit Monday against several pharmaceutical companies, alleging their prescription painkillers helped fuel the opioid epidemic that costs the county millions of dollars annually to combat.

The complaint, filed in Nassau County Supreme Court, targets several companies including Teva Pharmaceutical Industries Ltd., Purdue Pharma LP and Janssen Pharmaceuticals Inc. The defendants also include drug distrib-

utors and doctors.

"We firmly believe the allegations in this lawsuit are both legally and factually unfounded," a spokeswoman for Janssen Pharmaceuticals said.

A spokesman for Purdue Pharma said the company shares the concerns of public officials regarding the opioid crisis and is committed to finding collaborative solutions. A spokeswoman for Teva echoed those remarks.

"Teva is committed to the appropriate promotion and use of opioids," the Teva spokes-

woman said.

Nassau is the latest municipality to take aim at drugmakers. States and the federal government have previously pursued legal action against Purdue, alleging improper marketing of the painkiller OxyContin, and won settlements from the company.

Purdue Frederick Co., an affiliate of Purdue Pharma, and three of its executives pleaded guilty in 2007 in federal court to criminal charges of misleading the public about the addictive qualities of OxyContin. The

company and executives paid more than \$634.5 million in penalties.

Some cities and counties have pursued lawsuits against broader groups of opioid painkillers. Ohio filed a similar suit against five drug companies in May.

Attorneys for Nassau County said in the lawsuit that the Long Island county, with a population of about 1.4 million, has had to invest in health care and law enforcement as a result of the opioid addiction epidemic, and pay for training seminars

for the overdose antidote naloxone.

"The opioid crisis is costing taxpayers millions of dollars a year, and this action seeks to recoup dollars for important awareness, education, enforcement and treatment initiatives to combat the war on drug abuse and addiction," said Nassau County Executive Edward Mangano. The county is seeking compensatory and punitive damages.

On Long Island, nearly 500 people died from opioid overdoses last year, the highest

number of deaths to date.

Suffolk County, also on Long Island, along with Sullivan and Orange counties are among the New York municipalities that have also taken legal action against the pharmaceutical industry. The state of Ohio, the city of Chicago and counties in California have also launched litigation.

More than 33,000 people died in 2015 from opioid overdoses, according to the Centers for Disease Control and Prevention, up nearly 16% from the year before.

## Officers Are Punished for Fiery Car Chase

By ZOLAN KANNO-YOUNGS

JERSEY CITY—Three police officers and a lieutenant were suspended without pay for violations committed during a police chase that ended in a fiery crash and prompted allegations that officers beat an innocent bystander, officials said Monday.

Jersey City Mayor Steven Fulop said the disciplinary action was due to errors the police made during the June 4 chase. The Hudson County Prosecutor's Office is investigating the officers' conduct after a video appeared to show

also violated department policy by firing on a moving vehicle and setting up a roadblock with police vehicles, Mr. Fulop added.

Last week, a spokeswoman for Mr. Fulop said his office would seek to terminate the officers shown in the video, and officials would pursue criminal charges "in appropriate cases." Esther Suarez, the Hudson County prosecutor, said in a statement Monday her investigation into the incident "is ongoing and the results are pending."

Carmine Disbrow, president for the Jersey City Police Officers Benevolent Association, repeated calls for an impartial investigation.

Mr. Fulop and James Shea, Jersey City's director of public safety, said the disciplinary actions were determined after examining video and police radio transmissions.

Police said they stopped Leo Pinkston at 11 p.m. on June 4 because his vehicle resembled the description of one involved in a shooting "several nights earlier." Mr. Pinkston, 48, tried to elude police, driving between two lanes of traffic at times, authorities said.

The police opened fire on his vehicle, authorities said, which then smashed into a utility pole. The crash caused another vehicle carrying 28-year-old Miguel Feliz-Rodriguez to erupt into flames. A video taken by a witness purportedly shows Mr. Feliz-Rodriguez emerging from his car on fire, rolling and on his hands and knees before he was allegedly kicked and dragged.

Mr. Feliz-Rodriguez was still hospitalized and on a respirator, Mr. Shea said Monday.

Mr. Pinkston has been charged with attempted assault and eluding officers and is currently in custody. His attorney didn't respond to requests seeking comment.

the bystander being dragged and kicked by police.

Mr. Fulop said the suspended lieutenant, Keith Ludwig, who oversaw the pursuit that authorities said lasted for more than six minutes, was shown in the video. The mayor declined to say if Lt. Ludwig also was being investigated for the alleged kicking or dragging of the bystander.

In addition to Lt. Ludwig, Officers M.D. Khan, Erik Kosinski and Francisco Rodriguez were suspended. Deputy Chief of Patrol Mark Hussey and Deputy Chief of Investigations John Corry Short were reassigned.

"Residents should know that we want to have a balance between resident concerns and, of course, policing concerns, and we feel we are striking that balance here," Mr. Fulop said.

The police shouldn't have allowed the chase to continue for as long as it did, he said. Police

began stabbing another roommate, Police Chief Jeffrey Madrey said. He was shot after police told him to drop the knife and he wouldn't, officials said.

Police said both the stabbing victim and the person shot by police were taken to a local hospital and are expected to survive.

—Associated Press

So, subway riders can expect to see these cars through 2020. When they aren't in use, some of the R32 cars are among those kept in a train yard in the East New York section of Brooklyn, left photo.

## Steel Workhorse: Aging Brightliner Subway Cars Will Rescue Riders



The oldest cars on the New York City subway—the R32, known as Brightliners, top photo—were introduced in 1964, the year that the Beatles embarked on their legendary U.S. tour.

Today, 222 of the stainless-steel workhorses continue to provide service to some of the

millions of riders who use the subway to get around New York City each year.

The cars make up 50% of the fleet for the J and Z lines, 44% of the C fleet, and less than 5% of the A fleet.

Produced by Budd Co., based in Philadelphia, the cars are showing their age, often break-

ing down and creaking along.

In 2012, the MTA announced that it would phase them out, but delivery of the replacement cars fell behind schedule.

That might not be such a bad thing, however.

The MTA needs extra capacity during a planned 15-month shutdown of the tunnel that

carries the L subway line under the East River, beginning in April 2019.

When they aren't in use, some of the R32 cars are among those kept in a train yard in the East New York section of Brooklyn, left photo.

## Teacher Suspended In Yearbook Flap

By KATE KING

A teacher in Wall, N.J., has been suspended amid allegations that references to President Donald Trump were removed from student photographs and quotations in the high school yearbook.

The superintendent of Wall Township public schools, Cheryl Dyer, said the district is investigating the incident, which has prompted accusations of censorship and free-speech violations. The teacher, who hasn't been identified, serves as the faculty adviser for the yearbook staff.

Two parents of Wall High

School students have told district officials that their children's clothing was digitally altered in their yearbook photos, according to an online statement published Saturday by Ms. Dyer.

The school's dress code doesn't prohibit clothing that expresses political views and the administration doesn't condone censorship of students' political statements, she said.

"A thorough investigation of what happened is being vigorously pursued," Ms. Dyer said.

Janet Dobrovich-Fago said her 16-year-old son's photo was altered to remove the "TRUMP: Make America Great Again" logo from the vest he was wearing. The yearbook also left out a quote by Mr. Trump about "thinking big," which had been submitted by her 14-year-old daughter for publication alongside her photo.

"It's a lot to understand how something like this happens," Ms. Dobrovich-Fago said. "Somebody did something wrong here."

Ms. Dobrovich-Fago said school administrators told her they are considering several responses to the incident, including issuing new yearbooks.

Wall, a town of about 26,000 in Monmouth County, voted for Mr. Trump in the November presidential election.

## GREATER NEW YORK WATCH

MANHATTAN

### Many Storefronts Empty on Broadway

A 13-mile stretch of Broadway has nearly 200 empty street-level storefronts, according to survey results released Monday by Manhattan Borough President Gale Brewer.

The May survey was designed to give the city better data on commercial vacancies. Broadway was selected because it encompasses a cross-section of Manhattan neighborhoods between the Financial District and Inwood.

The fact that empty storefronts spanned the length of Broadway shows that the problem of commercial vacancies is widespread and new policies are needed to encourage occupancy, Ms. Brewer said.

"Almost every neighborhood seems to have a storefront that's been vacant for years," she said.

—Kate King

BROOKLYN

### Officer Shoots Man During Knife Attack

An officer shot and wounded a man after he refused orders to stop attacking a roommate with a knife, police said.

NYPD officials say they responded to reports of a dispute and two men fighting Sunday evening. The roommate armed with a knife came into the apartment while police were there and

began stabbing another roommate, Police Chief Jeffrey Madrey said. He was shot after police told him to drop the knife and he wouldn't, officials said.

Police said both the stabbing victim and the person shot by police were taken to a local hospital and are expected to survive.

—Associated Press

CONNECTICUT

### Firefighters Give Lift To Bride and Groom

A newlywed couple said "I do" again when Connecticut firefighters asked them if they wanted a ride to their reception after their bus was disabled by a small blaze.

Maria Leonardi and Justin Stone, of New York City, were treated to a 15-minute ride in a fire engine from a church to her father's home in Avon on Saturday, complete with wailing sirens.

Firefighters with the Avon Volunteer Fire Department were dispatched to a trolley bus fire outside the West Avon Congregational Church. The bus was supposed to take the couple and their wedding party to the reception at Ms. Leonardi's father's home.

The bus driver had put out the small engine fire with an extinguisher by the time firefighters arrived. But that didn't stop them from giving their own gift to the couple—a lift aboard a big red firetruck.

"We wanted to make sure they still had a special day," said Assistant Fire Chief Joe Speich.

—Associated Press

## CORRECTIONS & AMPLIFICATIONS

**A chart** on Atlantic City revenue that was published with an article about the city a year after its state takeover showed figures in millions of dollars. In some editions Monday, the revenue was incorrectly labeled as billions of dollars.

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

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# LIFE & ARTS



Marta Minujin's 'Parthenon of Books,' above and right, stood out at the Documenta show in Kassel, Germany. Ayse Erkmen's installation, 'On Water,' below, seen at the Sculpture Projects in Münster.

BY KELLY CROW

*Basel, Switzerland*

**AT ART SHOWS** in Germany this month, visitors can enter a secret apartment or walk through a temple built of banned books. Over in Switzerland, others can line up to eat in a hut made of bundles of shiny cookware—a performance by Indian artist Subodh Gupta that opened Monday to VIPs at Art Basel. The fair, part of a marathon of European art events, opens to the public on Thursday and runs through Sunday.

Last week, the destination was a pair of exhibitions—Documenta in Kassel and the Sculpture Projects in Münster—that are held throughout these German cities every five and 10 years, respectively. The Grand Tour kicked off in Italy, with last month's launch of the Venice Biennale, an Olympics-style showcase that runs through Nov. 26. At month's end, the intrepid will round out the continental circuit at a set of London auctions.

By this point, savvy art travelers have swapped their high heels for comfy sneakers; they've also started to pinpoint their favorite shows—and artists. São Paulo investor Pedro Barbosa, who is trying to hit all the stops, said the opening festivities in Venice "felt like a car dealership" because galleries were trying to sell so many of the works on display. By contrast, Mr. Barbosa said the atmosphere over the past weekend at Documenta felt "purer, which was fantastic."

Documenta was founded in 1955 as a way for Kassel to catch up on the modern art it missed during the Nazi years. The event is still known for asking audiences to do a lot of hard thinking about political, environmental and social ills. For the first time, artistic director Adam Szymczyk split the show, opening a version earlier this spring in Athens that allowed artists to weigh in on Greece's economic woes. That iteration closes July 16.

For its Kassel counterpart, Mr. Szymczyk said he invited some artists to mull Germany's legacy, including the issue of Nazi-looted art. As a result, many of the pieces installed throughout the city's museums and parks, as well as the lo-

ART

## Where Art Insiders Are Going in Europe

A secret apartment and a hut made of pots and pans are among the works on display at fairs and shows from the Venice Biennale to Art Basel



cal train station and a former tofu factory, explore haunting aspects of war, memory, labor and money.

The showstopper is Argentine artist Marta Minujin's "Parthenon of Books," a temple with towering metal columns covered with nearly 50,000 books that were or are banned somewhere in the world. Ms. Minujin erected her "Parthenon" in a plaza where Nazis once burned books. Her library, gathered through donations, will be given away when the show ends.

In a nearby museum called the New Gallery, Belgium-based artist Pénélope Gbaguidi has also transformed an airy corridor into something of a maze by hanging dozens

of paper scrolls from strings near the ceiling. Each narrow strip of paper is covered in drawings she made after researching racist laws embedded in historical archives in Kassel and South Africa. Despite the grim subject matter, the figures and markings on these scrolls are surprisingly cheery. "The joy is my way of rebuilding history," Ms. Gbaguidi said.

Other Documenta highlights include Los Angeles-based artist Ben Russell's "Good Luck," a film installation about gold and copper miners in Suriname and Serbia that the artist arranged in barrel-ceiling cellar of the Fridericianum museum. Israeli filmmaker Roei

Rosen has attracted crowds to the top floor of another site, the Bellevue Palace, with "Dust Channel," his comic-relief meditation on the myriad uses for vacuum cleaners.

Kassel may be nudging its audience to work on the world's problems, but playful distractions abound 90 miles northwest in Münster. That city's Sculpture Project, which has been commissioning groups of artworks once a decade since 1977, unveiled 35 new sculptures and installations on Saturday. The pieces are almost all interactive and crop up in unlikely places, such as French artist Pierre Huyghe's earthy excavation of a former ice-skating rink, "After AL-

ife Ahead," which the artist partially repopulated with peacocks, a pair of beehives and a fish tank.

Independent curator Germano Celant waited almost an hour to enter German artist Gregor Schneider's funhouse apartment piece, "N. Schmidt." Mr. Schneider, who is known for reworking domestic spaces in wry ways, has created what appears to be a mysterious apartment within the city's Museum of Art and Culture. To reach Mr. Schneider's rooms, visitors must find a tiny apartment buzzer beside a nondescript side door of the museum. Here's a hint for appreciating the installation: Keep opening doors, even if you think you've walked through them already.

"He's brilliant," Mr. Celant said of the artist.

Istanbul-born artist Ayse Erkmen's installation, "On Water," allows people to take a different type of leap. Ms. Erkmen built a metal bridge connecting opposite sides of a bustling harbor of the Danube-Ems Canal—and then submerged the platform roughly a foot under water. From a short distance, those crossing it appear to be walking on water.

Other hits in Münster: Berlin artist Aram Bartholl's "12V/5V/3V," a device the size of a baking pan designed to hover over a campfire and generate enough power to recharge a connected cellphone. Mika Rottenberg, who was born in Argentina and works in New York, is drawing crowds to a former Asian grocery store. The space, half-stocked with Chinatown tchotchkes and colorful piles of tinsel, serves as backdrop for her fanciful film, "Cosmic Generator," which riffs on a rumor she heard about Chinese restaurants and stores in Mexico and California being secretly connected via tunnels.

This week, as collectors pivot to the VIP preview in Art Basel's convention center, market watchers are gauging whether any artists get a Grand Tour boost. At least 18 artists on view in Venice, Kassel or Münster will also see their works for sale at Basel. They include Stanley Whitney's rainbow-grid abstract from 2017, "Midnight Run," at Lisson Gallery. Documenta has devoted a room to nearly identical paintings by the same artist.

CLOCKWISE FROM TOP LEFT: ROMAN MAERZ; BORIS ROESSLER/AFP/GTY IMAGES; HENNING ROGGE/SKULPTUR PROJEKTE

SHOPPING

## YOUR TOTE BAG SAYS SO MUCH ABOUT YOU



Athletic-leisure brand Outdoor Voices says its tote bags offer a way for customers to spread its message.

BY ANNE MARIE CHAKER

**THE DECISION ON** which of the 29 tote bags stashed in your closet to bring on your Saturday afternoon stroll can spark a minor identity crisis.

Kyle Chayka, a freelance writer in Brooklyn, N.Y., says he owns somewhere between 12 and 20 tote bags. He favors a red one with both long and short straps, from clothing brand Freitag (acquired as a conference freebie) and an especially roomy Christie's bag which he likes on the weekends.

"They've become visible status symbols," Mr. Chayka says. "It's like the equivalent of wearing a sports jersey." A tote shows what style and brands you affiliate with, he says.

Totes are conversation starters, the way noticing the book someone is reading on the subway used to be, he says. "Sometimes when you see a tote bag, you know that person is one degree of separation from you."

Sturdy, canvas, waterproof or made of recycled material, tote bags take up an expanding part of our lives (and car trunks) as cities, counties and states continue to im-

pose fees or bans on plastic bags. Stores either give them away free with purchase or sell them for a couple bucks in the hopes that consumers will like them and carry them—and that others will notice.

"They are walking billboards," says Ty Haney, founder of Outdoor Voices, an athletic-leisure clothing brand that emphasizes recreational play over performance. Its tote bags, which come free with an in-store purchase, carry the slogan "technical apparel for recreation." Ms. Haney says it is a more cost effective way of advertising than buying online ads because it gets the brand name into neighborhoods and scenes where there are lots of potential customers.

The company's investment is \$5 a bag, and it says it distributes thousands in its stores each month, but declined to specify a number.

Jonathan Hochman, an internet marketing consultant in Cheshire, Conn., says that "for \$5,000 worth of bags, you could probably buy 3 to 5 million online impressions." It takes five views of an online ad for the brand to really register with someone, he says. A real-world logo on a bag, however, "is actually a

Please see TOTEBAGS page A12

## LIFE & ARTS



BY RACHEL BACHMAN

**FROM THE** Apple Watch to eagle-eyed sensors, digital technology is going ever further to embed itself into your health club.

These advances promise exercisers everything from smoother workout starts to better data to increased gym attendance. However, tech-savvy gym rats concerned about privacy should remember that they can always opt out.

This fall, an update to Apple Watch's operating system launches a feature called GymKit, which will allow the watch to link to most major cardio-equipment brands available at gyms by tapping the watch to an enabled machine, says Jeff Williams, Apple's chief operating officer.

On a treadmill, for instance, the machine will track speed, workout duration, incline and distance covered. The watch will track heart rate, and use a combination of treadmill data and its knowledge of user age, sex and body type to calculate calorie count. All data from the workout will beam to the Apple Watch, but the cardio equipment won't store user data, Apple officials say.

For the past few years, gym-goers have been able to connect to cardio equipment through various smartphone apps. But it is a patchwork system, and many people skip it and leave their data locked in machines.

A spokeswoman from equipment maker Life Fitness says she anticipates the Apple Watch's new connectivity will boost the number of tracked workouts.

A simpler connection to cardio machines will remove a step or two from groggy morning routines and could give Apple Watch an edge in the wearables market,

# FITNESS

## Your Gym's Tech Wants to Know More

New tools surface at health clubs to keep closer track of your progress and preferences

where it is playing catch-up two years after its launch. About 7% of adult consumers own a smart-watch, compared with 18% who own a wearable fitness tracker, according to the NPD Group. Another perk: not having to use the cardio console. "Who wants to punch in your weight before you do your workout?" says Jay Blahnik, Apple's director of fitness for health technologies.

Bryan O'Rourke, a fitness-industry consultant specializing in technology, says Apple Watch's move is part of a larger push to integrate easy-to-use technology into health club members' lives at the gym and elsewhere. Traditional health clubs are facing more competition from specialty fitness boutiques and online-streaming workout services.

New York-based health club chain Equinox is testing a smartphone-based chatbot—a computer program that uses artificial intelligence to simulate human conversation—to talk to new members via instant

messaging. Equinox's chatbot reaches out to new members weekly for the first month, encouraging them to set goals and nudging them when they fall short. It also responds when they send a message.

In a recent monthlong test at all 88 Equinox clubs, new members who used the chatbot visited the club 40% more often than new members who opted out, according to Samir Desai, Equinox chief information officer. The chatbot's first goal is to get people coming to the gym, since people who don't form that habit in the first few months are likely to drop their membership.

At four clubs in New York, Equinox has also installed sensors to track members through their smartphones while they're in the club. The sensors can tell when a member regularly runs on a treadmill, for instance, and prompt a message suggesting the person try one of Equinox's Precision Running classes.

Nadine Kerstan, a 45-year-old

holistic health coach in South Orange, N.J., joined Equinox about a year ago. She enjoys the guided meditations she listens to through Equinox's smartphone app. But the concept of sensor-tracking is "a little creepy," she says. "I don't want to feel like Big Brother is watching me at the gym."

Niki Leondakis, CEO of Equinox Fitness Clubs, says the information from sensors will help the club help members achieve their goals. The more engaged members are with the club, the more often they show up and exercise, she says.

"I would say that everyone today understands that they're being tracked," Ms. Leondakis says, citing a shopper browsing for shoes on a website.

The aim is to install the sensor system at all clubs, Mr. Desai says. Equinox says its members are asked if they want to allow the app to track their location and can opt out.

Bay Area-based Active Wellness is going further. It manages about 60 fitness locations across the U.S., mostly in corporate settings. In its Oakland, Calif., club, Active Wellness is testing a facial-recognition system designed to let members breeze in without a card or digital swipe, and track members in most places except locker rooms and bathrooms.

Mike Rucker, Active Wellness's vice president of technology, acknowledged some members' reservations about the system. Members can opt out, he says, but facial recognition could create more seamless gym experiences in the near future.

"Imagine a world where you step on a treadmill that automatically adjusts to all your favorite settings," Mr. Rucker says. "And literally without touching a button, you're ready to go."

## TOTEBAGS



Messages on totes can express a personality or a favorite city.

*Continued from page A11  
testimonial," he says.*

When totes are durable and reusable they become longer-lived ad campaigns. Swimwear label 6 Shore Road's founder, Pooja Kharbanda, says that she made 1,000 tote bags to distribute at pop-up stores in Montauk, N.Y., and Newport, R.I., this summer. She estimates the cost is 2.5 times what it would be if she had just chosen paper bags. For a customer who might forget about the brand over the winter, "they could pick it up again and think 'maybe I should check out what new things they have,'" says Ms. Kharbanda.

Some retailers sell the bags to help cover the cost. H&M's tote bags cost \$2 to \$4 and help spread the word about its garment recycling program. Customers who trade in old clothing or textiles can get 15% off



**Swimwear line 6 Shore Road says its totes remind customers of its brand in the off-season.**

their purchase. The bags proclaim: "There's only one rule in fashion: Recycle your clothes" or "Bring it: The lonely sock, the stained shirt, the washed-out dress and it will be reborn."

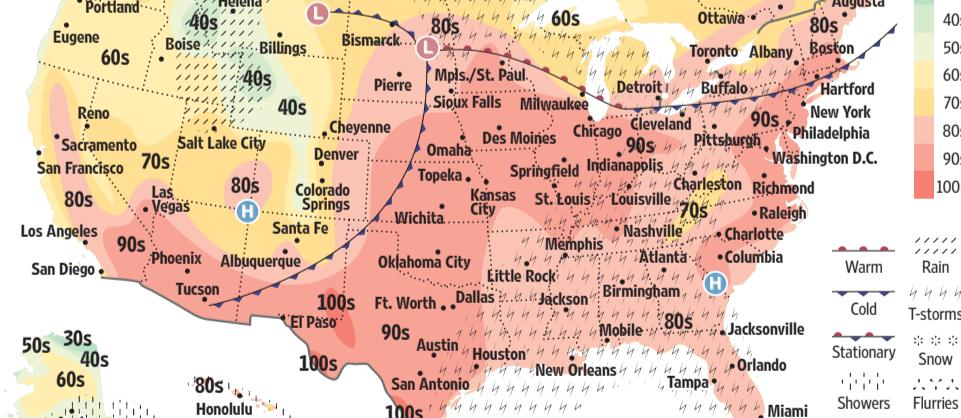
"We know that word of mouth is the strongest kind of advertising," says Marybeth Schmitt, communications manager for H&M North America, which operates 477 stores in the U.S. "And, this is like a form of word of mouth."

Catherine Depret's black, Honest Co., glow-in-the-dark, Halloween-themed tote has become the daily day care bag for 5-year-old Alexandre, says the Washington D.C. attorney. She originally got the tote with a shipment of diapers.

"The canvas is sturdy and I like the design," she says. "If it was a brand I didn't like, I wouldn't like it as much."

FROM TOP: ALEX SCOTT FOR THE WALL STREET JOURNAL; 6 SHORE ROAD

## Weather



## U.S. Forecasts

S=sunny; c=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

City Today Hi Lo W Tomorrow Hi Lo W

Anchorage 55 46 r 57 45 c

Atlanta 87 71 t 89 73 t

Austin 94 76 pc 96 74 pc

Baltimore 94 72 s 86 62 t

Boise 67 47 pc 74 54 s

Boston 92 64 pc 72 57 s

Burlington 82 53 pc 70 50 s

Charlotte 90 69 pc 90 71 t

Chicago 93 73 pc 90 72 t

Cleveland 88 69 t 84 70 t

Dallas 92 77 pc 92 78 pc

Denver 79 49 s 83 51 s

Detroit 87 68 t 83 67 pc

Honolulu 85 72 t 84 74 t

Houston 90 76 t 91 76 pc

Indianapolis 91 72 t 91 76 t

Kansas City 91 74 pc 89 71 t

Las Vegas 91 70 s 99 74 s

Little Rock 87 73 t 90 74 pc

Los Angeles 80 61 s 84 61 s

Miami 88 79 t 88 79 pc

Milwaukee 78 65 pc 83 68 t

Minneapolis 91 73 pc 91 66 pc

Nashville 91 72 t 92 73 t

New Orleans 86 75 t 87 74 sh

New York City 92 70 s 80 60 s

Oklahoma City 91 72 pc 93 74 pc

## International

City Today Hi Lo W Tomorrow Hi Lo W

Amsterdam 68 51 pc 75 58 pc

Athens 86 70 s 90 70 s

Baghdad 113 80 s 114 78 s

Bangkok 93 78 c 92 76 t

Beijing 88 60 s 97 68 s

Berlin 69 52 pc 71 53 c

Brussels 70 53 pc 77 59 s

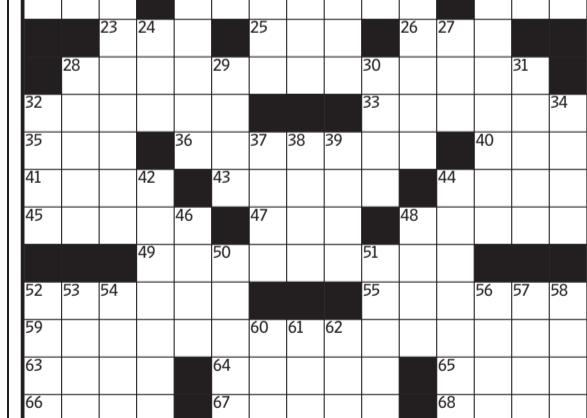
Buenos Aires 64 47 t 64 53 s

Dubai 103 88 s 106 91 s

Dublin 66 52 c 66 52 c

Zurich 65 54 sh 67 53 s

## The WSJ Daily Crossword | Edited by Mike Shenk



### WILD PITCHES | By Aaron L. Peterson

#### Across

- 1 "You're a riot!"  
5 Venomous African snake  
10 Grievance  
14 "By Jove!"  
15 Cheering loudly  
16 Convention center event  
17 Baseball pitch from a DVD fan?  
20 Break off  
21 Alumni assembly  
22 Johnny Bench, for 17 seasons  
23 Pollen collector  
25 Evangelist's topic  
26 Sportage producer
- 28 Baseball pitch from a chef?  
32 "I understand"  
33 Sartre play  
35 NYC's first subway line  
36 Contest hopeful  
40 Bag-checking org.  
41 "\_\_\_\_ there, done that"  
43 Hired thugs  
44 Like champion racehorses  
45 Boringly unoriginal  
47 Warm the bench  
48 College heads
- 49 Baseball pitch from a Woodstock attendee?  
52 Consumption  
55 Friend of Jerry and George  
59 Baseball pitch from a backyard cook?  
63 Fan's favorite  
64 Balance sheet listing  
65 Little pitchers have big ones, reportedly  
66 Fill fully  
67 Bring back a ball, e.g.  
68 Sour fruit

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

#### Down

- 1 Keep out of sight  
2 B-boy link  
3 Cynically tough  
4 Mariner's affirmative  
5 Pirate address  
6 Wake  
7 "Oh, What a Beautiful \_\_\_\_" ("Oklahoma!" song)  
41 "\_\_\_\_ there, done that"  
42 Washroom fixtures  
9 BP bought it in 2000  
10 Do business with a bookie  
11 Newsboy's cry  
12 Fencing sword  
13 Hall of Fame pitcher Whitey  
18 Yuletide display  
19 Loosen, as a lace  
24 Catchall abbr.  
27 President before Jack  
28 Asian peninsula  
29 Suspend  
30 Roadhouses
- 31 Shot up  
32 "Shadow Dancing" singer Andy  
34 Small amounts  
37 Pitch  
38 Act the agitator  
39 Opposed to  
42 Worthy of mention  
44 Gives a dressing-down to  
46 Hall of Fame shortstop Appling  
48 Supermarket section  
50 Less-jolting joe  
51 Profound quality  
52 Sacred bird of Egypt  
53 Zilch  
54 Home run pace  
56 Eur. language  
57 Notorious Roman  
58 Gaelic tongue  
61 Superlative suffix  
62 "Just a \_\_\_\_!"

#### Previous Puzzle's Solution

BAMBIL	CAMP	UPSY
ALARMD	ANNE	NAPE
SPURSI	DACTON	
HOI	OTIS	PAINS
BITTON	THDR	BTT
SADDLEW	TRACY	LAW
LIND	TRASH	TINA
INNS	TRASH	TAU
MAOSH	HEAD	REFS
BITTON	SHED	RIOT
OTTAWA	AUDI	TAU
REINS	INSPIRING	SPENDING
FROG	NEST	GAVE
FINE	TOTS	SHOWY

## LIFE & ARTS

### OPERA REVIEW

# Dystopia and the Dust Bowl

The U.S. premiere of Philip Glass's 'The Trial'; a take on John Steinbeck's massive novel; and Mozart in translation

BY HEIDI WALESON

St. Louis

**PHILIP GLASS'S OPERA** "The Trial" (2014), in its U.S. debut at Opera Theatre of Saint Louis this spring, is set in "an unknown city somewhere near you 100 years ago—or now," and this deft version of Kafka's classic dystopian story, which questions assumptions about justice and law, feels timely. In a superb, sharply etched production, created for its U.K. world premiere by the opera's lead commissioner, Music Theatre Wales, and directed by MTW's artistic director, Michael McCarthy, this dark comedy revolves around Josef K., who is arrested on the morning of his 30th birthday. His crime is never specified, and no one prevents him from continuing his life as before, but every step he takes in his struggle to defend himself or to understand his plight is futile.

Mr. Glass and his librettist, Christopher Hampton, created a sung play in which the motoric music puts the text on an infernal merry-go-round from which K. cannot get off. The listener thus absorbs the inevitability of K.'s fate. Visually, we are in a world of clowns and pretense: Simon Banham's designs allude to Charlie Chaplin and Samuel Beckett with white pancake makeup, bowler hats and obviously fake shaggy beards (seven of the eight singers play multiple roles, switching in view of the audience). It is all ominous too: Characters who are not participating in scenes are watching, and everybody seems to know more about what is happening to K. than he does.

Theo Hoffman's plaintive baritone made K.'s struggles all the more poignant and increasingly hopeless. The bright-voiced tenor Joshua Blue brought physical comedy to his absurdist portrayals of Franz, one of K.'s guards, and Block, a pathetic defendant. The



The cast of Philip Glass's 'The Trial,' above; the Joad family in Ricky Ian Gordon and Michael Korie's 'The Grapes of Wrath,' right

women in the story are blatant seducers and sex objects, and Sofia Selowsky and Susannah Biller had fun with that; Keith Phares, Brenton Ryan, Robert Mellon and Matthew Lau completed the excellent young cast. Carolyn Kuan was the acute conductor.

#### The Grapes of Wrath

Ricky Ian Gordon's "The Grapes of Wrath," based on John Steinbeck's massive novel about the Joads, who flee the Dust Bowl in the 1930s for the supposed Promised Land of California, also has contemporary resonance in an era newly perplexed over the fate of refugees. The lengthy, three-act piece, with libretto by Michael Korie, had its premiere at the Minnesota Opera in 2007; for OTSL Messrs. Gordon and Korie created a new version, trimming 50 minutes from the score to bring it to just under three hours with one intermission.

"Grapes" is now tighter and more focused, but Mr. Korie's earnest text and Mr. Gordon's music still don't carry the weight of the story. The episodic, music-theater-like structure seems to demand something like "Les Misérables," with power ballads and defiant

choruses, or, alternatively, a Brecht-Weill edge. Instead, wan tunes (faintly recalling Copland and Barber) alternate with jaunty Gershwin-like moments, and the ensembles stall. Most of the numbers still feel too long, apart from a few showstoppers—the matriarch Ma Joad's aria about the things left behind; the lapsed preacher Jim Casy's bleak funeral words for Grandpa, the first of the caravan to die. This harsh tale of attrition—13 start the journey, five remain at the end—needed a tougher spine.

Standouts in the enormous cast included tenor Geoffrey Agpalo, who sold Casy's arias with conviction; baritone Tobias Greenhalgh, ruggedly determined as Tom Joad; and Deanna Breiwick, sweet-toned as Tom's pregnant sister, Rosasharn. Katharine Goeldner's solid lower register communicated Ma Joad's implacable will; her voice was patchy as it got higher. Christopher Allen was the capable conductor.

James Robinson's production, with sets by Allen Moyer, cleverly captured the makeshift nature of these people's lives, and suggested a play within a play, with Tom Joad telling the story of the migration. It began with the chorus crowded at long tables in a soup kitchen un-



der the Bible text "Jesus said, if any man thirst, let him come to me," ironic in the circumstances. Chairs and tables were swiftly repurposed, creating the truck that carries the family westward and the Hooverville where they land. James Schuette's costumes eerily evoked the bleak Dorothea Lange photos of the period.

#### La Clemenza di Tito

OTSL had mixed results with Mozart's "La Clemenza di Tito," sung in an appealing English translation by Daniel Dooner. Tenor René Barbera brought focused power to the role of the Emperor Tito, whose much-vaunted generosity of spirit is tested when his friend Sesto attempts to assassinate him. But mezzo Cecilia Hall (Sesto) and so-

prano Laura Wilde (Vitellia, the jealous instigator of the plot) failed to shape their lengthy arias in ways that captured their characters' psychological complexity and the urgency of their desires. Everything, including the orchestra under Stephen Lord, felt too slow and deliberate. The minimalist, static production, directed by Stephen Lawless and designed by Leslie Travers, featured the head, wings and claws of a gigantic Roman eagle that loomed over the empty stage, crashed to the ground, and then rose again. The 18th-century costumes suggested Tito's Enlightenment principles; the electric chair brought out for Sesto was a jarringly obvious touch.

Ms. Waleson writes about opera for the Journal.

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# SPORTS

## NBA FINALS

# The Warriors Strike Gold Once Again

BY BEN COHEN

OAKLAND, Calif.—The NBA has bad teams, laughably bad teams, mediocre teams, good teams, even great teams, and the Golden State Warriors.

The other NBA teams with perfectly normal amounts of professional basketball talent spent this year scheming to beat the Warriors. It seemed impossible at the beginning of the season. It really was impossible by the end of the season.

Golden State capped one of the greatest postseason runs in the history of the league, an unprecedented 16-1 romp through the playoffs, by winning the NBA championship with a 129-120 win over the Cleveland Cavaliers in a tense Game 5 of the Finals on Monday night, their second title in the last three years.

Kevin Durant and Stephen Curry combining for 73 points and holding a trophy over their heads wasn't simply a reminder that every other team spent this year trying and failing to figure out how to stop them. It was also visual evidence of the league's future: The Warriors are a potential basketball dynasty capable of dominating the NBA for a long time.

They're a problem that might take years for the league's other 29 teams to solve.

The Warriors have a core of star players—Curry, Durant, Draymond Green and Klay Thompson—who happen to be in their primes. They can keep all of them for at least the next two seasons and, almost equally important, surround them with free agents willing to accept less money for the privilege of playing in basketball Eden.



Kevin Durant and Stephen Curry combined for 73 points to lead the Warriors past LeBron James, right, and the Cavaliers in Game 5 of the NBA Finals.

That's why the Warriors are the favorite to win the title next season, too, and again the season after that. How any mere NBA team is supposed to beat the Warriors is still a question without an answer.

This championship avenged a crushing loss to the Cavaliers in last year's NBA Finals. It was also the result of it. The new, improved, altogether terrifying Warriors were born from that failure.

Their collection of talent after

they signed a consolation prize renamed Kevin Durant was so rich that other teams felt the title had been won before the season even started. Then the season began, and the Warriors were scarier than anyone imagined.

The clinching game on Monday night showed how quickly they could devastate opponents. The crowd here was noticeably anxious before and during Game 5—at least until a 28-4 run from the

Warriors put them up 17 and resulted in Oracle Arena erupting. It was as if the fans had been given a year of free toast.

That sort of run was typical of a team with the most explosive offense statistically in the history of the NBA. As if that weren't enough, Golden State also had one of the league's most suffocating defenses. That combination won them a lot of games—67 in the regular season and their first 15 of

the postseason—and their advanced metrics put them in the same company as the greatest teams ever.

Not even the most sublime player of this generation could stop Golden State this season. LeBron James being LeBron James was still only enough for the Cavs to win one game. The Warriors were too good.

Now, and maybe for a long time, they're also the NBA champions.

## GOLF

# GETTING THE U.S. OPEN COST HIS FORTUNE

BY BRIAN COSTA

Delafield, Wisc.

FIFTEEN MILES south of Erin Hills, where the U.S. Open begins on Thursday, Bob Lang sits in an office surrounded by mementos from the golf course he built. There are early design drawings, the original clubhouse cornerstone, a framed photo on one wall and, on a recent morning, two enlarged landscape photos spread across the wooden floor.

They are remnants of one of the most improbable tales in golf history: How a little-known Wisconsin businessman with only a passing interest in the sport turned a rural cow pasture into the site of America's national championship.

Not commemorated here is where his pursuit of the U.S. Open has left him: without the golf course, without millions of dollars he poured into it and, at age 72, on a self-described quest for financial solvency.

"I don't have any money anymore," he said.

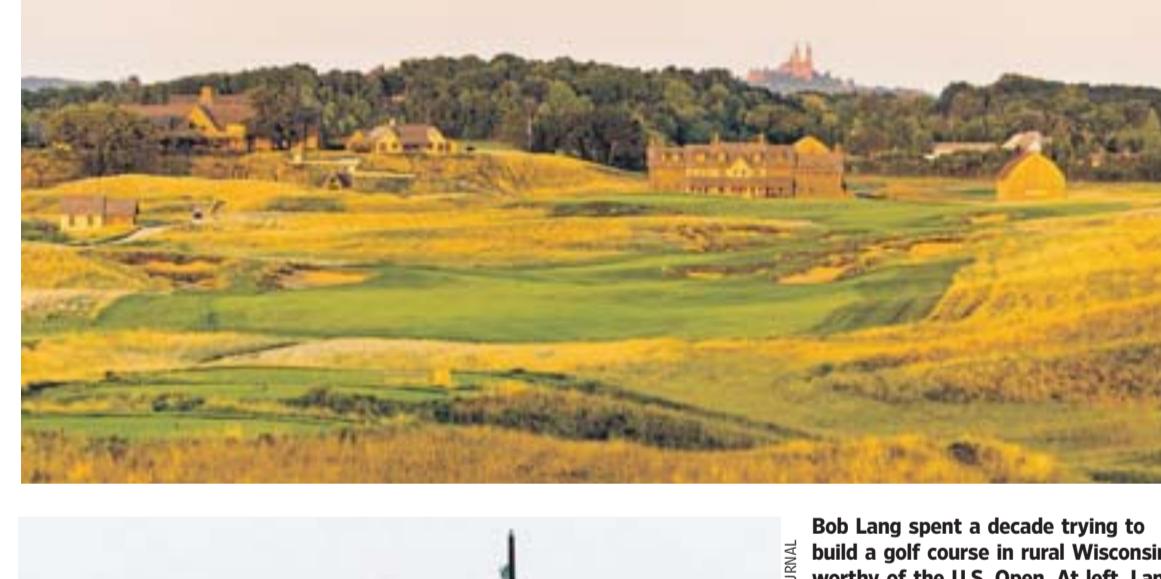
After buying the bulk of the land in 2001, Lang built and operated Erin Hills with a manic zeal that blinded him to the magnitude of his costs, which had two effects. It brought the U.S. Open to Wisconsin for the first time ever. And it put him so deep in debt that he ended up selling his calendar publishing company, his commercial real estate holdings and finally Erin Hills itself in 2009.

When players tee off on Thursday, Lang will attend not as the triumphant host but as a guest, hidden among thousands of spectators who would not be there without him.

"I had a passion that became an obsession to build a golf course for the U.S. Open, and I was going to do everything I legally could to get it," he said.

Plenty of richer men have bought or built golf courses with the hope that they could one day host the U.S. Open, President Donald Trump among them. But as most of them have learned, the rotation of courses that host the tournament is not something one can simply buy into.

The USGA tends to prefer classic courses that have a rich history of hosting the tournament, such as Pebble Beach or Pinehurst. The sheer space required for infrastructure and corporate tents rules out countless other courses. Though Lang said his company earned as much as \$65 million in annual revenue, he was not a nationally known magnate whose mere involvement in a project signaled the start of something big.



Bob Lang spent a decade trying to build a golf course in rural Wisconsin worthy of the U.S. Open. At left, Lang standing near the eventual 15th hole.



Don Hughes, a former Hallmark executive who worked for Lang, recalled a 2001 trip to the pasture that later became Erin Hills. Lang drove him and another colleague there in his Jeep without telling them where they were going. The car rumbled past deer and turkeys, until Lang stopped and said, "You are now standing on the first hole of Erin Hills."

"We drive around for two hours, and when we finished, Bob said, 'The U.S. Open will be held here one day,'" Hughes said. "I said, 'This guy has gone off his rocker.'"

Still, Lang's prior experience foreshadowed what he would do with Erin Hills. He had been a teacher and a self-taught home builder before starting a calendar and greeting card publishing business, The Lang Companies, from his kitchen table in 1982.

He spent much of the profits on

commercial properties in Delafield, a town of over 7,000 people that had seen many businesses leave.

Lang, who said he owns the original signatures of the first seven U.S. presidents, remade Delafield in the mold of a colonial village. He chose high-end stone, wood or brick siding on the 19 buildings he developed, which made them at once an architectural wonder and a financial sinkhole. Lang sold all the buildings in 2007 and 2008, around the time of the housing crash.

"In everything I have done, it starts out with people saying I'm crazy," Lang said. "Then I go through a phase and I go too far. My ideas always out march the money."

His initial idea for a golf course was modest. Though he was not an avid golfer, he wanted to build a local nine-hole course for his 300-plus employees. But when he saw

the former cattle farm up for sale in 1999, his ambitions grew.

After buying a two-year option to purchase the property, he attended the 2000 U.S. Open at Pebble Beach and had an audacious thought: Take this course away from the Pacific Ocean and Erin Hills, with its glacial dunes and rolling fields, is a better golf site.

Lang closed on the main land purchase for around \$2.7 million in 2001, according to local tax records.

In 2004, construction on the course had yet to begin. Lang was waffling on whether to go ahead with it.

Then he got a visit from Mike Davis, who was then director of the U.S.

Open and is now chief executive of the USGA. On a tour of the property, Davis called it one of the best sites he had ever seen. The following day, Lang called his bank about it. He borrowed \$11 million.

In retrospect, Davis said, "I would have been more cautious had I known. You don't want to unduly influence it."

Erin Hills opened to the public for play in 2006 with \$150 greens fees, pricier than planned but a reflection of the financial pressure Lang had put on himself. It wasn't just the \$6.9 million he said he spent to build the course, or the \$3 million he spent on a rustic-posh clubhouse. Lang also estimates he spent more than \$5 million on small properties that lined the course.

He knew he was wildly overpaying, but he was intent on having a course with no homes in sight.

In 2008, the USGA awarded the 2011 U.S. Amateur to Erin Hills, signaling it intended to bring a future U.S. Open there. Davis suggested a few design tweaks, which Lang says would have cost no more than \$200,000. Lang decided to spend another \$2 million, adding new bunkers as part of a larger facelift. All told, Lang said he spent nearly \$26 million on Erin Hills.

"We all wanted him to have the U.S. Open, but sometimes you can just want it too much," said Ron Whitten, one of three architects who designed the course. "I used to counsel him, 'You don't need to do this, Bob,' but he was adamant that he had to re-bunker the course or do this and that or he'd never get the U.S. Open."

On June 16, 2010, the 2017 U.S. Open was awarded to Erin Hills, which checked three boxes for the USGA, aside from the quality of the course: It was a public course. It was a massive property. And it was a rare Midwest venue.

But by then, Lang was a bystander. Unable to find a partner and with the bulk of his remaining debt on the verge of coming due, he sold Erin Hills in October 2009 to Andy Ziegler, a Milwaukee money manager. Lang declined to comment on any aspect of the sale, but public records show the price was \$10,041,900.

Lang retained a sense of accomplishment, confident that Erin Hills would be awarded the tournament. What pained him was that he had put the ownership of the course in a trust for his three children. His voice cracking and lowering to a hush, he said, "That's the killer."

Lang now lives off a Social Security check and the generosity of Ziegler, who retains him as a paid consultant to Erin Hills, a job which exists in title only.

He is seeking a benefactor to buy his extensive collection of original period Abraham Lincoln paintings and display them at the Gettysburg National Military Park Museum, where they are housed.

Whatever pride he feels this week, it is unlikely to match what he felt in his early years owning Erin Hills. He would go out on his green John Deere tractor every weekend, clearing brush for several hours a day. On land that this week will welcome the masses, Lang was alone, dreaming of a golf course and a tournament that in those moments existed only in his imagination.

"It was ecstasy. Me and my tractor," Lang said. "That was the most enjoyment I ever had."

## OPINION

# Dad Meets the Sexual Revolution

**MAIN STREET**  
By William McGurn  
  
This coming Sunday, in homes across the nation, millions of American men will awake to the arrival of breakfast in bed. Prepared and served by their children, these Father's Day repasts convey appreciation as well as contributing to the general bonhomie of the day to come. But as he sips his coffee from his "World's Greatest Dad" mug, even the most obtuse father has to ask himself: Have I been the man my children deserve?

For dads with daughters, the question can be particularly disquieting as we contemplate a sexual revolution that has lost sight of any boundaries. In theory it's all gloriously empowering. But for those who regard human sexuality as a profound gift, and *la différence* as a key to appreciating this gift, it's astonishing how judgments that would have been elementary to our great-great-grandmothers today elude the most privileged and well-educated.

Just one example, from a news story that made national headlines about two years ago. At Stanford, two grad students were cycling across campus when they noticed a young man sexually engaging a woman who wasn't moving.

In the cozy surrounds of a campus dumpster.

The young man was a member of the Stanford swim team. He was sentenced to six months for sexual assault and released after serving half his time. The coverage suggests the issues are complicated. But are they?

For young men: Does it require a Stanford degree to know that sexual contact with an unconscious woman is a line a man does not cross? As for being drunk himself, if he had no notion he might be doing something wrong, why did he make a run for it when the cyclists interrupted him?

For young women: This may sound impolitic, but loving moms and dads say it anyway. What happened here is a lesson in the vulnerability of women not in control of themselves because they are drunk.

The straw-man rejoinder is that this suggests the woman was "asking for it." To the contrary, this is a refusal to allow ideology to deny a fact of life. The physical reality is that a woman's inebriation removes a critical barrier to assault and humiliation.

The great fraud of our age, of course, is that consent and contraception are all a woman needs to have sex the way a man can. Certainly birth control and its backstop (abortion) permit women to enjoy a sexual relationship without the fear of an unwanted child. But seldom does anyone ask

whether an unwanted pregnancy is the only unfortunate consequence a consensual sexual relationship might bring.

This father wonders. I know any number of accomplished women who are not prudes, who want to be more than someone's Tinder swipe and who are looking for full and worthy partners. When these women relate the reality of modern courtship—how so many first dates end with the

### A politically incorrect Father's Day guide to sex, masculinity and daughters.

man making clear that not jumping into bed with him means no second date—let's just say "empowering" is not the first word that comes to mind.

In a 2014 piece for the *Weekly Standard*, Heather Mac Donald noted that when the social default for unmarried sex was "no," the woman didn't have to explain herself. "No" was sufficient. The irony is that this default meant the woman held most of the cards when it came to deciding whether a relationship would become sexual.

Today, Ms. Mac Donald notes, the default has become "yes"—and the woman who resists is both on her own and

on the defensive. For men, of course, this has been a most welcome shift. And no doubt for some women, too.

Then again, if all women are yearning for strings-free sex, why does it seem to require so much alcohol? Might one answer be the loneliness that comes from giving fully of yourself in the hope of finding intimacy—and in return getting only intercourse?

Already I hear the chorus rumbling. Mansplaining! This guy's a dinosaur! Get woke!

Perhaps. Then again, most dads accept that part of the job is a willingness to be the unfashionable one; that is, to love enough to speak unpopular truths when the world cheats your children with fifty shades of grey. For all the complaints about "toxic masculinity," genuine masculinity seems hard to come by. Surely the greater male dysfunction of our time is perpetual adolescence, and a culture that encourages the man-child.

So this Father's Day, looking over the three greatest blessings in his life, this dad pines for the day when we might again speak honestly and openly about the profound differences between male and female sexuality, when the heart might be taken as seriously as the orgasm—and when young men pursuing young women might even rediscover the marvelous possibilities of moonlit summer evenings.

*Write to mcgurn@wsj.com.*

## Qatar Cannot Have It Both Ways

By Yousef Al Otaiba

**I**t is a striking and dangerous contradiction: Qatar invests billions of dollars in the U.S. and Europe and then recycles the profits to support Hamas, the Muslim Brotherhood and groups linked to al Qaeda. Qatar hosts the American military base from which the U.S. directs the regional war against extremism, yet it also owns media networks responsible for inciting many of the same extremists.

When the United Arab Emirates and like-minded countries took diplomatic and economic measures against Qatar last week, it was not done lightly or in haste. Rather it was prompted by the accumulation of years of bewildering Qatari behavior that poses a direct threat to the U.S., U.A.E. and Qatar itself. If Qatar sows the wind, it will reap the whirlwind.

President Trump said it well on Friday: "the time had come to call on Qatar to end its funding [of extremism]. . . . For Qatar, we want you back among the unity of responsible nations."

Qatar can no longer have it both ways. It must now decide whether it is "all in"—or not—in the fight against extremism and aggression.

For years, Qatar has supported and sheltered extremists. In the mid-1990s, it harbored the notorious terrorist Khalid Sheikh Mohammed, who became one of the principal plotters of the Sept. 11 attacks. Today it hosts and promotes the Muslim Brotherhood's spiritual leader Yusuf al-Qaradawi,

as well as Khaled Mashal, leader of Hamas, a U.S.-designated terrorist organization.

Last week the U.A.E. and other states designated Mr. al-Qaradawi, along with 58 others and 12 organizations, as providing material support for terrorists. Many live in, operate from, or receive backing from Doha. Some are linked directly

### It owns a piece of the Empire State Building yet uses profits to promote extremism.

to the ruling family. They will not be lonely—along with Iran, Qatar has the unseemly distinction of having one of the world's highest concentrations of internationally designated terror financiers.

A 2015 Wall Street Journal article noted: "For years, Islamist rebel fighters from Libya and Syria traveled to Qatar and returned with suitcases full of money." Doha has provided financial and logistical support to the Nusra Front (now known as Tahrir al Sham), the Syrian branch of al Qaeda. The Manchester suicide bomber was associated with an al Qaeda-aligned militia in Libya supported by Qatar.

The Financial Times reports that two months ago Qatar paid a hostage ransom of as much as \$1 billion to a variety of terror organizations in Syria and Iraq that are subject to sanctions, including Iran's local Hezbollah franchise. In Egypt, Qatar has given a blank check

to the Muslim Brotherhood, the launching pad for many of the most violent Islamist groups.

And just when responsible nations are focusing attention on confronting radicalization in all of its forms, Qatar-owned media, led by Al Jazeera, continue to incite violence and fanaticism across the Arab world. Like a twisted version of "The Daily Show," the cleric al-Qaradawi has used his TV program to promote a fatwa encouraging suicide bombers, as well as to defend the killing of American soldiers in Iraq as a "religious obligation."

Former Defense Secretary Robert Gates said in May: "General [John] Abizaid was convinced that Al Jazeera was working against our troops and actually providing information to our enemies. There was concern about broader concern about Al Jazeera providing a platform for terrorists."

The comments by Mr. Gates, who led the Pentagon under both Presidents George W. Bush and Barack Obama, demonstrate that Qatar has been a festering concern for Washington across parties and administrations. The Bush administration began the concerted global effort to target terrorist financing. The Obama administration concluded in 2016 that Qatar "lacks the necessary political will and capacity to effectively enforce" laws against terror financing. Obama officials also considered pulling a U.S. fighter squadron from the Al Udeid air base over Qatari refusal to take action against terrorist financiers.

The American presence at Al Udeid is critical to protecting

U.S. and allied interests in the Middle East. While the current measures against Qatar remain in place, the U.A.E. and America's other friends in the region will continue working closely with the U.S. military to sustain the base's full war-fighting capabilities. We also welcome U.S. involvement in facilitating a diplomatic resolution that will allow Qatar, a neighbor and treaty ally, to return to the community of responsible nations.

What must Qatar do? It should first acknowledge what the world already knows: Doha has become a financial, media and ideological hub for extremism. Then it must take decisive action to deal once and for all with its extremist problem—to shut down this funding, stop interfering in its neighbors' internal affairs, and end its media incitement and radicalization.

With terrorists rampaging through the streets of European cities and hatching plots against targets in the U.S., there can be no equivocation, no hedging and no delay in taking on the radical menace. Qatar cannot own stakes in the Empire State Building and the London Shard and use the profits to write checks to affiliates of al Qaeda. It cannot plaster its name on soccer jerseys while its media networks burnish the extremist brand. It cannot be owners of Harrods and Tiffany & Co. while providing safe haven to Hamas and the Muslim Brotherhood.

*Mr. Otaiba is the United Arab Emirates' ambassador to the U.S.*

## What We Don't Know About Veterans

By Gary J. Schmitt  
And Rebecca Burgess

**A**fter World War II, just about all Americans knew veterans, but today many don't. We now tend to view them in a bipolar way, either as heroes or victims. Around half of Americans who see a homeless man believe he's a veteran, one study found—they're wrong 90% of the time—yet they also rush to thank veterans for their service.

Americans, in other words, don't understand veterans. This is partly due to the professionalization of the military. In 1973 the federal government ended conscription and established the all-volunteer force. As the population grew and the military drastically shrank, the military-civilian divide grew wider and became self-reinforcing. Today, the child of a career-military parent is six times as likely to make the military his career, while less

than 1% of Americans serve. Veterans are often assumed not to be representative of America at large.

Such assumptions are also due to scholarly neglect. University of Chicago sociologist Samuel Stouffer's massive

### After World War II, they were intensively studied. No longer.

postwar American Soldier project is often hailed as kicking off modern sociology. It and later studies examined the effect military service had on attitudes and behavior in civilian life.

The more than 16 million American veterans of World War II had an unmistakable influence across American civic and social life. Their participation in the GI Bill dramatically expanded the number of college students and

graduates. More than half a million people got help financing their own homes, farms and other businesses.

Stouffer's studies showed empirically that veterans mirrored the nation even as their commitment to it resulted in deep civic engagement.

Are Stouffer's insights true of today's veteran? Probably, but we can't say for sure. We may even be shortchanging veterans' civic-mindedness: Perhaps because of the divergences in ideology, geography and background between those who serve and the public at large, veterans of the volunteer forces are more engaged in public service.

If so, it might help explain why the military enjoys greater public trust and confidence than any other institution—doctors, the media, the Supreme Court, and never mind Congress. We need that better understanding because we are in the midst of a well-documented crisis of decline of

civic engagement and "social capital" in America.

While more colleges and universities have veterans' centers, these are generally designed to help veterans who are enrolled in school. Programs designed to generate knowledge about veterans and society are rare, even after nearly 16 years of continuous war.

It's likely that veterans' participation in civic life, and especially in politics and elected office, will improve the country similarly to how the World War II generation's involvement did. There are signs that it already is. But this is something we should know, rather than speculate about, the next time we see a homeless individual or thank vets for their service.

*Mr. Schmitt and Ms. Burgess are, respectively, director and program manager of the Program on American Citizenship at the American Enterprise Institute.*

BOOKSHELF | By Ben Tarnoff

## The Dark Web's Dark Prince

### American Kingpin

By Nick Bilton  
(Portfolio, 328 pages, \$27)

**A** young man moves to San Francisco. He has a startup that's growing fast. He is fond of meditation and likes to quote libertarian theories to anyone who will listen. He is worth many millions of dollars but dresses casually. He tells himself and those who work for him that, although the money is pouring in, their work is not about the money—it's about changing the world. What they're building isn't a business, he says. It's a revolution.

This description could apply to any number of Silicon Valley executives. It also applies to Ross William Ulbricht, the founder of a notorious online black market called the Silk Road, which allowed customers to anonymously buy drugs and other illicit goods. Ulbricht bootstrapped the Silk Road from his bedroom into a billion-dollar criminal business; he is now serving a life sentence in federal prison. As Nick Bilton shows in "American Kingpin: The Epic Hunt for the Criminal Mastermind Behind the Silk Road," Ulbricht does indeed fit the classic mold of the tech entrepreneur. He may have been a major narcotics trafficker, but he also belongs to the tradition of Zuckerberg and Musk and Jobs. And if it hadn't been for the fact that his particular form of entrepreneurship was highly illegal, Ulbricht might have become a celebrated sage of Silicon Valley, dispensing wisdom to graduating college students and feeding quotes to adoring journalists.

The Silk Road had humble beginnings. At age 26, Ulbricht grew a crop of magic mushrooms and wanted to sell them. So in 2011 he created a website in a hidden portion of the internet known as the "dark web," which requires special tools to access and offers its users a degree of anonymity. Customers would purchase the mushrooms with the "cryptocurrency" bitcoin—which allows for pseudonymous, relatively private transactions—and Ulbricht would send the goods through the mail.

The experiment proved a success, and within months other sellers had joined the site, hawking everything from heroin to hash. After all, Ulbricht could sell only so many mushrooms: It was far more lucrative to let other people sell the drugs and take a percentage of each sale. The Silk Road became a "platform"—a marketplace that linked dealers and buyers, with an eBay-style rating system.

But playing the middleman brought difficulties of its own, especially as the site grew. Drug dealing is presumably a stressful profession, but running a global drug bazaar seems like a perpetual panic attack. Drawing on an impressive stockpile of research, Mr. Bilton documents Ulbricht's mental state in great detail, producing a portrait of a young man experiencing the heady mix of exhilaration and terror that accompanies becoming an immensely successful criminal. "Whether you like it or not, I am the captain of this ship," he fumes when the site's merchants revolt against higher commissions on their sales. "If you don't like the rules of the game, or you don't trust your captain, you can get off the boat."

### The Silk Road was an illicit eBay, an online marketplace where you could buy drugs, weapons, vials of cyanide—even human kidneys.

Like any startup founder, Ulbricht had to do a little bit of everything. In one moment, he's handling customer complaints and plugging security holes. In another, he's ordering the killing of an underling who betrayed him (or at least he thinks he is: none of the people he paid to have killed actually ended up dead.) He never slows down, and, in Mr. Bilton's telling, he has few doubts about the morality of what he's doing. His obstacles are technical, not ethical. A devout libertarian, Ulbricht is committed to the idea that anyone should be allowed to buy anything and doesn't hesitate when sellers start listing other kinds of contraband on the Silk Road. For Ulbricht, free exchange is holy, even if what is being exchanged is a handgun, a vial of cyanide or a human kidney. One suspects he would have let people buy and sell human beings on the Silk Road if they could figure out how to send human beings through the mail.

Ulbricht left an enormous paper trail, both in the form of online conversations with his employees and his own detailed notes: It's rare for a criminal to spend so much time discussing and chronicling his own crimes. Perhaps it confirms certain clichés about millennial self-absorption, or reflects a mode of narcissism cultivated by the contemporary internet, or says something more specific about Ulbricht. But in any case it was a boon to both the prosecutors, who used the material to strengthen their case, and to Mr. Bilton, who uses it to drive his story.

Yet all of Ulbricht's crimes—and much of Mr. Bilton's story—took place online. This presents problems for a book that bills itself as a thriller and that probably aspires to be made into a film. Everything Ulbricht does, from disciplining his lieutenants to buying off a corrupt cop, occurs with him sitting in front of his computer. The filmmakers may find a way around this inconvenient fact, but in the book it tends to dull the suspense. Even the story of Tony Soprano would feel anticlimactic if the entirety of his criminal career took place within a laptop.

Unlike Tony, however, Ross Ulbricht isn't a very interesting character. He is not merely unlikable but unremarkable. He is a young white male of enormous confidence and middling competence who loves Ayn Rand and can build a website. There are neighborhoods in San Francisco where a dozen Ulbrichts can be found on every street corner. The interesting question isn't who Ulbricht was but how he got as far as he did. A specific combination of technologies made the Silk Road possible—particularly bitcoin, which debuted two years before the site launched, and Tor, a group of servers that provide a portal to the dark web. Mr. Bilton spends relatively little time discussing these technologies. He evidently concluded that these technicalities wouldn't hold the interest of the general reader, noting that the jury seemed bored when the prosecution discussed them in court.

Without technology, however, the book feels incomplete. It's hard to understand how Ulbricht succeeded and what lessons his story holds for the future. The Silk Road has been shut down, but other sites have sprung up to take its place. Ulbricht may have disrupted the drug trade, but the War on Drugs remains wedged so deeply in the American body politic that no amount of libertarian disruption can dislodge it. And the next generation of Ulbrichts are inventing new tools and techniques, while an alphabet soup of law-enforcement agencies keep chasing them around the internet.

*Mr. Tarnoff is a founding editor of Logic, a new magazine about technology.*

## OPINION

### REVIEW & OUTLOOK

## Cleaning Up the Superfund Mess

**O**ne cost of making climate change a religion is that more immediate environmental problems have been ignored—not least by the Environmental Protection Agency. New EPA Administrator Scott Pruitt plans to address that in an underreported effort to clean up toxic waste sites under the so-called Superfund program.

In a memo to EPA staff last month, Mr. Pruitt announced a plan to reform the Superfund program created in 1980 and to accelerate the clean up of hazardous waste sites such as old industrial properties or landfills. The effort is long overdue. Superfund has too often become a sinecure for the bureaucracy and a cash cow for lawyers. EPA staff offices can wait years or decades to assess a Superfund site, figure out who's liable for what, consult with the community, decide on a remedy and assign the actual work.

Take the West Lake Landfill Superfund site in Bridgeton, Missouri, which was used for quarrying in the 1930s and later as a landfill. In 1973, 8,700 tons of leached barium sulfate from the Manhattan Project was dumped there, along with soil and waste. The EPA listed the 200-acre facility as a Superfund site in 1990.

Yet it took 18 years for EPA to decide how to clean up West Lake, finally settling in 2008 on a “multi-layered engineered cover and a system of new monitoring wells.” In 2009 the Obama EPA ditched that solution and re-opened the file. In 2010 an underground chemical reaction ignited a fire that is still smoldering.

Another example is the Bunker Hill Mining and Metallurgical Complex in Idaho and Washington state that polluted the air and soil with heavy metals such as lead. The EPA put Bunker Hill on its original list of 406 Superfund sites in 1983, but it too remains an open case.

Or Portland Harbor, in Oregon, which was listed in 2000. The private companies EPA found responsible spent years and tens of millions of dollars on a clean-up study that the agency eventually discarded. Obama EPA chief Gina McCarthy didn't choose a remedy for the site until this January, days before President Trump's inauguration, using information that

### Obama put climate gestures above toxic waste remedies.

was more than a decade old.

These are examples of the 1,336 Superfund sites on the EPA's National Priorities List. Mr. Pruitt has directed a new task force, chaired by senior adviser Albert Kelly, to review Superfund management and business practices. He has also taken power from EPA regional offices to

make decisions about projects estimated to cost \$50 million or more, which should speed decision-making.

The response from critics, especially from the previous Administration, is that the problem is lack of federal funding. They're upset that President Trump's budget proposes a 30% cut in Superfund for next fiscal year, \$330 million less than this year.

But Superfund delays aren't the result of insufficient funds, especially since private parties now shoulder most clean-up costs, as envisaged in the original legislation. At the end of fiscal 2016 the Superfund's special accounts, which hold settlement money for specific projects, totalled \$3.3 billion. EPA projects it will spend \$1.3 billion of that over the next five years. That's on top of Superfund's 2018 budget request for \$762 million.

In 2009 the Obama Administration pumped \$600 million into the program as part of the stimulus plan. Yet the EPA's data on “construction completions,” which track Superfund sites that have finished physical construction and dealt with long-term threats, shows a downward trend even as the money flowed in. There were 18 completions in 2010, down from 20 in 2009, and 47 in 2001. In 2016 only 13 sites were completed.

The real obstacle is a combination of bureaucratic inertia and legal or political disputes over who pays what. Washington typically measures success by money spent rather than on results. Yet Superfund ought to be measured by how many sites it cleans up—until it is no longer necessary. The green lobby puts symbolic gestures against climate change above all other priorities, but if Mr. Pruitt can accelerate Superfund cleanup he'll do far more for the environment.

## Trump's New Sugar High

**T**he Trump Administration last week announced a new agreement with Mexico to guarantee that sugar prices in both countries will remain well above the world market price. Commerce Secretary Wilbur Ross framed the deal as a big win—and it is, for the few sugar producers on both sides of the border. The losers are millions of consumers.

No industry has enjoyed as much protection under the North American Free Trade Agreement (Nafta) as sugar producers and refiners. Mexico raised its sugar import tariffs from third countries in 1994 to match U.S. protection levels and thereby form a customs union. While most of the U.S. economy had to adapt to competition from Canada and Mexico starting in 1994, the U.S. market remained heavily protected from Mexican sugar until 2008.

Even when the market opened, U.S. sugar interests refused to adapt and filed antidumping and countervailing duty suits against Mexican exports. In 2014 the Commerce Department ruled in their favor. Mexico could have fought that ruling at a Nafta arbitration panel but its sugar lobby also likes high prices. So instead it agreed to comply with a U.S.-stipulated minimum price and quota, and to restrict the amount of refined sugar it ships. In other words, both sides conspired to run a sugar cartel.

### Winning in trade apparently means higher prices for consumers.

Enter President Trump, who the sugar titans saw as a vehicle for even more protection. In March Mexico voluntarily suspended permits for exporting sugar to the U.S. as a precaution against the possibility that the U.S. would cancel the 2014 agreement and impose tariffs. Last week's deal is an attempt to avoid those new duties in exchange for further limits on Mexican sugar exports to the U.S.

The new minimum price for raw sugar will be 23 cents per pound, up from 22.5 cents. The world market price is about 14 cents. Refined sugar will now be set at 28 cents per pound, up from 26 cents. Mexico sugar exports to the U.S. will now be 70% raw and 30% refined, up from 53% raw and 47% refined.

Yet the American Sugar Alliance still doesn't support the deal because of what it calls a “loophole” that could allow refined Mexican sugar into the U.S. in case of shortages under the Soviet-style quota system that predicts U.S. supply every year.

If this is a glimpse into Team Trump's trade policy, it isn't pretty. The deal suggests the strategy is to use government power to enforce cartels that protect politically powerful producers, and Mexico's decision to roll over may encourage White House protectionists to ask for more. So much for the little guy.

## South Korea's Defense Blunder

**M**oon Jae-in's decision to suspend deployment of a missile-defense system last week signals how the new South Korean President will approach the threat from North Korea as well as relations with the U.S., China and Japan. Like his center-left predecessors, Mr. Moon wants to play a balancing role between the regional powers and convince North Korea to negotiate an entente. This naivete puts South Korea's security in peril.

The ability of the U.S.-made Terminal High-Altitude Area Defense (Thaad) to protect against missile attacks from the North isn't at issue. Nor is cost, since Washington is picking up the \$1 billion tab. The system is only controversial because China is angry that the radar can peer into its airspace. Beijing is imposing unofficial economic sanctions on Seoul to force it to abandon Thaad.

Mr. Moon has buckled under Chinese pressure and decided to delay the placement of new launchers for up to two years as his government conducts an environmental assessment. National Security Adviser Chung Eui-yong tried to reassure the U.S. that Seoul will adhere to the agreement to deploy Thaad.

But Mr. Chung's promise was undermined by an unidentified presidential official who told the media last week that the need for Thaad is “not urgent.” That prompted incredulity among many Koreans, since the North continues to test its missiles almost every week along with apocalyptic threats.

### The new President bows to Chinese pressure on missile defense.

The Joongang Daily newspaper wrote, “We are absolutely dumbfounded by the remarks,” while the Korea Herald opined, “Given the

higher frequency of the North's missile tests in recent months, the complete deployment of the system is urgent. Anti-missile capability has become a matter of survival for the South.”

Mr. Moon also tried to reassure Sen. Dick Durbin of Illinois, the second-ranking Senate Democrat, who visited Seoul in late May, that he wouldn't reverse the decision to deploy Thaad. But Mr. Durbin came away even more concerned about the new President's plans. “It's my fear that he thinks—I hope I'm wrong—that [Moon] thinks that South Korea has a better chance working with China to contain North Korea than working with the United States,” he told the Washington Examiner.

Anything short of dismantling the Thaad radar and the two sets of launchers deployed by the previous government is unlikely to appease Beijing. Abroad and at home, Mr. Moon's attempt to please everyone is bound to backfire. Meanwhile, North Korea may be emboldened to escalate its missile and other military provocations to test the new administration.

Mr. Moon still has time to fix his mistake before he meets President Trump in Washington later this month. Environmental assessments can and should be waived when national security is at stake. If Thaad doesn't satisfy that requirement, it's hard to imagine what does.

## LETTERS TO THE EDITOR

## Maybe College Is Too Late to Learn to Think

Looking at the College Learning Assessment Plus test (CLA+) to claim that colleges fail to improve critical-thinking skills is itself a failure of critical thinking (“Many Colleges Fail in Teaching How to Think,” page one, June 6). Given that the crucial goal of improving critical thinking is a widely shared one, the better question would be: How can we ensure more access and good use of a rigorous well-rounded higher education? The answer begins with pushing back against short-term thinking exclusively about job-related skills and placing a higher value on opportunities for students to challenge themselves with a broad curriculum that will prepare them to learn and adapt in a rapidly changing career landscape. They are being prepared not only for their first job but for their 10th, for which enhanced critical-thinking skills will be essential.

FREDERICK M. LAWRENCE  
Secretary/CEO  
*The Phi Beta Kappa Society*  
Washington

As a former college teacher, I say that if a student hasn't been “taught” to think before college, there isn't much even college professors can do.

A.E. SANTANIELLO  
Dana Point, Calif.

A crucial element in critical thinking is to be able to see the basis for different points of view, even if ultimately one disagrees with these on a factual or reasoned moral or ethical basis. To this end students need be able to write a piece from a viewpoint from which

they may well differ, regardless of their “sensitivities” or those of their parents. Much of political correctness seems to me a form of hypersensitivity. But that is in a practical sense unworkable when college ends. This doesn't mean the encouragement of unreasonable hatreds or wicked views. Rather, it is a question of defining where, when or if real threats arise, and recognizing when something isn't a threat.

PETER COUCHMAN  
Mathews, Va.

The failure to train students in critical thinking begins before college. It is the prior 12 years of school that is so critical to cognitive development. In Jewish yeshivas students are introduced to Talmudic dialectics and the Socratic method in elementary school. In these classes, both the academic content and the class process focus on the respectful but vigorous challenges to positions taken by the texts, teachers and fellow students. By college age, students have already mastered critical thinking.

SYLVAN SCHAFFER  
New York

Dare I say it? Clear, logical thinking is a hallmark of conservatism. Connect the dots.

MARY MARGARET RICHARD  
Shreveport, La.

Instead of turning out problem solvers, colleges are turning out problem makers.

DAVID J. GROSS  
St. Augustine, Fla.

## Evergreen's Reply Unconvincing on 'Coercive'

Evergreen State College President George Bridges's June 6 letter “No Coercive Segregation by Race at Evergreen” is inaccurate and deceptive.

President Bridges appears to hold a rather peculiar notion of “coercive” and “optional.” Emails obtained from sources at the college show that faculty, staff and administrators actively promoted an event they described as “including on-campus events for people of color . . . and off-campus events for others.” Faculty were encouraged to incorporate this event into their curricula, and those considering not participating were told that they would not have access to their classrooms. Worst of all, President Bridges was aware of all of this.

JESSE ROBBINS  
Blaine, Wash.

I am a college instructor. President Bridges's concept of safety for

professors on campus brings me no comfort. Prof. Bret Weinstein was verbally assaulted in his classroom for no more than expressing an opinion. There was no “empathy, dignity and respect” afforded to Prof. Weinstein from what I read and saw. In fact, what happened seems to directly contradict the laudable “Freedom and Civility” paragraphs of Evergreen's “Social Contract.” And I sincerely hope that the mob behavior of the Evergreen students doesn't exemplify what is meant by “integrative, independent critical thinking” in the school's “Six Expectations of an Evergreen Graduate.”

Since no punitive measures have been taken against the disruptive students, it is reasonable to assume that Mr. Bridges's students don't feel such conduct is prohibited on Evergreen's campus.

ANN DEFARNO  
Superior, Colo.

## Capital Punishment Just Isn't Worth Keeping

I think John Steele Gordon's “How to Give Capital Punishment a Reprieve” (op-ed, May 30) is a waste of time and effort—as is pursuing the death penalty in the U.S. The death penalty costs us upward of \$2 million for each case. Each year we discover that some defendants, on the path to being executed, were falsely convicted.

Most studies show it has minimal effect in deterring crime. How can the U.S. be a beacon of human rights and an example to the world when we have what is, in effect, government-sanctioned murder of our own citizens?

Maybe we should require our legis-

lators who create these laws to watch prisoners being put to death—maybe then they would realize life is more valuable than being labeled soft on crime.

BRUCE PEOPLES  
Roswell, Ga.

It's a fictional belief that capital punishment is a powerful deterrent to murder and makes society safer. Wisconsin never had the death penalty and consistently has a murder rate below states with capital punishment. Nationally, murder rates are lower in states without the death penalty.

The U.S. should accept the fact that capital punishment does not deter crime and that the real function of the death penalty isn't rehabilitation but retribution.

SANDY MEYR  
Madison, Wis.

## Do You Remember Mr. Till?

Jason Whitlock felt the need to explain to his readers who Emmett Till was (“C'mon, LeBron, Your Emmett Till Analogy Is Simply Cavalier,” op-ed, June 5). That should be proof that we all need to be reminded, even by rich people, of the scourge of racism.

MARK ADAMS  
Poughkeepsie, N.Y.

## Pepper ... And Salt

THE WALL STREET JOURNAL



... in mergers and in acquisitions, in profit and in loss, until receivership do you part . . .

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MICHAEL BENNETT

Miramar Beach, Fla.

## OPINION

# From Russia With Chaos

By David Satter

**A**s U.S. politicians plunge into the hall of mirrors that is Russian intelligence, they are assuming that Russians think as they do—a perfect way to misunderstand Moscow's real intentions.

Portions of the "resistance" to President Trump are convinced he colluded with Russia to win the 2016 election. But the known facts do not support a Russia-Trump plot to defeat Hillary Clinton. Russia's actions are consistent instead with an attempt to turn Americans against each other and sow distrust between the president and the American intelligence services.

**Vladimir Putin doesn't support Donald Trump. He supports American political paralysis.**

For Russians, the difference between Mr. Trump and Mrs. Clinton simply was not that significant. Mr. Trump made naive and uninformed remarks during the campaign. But Mrs. Clinton, as secretary of state, showed no grasp of Russian realities. She launched the "reset" policy after the murders of Alexander Litvinenko, a former Russian intelligence agent who had been granted asylum in Britain,

and Anna Politkovskaya, Russia's leading investigative journalist. In both cases, the regime of Vladimir Putin was directly implicated.

Instead of trying seriously to deter Russian aggression, which in Ukraine so far has claimed more than 10,000 lives, the Obama administration in 2009 created the McFaul-Surkov commission. Michael McFaul, Mr. Obama's chief adviser on Russia, was tasked with building civil society alongside Vladislav Surkov, a Kremlin aide responsible for suppressing it.

The reset was intended to support Dmitry Medvedev, who was Russia's president from 2008 to 2012 before Mr. Putin returned for a third term. But while Mr. Medvedev was chairman of Gazprom from 2001 to 2007, 6.4% of the state energy conglomerate's shares—\$20 billion worth—went missing. When nationwide anticorruption protests were held in Russia this March, the target was now-Prime Minister Medvedev, who was treated as "the face of state corruption."

Russia's 2015-16 hacking operation was also carried out in a way that would have made a focused and tightly held conspiracy nearly impossible. Last October my emails were stolen by Fancy Bear, the same Russia-linked group that hacked John Podesta, Mrs. Clinton's campaign chief. Citizens Lab, a University of Toronto cybersecurity project found that I was part of an operation aimed at 218 unique targets—officials, journalists and military—in at least 39 countries. Former FBI Director James Comey



ASSOCIATED PRESS

Traditional Russian dolls with contemporary faces, Nov. 8, 2016.

said during his recent testimony that since 2015 there could be more than 1,000 entities targeted by Russian hackers in the U.S. alone.

Hacking on this scale would have been difficult to coordinate with any American political operatives, let alone in the heat of a presidential race. Further, Russian influence operations are almost always a matter of facilitation rather than subordination. Victor Louis, a KGB agent and the father of Soviet disinformation, successfully insinuated lies into the Western press by presenting them as inside information. "American reporters," he once told me jokingly, "always steal my best ideas."

WikiLeaks's Julian Assange may be sincere when he says that "our source

is not the Russian government," but only because he is more useful to Moscow if he thinks he is acting independently. The Russian practice of achieving objectives "through the hands of others" would make it nearly impossible to coordinate with the Trump campaign as some have alleged.

Perhaps most important, Russian intelligence also acted to sabotage Mr. Trump. The "Trump dossier," full of unverified sexual and political allegations, was published in January by BuzzFeed, despite having all the hallmarks of Russian spy agency "creativity." The dossier was prepared by Christopher Steele, a former British intelligence officer. It employed standard Russian techniques of disinformation and manipulation. The dossier depicts Mr. Putin as dedicated to "Nineteenth Century 'Great Power' politics," determined to prosecute "oligarchs" and "motivated by fear and hatred of Hillary Clinton."

After the publication of the Trump dossier, Mr. Steele went into hiding, supposedly in fear for his life. On March 15, however, Michael Morell, the former acting CIA director, told NBC that Mr. Steele had paid the Russian intelligence sources who provided the information and never met with them directly. In other words, his sources were not only working for pay. Furthermore, Mr. Steele had no way to judge the veracity of their claims.

The payments are likely to have been high. So who provided the money? An April Vanity Fair article determined that the research that became the dossier was originally funded by a "Never Trump" Republican. After Mr. Trump sewed up the GOP nomination, however, "Democratic donors" kept the effort alive. Perhaps the time has come to expand the investigation into Russia's meddling to include Mrs. Clinton's campaign as well.

Investigating the role of Russian disinformation in the 2016 election requires understanding the layers of deception in which Russian intelligence specialize. This won't be possible if Mr. Trump and his adversaries are more determined to destroy each other than to face the Russian threat. Americans must understand that the Putin regime wants to paralyze the U.S., but would rather have Americans do it with their own hands.

*Mr. Satter is affiliated with the Hudson Institute and Johns Hopkins University. His book, "The Less You Know, the Better You Sleep: Russia's Road to Terror and Dictatorship under Yeltsin and Putin" (Yale), will be out in paperback this summer.*

## Notable & Quotable: California Socialism

*From "California's Descent to Socialism" by Joel Kotkin in the Orange County Register, June 11:*

The oligarchs of the Bay Area have a problem: They must square their progressive worldview with their enormous wealth. They certainly are not socialists in the traditional sense. They see their riches not as a result of class advantages, but rather as reflective of their meritocratic superiority. As former TechCrunch reporter Gregory Ferenstein

has observed, they embrace massive inequality as both a given and a logical outcome of the new economy....

Their gambit is to expand the welfare state to keep the hoi polloi in line. Many, including Mark Zuckerberg, now favor an income stipend that could prevent mass homelessness and malnutrition.

Unlike its failed predecessor, this new, greener socialism seeks not to weaken, but rather to preserve, the emerging class structure.

An advertisement for Breitling featuring a close-up of a Breitling Navitimer chronograph watch with a black dial and a tachymeter bezel. The watch has a dark leather strap and is set against a dark background. The word "ICONIC" is printed above the watch. Below the watch, the text "THE NAVITIMER SINCE 1952" is displayed. The Breitling logo, a stylized "B" with wings, is shown at the bottom right.

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Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

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EDITORIAL AND CORPORATE HEADQUARTERS:  
1211 Avenue of the Americas, New York, N.Y., 10036

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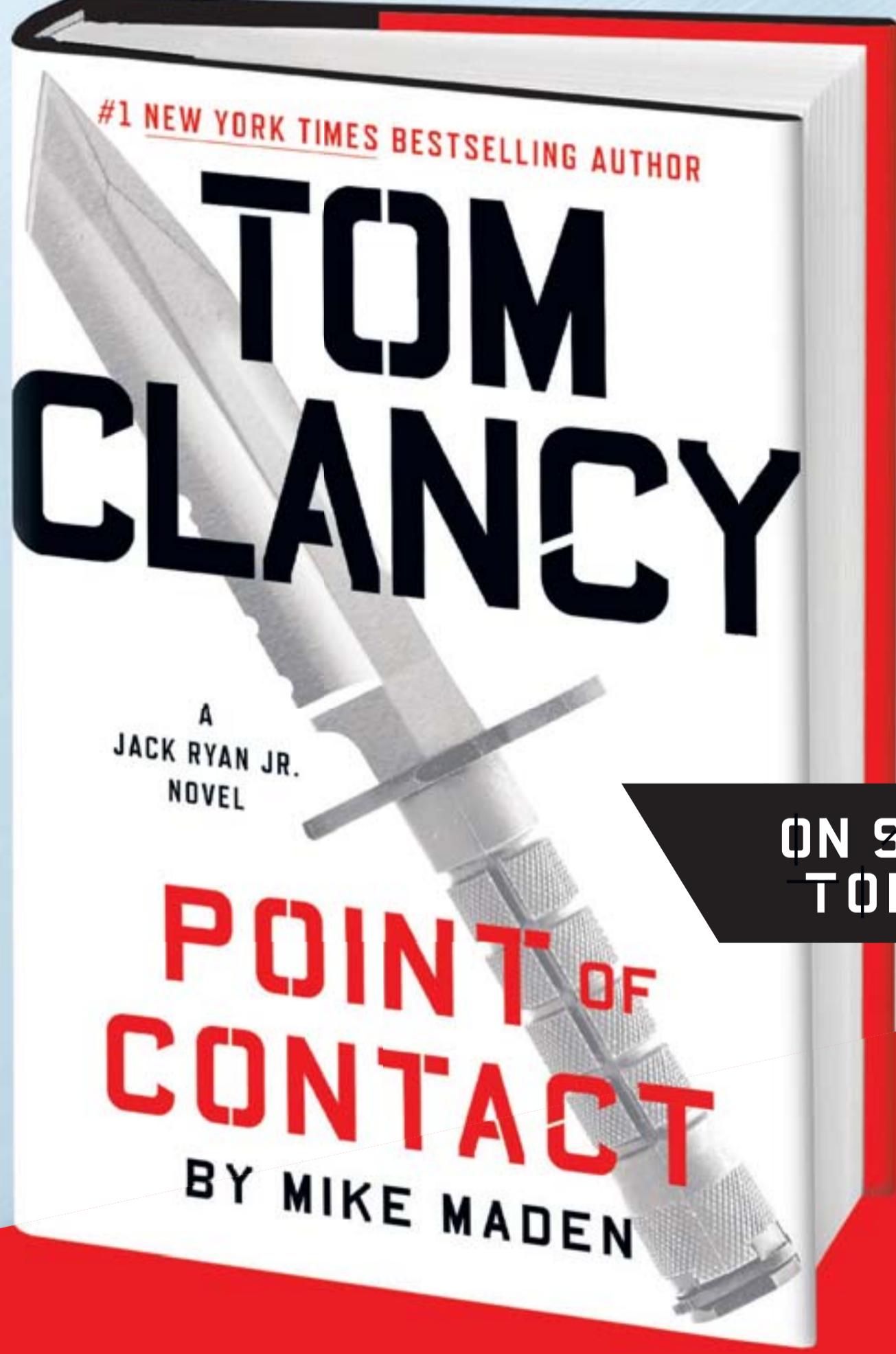
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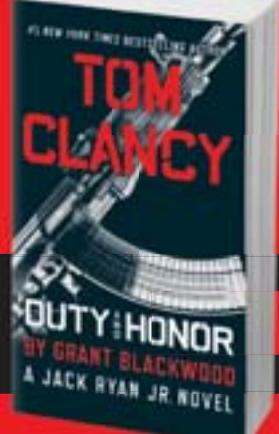
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# TOM CLANCY POINT OF CONTACT

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, June 13, 2017 | B1

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## Uber's Leadership Shake-Up Escalates

Chief business officer leaves ride-hailing firm and Nestlé executive is named to the board

BY GREG BENSINGER

The fallout from **Uber Technologies Inc.**'s months-long investigation into workplace culture extended into the upper ranks of its leadership, as the company on Monday pushed out a top lieutenant of Chief Executive Travis Kalanick and installed a new voting board member with no prior ties to the troubled ride-hailing company.

Emil Michael, Uber's chief business officer and Mr. Kalanick's closest confidant, told

employees in an email Monday that his last day with the company was Sunday, without providing a reason.

The board on Sunday pushed for his removal after an investigative report by former U.S. Attorney General Eric Holder and his law firm **Covington & Burling LLP** was presented with recommendations including Mr. Michael's ouster, according to people familiar with the matter.

Uber plans to publicly release a summary of that report Tuesday morning.

Mr. Michael is the highest-profile exit related to the investigations, which have led to the firings of over 20 employees and gripped the company for nearly four months, over allegations of sexual harass-

ment and sexism in an aggressive, male-dominated workplace.

Mr. Michael was known as effectively a No. 2 to Mr. Kalanick, a personal friend who helped Uber not only raise billions of dollars in capital and usher in the deal for Otto, a self-driving big-rig startup, but was also at the center of some controversies at the company while it fought with regulators around the world.

Mr. Michael, 44 years old, didn't respond to requests for comment. Uber confirmed Mr. Michael is no longer with the company but declined to comment further.

Following the nearly seven-hour board meeting Sunday, The Wall Street Journal reported Uber had hired **Nestlé**

SA executive Wan Ling Martello to its board, now the second female voting board member next to media mogul Arianna Huffington and the third prominent female hire in the past week. Uber was yet to announce Ms. Martello's appointment as of Monday.

Ms. Martello previously served as chief financial officer for Nestlé and was CFO for **Wal-Mart Stores Inc.**'s international division. She also sits on the board of China internet company **Alibaba Group Holding Ltd.** Ms. Martello couldn't be reached for comment, and Uber declined to comment on her nomination. Her appointment widens the number of voting board members to eight, and unlike the other directors, she isn't an insider



FABRICE COFFRINI/GETTY IMAGES

Wan Ling Martello of Nestlé

nor an investor in Uber.

Mr. Kalanick, however, remains protected in his position because of his shared-based voting power—which, along with co-founder and

Chairman Garrett Camp and early employee Ryan Graves—gives him a large majority.

The other board members all have stakes in the company: private-equity billionaire David Bonderman of **TPG**; Ms. Huffington; venture capitalist Bill Gurley of **Benchmark**; and Yasir Al Rumayyan, an official from a Saudi Arabian government investment fund.

Mr. Kalanick also had proposed to the board that he step aside for a period amid a string of scandals at Uber.

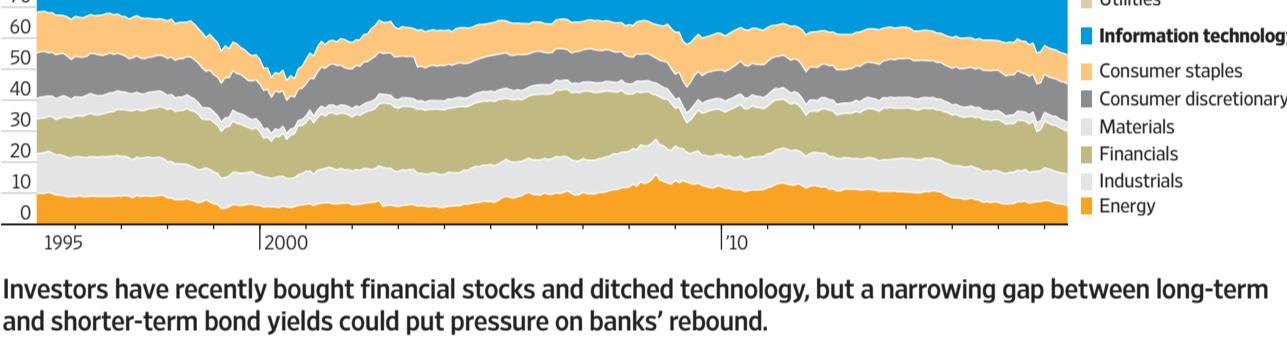
The CEO recently faced a personal tragedy when his mother died in a boating accident that left his father seriously injured. He has been spending time with this father in the Los Angeles area.

Please see **UBER** page B4

### Down, but Not Out

Technology stocks make up close to 25% of S&P market value for the first time since the dot-com boom.

S&P 500 group by market capitalization share



Investors have recently bought financial stocks and ditched technology, but a narrowing gap between long-term and shorter-term bond yields could put pressure on banks' rebound.

■ PHLX Semiconductor Index ■ S&P 500 ■ S&P 500 financial sector



Sources: Thomson Reuters (market cap); WSJ Market Data Group (S&P 500, PHLX) FactSet (S&P financial); Ryan ALM (yields)

THE WALL STREET JOURNAL.

## Chip Stocks Buck Broader Slump

BY AMRITH RAMKUMAR

Shares of several chip makers turned higher despite a slump in the broader technology segment, alleviating some concerns that last week's pullback could be the start of a deeper rout.

**Nvidia Corp.**, the S&P 500's worst performer on Friday, **Micron Technology Inc.** and **Texas Instruments Inc.** were all up to start the week. The makers of computer chips used in everything from iPhones to self-driving cars have often led their larger

counterparts in the tech sector on the way up and down, leading some investors to say the worst of the tech drop had passed. The Dow Jones Industrial Average fell 36.30 points, or 0.2%, to 21235.67.

The S&P 500 technology sector fell 2.2% last week—it's biggest weekly decline of the year—as investors sold stocks that led gains in the broader market in 2017, including **Apple Inc.**, **Netflix Inc.**, **Amazon.com Inc.**, **Facebook Inc.** and Google parent **Alphabet Inc.** Some analysts and investors had become concerned

that the concentrated group of highfliers was vulnerable to a reversal.

The PHLX Semiconductor Index, a group of 30 semiconductor stocks, declined 0.5% Monday compared with Friday's 4.2% slide, which was its second-biggest daily drop of the year. Nvidia climbed 37 cents, or 0.3%, to \$149.97, on Monday after shedding 6.5% Friday in its highest-volume trading day since 2004, according to FactSet.

"Is the panic over? To some extent, it feels like it is because if you look at Nvidia, it's

bounced back off the [intraday] low," said Yousef Abbasi, global market strategist at JonesTrading Institutional Services, after the market closed Friday.

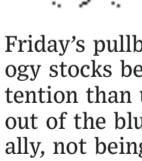
Nvidia, which more than doubled over the seven months through Thursday, has been watched by some analysts and investors for signs about where the broader tech rally is heading.

Some of the most actively traded options contracts on Nvidia stock Monday were calls, or bullish options, expiring

Please see **CHIP** page B2

STREETWISE | By James Mackintosh

## Hot Sector + Crowded Trade = Danger



Normally, a slight fall in a volatile stock-market sector would be of little note. But

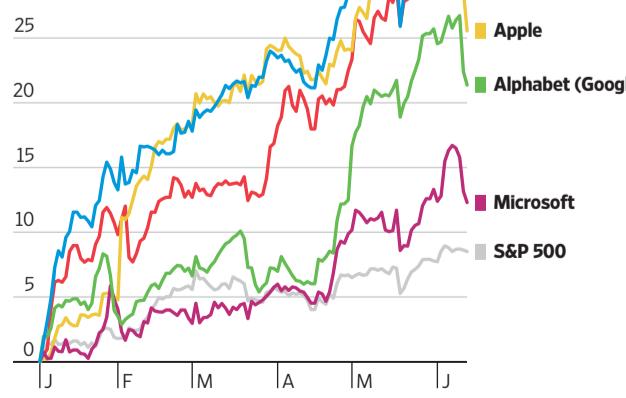
Friday's pullback in technology stocks bears closer attention than usual, coming out of the blue and, unusually, not being part of a wider sell-off.

The fall was small in absolute terms, but it looks huge compared with everything else. The S&P 500 tech sector has had only two worse days relative to the wider market since the dot-com bear market ended in 2003. One was amid the post-Lehman carnage in October 2008, the other after the market began its credit-crunch-induced descent in late 2007. These are not good precedents for investors.

Investors should be cautious about reading too much into one or two days' moves. **Nvidia Corp.**, the graphics card maker that has

### What Goes Up Must Come Down...a Bit

Shares in leading technology stocks have dropped sharply but remain strongly ahead for 2017.



Source: Thomson Reuters

els supplier to the gold rush in artificial intelligence and cryptocurrencies, had a hard time, dropping 6.5% on Friday. **Facebook Inc.**, **Amazon.com Inc.**, **Alphabet Inc.** and **Apple Inc.** were down

more than 3% on Friday and fell again on Monday. But the wider Nasdaq-100 index, dominated by technology, was off only 2.4% on Friday and 0.6% on Monday. Even Nvidia's Friday drop wasn't

more than 3% on Friday and fell again on Monday. But the wider Nasdaq-100 index, dominated by technology, was off only 2.4% on Friday and 0.6% on Monday. Even Nvidia's Friday drop wasn't

Please see **STREET** page B2

## Subprime Brokers Back in Demand

By KIRSTEN GRIND

Brokers willing to learn the lost art of making risky mortgages are in demand again.

Brandon Boyd was a high-school junior during the financial crisis. Now, the former Calvin Klein salesman is teaching mortgage brokers how to make subprime loans.

Mr. Boyd, a 25-year-old account executive at FundLoans in a beach town outside San Diego, is at the cusp of efforts to bring back an army of salespeople who once powered the mortgage industry and, some say, contributed to the housing crisis.

Mortgage brokers, who serve as middlemen between lenders and borrowers, used to be a key part of the home-loan process. But some brokers faked loan applications and steered people into debt they couldn't afford.

Financial regulation has severely diminished their ranks since the housing meltdown.

And big banks with national sales teams say they won't use brokers anymore because they are third-party contractors, making it harder to police loan quality.

Now, small and midsized independent lenders want the brokers back. Nonbank lenders that typically cater to riskier borrowers say they need brokers to fan out across the country and arrange mortgages to people with lower credit scores, or who can't prove their income through a typical tax return.

Brokers are a key part of a mortgage chain that starts with a borrower going to a broker for a loan. The broker surveys lenders for the best loan to fit the customer. The lender then funds the borrower's loan.

While brokers before the crisis served banks and independent lenders, today they are working largely for nonbank lenders who make up a

Please see **BROKER** page B2

## Activists Turn Up Heat On Fresh Target: CFOs

By RICHARD TEITELBAUM

Investors cheered last month when **Whole Foods Market Inc.** named a chairwoman and five independent directors.

After losing more than 40% since late 2013, shares rose 2.2%.

Charles Kantor was less impressed with a different change. The portfolio manager at **Neuberger Berman Group LLC**, was concerned that the finance chief the company named the same day, Keith Manbeck, lacked experience, as the company is being targeted by activist investor **Jana Partners LLC**.

Neuberger Berman owned a 2.7% stake in the upscale grocery chain as of March 31, according to FactSet.

"He has a very steep learning curve," said Mr. Kantor, who signed a letter last year calling for a new CFO with a background in real estate, cost-

cutting and store economics.

When activist investors ask for changes at a company or on its board, their campaigns often start at the top, with the CEO in the crosshairs. Public activist pressure played a prominent role in ousting the chief executives of three S&P 500 companies this year: insurer **American International Group Inc.**, railroad **CSX Corp.** and aerospace-parts maker **Arconic Inc.**

But pressure is mounting on CFOs, too, as they are more often given the job of cutting waste, increasing efficiency and boosting margins.

Mr. Kantor's concerns about Whole Foods speak to the vital function that CFOs have assumed. Mr. Manbeck previously served as senior vice president of digital finance, strategy management, and business transformation at retailer **Kohl's Corp.**, according to Whole Foods.

"It's hard to argue that they Please see **CHIEFS** page B5

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## BROKER

Continued from the prior page  
critical part of the mortgage market.

In the first quarter, nonbank lenders accounted for about half of the mortgages originated in the U.S., according to industry publication Inside Mortgage Finance.

The going has been tough in subprime, though: In the first quarter, nearly a decade after the start of the housing crisis, lenders originated just \$6 billion in loans to borrowers with less-than-stellar credit scores or who are using alternative documentation to prove income, a category now known as "nonprime," according to Inside Mortgage Finance.

In all of 2016, they originated \$22 billion in loans, according to Inside Mortgage Finance. Back in 2005, at the peak for such loans, lenders made about \$1 trillion of these mortgages.

Meanwhile, the volume of loans produced by mortgage brokers dropped to \$37 billion in this year's first quarter, down about 34% from the last three months of 2016. Loans from brokers peaked at around \$1.1 trillion in 2003.

Lenders say there is an untapped market among borrowers with good credit scores such as self-employed workers who don't have proper income documentation, or for responsibly made loans to borrowers with credit problems that have had bankruptcies in the past or had to sell their home for less than it was worth.

If they are successful in recruiting brokers, lenders believe the market potential for both types of loans could reach \$200 billion annually.

A big hurdle: finding the right kind of brokers and instructing them in the lost art

of making a subprime loan. Some are returning to the industry for the first time since the crisis. Others like Mr. Boyd have never been in it.

"I knew a mortgage was a loan for a house," said Mr. Boyd, who was recruited by his boss, Jon Maddux, after selling him a Calvin Klein suit at a local outdoor mall. "I came in just a blank slate."

Before he co-founded Drop Mortgage, the parent company of FundLoans, in 2014, Mr. Maddux ran the website YouWalkAway.com between 2008 and 2012. The site charged homeowners on the brink of foreclosure \$995 to learn how to leave their debt behind.

Mr. Maddux said his experience advising down-and-out homeowners is today helping him pitch them loan products. Drop Mortgage and FundLoans made about \$200 million in subprime and alternative documentation loans in 2016, funding them by selling them to hedge funds and other Wall Street investors.

"I've seen what caused these people to walk away, and I don't want to be a part of that," he said.

Mortgage brokers have become so scarce that the industry's trade group last year launched a grant program for the first time to help loan salesmen get back into the business—or enter it for the first time.

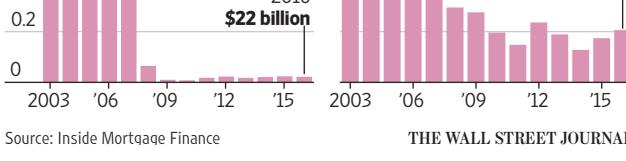
There are other signs of progress. At the trade industry's annual conference at the Luxor Hotel & Casino in Las Vegas last September, several thousand brokers packed presentation rooms. Five years ago, the association said it was lucky to get 200 people.

"It's been a hard battle" against the stigma of subprime lending, said Krista Donecker, an account executive at Irving, Texas-based Caliber Home Loans Inc.

## Starting Over

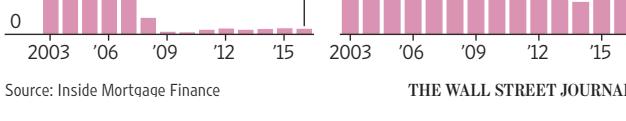
Nonprime mortgages, and those originated by brokers, have plummeted since the financial crisis.

### Nonprime mortgage originations



Source: Inside Mortgage Finance

### Broker mortgage originations



## BUSINESS & FINANCE

## CHIP

Continued from the prior page  
ing in June, according to Trade Alert data.

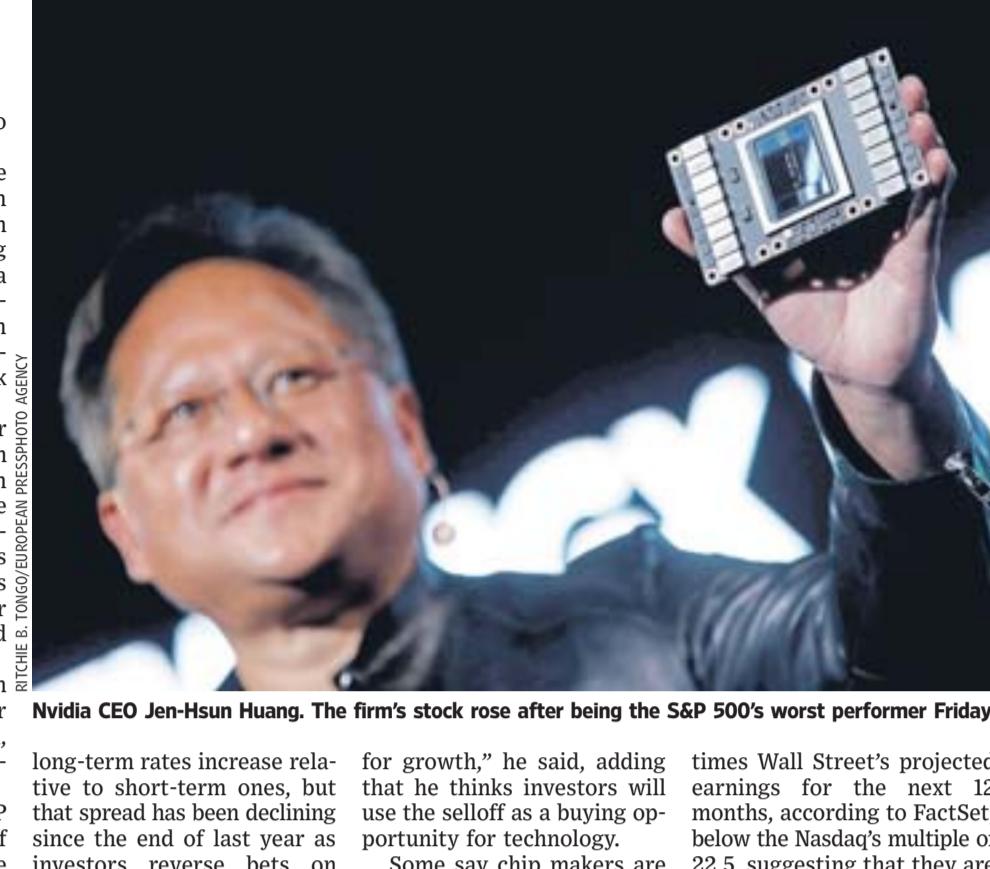
"I think participants see this latest sell-off as short-term in nature," said Fred Ruffy, an analyst at Trade Alert, adding that calls trading on Nvidia outpaced puts, or bearish options, exchanging hands on Monday. "There are people using options to play the stock for a rebound."

The PHLX Semiconductor Index has gained more than twice as much as S&P 500 tech stocks and Nasdaq Composite since the start of 2016. Although a strong 2016 accounts for much of the PHLX Index's gains, it has still fared better than the S&P tech sector and Nasdaq this year.

As investors dialed back on some of the most popular stocks of the year last week, some of this year's underperformers posted gains.

Energy stocks in the S&P 500, the worst performer of the 11 sectors this year, have risen more than 3% during the two-session tech sell-off. The KBW Nasdaq Bank Index rose 4.9% last week—its biggest weekly gain of the year. That bounce has raised the prospect that investors may rotate back into underperforming sectors, boosting what had been laggards for much of the year.

At the same time, investors say those sectors face challenges of their own. Bank stocks typically rise when



Nvidia CEO Jen-Hsun Huang. The firm's stock rose after being the S&P 500's worst performer Friday.

long-term rates increase relative to short-term ones, but that spread has been declining since the end of last year as investors reverse bets on quicker economic growth.

Shares of energy companies have fallen largely because oil prices are down more than 14% this year.

That has made many analysts and investors wary of calling an end to the tech rally.

"It's all a herd mentality," said Robert Pavlik, chief equity strategist at Boston Private Wealth. "I think once you see this all sort of play out, the market is going to be looking

for growth," he said, adding that he thinks investors will use the sell-off as a buying opportunity for technology.

Some say chip makers are one group that has more room to run.

Many semiconductor companies have been benefiting from rising memory-chip prices, according to a Benchmark Research industry note published Monday.

Global semiconductor revenue is forecast to increase more than 12% this year, research firm Gartner said in April.

The semiconductor index traded Friday at about 15.7

times Wall Street's projected earnings for the next 12 months, according to FactSet, below the Nasdaq's multiple of 22.5, suggesting that they are still attractively valued relative to the broader market.

"At this point, in 2017, we see the group positioned mid-cycle," said Rick Schafer, managing director and senior analyst at Oppenheimer. "It's always tough when you're in the middle of a cycle to know whether you're in the third inning or the seventh."

—Ben Eisen, Gunjan Banerji and Akane Otani contributed to this article.

## STREET

Continued from the prior page

They already qualified for those who screen shares for momentum and earnings growth. When popular trades go out of fashion, they often do so suddenly.

Yet, tech stocks aren't repeating the dot-com bubble of 2000. It's true that before its drop on Friday, the S&P tech sector came within 0.1% of breaking its dot-com high for the first time.

Some of these moonshots will surely pay off, but investors would be wise to wonder about the core expertise of some of the companies in which they're buying shares.

Are they high-margin oligopolies in social media, mobile phones and operating systems? Or are they generic technology incubation operations able to turn wacky ideas into new business models?

Treating them as safe, low-volatility stocks implies the former, but that isn't compatible with their cash generation being plowed back into high-growth moonshots.

Worsening this risk is the lack of effective controls on the powerful founders of many of the big tech companies. History has shown time and again that executives without effective checks and balances waste company cash on poorly thought out or overly expensive vanity

projects, and founders of several of the biggest tech businesses have kept control of their companies through special share classes.

Mark Zuckerberg still controls 60% of Facebook votes, co-founders Larry Page and Sergey Brin control 51% of Alphabet votes, and Snap Inc.'s IPO this year gave buyers of its shares zero votes.

There are other risks. New tech eventually disrupts old tech; could a new approach to social media send Facebook the way of MySpace, or a new phone

style leave Apple looking like Nokia Corp.? Hard to imagine, but so was the invention of the iPhone. Staff shortages are bidding up costs rapidly, as Silicon Valley competes with itself and Wall Street for the best computer-science graduates. There's also a danger that governments, particularly in Europe, get serious about their tax, antitrust or encryption concerns.

All these are for the future; for now, worry about a crowded trade quickly becoming much less crowded.

When popular trades go out of fashion, they often do so suddenly.

2000, many of today's tech stocks are well established and run highly profitable oligopolies.

In the long term, the danger is that hubris in the boardrooms of tech companies will lead them to fritter away shareholder cash as they set out on a landgrab of new technologies away from their core expertise.

Apple has put the "hub"

come out of your shell.

ARIEL INVESTMENTS

## BUSINESS NEWS

# Fujifilm Reveals Broader Losses

Accounting scandal exceeds first estimate; six board members at unit intend to resign

BY MEGUMI FUJIKAWA

**TOKYO**—Fujifilm Holdings Corp. said losses from accounting irregularities in New Zealand were much larger than first thought and extended to the company's Australian office-equipment unit, a development that raises further doubts about Japanese firms' control over their overseas operations.

The Japanese camera and copier maker said six board members at its mainstay subsidiary **Fuji Xerox** would resign to take responsibility for losses that ballooned to ¥37.5 billion (\$340 million) between fiscal 2010 and 2015, from ¥22 billion. It also docked pay from all the board members at Fuji Xerox and two senior group executives. Only one of the resigning board members will stay with the company.

Fujifilm said the scandal-related losses aren't likely to widen further because it had reviewed all existing contracts at the two units and didn't see the same problems in any of its other markets, including Japan.

The latest example of Japanese accounting irregularities is likely to add to investors' concerns over corporate governance at Japan's companies, after a long-running accounting scandal at **Toshiba** Corp. and last year's admission by **Mitsubishi Motors** Corp. that



A Fuji camera at a show in Japan this year. The maker of copiers and cameras blamed losses on problems in New Zealand and Australia.

it falsified fuel-efficiency data for some of its cars.

Fujifilm launched an independent investigation in April into the irregularities at its New Zealand Fuji Xerox unit, several months after the first media reports of problems at the company.

The findings by the third-party panel released Monday showed that the losses in New Zealand were larger than first thought and that an Australian sales subsidiary had followed

similarly inappropriate accounting practices.

Too much leeway had been given to Fuji Xerox to follow different practices from its parent company because the unit had helped support Fujifilm's bottom line as the company tried to reinvent itself in response to the digital revolution, said Kenji Sukeno, Fujifilm's president and chief operating officer.

"We showed too much respect for Fuji Xerox because it

contributed to profits when Fujifilm was reforming itself after its film business peaked in 2000. We didn't nag at Fuji Xerox very much, and that is something we now regret," Mr. Sukeno said at a news conference after the release of the company's delayed earnings for the business year ended March 31.

Fujifilm didn't apply internal rules for managing its subsidiaries to Fuji Xerox, the company said. Those rules

covered areas such as business strategy, personnel changes and capital expenditure.

The irregularities stem from leasing agreements the New Zealand and Australian units made with customers allowing them to pay monthly usage fees. In some instances there was no clear minimum usage requirement, leading to doubts about whether the fees would be sufficient for Fujifilm to recover costs, the company said.

# GM's Opel Unit Taps CEO Ahead of Sale

BY ERIC SYLVERS  
AND MIKE COLIAS

**General Motors** Co.'s European unit, **Opel AG**, appointed a new chief executive as **Peugeot** gets set to complete its more than \$2 billion acquisition of the perennially unprofitable car maker.

Michael Lohscheller, who had been Opel's chief financial officer for the past five years, has taken over as the German company's CEO, Opel said Monday. He succeeds Karl-

Thomas Neumann, who called his decision to leave Opel "personal," without revealing further details.

Peugeot earlier this year agreed to buy Opel, betting it can turn around a company that hasn't posted a profit in almost two decades. The acquisition, which could close as early as the end of July, would make Peugeot Europe's No. 2 car maker behind Volkswagen AG. Revenue at Peugeot, officially known as Groupe PSA, would jump by one-third.

It wasn't immediately clear what role Peugeot CEO Carlos Tavares played in the change at Opel. A Peugeot spokesman declined to comment on the relationship between Messrs. Tavares and Neumann. Mr. Neumann couldn't be reached through an Opel spokesman.

"I know some of you are disappointed, but I hope you can understand my decision," Mr. Neumann wrote on Twitter. He said he would take some time before deciding on his next move.

GM installed Mr. Neumann in early 2013 after a turbulent period of restructuring and executive turnover at Opel. The former CEO of German parts maker Continental AG put in place a 10-year plan that included a \$5 billion commitment from GM for investment in new vehicles.

Mr. Neumann had some success in reviving the beleaguered brand. He hired a new marketing chief from the cosmetics industry who oversaw edgy advertising campaigns

that emphasized stylish designs and distinctive features. The vehicles improved and garnered critical praise as Opel gained market share in categories such as compact cars and crossover sport-utility vehicles.

Still, Mr. Neumann was unable to deliver on his primary goal of ending a long run of losses. GM reported a loss of \$257 million in Europe last year.

—Nick Kostov contributed to this article.

# J.Crew Offers Debt Exchange

BY KHADEEJA SAFDAR  
AND EZEQUIEL MINAYA

**J.Crew Group** Inc. announced a move it hopes will ease its heavy debt load and give it more time to right its business, as the embattled retailer also reported its 11th consecutive quarter of same-store sales declines.

The retailer, which was taken private in 2011, said Monday it had made an offer to some of its bondholders to push back its most pressing debt obligation—about \$567 million due in May 2019—and amend its term loan. The company said it has received consent from two of its largest debtholders but needs support from additional lenders for the transactions to proceed.

The company, which is carrying more than \$2 billion in debt, has been negotiating with lenders to refinance its debt while paying its interest payments in kind—essentially swapping debt for new debt. In December, it moved its intellectual property out of the reach of lenders, prompting litigation.

If accepted, the proposal would give J.Crew's incoming CEO, James Brett, two additional years to turn around the business.

Meanwhile, the company reported that comparable sales fell 9% in its latest quarter, while retreating 12% for its eponymous brand.

# Qatar Airways Boss Hits Trump

DUBAI—The chief executive of Qatar's national airline struck a critical tone in the face of an air blockade imposed by its Arab neighbors, expressing dismay that President Donald Trump backed the action while talking up the carrier's growth prospects.

By Nicolas Parasie  
in Dubai  
and Robert Wall  
in London

A group of Middle East countries led by Saudi Arabia, the United Arab Emirates, Bahrain and Egypt last week cut diplomatic and transport links to Qatar, accusing it of supporting Islamist groups and extremists in the region.

Doha denies that it supports extremists. Mr. Trump has signaled he backed the move by Qatar's neighbors.

"I'm extremely disappointed in President Trump, I thought he was more shrewd," Akbar Al Baker, CEO of state-owned **Qatar Airways**, said in an interview. "I was expecting that the U.S. will lead the challenge to this blockade," he said.

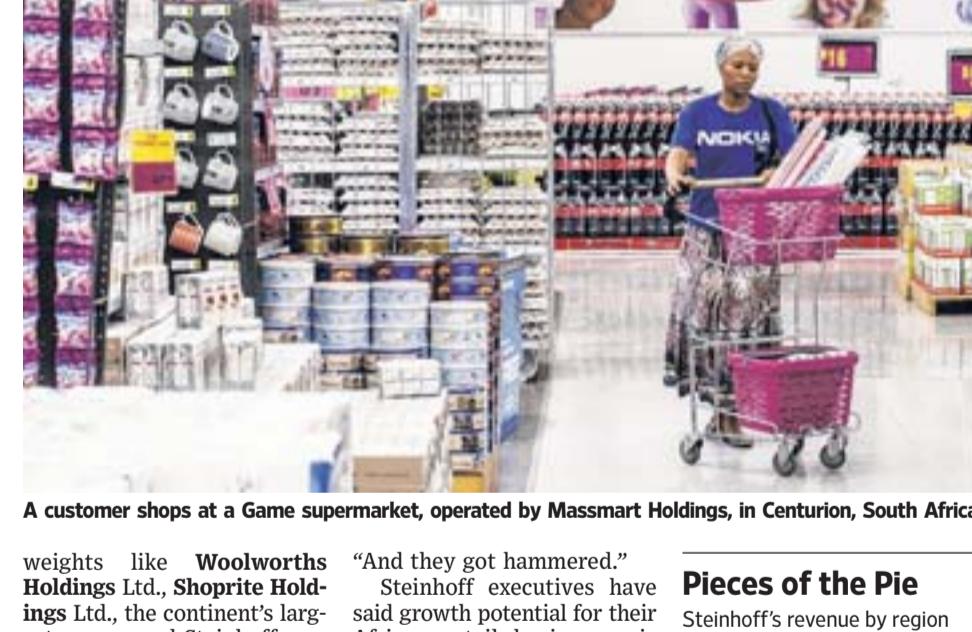
Mr. Al Baker, who has for years maintained friendly relations with Mr. Trump, is among the first Qatari executives to publicly lash out at the U.S. for its role in isolating the Persian Gulf state.

He called the four countries' blockade an illegal act that contravenes existing agreements with Qatar allowing free and unhindered air-space passage.

The tension with the U.S. comes at a politically sensitive time for Mideast airlines that have expanded rapidly on U.S. routes.

Some U.S. rivals, including **American Airlines Group** Inc., **Delta Air Lines** Inc. and **United Continental Holdings** Inc., have lobbied the Trump administration to curb the growth of airlines from the Persian Gulf, such as **Qatar Airways**, **Emirates Airline**, and **Ethihad Airways**, though other U.S. carriers and tourist groups have urged Washington to maintain an open market. The Trump administration hasn't said which side it would back.

The airline late Sunday announced a 22% jump in profit for the fiscal year ended in March. "We are going to persevere, we are going to remain strong," he said.



A customer shops at a Game supermarket, operated by Massmart Holdings, in Centurion, South Africa.

weights like **Woolworths Holdings** Ltd., **Shoprite Holdings** Ltd., the continent's largest grocer, and Steinhoff.

But the bank in its estimate included workers who made little more than \$2 a day. A more conservative count, released in 2015 by Credit Suisse, said that when narrowing Africa's middle class to individuals with at least \$5,000 in assets, it had just 20 million members.

Slow and expensive logistics, problems securing land for new stores and wildly fluctuating currencies also have hampered growth, while rises in inflation and unemployment have eaten into consumers' purchasing power. Walmart's **Massmart Holdings** Ltd. has been slow to open stores, while Woolworths has pulled out of Nigeria, Africa's largest economy.

"They sort of go [into Africa] thinking, 'We're God's gift to the retail industry,'" said Nicholas Corbishley, head of Africa investments at Old Mutual Property, a South African real-estate developer.

"And they got hammered."

Steinhoff executives have said growth potential for their African retail businesses is constrained by the current size of the African market.

"Five years ago, there was a lot more optimism and interest," said Dion Shango, chief executive of PricewaterhouseCoopers for Southern Africa.

Steinhoff said its African retail businesses outside Southern Africa were hit hard in the most recent six-month period by falling local currencies. The company also said it was moving ahead with a separate listing of its African operations to better value those businesses and provide a stock for emerging-markets investors interested in the continent.

This stripped-back success speaks volumes about the evolution of consumer activity across Africa as steep slides in prices of commodities from copper to crude shake local economies. While retailers in other emerging markets, such as Eastern Europe or Asia,

## Pieces of the Pie

Steinhoff's revenue by region



\*For the six months ending March 31, 2017

Source: the company

**THE WALL STREET JOURNAL.**

have seen opportunity in luxury goods, in Africa they are going in a different direction.

The challenges—and promises—of the African retail market were on display on a recent afternoon in a small, well-lit shop near Luanda's international airport. Here, in an outlet of Steinhoff's Pep chain, Angola's middle class shopped

for brightly colored essentials from blouses to baby bathtubs, which were largely made in China and then driven more than 2,600 miles by truck from South Africa to this sprawling seaside capital.

Steinhoff doubled down on Africa when it bought discount clothing retailer Pepkor in 2015 for \$2.8 billion rand (about \$5.7 billion at the time). There are now more than 2,300 Pep stores in a dozen countries on the continent. Angola was Pep Africa's top-performing market during the 2016 fiscal year, the company says, despite inflation of more than 30%.

One of the reasons: "We understand how to trade cheap," said Thys Potgieter, the company's general manager for Angola. "We are not flashy."

Pep's competitors are largely informal vendors on Luanda's street markets, who usually don't pay rent, marketing, taxes or staff. But some customers say those traders don't offer the quality or choice available in air-conditioned Pep stores.

"People always talk about stuff from Pep," says Edmar Augustinho, a 21-year-old economics and law student. Vania Tiago, a 22-year-old secretary, said she used to come to the store almost every week to shop for clothes for her baby. Amid Angola's runaway inflation, however, she has cut her visits to once a month. "There are lots of good things, like the quality. The only bad thing is the price," she said.

Mariza Nel, Steinhoff's director of corporate services, says operating successfully in African markets requires a lot of flexibility—and no unnecessary frills.

"You really have to have a very simple product range that has little fashion in it so it can be on the shelves for quite long," she said. "If you compare Zara or H&M, they need to change range very, very often. In Africa, it's impossible."

## TECHNOLOGY

WSJ.com/Tech

# Facebook to Let Users Subscribe to News

**Facebook** Inc. may soon help its users do something unfamiliar on the platform: pay for news.

The social-media giant is building a feature that would allow users to subscribe to publishers directly from the

By Deepa Seetharaman  
And Lukas I. Alpert

mobile app, according to people familiar with the matter. The feature, long requested by publishers, is expected to roll out by the end of 2017, three of the people said.

Many details remain up in the air, but discussions have centered on making the feature available only on stories published natively to Facebook through its Instant Articles product.

Talks also have focused on how to structure the arrangement, with Facebook leaning toward a metered-payment model, which would allow users to read some articles free of charge each month before prompting them to pay, three

of the people familiar with the matter said.

Another point under discussion is how payments would be processed and whether Facebook would get a cut of the revenue. One model being considered is to have Facebook take payment information but let publishers keep all the money, some of the people said.

"We're working with partners to understand their business and explore ways we can help them drive more value from Facebook. We are taking the time to deeply understand their different goals and needs," Facebook said in a statement.

The new feature would be a boon to publishers that are increasingly emphasizing digital subscriptions to power revenue growth, including the The Wall Street Journal, the New York Times, the Washington Post and the Financial Times.

Publishers have long been frustrated by Facebook's outsize role in news dissemination and commanding presence in the digital advertising market. The dominance of Alphabet Inc.'s Google and Face-



A conference last year in Paris. Publishers have long been frustrated by Facebook's outsize role in news dissemination.

book in online advertising—the companies are expected to receive more than 60% of U.S. digital ad spending this year, according to market-research company eMarketer—is one reason many newspapers now see subscription growth as paramount.

"Helping news publishers get paid for their digital content is arguably the most meaningful help that Facebook could provide to global jour-

nalism," said Jim Friedlich, chief executive of the foundation behind the Philadelphia Inquirer, which has lobbied Facebook hard for the initiative. "If Facebook truly creates a successful platform for the sale of news subscriptions at scale it will be a powerful and historic game-changer for the news industry."

He argued that such a change would likely be hugely beneficial to local and regional

publishers "who have been less successful than national news enterprises in building revenue beyond print."

Top publishers urged Facebook to include a subscription option on Instant Articles before the format's launch in May 2015. At the time, Facebook employees studied different subscription models, such as prompting users to visit a publisher's website and subscribe after they have read a certain number of articles, according to two people familiar with matter.

The idea didn't get off the ground partly because Facebook didn't want to introduce barriers between its users and content, one of the people said. One of the goals of Instant Articles, through which media outlets publish stories directly on Facebook instead of linking back to their sites, was to speed up load times on mobile.

But many publishers found they weren't making as much money on Instant Articles as on their own sites due to Facebook's restrictions on the number and types of ads, according

to a January report from Digital Content Next, a trade group for digital-content companies. Publishers are also experimenting with rival offerings from Apple Inc. and Google.

In response to mounting frustration and competition, Facebook eased some of its ad restrictions on Instant Articles.

In April, it added a new tool so publishers could encourage readers to sign up for their newsletters. Facebook executives also warmed to the idea of driving subscriptions through Facebook and started working on a "payment system" more seriously, the people familiar said.

One of the people familiar with the matter said Facebook is likely to allow users to read 10 articles free before prompting them to subscribe, mirroring the approach of news organizations like the New York Times and the Washington Post. This model is likely to be a point of contention between Facebook and publishers with stricter paywalls, including The Wall Street Journal and the Financial Times.

## Experts Identify Malware That Hit Kiev

By ROBERT MCMILLAN

Computer-security researchers said they have discovered the malicious software that knocked out electricity in Ukraine's capital last year, and warned U.S. companies that the code could be repurposed to disrupt systems in the U.S.

The discovery sheds light on an incident that security experts have been watching closely, hoping to understand the risk to the U.S. electrical grid. It follows a 2014 cyber-campaign against the U.S. in which networks at 17 energy companies, including four electric utilities, were compromised.

The malicious software, called Crashoverride, has been analyzed over the past week by Dragos Inc., a Washington firm specializing in securing the industrial-control systems in manufacturing plants or power facilities. Robert M. Lee, Dragos's chief executive, said the software was discovered earlier this year by ESET, a Slovakia-based antivirus vendor.

Software specifically designed to infect these systems is relatively rare, however—Crashoverride is only the fourth example, according to Dragos.



Xbox gamers in Los Angeles last year. The Supreme Court declined to revive an Xbox consumer suit.

## Fox Ups the Ante In Streaming Fight With Its Affiliates

By SHALINI RAMACHANDRAN

Fox is turning up the heat in a fight with its TV station affiliates over how to bring its programming to streaming-media consumers.

The network has quietly started offering a national, 24-hour feed on Hulu's live-streaming TV service in more than 70 markets where it hasn't come to agreements on streaming with local affiliate stations, including Baltimore, Pittsburgh, Cincinnati, and Birmingham, Ala.

Traditionally, the major broadcast networks—Fox, ABC, NBC and CBS—have made their entertainment and national news programming available through local stations, which fill out the rest of the schedule with local news and daytime fare.

So Fox's move represents a drastic shift in approach, cutting out station owners and groups that own Fox affiliate stations in many markets, including Raycom Media Inc. and Sinclair Broadcast Group Inc.

The national Fox feed is only live on Hulu, which is partly owned by 21st Century Fox, but people close to Fox said the network intends to launch it on other streaming outlets offering lineups of channels similar to cable TV offerings, such as AT&T's DirecTV Now and Sony Corp.'s PlayStation Vue.

Wall Street Journal parent News Corp and 21st Century

Fox share common ownership.

In the place of local news and daytime programming, Fox has plugged into the stream some programming from sister cable channels like National Geographic, Fox Business Network and Fox News, as well as library programming from 21st Century Fox Television studio. At issue is how the two sides will divvy up their share of the monthly subscriber fees consumers pay for streaming services like Hulu's.

In at least some cases, Fox is offering station owners business terms that are 50% below that of other networks, people familiar with the matter said.

Among the shows from National Geographic that are filling in the gaps: "Diggers," about people digging for old American artifacts, and "Building Wild," in which the show's hosts help people build wilderness getaways.

Nexstar Broadcasting Group's chief operating officer, Brian Jones, who chairs the board of Fox-affiliated stations, said Nexstar is completing a deal with Fox for new streaming services.

Mr. Jones said Fox negotiated the right to offer such a feed as it struck its last round of agreements with affiliates, so the move isn't entirely a surprise.

For the broadcast stations, ensuring they get their share of streaming TV fees is hugely important as traditional pay-television subscriptions decline.

## Biotech Copy Wins Ruling

By BRENT KENDALL

**WASHINGTON**—The Supreme Court on Monday issued a ruling that could allow cheaper, copycat versions of biotechnology drugs to be sold more quickly.

The court also declined to revive a consumer lawsuit alleging design defects in Microsoft Corp.'s Xbox 360, using the case to limit plaintiff tactics for seeking quick appeals when judges disallow cases from proceeding as class actions.

The pharmaceutical case involved questions about when Novartis AG's Sandoz subsidiary should have been allowed to market with Zarxio, a biosimilar version of Amgen's Neupogen, a drug used to help

cancer patients boost their white blood cell production during chemotherapy.

An appeals court ruled in 2015 that Sandoz had to wait 180 days until after the U.S. Food and Drug Administration approved Zarxio in March of that year. Consequently, Sandoz began selling the drug in September 2015—at a 15% discount to Neupogen—even as it argued against the delay.

The high court, in an opinion by Justice Clarence Thomas, ruled unanimously that Sandoz shouldn't have had the additional wait, a ruling that could speed up the timeline for future biologics to reach the market.

Amgen said it was disappointed in the ruling but "we will continue to seek to enforce our intellectual property against those parties that infringe upon our rights." No-

vartis said the decision "will help expedite patient access to life-enhancing treatments."

The Microsoft case involved allegations that Xbox video-game consoles had a design defect, a claim the company denied. A group of Xbox owners sought to bring their case jointly as a class action, but a judge declined to allow the litigants to proceed collectively.

When a judge declines to certify a class action, such a court order isn't automatically eligible to be appealed right away.

The plaintiffs in the Xbox case sought to voluntarily dismiss their claims, a tactic they hoped would allow them to go forward with an appeal.

The Supreme Court, in an opinion by Justice Ruth Bader Ginsburg, said the plaintiffs couldn't obtain the right to appeal simply by voluntarily dismissing their claims.

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CEO Travis Kalanick in Germany last year. Uber's directors left it up to Mr. Kalanick to decide whether he would take a leave.

## UBER

Continued from page B1

Directors left it to Mr. Kalanick to decide if he will take the leave, according to a person familiar with the matter.

A leave of absence, coupled with Mr. Michael's exit, would create a serious leadership void. Uber's head of finance is set to leave in July, and the company is seeking a new CFO, COO and general counsel.

In recent weeks, Uber has lost its senior executives for product, engineering, marketing, communications, operations and self-driving vehicle development.

At the same time, a pause by Mr. Kalanick could help Uber refresh its workplace and adopt new human-resources processes and training programs recommended by Covington. Mr. Kalanick is known for his tight grip on the company and obsessive will to win, even in the face of regulatory obstacles.

Mr. Michael has been a controversial figure at Uber since he joined in 2013 from Klout Inc., which helps evaluate people's social-media influence.

Mr. Michael was also instrumental in landing big corporate names for several Uber funding rounds and was considered a skilled businessman by many at the company.

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## BUSINESS NEWS



A vintner harvesting grapes in Wales last October. A weaker pound hasn't helped British winegrowers, who typically buy equipment and vines in countries that have well-established wine industries.

# U.K. Wine Industry in Ferment Over Brexit

BY LAURENCE FLETCHER  
AND TAPAN PANCHAL

England's wine industry has a Brexit hangover.

The fast-expanding sector has transformed itself over the past 30 years from a national joke to an international award winner.

The 14% drop in sterling against the euro since the vote in June 2016 to leave the European Union might have been expected to benefit U.K. industries selling abroad. A weaker pound means exports are cheaper for foreign buyers. Foreign wares become more expensive in the U.K.

But, as for many British industries, the reality isn't straightforward. Plus, last week's U.K. election adds to uncertainty over what Brexit

will look like, winegrowers say. English winemakers must buy their gear and vines from countries where winemaking is better established. English wine is a niche product, mostly sold domestically; unlike Scottish whiskey, the global market is small. And domestic drinkers aren't readily willing to give up their beloved Champagne, even if English wine comes with a cheaper price tag.

For English winemakers, "there's no real benefit at all," from the weaker pound, says Bob Lindo, a former pilot who turned to vine-growing 27 years ago, after a midair collision ended his Royal Air Force career.

In many cases, the fall in the pound isn't helping sales. The long-term nature of the

business means it can take six years or more for planting additional vines to result in more wine on the shelf.

At the same time, the currency move means vineyards have to absorb higher import costs. Most of the specialist equipment and raw materials for producing wine, from the vines themselves, to fermenting tanks, glass bottles and corks, can only be bought abroad and usually come from France or elsewhere in the eurozone. "Winegrowers now have to buy at the new exchange rate," said Mr. Lindo. "It depends what stage of the cycle you're at—if you're just starting out, then you've had a 7 or 8% increase in costs."

Mr. Lindo, whose Camel Valley vineyard is based in Cornwall—a southwest re-

gion that voted to leave the European Union in last year's referendum—added that he was disappointed by the result of the vote.

Mark Driver, a former hedge-fund manager at London's Horseman Capital who quit to set up winery Rathfinny Estate, voted to leave the EU but says "costing will certainly increase" because of the weaker pound.

He still has to invest about £4 million (\$5 million) in the winery he is building. Around half of this will be in euros and covers bottling, disgorging and riddling equipment from France and Italy and 250,000 vines from Germany and France.

"Brexit could be adding 5% to 7% to our capital investment bill over the next year,"

Mr. Driver said.

This could mean a bill roughly £200,000 to £280,000 higher than before the Brexit vote. However, Mr. Driver believes the weaker pound will be positive for sales as overseas buyers find it cheaper to buy English wine.

Others in an industry that mostly favored staying in the EU echoed his concerns.

"It is affecting margins. It does have an impact," said Tamara Roberts, chief executive of Ridgeview Estate. Her company, which makes sparkling wine in Sussex, south of London, is the official supplier to receptions at the U.K. prime minister's Downing Street residence.

Ms. Roberts said domestic and foreign sales had been buoyant in the first half of

2017, but it was hard to know how much of this was due to the pound's fall.

She said she saw little chance that weaker sterling would help English wine displace "the power and place of Champagne" among U.K. buyers. Champagne is "almost immune to any exchange rate" moves, she said.

Uncertainty remains over the future of the EU's grants to the English wine industry, which have helped train winegrowers and build wineries.

Simon Robinson, a lawyer who owns Hattingley Valley winery and is chairman of the English Wine Producers Association, said he was worried about the future of EU grants, which "have provided substantial amounts of money to the industry."

## CHIEFS

Continued from page B1  
hired someone with the skill sets described in our letter," Mr. Kantor said. A Whole Foods spokeswoman didn't respond to emails and phone calls seeking comment.

The number of companies targeted publicly by either dedicated activists or those for whom it is a strategic focus rose 25% to 456 world-wide in 2016 from 366 from the previous year, according to Activist Insight.

The kinds of opportunities activists exploit are changing, and some practitioners are recalibrating tactics in ways that bolster the CFO's profile.

Starboard sold its stake last year after sharp price gains in Darden stock.

"It's become more granular," said Eleazer Klein, a partner at law firm **Schulte Roth & Zabel LLP**. "They really get into the weeds on these things."

Starboard Value didn't respond to requests for comment.

The finance chief's role can require doing the activist's bidding or pushing back.

"That takes a special person in the CFO position to stand up to an activist and say, 'That's

not right,'" said **Valeant Pharmaceuticals International Inc.** finance chief Paul Herendeen. "The finance chief's role can require doing the activist's bidding or pushing back.

"They play an important role in keeping management honest," Mr. Herendeen said of activists.

Demand for activist-seasoned CFOs is rising. "A lot of our more recent requests are that a candidate has had experience with an activist," said Peter Crist, chairman of Crist|Kolder Associates, an executive recruiter. "We've had more CFOs say, 'You know, so-and-so at ValueAct really likes me,'" he added, referring to **ValueAct Capital Management LP**.

CSX named Hunter Harrison as CEO in March, less than two months after **Mantle Ridge LP** led a campaign to remove Michael Ward. Arconic Chief Executive Klaus Kleinfeld left after sending an unauthorized letter to activist

**Elliott Management Corp.** AIG hired Brian Duperreault in May after Peter Hancock said he would resign.

His experience dealing with pressure from activists dates back to the middle part of the last decade while CFO at **Warren Chilcott PLC**, he said. Mr. Herendeen was two months into a new CFO role at **Zoetis Inc.** in 2014 when he learned

**Pershing Square Capital Management LP** had a stake of more than 8% in the animal-health company and was agitating for board seats and expense reductions.

Mr. Herendeen helped lead a drive that included cutting Zoetis' head count by more

than 20% over about 24 months, refocusing research and development, and reducing the variety of packages and dosages it sold. The efforts are expected to save \$300 million in annual costs in 2017, according to a company spokesman.

Last year he joined Valeant, another Pershing Square holding at the time, and has quarterbacked a debt restructuring, cut spending and helped build a 200-person sales force focused on Xifaxan, a gastrointestinal drug. Valeant reached a deal on Thursday to sell its iNova Pharmaceuticals unit for \$930 million to a company jointly owned by affiliates of **Pacific Equity Partners** and **Carlyle Group LP**.

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**Elliott Management Corp.** AIG hired Brian Duperreault in May after Peter Hancock said he would resign.

The finance chiefs at those companies remain. However, CFO turnover is always a risk when there is a new boss. According to executive-recruitment firm **Korn/Ferry International**, 22% of new CFOs are appointed within a CEO's first year on the job, and 41% of new CFOs are appointed within a CEO's first three years on the job.

And any CFO engaged with an activist faces an additional job hazard. "It's much easier to fire the CFO," said John Coffey, a professor at Columbia Law School.

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A company plant in Japan in 2015, the year in which Sharp sold a rival the right to its brand in the U.S.

## Sharp Sues to Use Name in U.S.

BY TAKASHI MOCHIZUKI

TOKYO—Sharp Corp. has sued China's **Hisense Electric Co.**, which licensed the Sharp brand for televisions sold in the U.S., accusing Hisense of putting the Sharp name on poor-quality TVs and deceptively advertising them.

The action is the latest effort by Osaka-based Sharp to retrieve the right to use its own name when selling TVs in one of the world's largest markets.

Sharp is trying to recover its position as a global maker of

consumer electronics. Hisense rejected the allegations and said it was selling high-quality televisions under the Sharp name.

In 2015, Sharp signed a deal with Hisense giving it the right to use the Sharp name on TVs sold in the U.S. through 2020. At the time, Sharp was in financial distress and selling assets.

In 2016, Taiwan's Foxconn Technology Group, formally known as **Hon Hai Precision Industry Co.**, took a controlling stake in Sharp for ¥388.8 billion (\$3.52 billion), and Fox-

conn has sought to put the company back on track.

In a complaint filed to a California state court in San Francisco, Sharp lawyers said the company's brand and trademark "are at risk of being destroyed" by the time the five-year term of the Hisense agreement expires.

"Hisense categorically denies Sharp's claims in the litigation and looks forward to presenting its case in the appropriate forum," a company representative told The Wall Street Journal.



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Starboard Value prodiced Darden Restaurants to cut back on free breadsticks and sell more wine at its Olive Garden chain.

## BUSINESS NEWS

# Mall of Future Will Have No Stores

BY ESTHER FUNG

When **Starwood Capital Group** LLC bought Fairlane Town Center in 2014, the investment firm had a lot of work to do.

The Dearborn, Mich., mall was only 72% leased, and among the vacant space was a sprawling former anchor store.

A chance call to **Ford Motor** Co. to sell some mall advertising turned out to be a game changer: In April, Ford moved its entire engineering and purchasing staff into space once inhabited by department-store chain Lord & Taylor. Ford is now the mall's largest tenant, with 240,000 square feet of space.

"Our relationship began as good neighbors," said Michael Powers, senior vice president of leasing at Starwood. "Then we found out they were in the market for office space. It was somewhat serendipitous."

As retailers close bricks-and-mortar stores at an accelerating pace, shopping-center landlords like Starwood Capital are facing a vexing question: What to do with all this empty space?

Their solutions are varied but all have a common element: reducing, or even eliminating, retail from the equation.

Some landlords plug empty spaces with churches, for-profit schools and random enterprises while they figure out a long-term plan. Others see a future in mixed-use real estate, converting malls into streetscapes with restaurants, offices and housing. And some are razing properties altogether and turning them into entertainment or industrial parks.

Ford's 10-year lease at Fairlane Town Center "brought 1,800 to 2,000 employed people to our property, people with a paycheck," said Mr. Powers. The mall, which is still anchored by Macy's, J.C. Penney and Sears, is 91% leased, he said, and its food operators

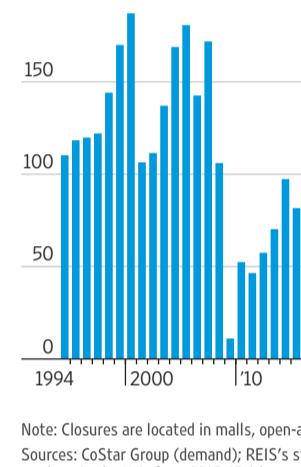


Life Time Center, a former mall in Newton, Mass., is a mix of doctors' offices and fitness facilities.

### U.S. Mall Landlords Face a Reckoning

Decades of overbuilding have left the U.S. with more retail space per person than any other nation. With stores closing at an increasing clip, landlords must find new uses for vast swaths of real estate.

#### Annual demand growth for retail real estate



Note: Closures are located in malls, open-air shopping centers and neighborhood retail centers.  
Sources: CoStar Group (demand); REIS's study of 470 store closures in 80 primary and 36 tertiary markets in the U.S. from 2015-17 (closures); International Council of Shopping Centers (countries)

#### Store closures, in millions of square feet

Company	Store closures, in millions of square feet	Country	Square feet of retail space per capita
Sports Authority	8.1	U.S.	24
Macy's	6.7	Canada	16
Kmart	4.3	Australia	11
Pathmark/A&P/Superfresh	2.3	U.K.	5
Haggen	2.2	France	4
J.C. Penney	2.1	China	3
Sears	1.3	Germany	2
Golfsmith	1.0		
Kohl's	0.6		
Wal-Mart	0.4		

THE WALL STREET JOURNAL.

are doing better in the daytime than they did before, as Ford workers pile in for lunch.

Ford liked the mall's proximity to its main facility in Dearborn, which is being rebuilt over the next 10 years, and its wide open spaces.

"We didn't move walls, didn't change anything in a significant way," said Dave

Dubensky, chairman and chief executive of Ford Land, the company's real-estate arm.

A construction binge in the 1980s and 1990s left the U.S. oversaturated with malls. Growth in online sales and declining demand for full-price goods are causing retailers to shrink the number of stores and divert resources to e-com-

merce platforms.

In all, retailers have announced 2,880 store closings from January to April 6 of this year, more than twice as many as in the same period a year earlier, according to **Credit Suisse Group AG**. For the full year, the investment bank anticipates more than 8,600 stores to close. Analysts pre-

dict that 400 or so of the roughly 1,100 malls in the U.S. will close in coming years.

Many mall owners are trying to liven up the experience, bringing more dining and entertainment tenants, and eschewing the traditional mix of middling food courts, fashion retailers and department stores.

One strategy is to convert enclosed malls into open-air properties that landlords call "lifestyle centers," with apartments, theaters, grocery stores, medical offices and other conveniences—and much less retail.

In Arlington, Va., landlord **Forest City Realty Trust** is redeveloping Ballston Common Mall by knocking down the main entrance to create a plaza, removing two-thirds of the roof and installing more windows to create wider vistas of open spaces. The Cleveland-based real-estate investment trust is also building 406 apartments linked to the mall.

"We're turning the mall inside out," said Will Voegele, senior vice president at Forest City Realty Trust. "We don't want a building with its back turned to the street."

The firm is converting what was once Macy's furniture store on the third level of the mall into a gathering space for residents, including outdoor patios, seating and landscaping. Its tenant mix will feature more food options and street-facing retail.

At the Staten Island Mall in New York, shopping-center real-estate investment trust GGP Inc. is adding 235,000 square feet of space in an expansion expected to be completed next fall.

Entertainment operators such as **AMC** theaters and **Dave & Buster's** will take up 54% of the space, while food tenants including **Shake Shack** will account for 20%. Apparel tenants such as Zara will make up just 17%.

The remaining space will be taken up by home-furnishing and personal-care shops.

# Gymboree Files for Chapter 11

BY LILLIAN RIZZO AND PEG BRICKLEY

Children's clothing seller **Gymboree** filed for bankruptcy, hoping to cement a deal to slice more than \$900 million in debt off its books and survive the shakeout in the retail sector.

On Monday, the retailer unveiled its restructuring strategy before Judge Keith Phillips in U.S. Bankruptcy Court in Richmond, Va.

The company won approval to begin drawing on its bankruptcy loan, a critical first step in keeping Gymboree afloat during the restructuring proceedings, said James Mesterharm, the **AlixPartners** turnaround executive who is in charge of Gymboree's restructuring.

The San Francisco-based retailer's survival will be costly to unsecured creditors, assuming Gymboree succeeds in implementing a fast-track restructuring.

Suppliers deemed "critical" to Gymboree's continued business will be paid in full, but general unsecured creditors are being offered nothing, according to a description of the restructuring strategy in court papers.

Sunday's chapter 11 bankruptcy filing wasn't a surprise. Gymboree has been struggling along with other brick-and-mortar retailers against a switch by consumers to online shopping. Rivals like Children's Place Inc. and the Gap Inc. have the advantage of lighter debt burdens, Mr. Mesterharm said in court papers.

With major debts starting to come due in December, earnings in decline and vendors demanding tighter payment terms, Gymboree faced liquidity issues that pushed it into talks with lenders, and a chapter 11 filing Sunday.

—Imani Moise contributed to this article.

## WSJ Tech Companies to Watch 2017

If you invested \$1,000 in Amazon's IPO, you'd have over \$500,000 today.

Don't miss out on the next one.

Tech-driven innovation is remaking business daily—and investors are eager to find the next breakthrough. Know what's coming with The Wall Street Journal's Tech Companies to Watch.

Read our special report in The Wall Street Journal on Thursday.

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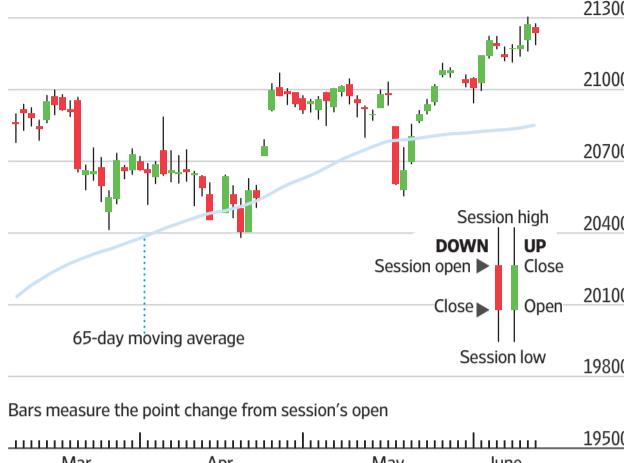
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## MARKETS DIGEST

### EQUITIES

#### Dow Jones Industrial Average

**21235.67** ▼36.30, or 0.17%  
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Mar. Apr. May June 19500

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

#### S&P 500 Index

**2429.39** ▼2.38, or 0.10%  
High, low, open and close for each trading day of the past three months.



Mar. Apr. May June 2270

#### Nasdaq Composite Index

**6175.46** ▼32.45, or 0.52%  
High, low, open and close for each trading day of the past three months.



Mar. Apr. May June 5530

#### Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.		
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	Standard & Poor's	500 Index	MidCap 400	SmallCap 600
<b>21235.67</b>	21277.08	21186.15	<b>21235.67</b>	-36.30	-0.17	21271.97	17140.24	<b>19.8</b>	7.5	<b>8.3</b>	21235.67	20577.66
<b>9388.79</b>	9393.76	9283.98	<b>9388.79</b>	60.91	<b>0.65</b>	9593.95	7093.40	<b>22.3</b>	3.8	<b>5.6</b>	9388.79	25077.66
<b>722.90</b>	728.11	718.89	<b>722.90</b>	-1.95	-0.27	732.63	625.44	<b>6.3</b>	9.6	<b>10.3</b>	722.90	25185.89
<b>25173.70</b>	25185.89	25077.66	<b>25173.70</b>	-23.72	-0.09	25257.37	20583.16	<b>17.4</b>	8.1	<b>7.6</b>	25173.70	20577.66
<b>647.46</b>	649.85	645.26	<b>647.46</b>	-2.39	-0.37	650.32	491.89	<b>24.7</b>	7.6	<b>7.3</b>	647.46	20577.66

#### Nasdaq Stock Market

Nasdaq Composite	6183.81	6110.66	<b>6175.46</b>	-32.45	-0.52	6321.76	4594.44	<b>27.4</b>	14.7	<b>12.8</b>
Nasdaq 100	5716.20	5633.34	<b>5708.18</b>	-33.76	-0.59	5885.30	4201.05	<b>29.1</b>	17.4	<b>14.9</b>

#### Standard & Poor's

500 Index	2430.38	2419.97	<b>2429.39</b>	-2.38	-0.10	2439.07	2000.54	<b>16.9</b>	8.5	<b>8.0</b>
MidCap 400	1762.18	1751.73	<b>1759.00</b>	1.46	<b>0.08</b>	1759.00	1416.66	<b>18.7</b>	5.9	<b>7.9</b>
SmallCap 600	868.58	859.91	<b>862.36</b>	-1.75	-0.20	864.11	670.90	<b>22.4</b>	2.9	<b>9.0</b>

#### Other Indexes

Russell 2000	1426.10	1415.59	<b>1419.21</b>	-2.50	-0.18	1421.71	1089.65	<b>23.3</b>	4.6	<b>7.0</b>
NYSE Composite	11774.18	11715.09	<b>11746.46</b>	1.73	<b>0.01</b>	11746.46	9973.54	<b>13.5</b>	6.2	<b>2.8</b>
Value Line	526.24	523.92	<b>524.77</b>	0.20	<b>0.04</b>	529.13	435.06	<b>14.7</b>	3.7	<b>2.1</b>
NYSE Arca Biotech	3673.70	3603.97	<b>3646.79</b>	-12.48	-0.34	3690.05	2818.70	<b>18.2</b>	18.6	<b>10.6</b>
NYSE Arca Pharma	528.99	525.65	<b>527.43</b>	-0.81	-0.15	554.66	463.78	<b>2.7</b>	9.5	<b>1.0</b>
KBW Bank	94.85	93.24	<b>93.86</b>	0.07	<b>0.08</b>	99.33	60.27	<b>39.0</b>	2.3	<b>9.9</b>
PHLX® Gold/Silver	84.52	83.09	<b>83.42</b>	-0.95	-1.13	112.86	73.03	<b>-7.9</b>	5.8	-3.1
PHLX® Oil Service	142.15	138.31	<b>138.95</b>	0.76	<b>0.55</b>	192.66	133.30	<b>-18.3</b>	-24.4	-22.3
PHLX® Semiconductor	1087.86	1053.33	<b>1084.44</b>	-5.61	-0.51	1138.25	648.32	<b>55.9</b>	19.6	<b>20.4</b>
CBOE Volatility	12.37	11.19	<b>11.46</b>	0.76	<b>7.10</b>	25.76	9.75	<b>-45.4</b>	-18.4	<b>-3.0</b>

\$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	10,100.7	243.26	-0.10	<b>-0.04</b>	243.57	242.54
Energy Transfer Equity	ETE	8,696.6	16.65	-0.06	<b>-0.35</b>	16.72	16.65
General Electric	GE	5,513.0	29.01	0.07	<b>0.24</b>	29.05	28.92
Intel	INTC	4,568.9	35.86	0.13	<b>0.36</b>	35.86	35.62
PwrShrs QQQ Tr Series 1	QQQ	4,316.2	139.31	0.08	<b>0.06</b>	139.41	138.68
Van Eck Vectors Gold Miner	GDX	4,219.1	22.79	0.05	<b>0.22</b>	22.79	22.74
Office Depot	ODP	3,985.2	5.66	...	<b>unch.</b>	5.68	5.57
Spirit Realty Capital	SRC	3,629.2	7.63	...	<b>unch.</b>	7.63	7.63

#### Percentage gainers...

Advaxis Inc.	ADXS	6.1	8.55	0.75	<b>9.63</b>	8.55	7.80
Nektar Therapeutics	NKTR	8.4	19.51	1.48	<b>8.23</b>	19.51	18.03
DepoMed	DEPO	8.6	10.49	0.65	<b>6.56</b>	10.49	9.84
Amkor Technology	AMKR	10.24	11.75	0.65	<b>5.87</b>	11.75	11.10
SS&C Technologies	SSNC	9.0	38.91	1.86	<b>5.03</b>	38.91	37.05

#### ...And losers

Francesca's Holdings	FRAN	155.1	10.50	-1.27	**-10.82**	11.77	10.50
</

## COMMODITIES

[WSJ.com/commodities](http://WSJ.com/commodities)

### Futures Contracts

#### Metal & Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Open	
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.	2,6220	2,6250	2,6110	2,6125	-0,0335	1,228	
June	2,6455	2,6490	2,6095	2,6155	-0,0340	96,662	
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.	1266,40	1269,30	1263,20	1266,10	-2,40	1,781	
June	1269,70	1272,40	1265,60	1268,90	-2,50	352,225	
Aug	1272,80	1275,50	1269,60	1272,50	-2,50	10,895	
Oct	1276,50	1279,10	1272,70	1275,90	-2,50	79,525	
Dec	1279,10	1282,40	1276,00	1279,30	-2,50	10,171	
Feb '18	1289,10	1289,10	1283,20	1286,00	-2,40	5,523	
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.	875,20	883,60	875,20	872,65	8,05	90	
July	880,25	888,25	870,60	868,05	8,05	43	
Sept	858,90	879,10	857,10	864,25	8,05	34,270	
Dec	842,10	859,50	841,00	846,85	10,45	1,375	
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.	954,60	954,60	945,10	943,30	4,20	3	
July	942,20	949,20	938,30	944,50	4,20	51,660	
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.	17,15	17,15	17,05	16,914	-0,279	36	
July	17,170	17,215	16,890	16,944	-0,279	116,347	
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.	45,80	46,71	45,66	46,08	0,25	338,685	
July	46,01	46,94	45,90	46,32	0,25	376,384	
Sept	46,37	47,17	46,15	46,56	0,24	238,653	
Dec	46,90	47,76	46,81	47,15	0,18	308,490	
June '18	47,89	48,30	47,55	47,83	0,12	120,764	
Dec	47,97	48,53	47,83	48,07	0,11	153,177	
<b>NY Harbor ULSD (NYM)</b> -42,000 gal.; \$ per gal.	1,4312	1,4541	1,4235	1,4254	-0,058	88,913	
July	1,4353	1,4621	1,4319	1,4337	-0,053	75,203	
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.	1,5017	1,5241	1,4834	1,4880	-0,137	111,360	
Aug	1,4935	1,5162	1,4782	1,4827	-0,107	71,718	
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu.	3,032	3,087	3,001	3,024	-0,015	230,282	
July	3,064	3,116	3,031	3,054	-0,017	179,271	
Sept	3,046	3,099	3,016	3,038	-0,018	158,616	
Oct	3,070	3,125	3,043	3,065	-0,017	184,121	
Jan '18	3,351	3,404	3,334	3,356	-0,013	109,963	
April	2,902	2,915	2,890	2,906	.003	88,608	

#### Contract

Open High hilo Low Settle Chg Open interest

#### Agriculture Futures

Corn (CBT)-5,000 bu.; cents per bu.

July 386,00 387,25 376,25 377,25 -10,50 513,832

Dec 404,00 405,25 394,50 395,50 -10,50 386,125

Oats (CBT)-5,000 bu.; cents per bu.

July 255,25 256,75 248,00 249,75 -2,50 4,453

Dec 239,75 239,75 235,00 237,25 -2,00 1,634

Soybeans (CBT)-5,000 bu.; cents per bu.

July 942,00 943,25 930,25 931,25 -10,25 272,364

Soybean Meal (CBT)-100 tons; \$ per ton.

Nov 949,00 950,00 936,00 938,25 -10,00 262,400

Soybean Oil (CBT)-60,000 lbs.; cents per lb.

July 32,35 32,47 31,89 31,94 -3,50 146,499

Dec 32,84 32,92 32,34 32,42 -3,20 136,735

Rough Rice (CBT)-2,000 cwt.; \$ per cwt.

July 1126,00 1136,00 ▲ 1124,50 1130,00 -2,00 6,024

Wheat (CBT)-5,000 bu.; cents per bu.

July 443,25 444,00 431,25 434,00 -11,75 175,757

Sept 457,25 458,25 445,50 448,50 -11,50 127,367

Wheat (KCO)-5,000 bu.; cents per bu.

July 451,00 451,00 439,50 442,75 -8,75 125,382

Sept 469,00 469,00 457,25 460,50 -8,75 69,863

Wheat (MPLS)-5,000 bu.; cents per bu.

July 603,50 606,00 591,50 600,50 -6,00 26,616

Sept 605,00 609,25 597,50 606,25 -4,75 23,373

Cattle-Feeder (CME)-50,000 lbs.; cents per lb.

Aug 154,525 155,150 149,875 151,550 -2,625 33,187

Sept 153,825 154,625 149,425 151,225 -2,400 9,780

Cattle-Live (CME)-40,000 lbs.; cents per lb.

June 131,350 131,350 128,250 128,350 -2,900 15,066

Aug 129,900 124,225 121,025 121,550 -2,300 193,634

Hogs-Lean (CME)-40,000 lbs.; cents per lb.

June 82,300 82,500 81,900 81,975 -500 13,970

Aug 81,800 81,875 79,475 80,000 -2,050 79,232

Lumber (CME)-110,000 bd ft.; \$ per 1,000 bd ft.

July 364,20 372,40 363,40 370,20 5,80 2,726

Sept 354,00 361,40 354,00 360,40 5,00 1,212

Milk (CME)-200,000 lbs.; cents per lb.

June 16,28 16,32 16,28 16,31 .03 5,036

July 16,63 16,68 16,48 16,61 .06 4,089

Total return close YTD total return (%) Index Yield (%) Latest Low High

Monday Monday

Energy

Coins, wholesale \$1,000 face-a

12935

Soybeans, No.1 yellow lb.-bp.u

9,0550

Wheat, Spring 14%-pro Mnpls-u

7,0050

Wheat, No.2 soft red St.Louis-bp.u

4,4800

Wheat - Hard - KC (USDA) \$ per bu-bu

4,0775

Wheat, No.1 soft white, Portl.DR-u

4,7250

Food

Beef, carcass equiv. index

choice 1-3,600-900 lbs.-u

224,73

select 1-3,600-900 lbs.-u

195,82

Broilers, dressed 'A'-u

n.a.

Broilers, National comp wghtd-u.w

1,2161

Butter, AA Chicago

2,5100

Cheddar cheese, bb, Chicago

141,50

Cheddar cheese, bl, Chicago

163,00

Milk, Nonfat dry, Chicago lb.

90,00

Cocoa, Ivory Coast-w

229,23

Coffee, Brazilian, Comp

# BIGGEST 1,000 STOCKS

## How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISYE and BATS. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

**Footnotes:** i-New 52-week high. t-New 52-week low. dd-Indicates loss in the most recent four quarters. FD-FIRST day of trading. h-Does not meet continued listing standards. lf-Late filing. q-Temporary exemption from Nasdaq requirements. NS-NYSE bankruptcy. v-Trading halted on primary market. vi-In bankruptcy or receivership or being reorganized under the Bankruptcy Code, or securities assumed by such companies.

**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.**

Monday, June 12, 2017

Net

Stock Sym Close Chg

**NYSE**

ABB ABB 25.11 -0.24

AES AES 11.75 0.03

Aflac AFL 77.62 -0.38

AT&T T 39.07 0.28

AbbottLabs ABT 47.12 -0.17

AbbVie ABV 69.53 -0.14

Accenture ACN 126.30 -0.74

AcuityBrands AVI 183.00 5.88

Adient ADNT 66.73 -0.69

AdvanceAuto AAP 130.90 2.59

AdvSemEngg ASX 6.14 -0.08

Aegon AEG 5.10 0.04

AerCap AER 45.28 -0.03

Aetna AET 147.05 -1.94

AffiliatedMtrs AMG 162.15 -0.34

AllegiantAirlg AGT 58.99 -0.27

AgnicoEagle AEM 48.11 -0.09

Agricor AGU 94.03 -0.92

AutoProduct APP 144.43 -0.45

Airbus ATR 11.67 -0.01

AlaskaAir ALK 89.04 -0.89

Albermarle ALB 111.19 -4.21

Alcoa AA 31.73 -1.28

AlexanderReal AERL 118.61 -0.02

Alibaba BABABA 139.08 -0.36

Allegiance HGY 60024 8.81

Allegion ALL 78.45 -1.29

Allergan AGN 230.77 -1.59

AllianceData ADS 244.30 3.27

AlliancErnstBenn AT 23.10 -0.15

AllianEnergy LNT 41.17 -0.09

AllisonTransl ASN 37.60 -0.28

Allstate ALL 87.92 -0.55

AllyFinancial ALY 19.49 -0.20

Altria MO 75.46 -0.06

AlumofChina ACH 11.67 -0.01

Almaviv ABEV 5.43 -0.04

AmherstArlng AMH 21.88 -0.12

Ambev ABEV 5.43 -0.04

AmherstBanc AMH 12.82 -0.01

Amico AEE 45.13 -0.29

Amidcor AMD 42.43 -0.11

Amphenol APG 75.42 -0.34

AnadarkoPetrol APC 48.30 -0.37

AB InBev BUD 112.96 -0.54

AnnalyCap NLY 12.05 -0.23

AnteroMidstream AMT 33.10 -0.11

AnteroResources AR 21.58 -0.06

Anthem ANTM 186.74 -0.18

Apcon AON 123.03 -0.29

Apache APA 48.42 -0.08

Apartmentting AIV 44.15 -0.21

ApplGlobalMtg AMT 27.38 -0.05

AquaAmerica WATR 33.30 -0.34

Armark ARMK 39.82 -0.28

ArcelorMittal MITT 21.06 -0.16

ArchersDlns ADAM 42.43 -0.11

Arconic ARC 26.82 -0.54

AristaNetworks ANET 149.70 -0.30

ArrowElec ARW 79.70 -0.46

Armerding AMR 44.01 -0.45

Armerding AMR 127.43 -0.93

ArmstrongBrwn CAMP 92.36 -0.26

Arnold AER 93.26 -0.26

Armark ARMK 34.00 -0.11

Arvest ARV 10.00 -0.01

Artisan ATR 11.67 -0.01

ASCO ACP 10.00 -0.01

Aspera ASPI 10.00 -0.01

Assurant AIZ 101.30 -0.38

AstraZeneca AZN 34.00 -0.11

Athenex ATH 49.45 -0.08

AtmosEnergy ATM 83.90 0.26

Autoliv ALV 111.91 -0.03

Avantor AZO 612.00 -5.66

AvalonBay AVB 1935.14 -3.55

Avangrid AVGR 44.80 0.05

AveryDenison AVY 84.45 -0.36

AxaCoating AXA 32.91 -0.68

B&T BBT 44.09 -0.02

BCE BCE 45.47 -0.45

BHPBilliton BHP 35.08 -0.21

BHPBilliton BHP 30.36 -0.23

BP BP 35.81 -0.02

BRF BRF 12.52 -0.17

BT Group BT 19.24 -0.24

BakerHughes BHI 56.16 -0.34

Ball BLL 40.43 -0.15

BancoBilbaoViz BBVA 8.23 -0.10

BancodeChile BCN 77.55 -0.10

BancodeChile BCN 77

## BANKING & FINANCE

# Lawsuit Links Deal to Malaysian Scandal

U.S. alleges that funds stolen from 1MDB were used to finance purchase of energy firm

U.S. authorities are investigating the \$2.2 billion purchase of a U.S. energy company by a Middle Eastern

By Tom Wright, Justin Baer and Bradley Hope

government investment fund that was arranged by **Goldman Sachs Group Inc.** and netted one investor a \$300 million windfall in less than a week, according to a government lawsuit and people familiar with the investigation.

Investigators allege that the investor was an important player in the scandal involving Malaysian government-investment fund **1Malaysia Development Bhd.**, or 1MDB. Goldman earned hundreds of millions in fees arranging \$6.5 billion worth of bond deals for 1MDB.

Investigators in the U.S. and other countries have said several billion dollars was misappropriated from 1MDB.

The U.S. Justice Department, in an asset seizure lawsuit dated Wednesday, provided detailed allegations that in 2013 and 2014 funds allegedly stolen from 1MDB were funneled via a series of bank accounts and shell companies to partly finance the purchase of **Coastal Energy**, a Houston firm controlled at the

time by legendary Texas oilman Oscar Wyatt Jr. The lawsuit seeks to seize proceeds from the Coastal deal, but not Coastal assets.

The Coastal deal involved many people believed by investigators to be involved in the alleged schemes to defraud 1MDB: The buyer was a joint venture between a company owned by Abu Dhabi sovereign-wealth fund **International Petroleum Investment Co.**, or IPIC, and a shell company controlled by Jho Low, a Malaysian financier, according to the Justice Department asset seizure lawsuit. Goldman advised the IPIC unit that paid nearly all of the purchase price.

Last summer, the Justice Department filed a \$1 billion asset seizure lawsuit against properties controlled by senior executives of IPIC and against Mr. Low. In a complaint dated Wednesday, the Justice Department expanded the lawsuit to include property in London allegedly purchased with money it claims was taken from 1MDB and fraudulently washed by Mr. Low and his family through the purchase of Coastal Energy.

Mr. Low, who was being informally advised by Goldman at the time, first approached Coastal in 2012 about a possible acquisition, people familiar with the matter said. Skeptical that Mr. Low could come up with the cash necessary, Coastal executives told him to find a bigger partner, a person familiar with the matter said. He returned with IPIC's Spanish

### Government Goes After London Assets

The U.S. government filed lawsuits aiming to seize a London penthouse with views of Buckingham Palace and a nearby office that served as headquarters for a lingerie company because it believes the properties were acquired with funds from a financial scandal in Malaysia.

The penthouse, office building and another flat are all located on Stratton Street oppo-

site the Ritz hotel in the upmarket Mayfair district. They were acquired with £77 million (\$98 million) that financier Jho Low got from a Malaysian state fund called 1Malaysia Development Bhd., or 1MDB, the U.S. Justice Department said in court documents filed June 7.

"Low acquired an interest in the Stratton penthouse and the Stratton flat using 1MDB proceeds," the Justice Department, which has been working with U.K. authorities, said in the filings. "Low used funds traceable to misappropriated 1MDB proceeds to purchase the Stratton

office." The Justice Department said in the filings it is seeking the forfeiture of the properties in London because they were "derived from violations of U.S. law" and were involved with money-laundering offenses.

The office was the headquarters for Myla, a U.K. lingerie company that Mr. Low also acquired with funds traceable to 1MDB, the Justice Department said in its lawsuits. Myla lost £7.59 million in 2015, the latest available figures. A spokesman for Myla couldn't be reached for comment.

—Simon Clark and Bradley Hope

ish energy unit, Compañía Española de Petróleos SAU, or Cepsa, the people said.

Mr. Low invested \$50 million in the deal, with Cepsa funding the remainder of the \$2.2 billion purchase, according to the Justice Department lawsuit and statements announcing the acquisition.

One week later, Cepsa transferred \$350 million to Mr. Low's shell company, according to the lawsuit. "The commercial basis for this nearly immediate 600% return on investment is not immediately apparent," the Justice Department lawsuit said. IPIC and Cepsa didn't respond to requests for comment.

Before an agreement with the U.S. energy company could be reached, Goldman's compliance department told its bankers to stop working with Mr. Low or

his entity on the deal, citing concern over Mr. Low's wealth, people familiar with the matter said. Goldman recently had turned down a request by Mr. Low to open a private bank account for the same reason, according to the people.

Mr. Low remained a participant, though, through a shell company called **Strategic Resources (Global) Ltd.**, according to deal documents. Goldman advised Cepsa, which was paying nearly all of the deal's purchase price, according to the complaint, merger documents and statements announcing the deal. PricewaterhouseCoopers was a financial adviser to both Cepsa and SRG. PricewaterhouseCoopers declined to comment.

Goldman said in a statement that neither Mr. Low nor any firm controlled by him was

a Goldman client in the Coastal deal. "Prior to reading the government filing, Goldman was not aware of, and had no involvement in, any transaction in which SRG sold its stake in a joint venture back to Cepsa," the firm said.

Goldman had roughly \$600 million in revenue from 1MDB in 2012 and 2013 for selling \$6.5 billion in bonds. Much of the money raised by Goldman was taken out of 1MDB by Mr. Low and IPIC executives and used to purchase mansions, pay gambling debt and fund a Hollywood movie company, the Justice Department lawsuits claim. Goldman has also said it has no knowledge of any fraud at 1MDB.

A January 2014 press release issued by Coastal Energy, Cepsa and SRG announcing the deal's completion referred to Strategic Resources as a firm

controlled by Mr. Low's father, Larry Low. When executives and advisers met for dinner to mark the deal's close, Szen Low, Mr. Low's brother, joined the celebration, one person said.

Jho Low, whose whereabouts are unclear, has denied wrongdoing. 1MDB has consistently denied wrongdoing and said it would cooperate with the investigations. The Justice Department lawsuit cited Mr. Low as saying Cepsa bought out his stake because it "wanted full control and ownership of the business."

The Justice Department is interested in the Coastal deal because it says the \$50 million Mr. Low invested originally came from 1MDB. The Justice Department on Tuesday moved to seize London property that it says was bought with some of the \$350 million proceeds of the Coastal deal. The Justice Department has questioned people involved in the deal in recent months, according to people familiar with the investigation.

Coastal was represented in the deal by Citigroup Inc., which advised its clients to tread carefully, one person said. The \$2.2 billion purchase price for Coastal Energy was at a 28% premium to the company's stock price, earning Mr. Wyatt more than \$500 million for his quarter stake in the company. An attorney for Mr. Wyatt didn't return calls seeking comment. A Citi spokeswoman had no immediate comment.

## Viking Set To Return \$8 Billion

BY JULIET CHUNG

**Viking Global Investors LP** told clients it would be giving back \$8 billion of their money, saying its smaller size would give the stock-picking hedge fund "greater operating flexibility."

Viking, which manages about \$32 billion, also told investors in a letter Monday that its chief investment officer, Daniel Sundheim, was leaving the hedge-fund firm, the latest in a string of changes in that role.

Mr. Sundheim had been co-chief investment officer of Viking since 2010 and became its sole investing chief in 2014. Other co-chief investment officers have left the firm in recent years. The New York firm has promoted Ben Jacobs and Ning Jin to co-chief investment officers.

Viking's planned downsizing is one of the largest one-time returns of money in the hedge-fund industry. Other hedge funds, including David Tepper's **Appaloosa Management LP** and Seth Klarmann's **Baupost Group LLC**, have given back smaller sums to investors periodically.

Viking told clients it plans to return money to investors because "smaller, more liquid positions will give us greater operating flexibility as we respond to attractive opportunities."

It said its "strong investment staff combined with a reduction in assets under management is a potent mix."

*The hedge-fund firm says its smaller size will give it more investing flexibility.*



Goldman Sachs is trying to stake a claim in the renewables segment of the energy-trading market by purchasing wind power. Above, wind turbines in Germany.

# Goldman's Green Push Comes With Trading Twist

BY LIZ HOFFMAN

A wind farm in Scranton, Pa., sitting over ancient coal seams, will soon power **Goldman Sachs Group Inc.**'s data centers in New Jersey.

The Wall Street bank said Monday that it has agreed to buy 68 megawatts of electricity from the plant, which will come online in 2019. It is the first such agreement struck by a bank, according to trade group Business Renewables Center, and pushes Goldman closer to its goal of procuring 100% of the energy it uses from renewable sources by 2020.

The deal is Goldman's effort to stake a claim in a hot corner of the energy-trading market and to try to catch up with rivals.

**Citigroup Inc.** and **Morgan Stanley** are already big in the renewables-trading segment. Goldman recently hired a Citi-group trader, Moe Hanifi, who will join Harry Singh and Jooram Cukierman in spearheading the firm's effort.

Commodities trading has been a tough business across Wall Street since the financial crisis due to stricter capital rules.

It was among the businesses that Goldman blamed

### Natural Gas Slips On Unclear Outlook

Natural-gas prices inched lower, with mixed weather forecasts causing hesitation among traders.

Natural gas for July delivery settled down 1.5 cents, or 0.5%, at \$3.0240 a million British thermal units on the New York Mercantile Exchange. It is the eighth straight session prices have settled within 5 cents of \$3/MMBtu, with volatility plummeting as traders await clearer signs about the arrival of long-term summer heat.

"The U.S. natural gas market has retreated from earlier highs as if still undecided over the impact of the warmer than

normal temperatures for this week and next, although it looks like that may be followed by more neutral cooling demand in the last week of June," Citi Futures analyst Tim Evans wrote in a client note.

Prices have been stuck in a narrow range this month. Hot weather boosting demand has been offset by higher production and uncertainty about how long the high temperatures will last. Summer heat often can drive strong demand because gas gets burned in the power plants that ramp up as people use more air conditioning.

"For the market to enter into a sustained uptrend in prices the hotter than normal weather is going to have to remain in place over the main population centers of the coun-

try for longer than a week or two," Dominick Chirichella, analyst at the Energy Management Institute, said in a note. "Right now all the short term forecasts are still suggesting short-lived weather patterns."

In other commodities markets, gold prices dipped near a two-week low Monday as investors expect the Federal Reserve to raise interest rates this week. Gold for June delivery fell 0.2% to \$1,266.10 a troy ounce on the Comex division of Nymex, its fourth consecutive session of losses and the lowest level since May 30.

Many traders expect the Fed to raise rates at its two-day policy meeting this week, scheduled to start Tuesday.

—Timothy Puko and David Hodari

for disappointing trading revenue last quarter.

Goldman won't just be in the renewables market for its own needs. The firm's commodities arm has been building a business to connect corporate buyers of electricity with developers. That group, reporting to commodities chief Greg Agran, will manage the 15-year electricity contract, protecting Goldman from price

swings, grid congestion and other risks.

It hopes to market that same service to a group of companies that are striking their own power agreements, Mr. Agran said in an interview.

The market for such deals has increased from next to nothing in 2012 to 1.5 gigawatts last year, according to the Business Renewables Center.

Large technology firms such as **Apple Inc.** and Google parent **Alphabet Inc.** were early and remain the biggest players. But they have been joined by the likes of **Anheuser-Busch InBev NV** and **General Motors Co.**

As wind and solar prices continue to fall, demand is likely to increase. The catch: "What developers want to sell and what these companies

want to buy doesn't always match up," Mr. Agran said.

Goldman hopes to stand in the middle. The firm's traders, for example, can use derivatives to transform short-term contracts that companies typically want into 20- or 25-year terms that developers prefer.

Goldman also can aggregate orders from smaller companies or buy big slugs of power from developers and syndicate it to many buyers.

Goldman's traders are working with the firm's investment bankers to drum up interest from corporate clients, Mr. Agran said.

The Scranton project, which is being developed by **NextEra Energy Inc.**, will produce power equivalent to Goldman's usage across its North American facilities, said Cindy Quan, who runs the bank's real estate sustainability efforts.

Goldman gets 90% of its power from green sources, mostly by buying credits created by other projects.

Chief Executive Lloyd Blankfein recently criticized President Donald Trump's decision to pull the U.S. out of the Paris climate agreement, tweeting that the decision was "a setback for the environment and for the U.S.'s leadership position in the world."

The moves come after Viking's hedge fund lost 4% last year, according to a prior letter to investors. It was the fund's worst-ever loss, according to people familiar with the matter, in a year that challenged stock-picking funds broadly.

Despite that loss, Viking's long-term record remains one of the strongest among stock hedge funds. Its annualized five-year return for the period ended December 2016 is 10.2%, according to a person familiar with the matter. It was up 7.1% through May, according to a person familiar with the matter, compared with an 8.7% total rise for the S&P 500.

Bloomberg News earlier reported the changes at Viking.

## MARKETS & FINANCE

# Treasurys Slip Before Fed Decision

BY MIN ZENG

Prices of U.S. government bonds pulled back, with the yield on the two-year Treasury note closing at the highest level in almost three months

**CREDIT MARKETS** and approaching its 2017 peak, as the Federal Reserve is expected to raise short-term interest rates later this week.

The Fed is scheduled to announce its rate policy decision Wednesday afternoon, followed by Fed Chairwoman Janet Yellen's press conference.

Higher interest rates from the Fed tighten money supply for the broader economy and tend to shrink the value of outstanding government bonds. Yields on short-term Treasurys are highly sensitive to the Fed's rate policy outlook.

The yield on the two-year Treasury note settled at 1.359%,

compared with 1.338% Friday. Yields rise as bond prices fall. It was the yield's highest close since March 14, when it settled at 1.380%, the highest close since June 8, 2009.

Hectic new debt sales also weighed down bond prices. The Treasury Department sold more than \$100 billion new debt Monday in four offerings, with maturities spanning from three months to 10 years. A \$12 billion sale of 30-year bonds along with a four-week bond auction are due Tuesday.

The yield on the 10-year Treasury note rose to 2.215% Monday, compared with 2.201% Friday.

The Fed's expected increase in rates comes after it did so last December and in March. For bond investors, the key question is what the Fed would do beyond June, along with any update on its plan to start unwinding a balance sheet that includes more than \$2 trillion

of Treasury bonds.

The 10-year Treasury yield has fallen from this year's peak—slightly above 2.6% in March. Signs of slowing inflation in recent months have bolstered some investors' expectations that the June increase may be the last one this

## 1.359%

Yield on the two-year Treasury, the highest close since March 14

year. The yield settled at 2.147% on June 6, the lowest level since November.

The view of a slowly moving Fed boosted demand for the \$24 billion sale of three-year notes on Monday to the highest since December 2015. The highlight was 65.6% indirect

bidding, a proxy for foreign demand, which was the highest since a record of 68.6% in November 2009.

"The market continues to price in a lower trajectory of rate hikes than the path predicted by the Fed in prior meetings," said Michael Lorizio, senior trader at Manulife Asset Management.

Robust demand for haven bonds also reflects some concerns about the U.S. stock market. Technology shares sold off Friday and softened Monday. The tech-oriented Nasdaq Composite has outperformed the Dow Jones Industrial Average and S&P 500 stock indexes this year, fueling some concerns on whether valuation is getting stretched. For some investors, buying Treasurys offers some protection if stocks see a larger downturn.

The strong three-year sale pushed down the 10-year Treasury yield to 2.187%, but the

yield rose after the 10-year Treasury auction. Overall demand was solid, and the indirect bidding of 66.1% was the highest since January. Yet the auction was sold at a yield of 2.195%, slightly higher than where it traded right before the auction. That means demand was softer than bond dealers anticipated, which prompted some to sell bonds to book profits.

The risk for bond investors is that the Fed doesn't make big adjustments to their rate policy projections despite slowing inflation, which may disappoint investors looking for a more dovish tone, said Jeffery Elswick, director of fixed income and portfolio manager at Frost Investment Advisors LLC.

Matt Freund, co-chief investment officer at asset manager Calamos Investments, said a slowly moving Fed reduces the risk of a big rise in Treasury-bond yields.

# Oil Gets a Lift From Nigerian Stoppage, OPEC

BY ALISON SIDER  
AND NEANDA SALVATERRA

Crude prices rose for a second consecutive session Monday amid a supply disruption in Nigeria and as major producers said their deal to cut output is working.

U.S. crude futures rose 25 cents, or 0.5%, to \$46.08 a barrel on the

**COMMODITIES** New York Mercantile Exchange.

Brent, which is the global benchmark, rose 14 cents, or 0.3%, to \$48.29 a barrel on ICE Futures Europe.

The move higher comes after prices fell nearly 4% last week. Investors have become more skeptical that efforts by the Organization of the Petroleum Exporting Countries and other major exporters are working off a global oil glut. Prices tumbled sharply last Wednesday after U.S. data showed an unexpected increase in the amount of crude in storage.

Saudi Energy Minister Khalid al-Falih said Monday that he is "fairly confident that the market rebalancing, which is

*The Saudi energy minister said the 'market rebalancing ... will accelerate.'*

already under way, will accelerate."

Michael Hiley, a trader at LPS Futures LLC, said a flurry of options trading late last week could be a sign that speculative investors are dipping their toes back into the market. "A few hedge funds may be trying to bottom pick," he said.

Other factors boosting prices in Monday trading include escalating tensions in the Middle East, a disruption in supply from Nigeria and a weaker U.S. dollar.

Last Friday, Nigeria reported a pipeline leak that could reduce oil exports. JBC Energy analysts estimate that "a good portion of the 205,000 [barrels a day] planned for June will be shut in."

"We have had the Nigeria outage return. The market is factoring in a little bit of disruption," said Miswin Mahesh, an oil-market analyst at Energy Aspects.

The prospect of rising production from Nigeria has weighed on prices at times in recent months. Nigeria is exempt from an agreement struck by the Organization of the Petroleum Exporting Countries and other major producers to cut output by 1.8 million barrels a day.

A softer U.S. dollar may also have supported prices. The Wall Street Journal Dollar Index, which tracks the dollar against a basket of other currencies, fell 0.1% on Monday.

Oil is priced in dollars and as the greenback wanes in strength, it becomes more affordable for buyers holding other currencies.

Investors are looking forward to the release of a slew of data this week, such as the International Energy Agency's report on Wednesday, which includes figures on the state of OECD stocks. OPEC's May report, which includes production and export figures, will be released Tuesday.

The data will give traders a better picture of whether a global rebalancing is taking place in the oil market.

Last week saw volatile trading: Oil rose nearly 2% early on amid renewed diplomatic spats in the Middle East after Saudi Arabia, the United Arab Emirates and other Persian Gulf states severed diplomatic ties with Qatar, a member of OPEC.

Saudi Arabia and others have accused Qatar of meddling in their internal affairs and backing terrorism, allegations that Qatar has denied.

*—Summer Said contributed to this article.*

# Technology Shares Drop for Second Session

BY ALEXANDER OSIPOVICH  
AND RIVA GOLD

U.S. stocks fell Monday, as technology shares declined for a second straight session.

Companies including Apple and Google parent Alphabet have soared in 2017, prompting concerns

**EQUITIES** that major indexes' gains have been

overly concentrated in a handful of large technology firms. Technology was the worst-performing sector in the S&P 500 for a second straight session on Monday.

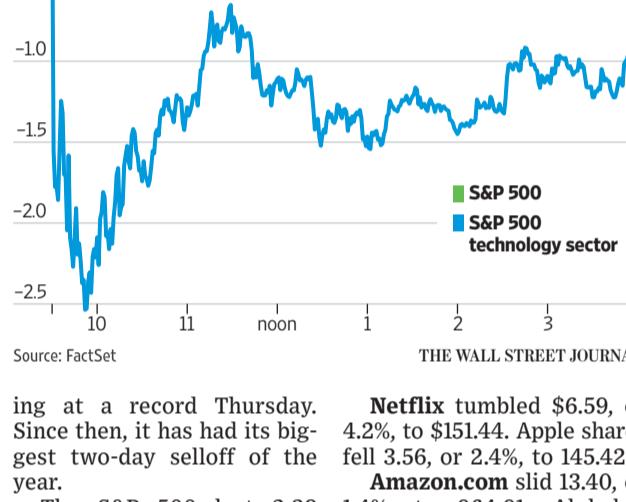
Some analysts said the recent selling came after a series of research notes critical of index heavyweights including Apple.

At the same time, the sector "was ripe for a pullback of some sort," said Mark Luschni, chief investment strategist for Janney Capital Management.

The tech-heavy Nasdaq Composite fell 32.45 points, or 0.5%, to 6175.46, after clos-

## Weighed Down

Monday's index performance, minute by minute



ing at a record Thursday. Since then, it has had its biggest two-day selloff of the year.

The S&P 500 lost 2.38 points, or 0.1%, to close at 2429.39. The Dow Jones Industrial Average fell 36.30 points, or 0.2%, to 21235.67.

Netflix tumbled \$6.59, or 4.2%, to \$151.44. Apple shares fell 3.56, or 2.4%, to 145.42.

Amazon.com slid 13.40, or 1.4%, to 964.91. Alphabet dropped 8.31, or 0.9%, to 961.81. Facebook was down 1.16, or 0.8%, to 148.44. Shares of those companies each fell

more than 3% Friday.

Some investors were selling tech shares to rotate into other areas of the market, such as beaten-down energy stocks, said Russ Koesterich, co-portfolio manager of BlackRock's Global Allocation Fund. "It's more the winners into the losers, rather than a broader move towards safety," he said.

Tech shares in the S&P 500 are still up 18% this year, making technology the index's best-performing sector. Some investors remain bullish on the group, saying valuations are still attractive.

A selloff of this magnitude "doesn't scare us a whole lot," said David Lafferty, chief market strategist of Natixis Global Asset Management.

Elsewhere, shares of General Electric rose 1.00, or 3.6%, to 28.94 after the company said longtime leader Jeff Immelt will step aside as chief executive and will be succeeded by John Flannery, the head of the company's healthcare business.

"There is a lot of confusion about what the events of last week mean for Brexit and therefore for the path of the currency," said David Stubbs, global market strategist at J.P. Morgan Asset Management.

The British pound fell 0.6% to \$1.2660 after unease around U.K. elections had already sent the currency on Friday to its lowest since April.

The U.K. now faces the prospect of prolonged political uncertainty as Prime Minister Theresa May tries to form a minority government propped up by Northern Irish lawmakers.

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*—Summer Said contributed to this article.*

# Goldman, Citi Bosses Duped by Email Prankster

BY LIZ HOFFMAN  
AND TELIS DEMOS

The chief executives of Goldman Sachs Group Inc. and Citigroup Inc. are the latest bank bosses to be hooked by an email prankster trolling top Wall Street brass, exposing a low-tech gap in banks' cybersecurity armor.

Goldman's Lloyd Blankfein and Citigroup's Michael Corbat, as well as Citigroup consumer-banking chief Stephen Bird, responded over the weekend to emails sent by the anonymous prankster masquerading as top executives at the two banks.

The hoaxter, who last month snared Barclays PLC chief Jes Staley and Bank of England Gov. Mark Carney, on Sunday published screenshots of the exchanges on Twitter. Goldman and Citigroup confirmed the email exchanges.

None of the executives disclosed sensitive information in responding to the prankster, but the repeated episodes flag concerns about whether banks have done enough to guard against online threats. It comes as more trading is hap-

pening on mobile devices and investment bankers are taking electronic pitch-books on the road.

The emails mimic a well-known scam known as "phishing." In this, scammers try to get victims to click on malicious links or try to capture sensitive information, such as passwords, via seemingly innocuous emails. These emails can take the form of invoices from customers, shared Google documents, or phony password-reset requests.

Last year, the Federal Bureau of Investigation said it had observed a 270% increase in business-email scams over a 15-month period. In these, criminals had impersonated executives to request a fraudulent money transfer or other fraudulent transaction. Between October 2013 and February 2016, law-enforcement officials received reports from 17,642 victims of this kind of scheme that amounted to more than \$2.3 billion in losses.

The anonymous bank trickster so far has appeared to seek to embarrass executives rather than extract secrets or plant viruses.

The fear, though, is that if bankers can fall for cheeky pranksters, they might also fall victim to the kinds of phishing attacks that hackers used to breach the Democratic National Committee's email, enabled by a false email asking to reset a password.

Mr. Blankfein received an email that appeared to be from a top lieutenant, Harvey Schwartz. The prankster appeared to be looking for confirmation that a pair of recent tweets from Mr. Blankfein were a swipe at President Donald Trump's infrastructure agenda.

"Tweet won some online award for humorous tweet—Trump will be so pissed ;)" it read, according to the screenshots published on Twitter.

Mr. Blankfein largely declined to take the bait. He said that the tweet "seemed like a good way to bookend my trip," though he did say he would "settle for getting away with it."

Messrs. Corbat and Bird received emails appearing to come from Citigroup Chairman Michael O'Neill.

Mr. Corbat sent only a brief response, while Mr. Bird traded a series of emails with the prankster. The emails were personal in nature and didn't pertain to business dealings of the banks or their financial workings.

"CEOs are trying to be hands-on these days, tweeting and emailing and responding to many things themselves," said Sandeep Kumar, managing

director for capital markets at Synechron, an information-technology consulting firm. "These firms have many layers of security and filtering....But at times, emails will sneak in and somebody will be tempted to click on a wrong link or respond to someone they shouldn't."

Many bankers, including those at Citigroup, access their email through third-party security applications such as those developed by Good Technology, now part of BlackBerry Ltd. Those apps screen links when they are clicked and block many of them. Mr. Corbat, in his response to the prankster, noted that he couldn't open the link.

*Peter Rudgegear contributed to this article.*

lion in cash.

SoFi declined to comment.

Federal regulators have tried to be more accommodating to new entrants that engage in banking activities.

Another federal agency, the Office of the Comptroller of the Currency, proposed a plan in December in which it would issue special charters to fintech companies, although those that wanted to take deposits would need to also get permission from the FDIC.

SoFi Bank would be a wholly owned subsidiary of SoFi capitalized with \$166 mil-

lion in cash.

SoFi declined to comment.

Federal regulators have tried to be more accommodat-

ing to new entrants that engage in banking activities.

Online lender Social Finance Inc. has asked federal officials to grant the company a banking license, one of the most advanced efforts by a financial-technology startup to obtain the power to offer bank products and services in exchange for stricter regulation.

The San Francisco-based company filed an application for a new-bank

## MARKETS

# Europe Elections Split Investors' Wagers

Purchases increase for French, Italian bonds but the pound slides as votes are digested

By CHRISTOPHER WHITTALL

French and Italian bonds rose in value and the British pound continued its fall on Monday, with investors taking very different views of the politics currently affecting three of Europe's largest economies.

Weekend ballots in France and Italy showed signs that the popularity of the antiestablishment parties that had spooked investors earlier this year continues to wane. But the pound has been falling since the U.K.'s ruling Conservative Party failed to secure a parliamentary majority in last Thursday's election, spurring investors' concern that this will make Brexit negotiations even harder for Britain.

The yield on French 10-year government bonds dropped around 0.05 percentage point to 0.595%, according to Tradeweb, its lowest close since November. That came after French President Emmanuel Macron's La République en Marche party won the first round of parliamentary elections Sunday, putting the upstart centrist party on course to secure a sweeping majority. Yields fall as prices rise.

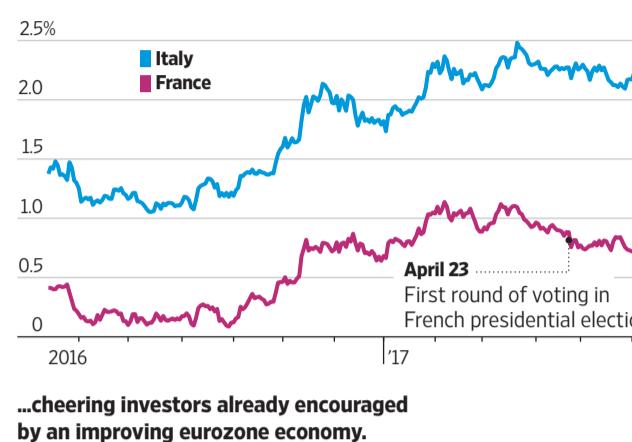
The yield on Italy's 10-year government bond fell about 0.09 percentage point to 2.00%, its lowest close since January, after no candidates from the antiestablishment 5 Star Movement made it through to the runoff vote for any of the main cities contested in Italian municipal elections.

But sterling was down 0.8% against the dollar in late afternoon trading in Europe, on the heels of the currency's 1.7% decline against the U.S. currency Friday. In late New York trading, the pound was 0.6% lower on the day at \$1.2660, com-

### Diverging

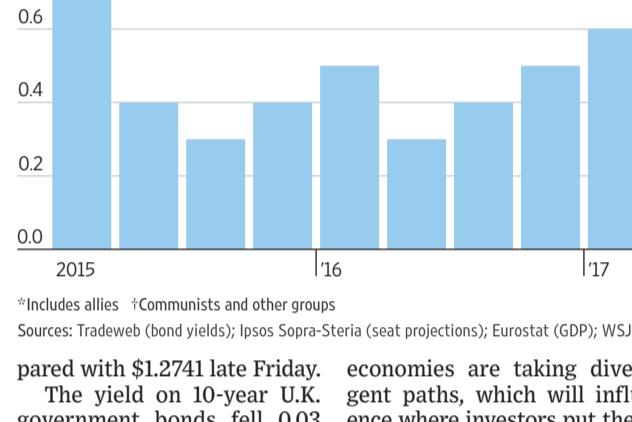
Investors are betting that the U.K. and its eurozone neighbors are on different paths in terms of both politics and economic growth.

French and Italian bond prices rallied Monday, sending yields lower...



...cheering investors already encouraged by an improving eurozone economy.

Eurozone gross domestic product, change from previous quarter



\*Includes allies †Communists and other groups

Sources: Tradeweb (bond yields); Ipsos Sopra-Steria (seat projections); Eurostat (GDP); WSJ Market Data Group (currency)

pared with \$1.2741 late Friday.

The yield on 10-year U.K. government bonds fell 0.03 percentage point to 0.977%, however, as investors sought havens amid the continuing political uncertainty.

"In the near term, the risk of populism across Europe is in retreat," said Nicola Mai, global sovereign credit analyst at Pacific Investment Management Co.

"Both on the macro side, where the data are really strong in Europe, and on the politics side, things have been quite encouraging for markets."

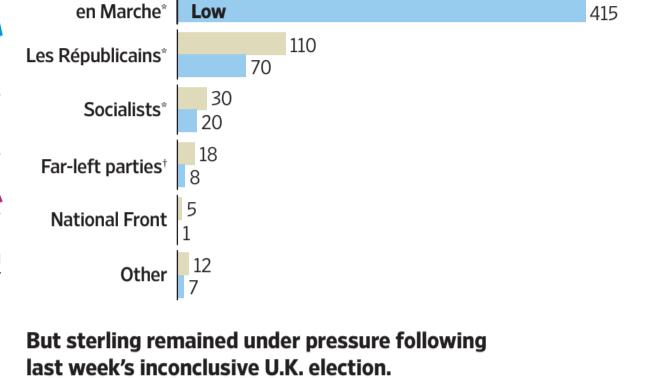
There are early signs also that the U.K. and eurozone's

economies are taking divergent paths, which will influence where investors put their money. Analysts have become increasingly bullish on the eurozone's economy just as Britain's—typically Europe's second or third largest—has slowed after years of outperforming its neighbors.

The eurozone economy grew at its quarterly fastest rate in the first three months of 2017 since the first quarter of 2015. Britain's economic growth was revised lower to 0.2% in the first quarter of the year, according to figures released last month.

...after weekend votes in France and Italy showed support for mainstream parties...

Low and high seat projections for second round of French parliamentary election on June 18



But sterling remained under pressure following last week's inconclusive U.K. election.

How many dollars one £1 buys



THE WALL STREET JOURNAL.

That would strengthen Mr. Macron's hand in efforts to loosen France's rigid labor laws.

"Political risk in France has disappeared, and it's good for structural reforms over the long term," said Thomas Page-Lecuyer, a strategist at CPR Asset Management.

In Italy, the euroskeptic 5 Star Movement failed to reach the second round of voting for any of the major cities in local elections—a contrast with its victories in Turin and Rome last year.

Italian government bonds had already been boosted last week after the risk of a snap

investors dumped French bonds earlier this year on concerns that far-right candidate Marine Le Pen could clinch the French presidency. Ms. Le Pen favored pulling France out of the euro, a move many feared would presage a messy breakup of the currency bloc.

But Mr. Macron won a convincing victory in May and Sunday's vote in France has put his party and its centrist ally, MoDem, on course to win a majority of as much as 455 seats in the 577-seat National Assembly in the second-round vote on Sunday, according to polling firm Ipsos Sopra-Steria.

general election receded when Italy's largest political parties failed to agree on a new electoral law. The European Central Bank on Thursday reaffirmed its commitment to keep in place its huge bond-buying program, which has supported Italian debt in recent years, lending further support to the market.

The 5 Star Movement's "impetus seems to have lost some momentum," Fabio Fois, an economist at Barclays, wrote in a note to clients.

Still, Mr. Fois said he expected the 5 Star Movement to keep polling neck-and-neck with the ruling center-left Democratic Party at the national level. Meanwhile, the risk of no party securing enough seats in parliament to win an outright majority remains high ahead of the country's next general elections, he said.

Pimco's Mr. Mai said the risk of populism in Europe hasn't gone away. "While populism might be on the decline while the macro [economy] improves in Europe, at the next crisis there is going to be significant risk again of populism rising," he said.

Meanwhile, in the U.K., investors are scrambling to assess what Thursday's election means for Britain's negotiations with Brussels. Some investors say reduced Conservative Party influence could lead to a softer Brexit, which could be good for the economy, but others argue that the increased uncertainty will make the divorce even more tortuous and unpredictable.

In the meantime, though, the direction has been lower for the pound, which is the main barometer of investor sentiment toward the U.K.

"The bit of opacity is around what happens in the negotiations" with the European Union, said Stephen Macklow-Smith, a portfolio manager at J.P. Morgan Asset Management.

—Jon Sindreu contributed to this article.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

# GE: Bringing Good Things to Life

A fresh face will be leading General Electric. Next up for the industrial giant: freshening up shareholder returns.

GE said Monday that long-time Chief Executive Jeff Immelt will retire on Aug. 1.

The change is more of a makeover than a full-scale rebuild. John Flannery, a veteran company executive, will take over as CEO. Finance chief Jeff Bornstein will remain in place. GE said that succession planning has been under way since 2011.

Investor returns under Mr. Immelt were disappointing. Much of that was due to bad luck. Mr. Immelt took the helm on Sept. 10, 2001, and presided over GE during the 2008 financial crisis.

More recently, however, GE has missed analyst sales estimates in 10 of the past 13 quarters, according to FactSet.

The rate at which GE has converted operating profit into free cash flow, an important metric for an industrial company, deteriorated to 76%

in 2016 from 91% in 2014.

Operating cash flow from

### Lower Bar

GE's forward price/earnings ratio



Sources: FactSet;

Daniel Becerril/Reuters (photo)

THE WALL STREET JOURNAL.



the industrial business was negative \$1.6 billion in the first quarter, though GE held this year's expectation of \$12 billion to \$14 billion constant.

Mr. Immelt said last month that deeper cost cuts might be needed for the company to meet a goal of earning \$2 a share in 2018.

Even the move to spin off GE Capital, which investors celebrated, has had just a limited effect on the share

price. GE shares have lagged behind the Dow Jones Industrial Average since the split was announced in 2015.

So, Mr. Flannery has his work cut out for him. On the bright side, he will enjoy the benefit of lower expectations. GE trades at about 16 times forward earnings, according to FactSet—not necessarily cheap, but well below the nosebleed valuations that Mr. Immelt had inherited.

The shares yield a

healthy 3.5%.

Don't expect the status quo. Mr. Flannery signaled a "deep review with a sense of urgency" in a note to employees. He will review the wide portfolio of industrial businesses and announce more detailed plans to shape the portfolio later this year, and he will have some options. Perhaps a greater investment in the struggling oil-and-gas business, which is in the process of merging with Baker Hughes, is in order. Segment operating profit fell 33% from a year earlier, but equipment orders were up 30%.

Even without a total overhaul of the business, there should be good opportunities to cut expenses and sharpen the company's portfolio, especially with activist hedge fund Trian Fund Management installed as a major shareholder.

GE shares gained 3.6% in Monday's trading. Mr. Flannery will have a good opportunity to keep that momentum going.

—Charley Grant

### OVERHEARD

In business, Americans are often seen as blunt while Japanese are more indirect. Consider the roles reversed, though, when it comes to a business that has been adopted in a uniquely Japanese way: fast food.

American chains, facing lawsuits accusing them of contributing to the obesity epidemic, have put nutrition and calorie information on their offerings explicit enough to shield them in a court of law but subtle enough not to scare away their customers.

Japan's Lotteria, which has sold dishes such as stretchy cheese and purple sauce, according to SoraNews24, warns customers that their new Death Spicy Tandoori Sandwich "can trigger watering of the eyes, expulsion of mucus from the nose, extreme pain in the throat and mouth cavity, heart palpitations, difficulty breathing, and other severe symptoms..."

Eaters definitely will notice the warning because they have to sign a disclaimer before ordering one.

### Microsoft Levels Up Its Xbox

Microsoft is putting a high price on its new Xbox One X, but the company's real game lies elsewhere.

The new console, called the Xbox One X, is designed to render games in super-high-resolution, 4K graphics. It goes on sale in November with a starting price tag of \$499.

This represents Microsoft's attempt at a mid-generation console update.

Sony took a crack at it in November with the launch of the PlayStation 4 Pro. Both consoles are designed for the same games as their lower-priced siblings, but with more robust graphics.

Sony says its Pro has accounted for about 20% of total PlayStation 4 unit sales since the launch, which suggestss that at least 2.5 million PlayStation users have chosen to pay for sharper resolution.

That isn't a huge number, although Microsoft will find it a challenge to match: The Xbox One X is priced \$100 higher than the PlayStation 4 Pro. It is also double the recently reduced price of the mainstream Xbox One S. That means Microsoft is charging a much higher premium than Sony, which has priced its Pro console at only 33% above the regular PlayStation 4.

The Xbox One X won't change the console game for Microsoft. But Microsoft generates much higher returns through software and services such as Xbox Live, which hosts 52 million active users paying a monthly fee. That is up 13% from a year ago, despite a decline in Xbox hardware sales over that time. It is a much better game for Microsoft to be playing to win.

—Dan Gallagher

# The Fed Could Offer More Fuel to Financial Stocks' Rally

This week's meeting of the Federal Reserve may be one of the most important for financial stocks in years.

There is little doubt the Fed will raise rates, which will help many of the big banks. The more important news will be what it says about shrinking its balance sheet, likely later this year.

The Fed currently holds \$2.5 trillion of U.S. Treasuries and \$1.8 trillion of mortgage-backed securities, a legacy of multiple rounds of quantitative easing. It has been keeping these levels steady by continually reinvesting in new securities when its holdings mature. Analysts expect the Fed to outline further de-

up late last week after stagnating in recent months.

The story of this tightening cycle so far is that short-term rates have risen but long-term yields have remained low. This has been a net positive for many banks, particularly large ones, because so many of their loans are linked to short-term benchmarks such as Libor.

But banks also want to earn more on their longer-duration assets. That is particularly true of regional lenders and, among the biggest banks, Wells Fargo.

Life-insurance companies, which hold lots of long-dated assets to match against their future liabilities, are even

more eager to see long-term rates rise.

If the Fed is shrinking its assets, it will have to shrink the liability side of its balance sheet, particularly the excess reserves that banks hold with the central bank, notes Jim Vogel, a fixed-income strategist at FTN Financial. This would free banks to move more funds into higher-yielding assets.

Of course, a sharp increase in long-term rates could hurt banks by curtailing demand for mortgages, or destabilizing the market for mortgage-backed securities. But the Fed seems determined to avoid this through a gradual tapering

of repurchases.

Even as the Fed has talked up its plans for shrinking the balance sheet, long-term rates have drifted lower so far this year, and bank stocks have underperformed following a strong rally in late 2016. This suggests that fading optimism on growth and inflation have overwhelmed any investor preparations for the possibility of higher rates.

Removing a huge sovereign buyer from the market surely means that long-term rates will be higher than they otherwise would be. Financial stocks, already the biggest winners from Fed tightening, should get another boost.

—Aaron Back

### Action at the Short End

Short-term rates have risen as long-term rates have fallen

