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# THE WALL STREET JOURNAL.

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

WEDNESDAY, JUNE 21, 2017 ~ VOL. CCLXIX NO. 143

WSJ.com

★★★★ \$3.00

DJIA 21467.14 ▼ 61.85 0.3% NASDAQ 6188.03 ▼ 0.8% STOXX 600 389.21 ▼ 0.7% 10-YR. TREAS. ▲ 10/32, yield 2.153% OIL \$43.23 ▼ \$0.97 GOLD \$1,241.00 ▼ \$3.20 EURO \$1.1136 YEN 111.46

## What's News

### Business & Finance

Oil returned to bear-market territory despite OPEC output cuts. U.S. prices closed at \$43.23 a barrel, a new low for the year. A1  
♦ U.S. stocks retreated as the oil slump pulled down energy shares. The Dow fell 61.85 points to 21467.14. B15

♦ Ford said production of its Focus compact for the U.S. market is now headed for China, not Mexico. A1

♦ Barclays, ex-CEO Varley and other former executives were charged with fraud over a 2008 cash infusion. B1

♦ YouTube is struggling to bring back some prominent advertisers after a backlash over offensive videos, but it is winning new business. B1

♦ MSCI unveiled plans to add locally trading Chinese stocks to its benchmark emerging-markets index. B1

♦ A big prize for Amazon from its deal for Whole Foods would be getting more data on how consumers shop. B5

♦ Uber said it will let drivers collect tips through its app, removing a longstanding source of contention. B9

♦ Pamplona reached a deal to buy drug-research firm Parexel for \$4.6 billion. B3

### World-Wide

♦ Republicans held on to a hotly contested U.S. House seat in Georgia, beating back an aggressive Democratic challenge. The GOP also notched a win in a House race in South Carolina. A1, A4

♦ Saudi Arabia's King Salman named his son as the new crown prince, a move that carries far-reaching implications for the monarchy. A6

♦ The State Department questioned the motives of Saudi Arabia and its allies for their embargo on Qatar. A6

♦ An American jet fighter shot down an Iranian-made armed drone after it flew toward U.S.-led coalition troops in southern Syria. A6

♦ Trump chose attorney Marvin Kaplan to fill an NLRB seat, a step toward securing GOP control of the agency. A3

♦ The EU is in talks with Seoul and Beijing about a potential role as a broker for negotiations with North Korea over its nuclear program. A9

♦ Ukraine's leader met with Trump and pushed for the U.S. to press Russia to curb its support for separatists. A6

♦ Merkel sketched the outlines of a bargain with France on fixing the governance of Europe's single currency. A8

### Journal Report

One of the biggest changes involving cars in coming years: You probably won't own one. **The Future of Transportation**, R1-6

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Republican Karen Handel, with her husband, Steve, celebrates her victory in Atlanta Tuesday night after being declared the winner of the House special election. It was the most significant test of strength for the two parties since Donald Trump became president.

## GOP Prevails in Georgia

Republican beats back Democrat in heavily funded special election to fill a House seat

By Janet Hook,  
Cameron McWhirter  
and Reid J. Epstein

aide, in the most expensive House race in history and the most significant test of the two parties' political strength since Mr. Trump's election.

In nearly complete results, Ms. Handel had almost 53% of the vote to just over 47% for Mr. Ossoff, the Associated Press reported.

In winning the seat, Republicans overcame a Democratic advantage in campaign spending and demonstrated that Mr. Trump retained political capi-

tal in the district. The president, Vice President Mike Pence and other party luminaries visited the Atlanta suburbs to support Ms. Handel's candidacy.

The result was a big blow to Democrats, who were hungry for a victory to demonstrate that grass-roots, anti-Trump energy gives them a shot at taking control of the House in the 2018 midterm elections.

Democrats earlier this year lost two other contested House special elections, in Kansas and Montana.

In a special election Tuesday in South Carolina, Republican Ralph Norman held the House

seat vacated by Mick Mulvaney, Mr. Trump's budget director, but by a far closer margin than expected. Mr. Norman defeated Democrat Archie Parnell, a former Goldman Sachs executive, by less than four percentage points. Mr. Mulvaney won the district by 20 points in November and Mr. Trump carried it by 18 points.

The twin victories mean that Republicans are 4-for-4 in the House special elections that are being widely viewed for signals to each party's Please see ELECT page A4

♦ Donors poured in cash on both sides of fight..... A4

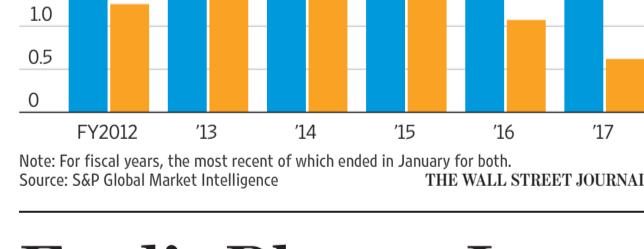
## T.J. MAXX IS DEFYING THE RETAIL SLUMP

TJX Cos. bets big on in-store shoppers, puts faith in merchandise buyers

### The X Factor

TJX, which owns off-price retailers T.J. Maxx and Marshalls, is growing while department stores like Macy's shrink.

Net profit ■ TJX ■ Macy's



Note: For fiscal years, the most recent of which ended in January for both.

SOURCE: S&P Global Market Intelligence

By SUZANNE KAPNER

Traditional retailers are in crisis, damaged by rapidly shifting consumer tastes, technological change and cut-throat price competition. And then there's TJX Cos., which is defying gravity with the simple idea that under the right circumstances people still like to shop in stores.

The owner of T.J. Maxx and Marshalls has seen sales at stores open at least a year rise for 33 straight quarters. Its annual sales exceed those of Nordstrom Inc. and J.C. Penney Co. combined. The company's market value is almost seven times that of Macy's Inc., which was once the more valuable company.

TJX gets almost all its sales from its roughly 3,800 physical locations and plans to open 250 stores this year. Its revenue and

profits are climbing and it envisions expanding to 5,600 stores worldwide over time.

The Framingham, Mass., company isn't shifting business online or using big data to figure out what shoppers want. Instead, it has become one of the country's fastest-growing retailers by sticking with a playbook from a vanishing era. It relies heavily on the instincts of its merchandise buyers, many of whom have been with the company for decades. TJX stores rapidly turn over limited quantities of products that are all sold at bargain prices. The result is a rarity in retail—a constant treasure hunt. "Fresh merchandise hitting the floor is key," said Paul Sweetenham, a former senior executive at

Please see RETAIL page A10

♦ Big prize for Amazon: shopper data..... B5

## Ford's Plan to Import Cars Veers From Mexico to China

BY CHRISTINA ROGERS  
AND MIKE COLIAS

Ford Motor Co. said production of its Focus compact for the U.S. market is now headed for China—not Mexico—as the car maker seeks cost savings globally even as the Trump administration works to keep automotive jobs at home.

Ford said last year it would move its once-hot Focus to Mexico in 2018. Under the plan announced Tuesday, production of the car in Michigan would end next year and Ford would begin importing Focuses from China in the latter half of 2019.

The company, which is already making Focuses in China, said building the next-genera-

tion Focus in that country rather than in an existing plant in Hermosillo, Mexico, will save it \$500 million. The No. 2 U.S. auto maker and its rivals are trying to trim costs amid slowing U.S. sales and rising expenses related to technology investments, both of which are pressuring profits.

The auto maker said relocating the Focus won't result in any job losses at the Michigan plant, where production of the small car began earlier in the decade. Ford plans to convert the factory to production of two new models—the Bronco sport-utility vehicle and Ranger pickup—starting in 2019, which will sustain the current workforce.

The shift to Chinese factories has broad implications for the U.S. auto industry. Although Ford won't be the first Detroit company to import cars into the U.S. from China, the Focus shipments would be by far the highest volume of vehicles to go from Chinese factories to American dealerships. In 2016, Ford sold nearly 170,000 Focuses in the U.S.

Companies producing in Mexico have been under pressure as the Trump administration renegotiates the North American Free Trade Agreement, a decades-old pact that led several auto makers to bulk up Mexican head count and production. Ford and ri-

Please see FORD page A2

## Bust Your Phone Again? These Teens Are Here to Help

\* \* \*

Some are earning north of \$20,000 to fix those cracked screens, broken mics

BY KATHERINE BINDLEY

Vacationers on Nantucket will be dropping their iPhones again this summer, making things busy for Grayson Shaw's business fixing them.

He will be hustling to keep his parts inventory stocked, do his bookkeeping and supervise a new hire. And he must find time to practice driving to get his license.

Mr. Shaw, who turned 16 in

May, has no idea when he'll be able to surf.

"Sometimes when your friends are all out there catching really nice waves; it can be really frustrating."

On the other hand, there's the \$189.99 he charges to repair a cracked iPhone 7 Plus, and his close to \$24,000 in revenue last summer fixing as many as nine smartphones a day, he says. "I love to work."

Forget mowing lawns or be-

Please see PHONES page A10

Broken iPhone

## U.S. NEWS

# FDA Chief Sidesteps Questions on Budget

BY THOMAS M. BURTON

WASHINGTON—The new commissioner of the U.S. Food and Drug Administration testified before a Senate panel Tuesday without directly addressing the Trump administration's proposal to cut \$700 million from the agency's budget.

The administration calls for making up the difference by raising fees on the pharmaceutical and medical-device industries.

After senators of both par-

ties called President Donald Trump's proposed budget not feasible and inadequate, Dr. Scott Gottlieb, the agency's commissioner, said, "The bottom line is we can always do more with more when it comes to the resources that the agency has."

Later, the commissioner added, "I wasn't involved in the formulation of the budget."

Mr. Trump's budget proposal, released in May, would leave a hole of more than \$700 million in the \$5.1 billion FDA budget, compared with this

fiscal year, because the document assumes about \$1.2 billion in revenue for the coming fiscal year that won't turn up if Congress has its way. About \$127 million of the money that would be cut from the budget is for safety surveillance of drugs and devices.

The administration has proposed raising user fees paid by the drug and medical-device industries to the agency for new-product reviews to offset the proposed cut in taxpayer funding. But those fees have already been negotiated be-

tween the FDA and the industries at much lower levels, and Republican legislators have made clear they have no intention of insisting the FDA reopen talks to try to raise them.

On Tuesday, Dr. Gottlieb testified before the subcommittee of the Senate Appropriations Committee that oversees the FDA's budget.

At the outset of Tuesday's hearing, the subcommittee chairman, Sen. John Hoeven (R., N.D.), said the administration's estimate of new user fees is "not feasible." Sen. Pat-

rick Leahy (D., Vt.) called Mr. Trump's plan "woefully inadequate."

Dr. Gottlieb's prepared testimony focused on his plans at the FDA to speed up the approval of medicines for rare diseases, known as orphan drugs. Dr. Gottlieb disclosed that the agency has had a backlog of requests for orphan status, a designation that offers benefits to the drug's sponsor, such as tax credits.

He said the FDA hasn't yet responded to about 200 applications from companies seek-

ing orphan status. During the next 90 days, the agency plans to "completely eliminate this backlog of requests and provide an answer back to the sponsors," Dr. Gottlieb said.

In Tuesday's testimony, Dr. Gottlieb spoke of updating guidance that the agency issues "so that we can make clinical trials more efficient."

He wasn't specific as to how that would work, and many Democrats have expressed skepticism, suggesting such efficiency would lower safety standards.

## U.S. WATCH

### DELAWARE

#### Prison-Guard Pay Boosted After Siege

Delaware Gov. John Carney agreed to increase starting salaries for the state's correctional officers by 22%, a move that followed a deadly February prison siege in which a veteran officer was killed.

An independent review of the uprising found that the prison was critically understaffed and pointed to low pay as a reason for high turnover and chronic personnel shortages.

Mr. Carney, a Democrat, pledged to boost pay after the release of the sharply critical outside report.

The pay increase will boost starting pay to \$40,000 for the fiscal year that starts July 1 and to \$43,000 a year later from \$35,200, according to an agreement between the state and the Correctional Officers Association of Delaware.

During the 18-hour February prison siege, inmates took three other hostages; two were released and the third rescued by a tactical team that stormed the Smyrna, Del., prison. Corrections Officer Lt. Steven Floyd was found dead after law enforcement took back control of the facility.

—Scott Calvert

### FEDERAL RESERVE

#### Official Says Rate Decision Can Wait

Federal Reserve Bank of Chicago President Charles Evans said Tuesday that the U.S. central bank can wait until the end of the year before making the decision to raise rates again, while adding it could start reducing the size of its balance sheet before that.

"We are now at a point where we can afford, having raised the rates twice [in 2017], we can wait a little bit" to see if unexpectedly weak inflation over recent months starts to perk back up, Mr. Evans told a gathering of Wall Street Journal reporters. He said it is possible "we could wait until the end of the year" and next move interest rates higher at the December meeting, if that is what the economy's performance calls for.

"We've had too many experiences" of forecasting higher inflation only to see it fall short of expectations, Mr. Evans said as part of his argument that the Fed has time to decide on its next interest-rate action.

And even if the Fed holds steady for a while, he observed the central bank's official forecasts "don't say when [increases] are going to take place." A year-end move would still conform to what is the current Fed outlook, he said.

—Michael S. Derby

## OIL

Continued from Page One  
said Tony Headrick, energy analyst at CHS Hedging.

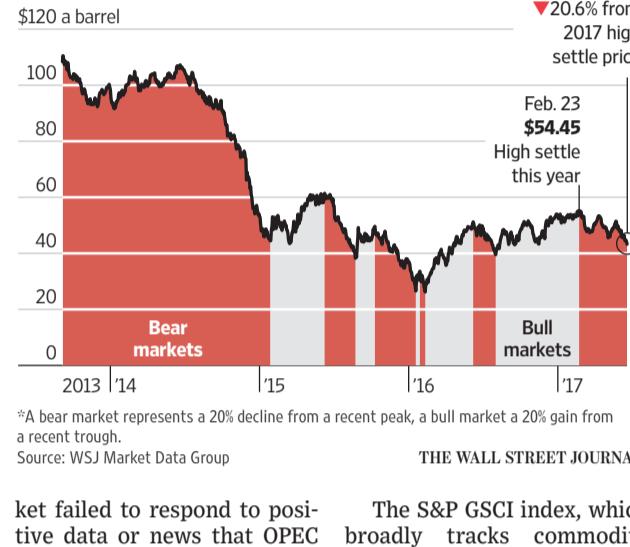
While oil prices have enjoyed gains in short spurts over the past year, U.S. prices closed down 2.2% to \$43.23 a barrel Tuesday. They have fallen in four of the past five sessions to a new low for the year.

Prices are down 20.6% since Feb. 23, marking the sixth bear market for crude in four years and the first since August. Crude prices have lost 62% since settling at \$115.06 a barrel three years ago. A bear market is typically defined as a decline of 20% or more from a recent peak, while a bull market is a gain of 20% or more from a recent trough.

"We're seeing this decline amid some major OPEC production restraints," said Jim Ritterbusch, president of energy-advisory firm Ritterbusch & Associates. "That's the huge difference" compared with previous bear markets.

The oil market has also been more volatile this spring. Traders have crowded into bullish positions, only to reverse suddenly when the mar-

### Slumping



love the values I see, but I'm scared to death to put money to work."

There are also signs that anxiety is spreading to the debt market. Bonds of oil and gas companies with below-investment-grade credit ratings, or junk bonds, have held up for most of this year, but anxiety is starting to creep in, analysts and investors say. The Bloomberg Barclays high-yield energy index has returned negative 1.6% since the beginning of June, through Monday.

The deepening oil rout brought strong demand for long-term U.S. government bonds, sending the yield on the 30-year Treasury debt to the lowest level this year Tuesday. Lower energy prices tend to deflate inflation expectations, making long-term Treasury debt more appealing.

Falling oil prices are typically helpful to U.S. consumers and the companies that serve them. Airlines made record profits last year in part from lower oil prices and were girding for profits to fall this year if oil rose. Lower prices in the futures market are also likely to show up at gasoline pumps in the months ahead, potentially lowering costs for drivers at the end of summer driving season.

But as the U.S. energy production has grown and become a bigger part of the overall economy, many companies have recently been touting the benefits of higher oil prices. They now stand to lose out.

Neiman Marcus Group Ltd., for one, a week ago credited higher oil prices with improving traffic in its Texas stores. Railroad executives have been concerned about shrinking oil shipments on their lines after low prices forced drillers to cut back two years ago. A continuing rebound in drilling could end or slow with lower prices.

"That's something that we monitor, just given how radical the [last] decline was and how prolonged it was," Keith Cline, chief executive of hotel operator La Quinta Holdings Inc., said at a recent lodging conference. "We're keeping a close eye on the 11% of our rooms that could be impacted in some way by oil production."

Oil returned to a bear market for the first time since August 2016, before the historic agreement between OPEC and other major oil-producing nations to limit output by about 1.8 million barrels a day at the end of last year. In May, the group decided to extend the deal into March 2018.

## FORD

Continued from the prior page  
vals have already signaled changes in response to President Donald Trump's repeated attacks on companies importing cars from Mexico to the U.S.

Mr. Trump had no immediate public reaction Tuesday, though other U.S. officials reacted coolly to the auto maker's move.

"The Ford decision shows how flexible multinational companies are in terms of geography," Commerce Secretary Wilbur Ross said in a statement. "I believe that as President Trump's policies and reforms take hold, more companies will begin to locate their facilities in the U.S. as

several German and Japanese auto makers already have."

White House spokesman Sean Spicer linked the move to the American tax system, saying passing a tax overhaul would lead firms to move manufacturing back to the U.S.

Joe Hinrichs, Ford's global operations president, said in an interview that Mr. Trump's push to rewrite Nafta wasn't influential in Ford's decision.

Rather, with small-car sales slumping in the U.S., Mr. Hinrichs said it made more sense to add production in China, where it is already retooled its Focus plant for the next model, rather than spend additional money to convert an existing factory in Mexico.

"This is really about saving capital, which is cash to reinvest in the business else-

where," Mr. Hinrichs said.

Many auto makers are scrambling to adjust to a weak U.S. market for passenger cars. Sales of small cars and family sedans have taken a hit in recent years as low gasoline prices fueled a shift in consumer demand toward roomier SUVs and pickup trucks.

Mr. Trump criticized Ford's decision to move Focus production to Mexico during the presidential campaign even though Ford's plans to use the Michigan plant for pickup and SUV output would preserve thousands of United Auto Workers jobs.

Critics say shifting any production to Mexico is problematic. Ford counters that such moves are necessary to preserve the bottom line.

Ford softened the blow in January by saying it would cancel the plant planned in Mexico and allocate \$700 million in savings to create jobs at a separate plant in Michigan slated to make electric cars.

The turn to China may heighten the White House's concerns because vehicles coming from Asia are typically far less dependent on U.S. parts than those coming from Mexico.

General Motors Co. last year became the first major auto maker to rely on production in China for significant volumes of vehicles to be sold in the U.S. Buick dealerships have sold more than 30,000 Envision SUVs, built in northeast China, since that model went on sale in 2016.

Mr. Hinrichs said the decision to relocate the Focus

should have limited impact on North American supplier jobs because the company has a slew of new models coming that will be built in the region, including several new SUVs.

The Focus built in Michigan gets about 46% of its parts from Canadian or U.S. suppliers, according to the NHTSA.

GM is also signaling a reconsideration of its reliance on Mexican facilities. In its case, GM has said it wants to use more American-made parts in pickup trucks and large SUVs being introduced in coming years.

Last week, for instance, the auto maker said it would open a new supplier park in Texas, expecting the creation of 600 U.S. jobs for work that would have otherwise been handled by Mexican workers.

In addition to shifting economics and global demand, auto makers are grappling with political uncertainty in the U.S. as Republican lawmakers promote a border-adjusted tax that would put imports at a disadvantage.

The Trump administration is preparing to renegotiate Nafta in ways that could change the rules of the game for auto makers. For example, some administration officials have backed tightening the "rules of origin" that spell out how much of a car has to come from North America in order for the vehicle to be shipped from Mexico to the U.S. duty free.

Mr. Hinrichs said the decision to relocate the Focus

REBECCA COOK/REUTERS  
Joe Hinrichs, Ford's global operations president, said the move is 'about saving capital.'

Sourcing vehicles from China allows global auto makers to make better use of capacity in the world's largest car market amid a slowdown in sales growth there. A combination of factors, including hefty tariffs and lower logistics costs, means U.S. workers have essentially no role in the construction of those vehicles.

Unlike cars built in Mexico, which often carry several components made by U.S. parts suppliers and shipped duty free, the Buick Envision relies on Chinese sources for 88% of its components, according to the National Highway Traffic Safety Administration. Only 1% is provided by U.S. or Canadian companies, the NHTSA says.

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rately, JD.com had 12,000 yuan of business when it started out. The article incorrectly gave the figure as \$12 million.

A corrected version of the edited English excerpts from the interview, which also was updated to change or add wording to clarify the translation of the interview, can be found at WSJ.com/Corrections.

In an interview published June 14 in the Journal Report on WSJ D.Live Asia, Richard Liu spoke about JD.com Inc.'s record of success with customers during the past 12 years. The article incorrectly said the past decade. Also, Mr. Liu discussed cheaper prices in relation to Chinese companies in general. Because of an error in translation, the article incorrectly suggested that he referred to JD.com specifically. His discussion of the market outlook focused on the outlook of the logistics segment within the e-commerce sector. The article incorrectly suggested his comments applied to the entire e-commerce sector. Separately, JD.com had 12,000 yuan of business when it started out. The article incorrectly gave the figure as \$12 million. A corrected version of the edited English excerpts from the interview, which also was updated to change or add wording to clarify the translation of the interview, can be found at WSJ.com/Corrections.

In an interview with Sen. John McCain published in Monday's CFO Network report, Mr. McCain in response to a question about Syria recounted a time that President Barack Obama told him: "I'm going to degrade Bashar al-Assad, I'm going to upgrade

the Free Syrian Army, and we're going to have a change in treatment." Mr. McCain mistakenly said the conversation was with President Donald Trump.

A photo with a Business News article Tuesday about Boeing Co. showed a Boeing 787-10 aircraft. The caption incorrectly said it was a Boeing 737 Max 10.

The Page One photo Tuesday of President Donald Trump with tech executives was by Chip Somodevilla/Getty Images. In some editions, the photo was incorrectly credited to Alex Brandon/Associated Press.

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

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## U.S. NEWS

# Southwest Bakes as Heat Wave Drags On

BY COVEY E. SON

The Southwest's summer heat is grounding flights, straining power grids and sending skiers down mountains in beachwear.

Nevada, Arizona and parts of Southern California are experiencing record-high temperatures and an unusually long heat wave that is expected to last through the week.

In Las Vegas, the temperature on Tuesday was 117 degrees, breaking last year's record of 115. The heat in Fresno, Calif., reached 110 degrees for the first time since 1920, according to the National Weather Service.

American Airlines Group Inc., one of the biggest carriers in the region, delayed or canceled 50 flights to and from Phoenix's Sky Harbor airport Tuesday as temperatures there hit 118 degrees.

American said the heat reached the maximum operating temperature of 118 degrees set by the manufacturer of the Bombardier CRJ, which the carrier uses for regional flights to and from Phoenix.

Even when the temperature is below an aircraft's maximum, engines don't perform as well in the less-dense hot air, and the heat can damage brakes and tires, according to Patrick Smith, an airline pilot and aviation blogger.

Southwest Airlines Co. is continuing flights without cancellations in the area, a spokesman said. The airline doesn't typically cancel flights due to heat since temperatures fluctuate, and the crew

**At Mammoth Lakes resort in California, skiers wore bikini tops and shorts.**

can take steps to accommodate for the weather, such as reducing weight on the aircraft, the spokesman said.

The National Weather Service said high temperatures will persist at least through Saturday.

Temperatures hit triple digits across parts of inland California from Sacramento to Palmdale in the desert east of Los Angeles.

The California Independent System, which supplies 80% of the state's power consumers, issued a "flex alert," calling on consumers to cut back on electricity use.

In Mammoth Lakes, Calif., close to the Nevada border, deep snowpack and elevated temperatures were a boon for skiers, who wore bikini tops and shorts in weather that hit 73 degrees on Tuesday. A spokeswoman said the resort is seeing "well above average" attendance for June.

## In Louisiana, Residents Brace for a Storm



**TROPICAL HIT:** Workmen and volunteers helped to shore up gaps in the levee in Lafitte, La., on Tuesday as Tropical Storm Cindy formed in the Gulf of Mexico. The storm hovered south of Louisiana, churning tides and spinning bands of heavy, potentially flooding rain onto the central and eastern Gulf Coast.

TED JACKSON/ASSOCIATED PRESS

# Inmates Targeting Informants

BY JACOB GERSHMAN

Deadly attacks on confidential informants are prompting the federal courts to consider injecting more secrecy into the judicial system, drawing the concern of defense lawyers about due-process rights.

Across the U.S., close to 700 witnesses and informants believed to have cooperated with the government have been threatened, wounded or killed over a recent three-year period, including 61 murdered, according to estimates from a recent survey by the federal judiciary's research arm. Some judges suspect those numbers might be low.

The justice system has long been dependent upon tips, recordings and other information from suspected criminals to catch bigger fish in investigations into gangs and drug traffickers.

Those who offer substantial assistance to an investigation or prosecution can get more than a third of their prison sentences cut.

But inmates determined to unmask a "snitch" are getting more sophisticated, diving deep into court dockets and decoding sentencing motions filed by prosecutors for clues to who is talking. A proliferation of court records online on PACER—the pay-per-page portal run by the courts—and smartphones have made it easier for criminal gangs to find files that could expose co-operators, according to judges and lawyers.

"Anonymous remote public access to PACER is a source of much of the information that gets into prisons about who is



**Security fears are prompting judges in courthouses to come up with new rules for sharing evidence.**

### 'Certified Rat Killer' Bragged of Killing

A recent New York federal prosecution of two members of the Eight Trey Crips gang accused of murdering an informant show gang members using social media to enforce silence on informants.

One of the men convicted

cooperating," U.S. District Judge Lewis Kaplan of Manhattan told the Judicial Conference's criminal rules committee in April, citing anecdotal and other evidence.

Federal inmates are restricted from accessing PACER themselves, but it is easy for them to ask people outside the prison to search the online system and report the information back into the prison by

last fall, Maliek "Squinge" Ramsey, had tweeted that he was a "certified rat killer" several years after he allegedly ordered the 2008 killing of a fellow gang member who supplied information that helped convict a gang leader of a gun charge.

Gang members grew suspicious about the victim after a prison guard shared paperwork with an inmate suggesting he was cooperating with law en-

forcement, according to court documents.

He was shot a day after a sentencing hearing for gang leader Larry Pagett, who

"stated the full name of the co-

operator—Nash Johnson—in open court and later that night in a telephone call made sure

that his sister had also heard the name," prosecutors stated

in a filing.

—Jacob Gershman

phone, according to judges.

Inmates also can ask courts

for copies of their own sen-

tencing files, and they often

are pressured by other in-

mates to request the docu-

ments—known as paperwork

to prove they kept quiet, the

judiciary survey found.

In some prisons, according

to judges, inmates are forcing

other inmates to post the pa-

perwork in their cells so oth-

ers can come by and read them.

At the moment, only the

most confidential case files

are treated as prison contraband,

but inmates have been per-

mitted to possess copies of

other types of sensitive docu-

ments, such as sentencing

minutes and plea agreements.

The security fears have

prompted the federal judiciary

to come up with new rules for

sealing and sharing evidence.

One approach is to mask cooperation by changing how dockets are publicly displayed, aiming to make the two types of dockets—one in which a defendant is a cooperator and ones in which he is not—less distinguishable to outside eyes.

The courts also are considering whether to conceal whether a defendant got a reduced sentence by sealing certain motions filed by prosecutors making formal requests for sentence reductions.

The reliability of informants has long been a point of contention between prosecutors and defense teams. Some lawyers say new layers of secrecy could make it harder to exonerate their clients.

"It hamstrings the defense not being able to understand who the witnesses are against the defendant and what their motivations are," said defense lawyer Barry Pollack, president of the National Association of Criminal Defense Lawyers.

Judges say they are mindful that a sweeping sealing policy risks running into the First Amendment and its presumption of open courts.

The court system is alarmed enough to consider preventing the general public from accessing criminal court dockets remotely online.

At the criminal rules committee in April, a judge said he was stunned by the estimates of the level of violence against cooperating defendants, according to the minutes.

"While this is not Colombia, it is really, really, bad," the judge said.

# Trump Labor Pick Begins Power Shift

BY ERIC MORATH

President Donald Trump picked attorney Marvin Kaplan to fill a vacant seat on the National Labor Relations Board, taking a first step toward securing Republican control of the agency refereeing disputes between unions and business for the first time in nearly a decade.

The president announced his intent to nominate Mr. Kaplan, counsel at the independent Occupational Safety and Health Review Commission, to one of the five seats on the board on Monday evening.

If he wins Senate confirmation, Mr. Kaplan would be the second Republican on the panel. A fifth position remains vacant, but it is expected the White House will name another Republican for that spot.

Democrats control two of the three occupied seats on the board, but Mr. Trump has elevated the sole Republican, Philip Mischimarra, to chairman.

That move slowed issuance of agency decisions, since Mr. Mischimarra can control which cases are decided but lacks the votes to win rulings.



Demonstrators seeking a \$15-an-hour minimum wage marched in Las Vegas in November as part of a nationwide event.

Republicans haven't controlled the board since December 2007, after vacancies late in President George W. Bush's second term went unfilled.

When Republicans regain control of the board, it is expected they will look to undo decisions made during President Barack Obama's tenure that resulted in some big victories for labor, including an easier path for employees at franchise businesses and

contractors to organize.

Unions have used those victories to push for organization in the restaurant industry, among other sectors.

National Restaurant Association Executive Vice President Cicely Simpson said the trade group "is very pleased" with Mr. Kaplan's selection.

The board "will be deciding a number of important issues, including the joint employer standard and micro-unions,

that directly impact small businesses," she said.

The board could also revisit issues around the timing of union elections, the appropriate size of a bargaining unit, and whether graduate-student instructors can form unions.

Mr. Kaplan has worked for the safety commission since 2015. Previously, he worked as counsel for House Republicans on the Education and the Workforce Committee.

Mr. Kaplan's political background is likely to raise questions, said William Gould, a Democrat who served as board chairman during President Bill Clinton's administration. "We need less politicization of the agency, and the Kaplan pick moves us in the wrong direction," said Mr. Gould, a former Stanford Law School professor.

The White House is considering William Emanuel, an attorney representing employers at the Littleton Mendelson law firm, for the remaining opening on the board, according to people familiar with the vetting process. A White House spokesman declined to comment on Mr. Emanuel.

# Student-Loan Chief Is Named by DeVos

BY DOUGLAS BELKIN

Education Secretary Betsy DeVos announced plans to appoint A. Wayne Johnson, a former executive in the financial-services industry, to run the \$1.3 trillion federal student loan portfolio.

The position of chief operating officer of federal student aid has been vacant since May when James W. Runcie resigned, saying he couldn't in "good conscience" lead the agency while it faced rising scrutiny from the Trump administration about its management of the lending programs.

Dr. Johnson, who went back to earn his Ph.D. in educational leadership in his 60s, wrote his dissertation on the weaknesses of the decision-making process students go through before they borrow tens of thousands of dollars to pay for college.

"There is more federal protection in place when you buy a car than there is when you sign up to take on student debt," Dr. Johnson said in an interview on Tuesday. "It comes down to ba-

sic consumer protection."

Dr. Johnson, 65 years old, worked in senior management at Visa and Deloitte before starting his own company, which captures credit-card transactions in real time and alerts card holders to better manage their accounts.

Dr. Johnson said a school's responsibility is to first "do no harm," by not loading students up with debt. He said both for-profit and not-for-profit schools have room to improve.

"Private university financial officers were perceived (by students and their parents) as being willfully negligent in informing students about the characteristics of their student loans," Dr. Johnson wrote in his dissertation.

Secretary DeVos said in a statement that Dr. Johnson "actually wrote the book on student loan debt and will bring a unique combination of CEO-level operating skills and an in-depth understanding of the needs and issues associated with student loan borrowers and their families."

## U.S. NEWS

# Ryan Talks Up Tax Overhaul

By RICHARD RUBIN

WASHINGTON—House Speaker Paul Ryan expressed confidence that Republicans can "fix this nation's tax code, once and for all" this year despite a long row of hurdles in front of them.

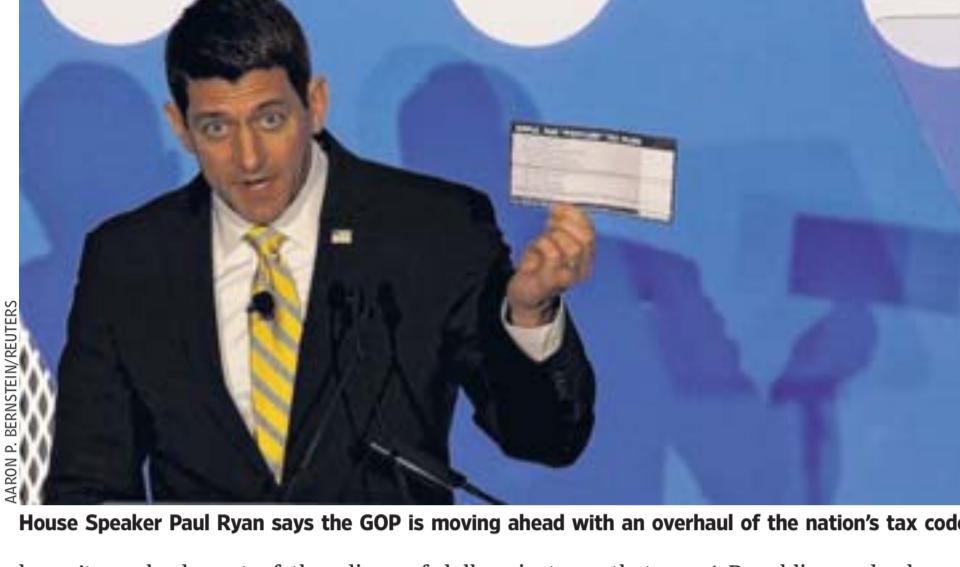
Mr. Ryan, in a speech Tuesday to manufacturers, echoed the major themes of the plan he released a year ago and didn't delve into the details that divide Republicans or the negotiations between President Donald Trump's administration and members of Congress.

"The defenders of the status quo—and there are many of them—they're counting on us to lose our nerve, to fall back, or to put this off altogether," Mr. Ryan (R., Wis.) said. "But we will not wait for a path free of obstacles. Guess what? It does not exist."

Mr. Ryan's speech to the National Association of Manufacturers, sandwiched between cable news appearances, was intended to build momentum and public support for the party's aims. Republicans see a tax overhaul as an economic and political necessity that would deliver on one of their core campaign promises.

For now, taxes are secondary to health care and other policy issues. But the GOP is planning a busy fall, and Mr. Ryan said he hoped the tax bill could be done before Thanksgiving so taxpayers would have a clear sense of the new system going into 2018.

So far, however, Republicans



House Speaker Paul Ryan says the GOP is moving ahead with an overhaul of the nation's tax code.

haven't resolved most of the major issues that divide them and they haven't settled core questions about whether they want tax cuts or a tax overhaul, whether they want a temporary bill or a permanent change, and exactly who would win and lose from the inevitable trade-offs.

Gary Cohn, director of the White House National Economic Council, said Tuesday Mr. Trump's aides are aiming for a unified plan among congressional lawmakers and the administration by September. Mr. Cohn said the president checks in daily on the issue.

Tax policy could gain momentum if Republicans can pass a health law that repeals parts of former President Barack Obama's Affordable Care Act and cuts hundreds of bil-

lions of dollars in taxes that wouldn't have to be addressed as part of a tax plan. Failure on health care would create complications for a tax bill, but it might also create pressure on Republicans to bank a major accomplishment.

Among the current challenges facing Republicans:

◆ The biggest is internal opposition—particularly in the Senate—to Mr. Ryan's plan to add a border adjustment to the corporate tax, which would tax imports and exempt exports. Mr. Ryan sidestepped that issue on Tuesday and is forging ahead in the absence of an alternative.

Some Republicans have urged Mr. Ryan to drop border adjustment, contending that his insistence on it is holding up progress toward a deal.

◆ Republicans also have to decide whether they want a tax cut or a revamp of the system that would lower rates for individuals and companies while leaving federal tax collections nearly unchanged. Conservatives and some of Mr. Trump's aides favor a tax cut.

Few, if any, Democrats are expected to join Mr. Ryan. They argue that the GOP offers certain rate cuts to corporations and high-income households with little clear benefit to the population at large.

"Paul Ryan is not serious about tax reform. He's serious about tax giveaways—for millionaires, billionaires, and wealthy corporations," said Frank Clemente, executive director of Americans for Tax Fairness, a liberal group.

# U.S. Restarts Study Of Nations to Add To Its Travel Ban

By LAURA MECKLER

WASHINGTON—President Donald Trump's travel ban remains on hold due to court rulings, but his administration is resuming a global review of nations that might lead to an attempt to install far more sweeping travel restrictions.

The travel ban aims to stop people from six Muslim-majority countries from coming to the U.S., based on what the White House says are security concerns. The global review will examine every other country to determine whether any should be added to the list. The goal is to compel nations to cooperate more fully with U.S. efforts to vet their citizens, officials say.

The global review was ordered along with the travel ban, and for months both had been kept on hold by a federal judge in Hawaii. But last week, an appeals court said the administration should be allowed to resume the study, and on Monday night, the court put its ruling into effect.

Now the Department of Homeland Security says it is moving forward.

"The ruling by the 9th Circuit Court of Appeals finally allows DHS to resume the important work of reviewing the information provided by all countries on their citizens who desire to

travel to the United States, to ensure the applicant doesn't present a security or public safety threat to the U.S.," said DHS spokesman Dave Lapan. "DHS will undertake a full review of the vetting requirements worldwide in the expectation of raising the global security bar to better protect our nation."

Critics have said that trying to force cooperation could be counterproductive. They say some countries will never be able to meet all of the U.S. demands, but that doesn't mean the U.S. should ban every one of their citizens from visiting.

A provision in Mr. Trump's executive order on visas and refugees gave DHS 20 days to report back to the president on the results of the review, including a determination of what information is needed from each country and "a list of countries that do not provide adequate information."

A DHS official said the agency is consulting with attorneys on the timing, but it appears that the 20-day clock began on Monday, when the appeals court put its ruling into effect. The goal, the official said, was to move "as expeditiously as possible following the court's order."

—Shane Harris  
and Brent Kendall  
contributed to this article.

## ELECT

Continued from Page One  
prospects next year in the battle for control of the House, which is now held by the Republicans. Georgia had been considered Democrats' best shot at a win.

In her victory speech, Ms. Handel offered a "special thanks to the president of the United States," who had come to the district for a fundraiser and sent supportive Twitter messages in the closing days of the campaign. After her victory, Mr. Trump congratulated her in another tweet.

In conceding, Mr. Ossoff said he didn't get the outcome he wanted but that his campaign had awakened a movement.

"We showed the world that in places where no one thought it was even possible to fight, we could fight," he said. "The fight goes on."

Mr. Ossoff's defeat will likely prompt soul-searching among Democrats about what it will take to flip Republican-held seats in the 2018 midterm fight for control of the House, given that such a vast effort in Georgia fell short. More than \$31 million was poured into the Ossoff campaign by donors and outside groups, compared with more than \$23 million spent by Ms. Handel's campaign and its allies.

Still, the fact that Republicans had to work so hard to hold on to a historically conservative district sent a warning to GOP incumbents and candidates that they likely will have a tougher fight than usual next year, especially in suburbs like Georgia's Sixth District, where many residents are affluent and hold college degrees.

Chip Lake, a Republican consultant in Georgia unaffiliated with the Handel campaign, said the Republican win means the party "dodged a bullet."

Republicans should see the expensive race as "a wake-up call to our base and our party,"



Democratic candidate Jon Ossoff left the stage with fiancée Alisha Kramer after his concession speech before supporters in Atlanta.

because the election in a traditionally Republican district shouldn't have been close, Mr. Lake said. "I'm glad we won, but we shouldn't have had to spend \$20 million to \$25 million to do it."

But all that money, and Ms. Handel's use of a tried-and-truth strategy of linking Mr. Ossoff to national party figures such as House Democratic Leader Nancy Pelosi, succeeded in waking up Republican voters who had been at risk of sitting on the sidelines. It showed that even in places that Mr. Trump carried only narrowly, GOP voters can unite in the face of a Democratic opponent. Turnout soared in the second round of voting compared with the primary in April, a sign that Republicans managed to match the energy of the Democratic base.

Ed Painter, chairman of the GOP in Georgia's 12th Congres-

sional District, said Ms. Handel won in part because she drew support from Republican voters who might have been slow to come around because they were alienated by Mr. Trump's election.

"We're getting some reluctant Republicans who really don't like Trump," said Mr. Painter. "The specter of seeing another Democrat up there really frightened them."

Among Democrats, an intra-party debate began almost immediately with a critique of the Ossoff campaign coming from the liberal Moveon.org, which issued a statement saying the candidate and the Democratic Party "missed an opportunity" by trying to portray Mr. Ossoff as a centrist.

"The Democratic Party must be the party of real change," said Anna Galland, executive director of Moveon.org.

Rep. Ro Khanna, a Califor-

nia Democrat aligned with Sen. Bernie Sanders (I., Vt.), said the party must no longer run candidates who seek to blur the lines between Democrats and Republicans. He said the party's campaign arm should "fire their consultants" who advocate for a centrist message in districts that favor Republicans.

Other Democrats said the race pointed to GOP weakness. "The very fact that we've even been talking about this race for months is an indication of how very bad things are for Republicans right now," said Ian Russell, former political director of the Democratic Congressional Campaign Committee.

The midterm election map includes many potential battleground districts that aren't as heavily skewed to the GOP as the Georgia seat. For example, Democrats are targeting 23 House Republicans represent-

ing districts that Democrat Hillary Clinton won in the 2016 presidential election.

Mr. Ossoff had launched his campaign months ago by tapping into Democrats' surging anti-Trump activism. His early appeals called on donors to "make Trump furious." Donations came from around the country.

But he soon adopted a more centrist campaign message. Mr. Ossoff didn't speak much on the stump about Mr. Trump, focusing instead on local economic development and calling for bipartisan cooperation.

Ms. Handel rallied Republicans with a warning that Mr. Ossoff was too inexperienced and liberal for the district. Despite Mr. Ossoff's centrist tone on the stump, Ms. Handel argued that he would inevitably have to fall in line with liberal party leaders, such as Mrs. Pelosi.

The bill to expand sanctions against Moscow and wrest greater control over Russia policy from the White House has hit a snag in the House of Representatives after passing in the Senate last week.

House and Senate members worked together on the legislation, but the measure as passed may violate the Origination Clause of the Constitution, which requires the House to act before the Senate on bills that involve the raising of revenues, said House Ways and Means Committee Chairman Kevin Brady (R., Texas).

The problem was flagged by the House parliamentarian, he said.

The bill would require that the White House receive congressional approval before lifting existing sanctions against Russia and would broaden sanctions on Russia's energy sector. It would also mandate punishment of malicious cyber actors and curtail financing to Russia's banking and energy sectors.

It is intended in part to reprimand Moscow for Russia's alleged interference in the 2016 U.S. presidential campaign. It passed the Senate on Thursday on a 98-2 vote.

—Natalie Andrews

### DEBT LIMIT

## U.S. Can Pay Bills Through September

Treasury Secretary Steven Mnuchin said Tuesday he isn't concerned about U.S. tax receipts coming in lower than expected in recent months.

If the trend continues, it could shorten the amount of time the government has before it runs out of cash to pay its bills, unless Congress raises the federal borrowing limit. The government hit that limit in mid-March and has been using extraordinary measures since then to meet its obligations.

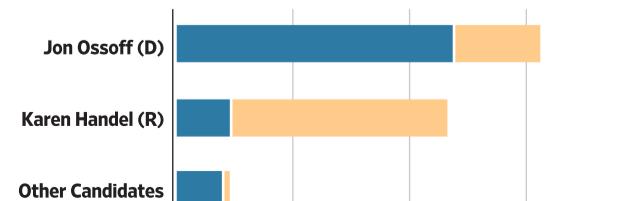
"There are certain individuals and businesses that are pushing off taxes until later in the year, but nothing that we're concerned about," he told CNBC.

—Kate Davidson

## Campaign Spending

Democrat Jon Ossoff raised \$8 million more than GOP rival Karen Handel despite money from outside groups going to Handel by over a 2-to-1 margin.

■ Campaign committee spending ■ Supportive outside groups



Note: Data as of June 16.

Source: Issue One analysis of Federal Election Commission filings

BY JANET HOOK

The \$60 million special House election in Georgia turned into the most expensive House race in history, but the money came from different sources on either side of the fight between Democrat Jon Ossoff and Republican Karen Handel.

Mr. Ossoff received more of his money from individual contributions, while the winner, Ms. Handel, benefited more from outside groups, according to an analysis of Federal Election Commission data through June 16 by Issue One, a bipartisan group.

The Ossoff campaign raised \$23.9 million, about five times the \$4.8 million raised by Ms. Handel. But outside groups supporting the Republican's campaign spent \$18.6 million—more than twice as much as the \$7.5 million spent by groups backing Mr. Ossoff.

The \$60 million total is about twice as much as was spent in the previous record-setter: Some \$30 million was spent in Florida in 2012 for a House race between Republican Rep. Allen West and the Democrat who beat him, Patrick Murphy, according to the Center for Responsive Politics' analysis of FEC data.

In Georgia, Mr. Ossoff drew more of his support from small donations: Two-thirds of his war chest came from donors giving \$200 or less, as of the end of May. One-third of Ms. Handel's campaign funds came from donors giving \$200 or less.

The outside groups that spent the most were party organizations such as the National Republican Congressional Committee (\$6.7 million) and the Congressional Leadership Fund, a super PAC affiliated with House GOP leaders (\$6.5 million). The Democratic Congressional Campaign Committee spent \$5 million.

# Donors Poured in Cash on Both Sides of Fight

## U.S. NEWS

# Health Bill Is Hard Sell for Alaska Senator

By KRISTINA PETERSON  
AND STEPHANIE ARMOUR

WASHINGTON—Senate Republicans' quest for the 50 votes needed to pass their health-care bill has put them in hot pursuit of one duck-hunting, occasionally defiant GOP senator: Lisa Murkowski of Alaska.

Senate Majority Leader Mitch McConnell (R., Ky.) confirmed Tuesday that the bill's text would be released Thursday and a vote held likely next week, triggering an intensified effort to secure the votes of senators like Ms. Murkowski. An assessment of the bill's im-

pact by the nonpartisan Congressional Budget Office is ex-  
pected by early next week.

Mr. McConnell's schedule gives him limited time to nail down support for a bill whose emerging shape has raised alarms among conservatives and centrists alike. The majority leader can lose no more than two of his 52 GOP senators, prompting an urgent outreach to senators like Ms. Murkowski who face complicated pressures at home.

It won't be easy to secure the support of Ms. Murkowski, who has been willing to break with party leaders in the past. As recently as February, she

was one of two Senate Repub-  
licans to oppose confirmation of Education Secretary Betsy DeVos. And the Senate GOP health bill could pose specific problems for Alaskans, causing some of the state's other elected officials to hesitate.

Ms. Murkowski has raised concerns over the bill's expected cuts to Medicaid, as well as a provision effectively cutting off funding for Planned Parenthood Federation of America.

"What they provide for women is an important level of access to care, and I don't think we ought to be rolling back anything that effectively

limits access," Ms. Murkowski said Tuesday. She declined to say whether that could cost Mr. McConnell her support, noting that senators haven't yet seen the bill's text.

"I can't tell you where my vote is going to be," she said.

Mr. McConnell declined on Tuesday to predict the bill's passage, saying that "we're going to make every effort to pass a bill" that overhauls the health-care system.

The majority leader has signaled that whatever the outcome, he wants to act on the bill quickly. Republican leaders have said they are eager to tackle the next big item on the

GOP agenda, an overhaul of the tax system.

Democrats are stepping up their criticism of Republicans for writing the bill behind closed doors and leaving little time for the public to review it before the vote. "This is much more akin to a reality TV show reveal than the legislative process," said Sen. Chris Coons (D., Del.).

Mr. McConnell faces challenges on both ends of the GOP spectrum. But he is also contending with lawmakers, including Ms. Murkowski, worried about the bill's impact on specific conditions in their states. That raises the possi-

bility that GOP leaders could tweak the bill to address those issues, such as beefing up tax credits or directing more Medicaid funding to states with expensive health care.

Alaska is unique in facing both high health-care costs and high premiums; because of its small population, its sickest residents have driven costs up sharply. Republican plans to provide people who don't get insurance on the job with tax credits or subsidies would be especially problematic in Alaska if those credits aren't structured to take into account areas with high health-care costs.

## Democrats Dig In Against Proposal

BY MICHELLE HACKMAN  
AND NATALIE ANDREWS

WASHINGTON—Democrats have begun escalating their parliamentary and messaging tactics against the Republican health bill as a Senate vote approaches, hoping their opposition resonates with voters while risking accusations of obstructionism from President Donald Trump.

Without the votes to halt Republicans from passing their bill, Democratic lawmakers have instead opted this week to begin slow-walking other Senate business in protest. Senate Minority Leader Chuck Schumer (D., N.Y.) on Tuesday invoked a rare parliamentary rule effectively canceling committee hearings for the day, and the party plans to object to parliamentary moves that require unanimous consent.

"What more could we do—hold Republican senators by the arms to stop them from getting to the chamber?" said Sen. Chris Murphy (D., Conn.) "I think we'll use every tool at our disposal."

Democrats hope to emphasize the potential impact of the GOP health bill, which they say would endanger health coverage for millions of Americans. But they also want to draw attention to what they say has

**Democrats hope to emphasize bill's potential impact as the Senate vote nears.**

been a rushed and secretive legislative process, with no public hearings and Senate leaders planning to unveil the bill's text days before a vote slated for Thursday of next week.

Senate Majority Leader Mitch McConnell (R., Ky.) disputes the notion that the process has been overly secretive, saying lawmakers will have ample opportunity to read the bill and amend it next week. He also points to "gazillions" of past hearings on health care and the ACA.

Mr. Trump, for his part, has accused the Democrats of obstructionism when it comes to health care and other matters, and he and other Republicans have said the ACA is collapsing of its own weight, an assertion denied by Democrats.

Still, Democrats aren't alone in their complaints. Sen. Rand Paul (R., Ky.) on Tuesday criticized GOP leaders' decision to write most of the health-care bill behind closed doors without Democrats' input. "If you do it on one side only, what you're setting yourself up for is failure," said Mr. Paul, who has suggested he will oppose the bill.

Democrats are also intensifying their public messaging on health care. The Senate Democrats' campaign arm launched a new series of digital ads on Monday against Sens. Dean Heller of Nevada and Jeff Flake of Arizona, the GOP lawmakers seen as the most vulnerable in the 2018 cycle. The ads are meant to reach young voters on Google and YouTube and feature a woman hawking her wedding ring to pay for a child's medical costs.

*—Kristina Peterson contributed to this article.*

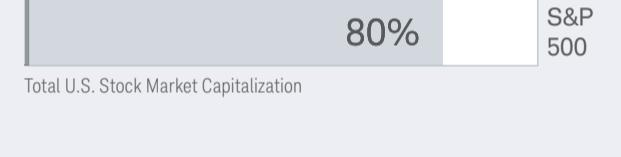
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25 Year	9.71%	9.52%
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# WORLD NEWS

## U.S. Downs Drone in Southern Syria

Confrontations with pro-regime forces are distracting from fight against ISIS, U.S. says

An American fighter jet shot down an Iranian-made armed drone on Tuesday after it flew toward U.S.-led coalition troops in southern Syria, the latest in a series of confrontations with pro-regime forces that the U.S. military says is diverting attention from the fight against Islamic State.

By Dion Nissenbaum  
in Washington,  
Ben Kesling in  
Baghdad and Maria  
Abi-Habib in Beirut

The downing of the drone marked the third time in two weeks the U.S. has brought down a pro-regime aircraft viewed as a threat to the coalition and Syrian fighters the U.S. is backing in the fight against Islamic State. It was the latest indication that American efforts to discourage Syrian President Bashar al-Assad and his Iranian allies from challenging the U.S. have fallen short.

The new challenges to American power in Syria come as the U.S. seeks to deliver dual blows to Islamic State by forcing the extremist group, also known as ISIS, from its last two major urban strongholds, Raqqa, in Syria, and Mosul, in Iraq.

"We want to be focused on ISIS," said Col. Ryan Dillon, a Baghdad-based spokesman for the U.S.-led coalition. "Anything that distracts us, or takes our attention, or takes resources away from fighting ISIS is not helpful. We are doing a lot of things to get that



SENIOR AIRMAN MATTHEW BRUCH/AGENCE FRANCE PRESSE/GTY IMAGES

U.S. Air Force F-15E Strike Eagles flying over Iraq in 2014. A U.S. fighter jet shot down an Iranian-made drone in Syria on Tuesday.

back on track."

The shooting down of the drone on Tuesday came two days after a U.S. jet shot down a Syrian plane that had targeted American-backed forces on the ground, the first such incident in the six-year Syrian war.

On Monday, in response to the downing of the Syrian plane, Russia threatened to track American warplanes west of the Euphrates River in Syria.

The threat was followed by an immediate drop-off in U.S. airstrikes in Syria against Islamic State, as the U.S. military took time to assess the risks.

After weeks of launching airstrikes that numbered in the double digits on a daily basis in Syria, the U.S. military said it carried out eight on Monday—all of them near Raqqa.

The decrease in airstrikes was accompanied by a deci-

sion by Australia, a member of the U.S.-led coalition against Islamic State, to temporarily suspend its flights in Syria. There are 60 countries in the coalition.

The coalition also began using more advanced aircraft with

*The drone downed Tuesday was flying toward an outpost used by the coalition.*

better air defenses to fly missions in Syria, U.S. officials said.

In Tuesday's incident, the American military spotted the armed, Iranian-made Shahed 129 drone flying toward a small outpost in southeastern

Syria used by coalition troops working with forces fighting Islamic State, the military said.

The U.S. pilot quickly shot down the Predator-sized drone, which was the same type as one downed two weeks ago after it dropped a dud munition near the same outpost. U.S. officials said they didn't know who was operating the drone, but said primary suspicion falls on Syria or Iran.

U.S. forces have also

launched three airstrikes in recent weeks on Iranian-backed fighters supporting the Assad regime who the U.S. military said were threatening coalition forces. The encounters have ratcheted up tensions with the regime's two most important military backers, Russia and Iran.

U.S. officials said Tuesday that they were seeing no seri-

ous steps by Moscow to target American coalition pilots.

"Public statements aside, we have not seen the Russians do any actions that cause us concern," said Capt. Jeff Davis, a Pentagon spokesman. "We have no reason to think that the Russians seek conflict with us."

While Moscow also said it would shut down a special military channel used to ensure that Russian and American planes operate safely in crowded airspace over Syria, U.S. officials said the lines of communication were still working on Tuesday.

Syria isn't the only place Moscow is testing the U.S. military. On Monday, a Russian fighter jet buzzed an American reconnaissance plane over the Baltic Sea, coming within 10 yards of the U.S. jet, according to a senior defense official.

Capt. Davis called that incident "unsafe," but said it was an exception, not the norm. Russia blamed the U.S. plane.

Uncertainty surrounding the administration's Syria policy may help explain why the Syrian military and its allies have pressed their attacks on American special operations forces and their local allies in an effort to test the limits of America's willingness to strike back, Western diplomats said.

"Damascus is trying to push the boundaries; this [U.S.] administration is so unpredictable they are testing the waters to see what the policy is," said a Western diplomat in the Middle East who represents a country that is part of the U.S.-led coalition. "The Obama administration was more predictable, and they were less willing to confront Damascus, and the regime engaged in much less risky behavior as a result."

The drone shot down on Tuesday was near al-Tanf in southeastern Syria. The area has become the focal point for U.S. efforts to counter Iran in Syria, with U.S.-backed rebels pushing north from al-Tanf to deprive Iran of an ability to ferry weapons and supplies to allies in Syria and Lebanon.

"Iran is playing an unhelpful role in Syria and elsewhere in the Middle East," Gen. Joe Dunford, chairman of the Joint Chiefs of Staff, said Monday in Washington. "I think their major export is malign influence."

Iran already is fighting Islamic State in Syria, sending thousands of troops to back Mr. Assad's forces, although they have been accused of focusing more on rebel groups opposed to Mr. Assad's rule.

—Gordon Lubold contributed to this article.

**State Department Challenges Arab Claims on Qatar**

BY FELICIA SCHWARTZ

WASHINGTON—The State Department on Tuesday questioned the motives of Saudi Arabia and several of its allies that imposed an embargo on Qatar, breaking from President Donald Trump's vocal support for those aligned against the Gulf country.

The Arab countries have isolated neighboring Qatar for the past two weeks, closing borders and canceling airline flights, while alleging that Doha has provided support for terrorist movements and maintained friendly relations with Iran, a bitter regional rival to Saudi Arabia and others.

Qatar has protested the charges, but Mr. Trump has taken Saudi Arabia's side. "The nation of Qatar, unfortunately, has historically been a funder of terrorism at a very high level," he said in remarks at the White House on June 9.

The State Department on Tuesday challenged the charges leveled by Qatar's regional critics, questioning



JACQUELYN MARTIN/ASSOCIATED PRESS

whether they had evidence to back the allegations.

"We are mystified that the Gulf states have not released to the public, nor to the Qatars, the details about the

claims that they are making toward Qatar," State Department spokeswoman Heather Nauert said. "The more the time goes by, the more doubt is raised about the actions

taken by Saudi Arabia and the U.A.E."

"At this point we are left with one simple question, were the actions really about their concerns regarding Qa-

tar's alleged support for terrorism or were they about the long-simmering grievances between and among the GCC countries?" she said, referring to the seven-member Gulf Cooperation Council.

Ms. Nauert, asked by a reporter whether the State Department was contradicting Mr. Trump, said: "I don't think so at all. I think the president and the secretary both want to see this resolved. They want results and let's see this resolved quickly."

Saudi and Qatari officials didn't respond to a request to comment.

Addressing the apparent disagreement between the State Department's view of the dispute and Mr. Trump's charges against Qatar, a senior U.S. official said Mr. Trump was referring to past allegations of support from Qatar for terrorist movements.

Mr. Trump's statements, however, appeared to address the current situation. Referring to the anti-Qatar push in

a June 6 Twitter post, he wrote: "Perhaps this will be the beginning of the end to the horror of terrorism!"

Secretary of State Rex Tillerson has been pursuing efforts to help bring about an end to the conflict between the Gulf states and Qatar, home to the largest U.S. military base in the Middle East.

Several days after the conflict began, Mr. Tillerson called on Saudi Arabia and others to ease the blockade on Qatar. But Mr. Trump, who in May visited Saudi Arabia, appeared to take credit for the feud, saying his calls to crack down on terror financing during a trip to Saudi Arabia prompted the action against Qatar.

The senior U.S. official said the Saudis and others haven't made a compelling case for the embargo publicly or in numerous meetings and phone calls privately.

"If their motivations for doing this are so clear, then they should put it forward," the official said.

## Saudi King Advances Son in Shake-Up

BY NICOLAS PARASIE

DUBAI—Saudi Arabia's King Salman ousted his nephew and named his son as the new crown prince, the country's state news agency said Wednesday, a move that carries far-reaching implications for the monarchy and the biggest economy in the Middle East.

The new Saudi crown prince, Mohammed bin Salman, known by his initials MbS, is seen as the architect of the kingdom's attempt to overhaul its oil-dependent economy and carve out a more muscular foreign policy in a volatile region. The 31-year-old prince will remain in charge of defense.

He takes the place of his cousin Mohammed bin Nayef, who was stripped of the title of crown prince and all his other positions, including that of interior minister, the state news agency said.

The surprise shake-up coincides with a political crisis in the Persian Gulf region that pits Saudi Arabia and its allies against Qatar. Saudi Arabia is also entangled in a continuing conflict in neighboring Yemen.

The move is a major blow



to embattled Mohammed bin Nayef, one of Washington's most trusted counterterrorism partners. It comes at a time when Washington is trying to enlist its Mideast allies to do more to combat terrorism in a region rife with extremist insurgencies.

Seasoned U.S. diplomats had tried to stay out of the secession struggle between the

two princes, not wanting to risk upsetting their close partnership with the former crown prince, which is widely lauded for combating a growing al Qaeda threat in the kingdom over the last decade and a half.

The Saudi monarchy, long synonymous with privilege and patronage, has come under strain in recent years and

jockeying has intensified.

The new crown prince is one of the more than 500 children of the 36 sons of Abdulaziz Ibn Saud, founder of the Saudi monarchy. The new Saudi crown prince is now first in line to succeed his father, the 81-year old King Salman.

In the past two years, the new crown prince has been the public face of change in the kingdom. He has introduced austerity measures—some of which were reversed later—to help reduce a budget deficit caused by the drop in oil prices.

He has also backed the potential listing next year of state oil giant Saudi Aramco, in part to push the economy onto a path of privatization and greater competitiveness needed to generate jobs for the young and attract foreign investment beyond the oil sector.

America's closest Gulf allies have entangled the Trump administration in a longstanding rift in the Middle East as a group of Saudi-led nations pursues a realignment that risks further destabilizing the region and complicating the fight against Islamic State.

## Ukraine Leader Touts Ties in Trump Meeting

BY ALAN CULLISON

WASHINGTON—Ukrainian leader Petro Poroshenko used his first White House visit to stress his country's alliance with Washington, as he pushes the U.S. to press Moscow to curb its support for pro-Russian separatists in Ukraine.

President Donald Trump and Mr. Poroshenko avoided potentially difficult issues during their brief meeting Tuesday. Mr. Trump said "we've had some very good discussions."

Mr. Poroshenko called the two countries "strategic partners."

Mr. Poroshenko's visit presented challenges for Mr. Trump, who has said he wants to improve relations with Russia but is under pressure to distance himself from the Kremlin amid burgeoning investigations into the aftermath of alleged hacking into U.S. elections. Russia denies the interference.

Tuesday's meeting came just weeks before Mr. Trump attends the Group of 20 summit in Germany, where he is expected to speak in person with Russian President Vladimir Putin for the first time.

For months, Mr. Poroshenko had been angling for a meeting so he could push for more U.S. pressure on Moscow to stop its support of pro-Russian rebels in eastern Ukraine.

Mr. Poroshenko's visit Tuesday was low-profile compared with prior visits by world leaders to the White House. Mr. Trump met only briefly with the Ukrainian president in the Oval Office, in what White House officials described as a "drop by."

Last month, Mr. Trump hosted Russia's foreign minister and U.S. ambassador in the Oval Office, and officials in Kiev had feared the U.S. leader would meet Mr. Putin before Mr. Poroshenko.

In the Oval Office appearance Tuesday, Mr. Trump didn't publicly mention pro-Russian separatists in Ukraine. A White House statement later said the two leaders discussed "support for the peaceful resolution to the conflict in eastern Ukraine and President Poroshenko's reform agenda and anti-corruption efforts."

—Michael C. Bender and Carol E. Lee contributed to this article.

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## WORLD NEWS



German Chancellor Angela Merkel, center, last month with French President Emmanuel Macron and IMF chief Christine Lagarde.

# NATO Tests Key Supply Lines

BY JULIAN E. BARNES

STAŠENAI, Lithuania—The North Atlantic Treaty Organization brought two battle groups together in a drill meant to demonstrate its ability to keep open vital supply lines between Poland and Lithuania, shoring up what military planners have identified as an alliance weakness.

Allied militaries have been conducting a series of exercises in the Baltic region in recent days. The Saber Strike exercise has focused on securing the so-called Suwalki Gap, the border region between Poland and Lithuania.

Military planners believe that in the event of a conflict with Russia, its forces in Kaliningrad or Belarus could threaten to cut off the Baltic States from the rest of NATO.

"We are demonstrating our capability to secure our most vulnerable point, the Suwalki Gap," said Lithuanian President Dalia Grybauskaite.

On Tuesday, the U.S.-led NATO battle group in Poland moved into Lithuania, joining up with the German-led battle group, Polish, Lithuanian and other allies. The exercise was the first time NATO has moved one battle group from its base to another country.

Forward-deployed tanks, infantry fighting vehicles and an assortment of weapons systems from the U.S., Poland and

other allies drove over a temporary river crossing erected by German and British military engineers. Overhead, Apache attack helicopters and a U.S. Air Force B-1 bomber flew past.

This year, NATO has deployed 4,500 troops to Poland and the Baltic States, a move NATO Secretary-General Jens Stoltenberg has said was a direct reaction to Russia's buildup in the region.

"These NATO battle groups send a clear message: an attack on one ally is an attack on all," Mr. Stoltenberg said.

The battle groups have been touted as a trip-wire force, a small defensive group whose presence would deter any potential conflict because NATO powers would reinforce the region should their forward-positioned troops come under attack. But NATO military officials are anxious to demonstrate they can move and concentrate forces should a crisis develop.

"The Suwalki gap is geographically important and it is strategically and operationally important," said Lt. Col. Steven Gventer, the commander of the U.S.-led NATO battle group. "Our ability to come through the gap...not only helps with our deterrent capability but also shows we could defend if needed."

◆ Defense firms thrive as Europe boosts spending..... B9



PETRAS MALUKAS/AGENCE FRANCE PRESSE/GETTY  
An advance force battalion group conducts a water obstacle crossing.

## Merkel Open to Eurozone Reform

BY BERTRAND BENOIT  
AND ANDREA THOMAS

BERLIN—German Chancellor Angela Merkel for the first time sketched out the outlines of a bargain with France on fixing the governance of Europe's single currency, in the clearest sign yet that the two biggest eurozone countries are inching toward reconciling sharply different views on the matter.

Germany could support two central French demands—the appointment of a eurozone finance minister and the creation of a common budget—if some conditions were met, Ms. Merkel told business leaders in Berlin on Tuesday.

"We can of course think about a eurozone budget as long as it's clear that this is really strengthening structures and achieving sensible results," she said.

In a striking softening of previous language opposing broader financial burden-sharing among member states, Ms. Merkel said "we could think

### Rising Economy Set to Lift New French President

PARIS—French economic output is improving and will record its fastest growth in six years in 2017, national statistics agency Insee said Tuesday,

giving President Emmanuel Macron a boost as he sets out to shake up the economy.

The eurozone's second-largest economy will expand by 1.6%. Unemployment will continue declining and reach 9.4% by the end of the year, compared with 10% at the end of 2016, the forecasts show.

—William Horobin

about a common finance minister...if we aren't pooling liabilities in the wrong place."

As qualified as it is, Ms. Merkel's surprise overture on an approach long taboo in Germany suggests the stalled process of reforming the eurozone could kick back into life sooner than many experts had expected. It comes a month after pro-European Emmanuel Macron was elected French president, a win many see as evidence that the continent's political mood is growing more supportive of the European Union.

An adviser to Mr. Macron said Ms. Merkel's apparent openness to reforms was "very positive," calling it "part of this new Franco-German climate of confidence."

The chancellor's comments took even some German officials by surprise, coming ahead of a national general election in September. Berlin had declined to engage in detailed talks about the eurozone's future before the vote, insisting Mr. Macron had to prove his mettle first by enacting domestic economic measures over the summer.

Speaking before Ms. Merkel in Berlin, the head of the German Federation of Industry, Dieter Kempf, endorsed the idea of a common eurozone budget and finance minister "if these steps are correctly conceived." With such an approach, he said, "weak periods and imbalances could be countered early and the possibility of real crises further reduced."

The crisis that engulfed the eurozone in 2010 laid bare deep defects in the currency union's design, including weak central control on public spending and the absence of incentives for countries to harmonize disparate economies.

The eurozone also lacks the ability to raise and spend money to buffer downturns. The region has since equipped itself with a banking authority and a rescue fund, but many experts agree much is left to be done to make the eurozone a sustainable construction.

—William Horobin in Paris contributed to this article.

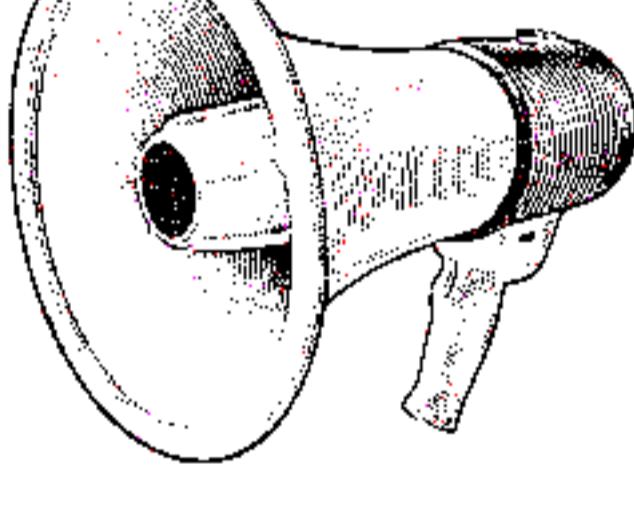
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## WORLD WATCH

BELGIUM

### Police Shoot Suspect At Train Station

Belgian security forces shot and killed a man believed to have caused an explosion in Brussels' Central Station on Tuesday evening.

No other casualties were reported.

A spokesman for Belgium's federal prosecutor's office said a small explosion went off in the station but the suspect was then "neutralized" by soldiers patrolling the area.

"The incident is being considered a terrorist attack," said the spokesman, Eric Van Der Sypt.

Belgium has been on terror alert level 3 for months following an attack in March 2016 at the national airport and a subway station in Brussels that killed 32 people. Its top terror alert level is 4.

—Valentina Pop

PHILIPPINES

### Militants Linked To ISIS Attack Village

Militants aligned with Islamic State stormed a village and may have taken hostages in the southern Philippines early Wednesday, police and the military said, 50 miles south of where government forces have been waging an urban war against Islamic militants for more than a month.

Members of the Bangsamoro Islamic Freedom Fighters group attacked a village near the town of Pigcawayan in central Mindanao island at dawn and held an unknown number of hostages, Chief Insp. Realan Mamon, police chief of Pigcawayan, said in a radio interview. He told the Associated Press that it wasn't clear whether militants had taken hostages or if people had been trapped in the fighting.

The gunmen targeted an army outpost and a patrol base of pro-government militiamen, military spokesman Brig. Gen. Restituto Padilla told the Associated Press. He said the attack could be an effort by militants to divert the military's focus from fighting in Marawi.

—Ben Otto

## WORLD NEWS

# EU Seeks Role in Pyongyang Talks

In discussions with Seoul and Beijing, Europeans underline diplomatic strengths

The European Union is in discussions with South Korea and China about taking a potential role as a broker for negotiations with North Korea on ending its nuclear program, according to EU officials involved in the effort.

By Jeremy Page in Beijing and Laurence Norman in Brussels

The discussions reflect concern in Brussels, Seoul and Beijing that sanctions alone won't persuade Pyongyang to halt its nuclear program and that negotiations are needed to avoid military conflict.

The death this week of Otto Warmbier, the American college student imprisoned in North Korea for more than a year before returning home with a severe brain injury, has added to pressure in Washington for more strenuous action against Pyongyang.

President Donald Trump said Tuesday that China has been unable to crack down on North Korea, pointing to a new direction for U.S. policies.



North Korean leader Kim Jong Un attends a military drill in a photo from the state KCNA news agency.

"While I greatly appreciate the efforts of President Xi & China to help with North Korea, it has not worked out," Mr. Trump said in a Twitter message.

A series of meetings in recent weeks in Brussels and Beijing have focused on ways that participants believe the EU could facilitate negotiations with North Korea, drawing on its members' diplomatic ties with Pyongyang and on its experience in helping to negotiate the 2015 nuclear deal with

Iran, the officials said.

EU officials have discussed the matter with Chinese Premier Li Keqiang during his visit to Brussels this month, and with South Korea's special envoy in May. Any role for Brussels would need backing from Washington and EU member states, neither of which is assured.

The Trump administration doesn't see Brussels as having the leverage to help extract real concessions from Pyongyang on its nuclear program, a U.S. offi-

cial said. There would be a concern, the official said, that the process would be used to water down Washington's call for a full dismantling of North Korea's nuclear program.

The Wall Street Journal reported this week that the U.S. has held secret talks with North Korea for more than a year, hoping to free U.S. prisoners and establish a diplomatic channel for efforts to constrain Pyongyang's nuclear and missile programs.

EU officials said they wouldn't do anything to undermine U.S. moves to tighten economic sanctions on Pyongyang. Officials from the 28 EU member states were set to meet Wednesday to begin discussing an overhaul of the bloc's North Korea policy guidelines.

That process is likely to take weeks but a draft text to be discussed at the meeting says the bloc is ready to "actively cooperate" in multilateral negotiations—a line that could meet with some resistance among member nations.

Also on Wednesday, senior U.S. and Chinese officials are set to meet in Washington to discuss security matters.

EU officials said they were worried by Mr. Trump's recent remarks suggesting he was considering military action against Pyongyang, which has conducted nine missile tests since his inauguration.

EU foreign-policy chief Federica Mogherini has called on all sides to reduce tensions and said any risk of military intervention should be avoided. EU officials stressed that talks were at an early stage and said they wouldn't take any initiatives without Seoul's request.

The Chinese and South Korean foreign ministries didn't respond to requests to comment.

## Tour Group Stops Taking Americans to North Korea

By JONATHAN CHENG

SEOUL—Three of the biggest tour agencies that take Americans to North Korea reviewed their policies on bookings by U.S. citizens following the death of Otto Warmbier, the University of Virginia student imprisoned for 17 months by Kim Jong Un's regime.

Travel agencies in several countries arrange trips to North Korea, despite wide-ranging sanctions and the risks involved in visiting, especially for Americans.

Mr. Warmbier had joined a New Year's tour to Pyongyang organized by Young Pioneer Tours, an agency based in Xi'an, China, that says it has been arranging trips to North Korea since 2008.

"The way his detention was handled was appalling, and a tragedy like this must never be repeated," Young Pioneer Tours said in a statement posted on its website Tuesday. "Considering these facts and this tragic outcome, we will no longer be organizing tours for U.S. citizens to North Korea."

Koryo Tours, a U.K.-registered travel agency based in Beijing that is the largest and longest-running Western operator of North Korea tours, said it was reviewing the issue of U.S. citizens traveling there.

Kearny, N.J.-based Uri Tours, which bills itself as the largest U.S. provider of North Korea travel, said it was reviewing its position on travel to North Korea for U.S. citizens. At least three Americans are known to be detained in North Korea, though none of them entered as tourists.



## Historic 'Trap' Makes Setting Odds of China-U.S. War Tough



CHINA'S WORLD  
By Andrew Browne



Observers are trying to gauge the level of U.S.-China tensions.

SHANGHAI—Two fiery nationalists—Xi Jinping and Donald Trump—now occupy the seats of power in Beijing and Washington.

In their mission to make their countries great again, one pursues the "China Dream," one "America First."

Both see the other as the chief obstacle to their ambition; they're locked into a zero-sum competition.

Halting efforts to cooperate on North Korea have papered over deep tensions on issues including the South China Sea.

Are the U.S. and China headed for war? That has been the recent hot question in China circles, spurred by a deluge of books that handicap the chances.

Graham Allison, the Harvard professor who popularized the term "Thucydides Trap" to describe the risk of conflict when a rising power challenges the incumbent, isn't optimistic.

Thucydides, the Athenian historian and general, summarized the causes of the Peloponnesian War (431-404 B.C.) in a single line: It was the rise of Athens and the fear that this inspired in Sparta, he wrote, that made conflict inevitable.

War has resulted in 12 out of 16 similar setups over the past 500 years, Mr. Allison asserts. In a new book that bears the ominous title "Destined for War: Can America and China Escape Thucydides' Trap?" he lays out how conflicts over trade, the South

China Sea or cyberspace could all spin out of control.

It is "frighteningly easy to develop scenarios in which American and Chinese soldiers are killing each other," he writes.

Nonsense, responds the noted Sinologist Arthur Waldron, a history professor at the University of Pennsylvania. War is by no means ordained.

In a caustic review of Mr. Allison's book, he declares that the Thucydides Trap is a fallacy. Dig deeper into Thucydides's text, he argues, and it becomes clear that Sparta, though warlike, tried to head off confrontation with Athens, at one point suggesting a simple compromise.

There's much more here than an academic dispute over classical history. Fundamentally, the two professors disagree in their estimates of China's rise, and thus the severity of the challenge it represents to the U.S.-led order that has kept the peace since World War II.

Mr. Allison focuses on data showing China's wealth and power soaring ever up.

Mr. Waldron dwells on figures that indicate China's crippling vulnerabilities. He mentions chronic water shortages and energy wastage. Others point to an alarming surge in corporate debt and an aging population that could stall, or even reverse, growth.

Washington's challenge is

to make sense of these contradictions, and steer a policy course that avoids the extremes of capitulation and reckless belligerence.

Mr. Trump has suspended the verbal hostilities he unleashed on the campaign trail in hopes that his Chinese counterpart will use his influence to halt Pyongyang's nuclear program. If, as seems likely, Mr. Xi can't, or won't, deliver a solution, this truce could quickly crumble.

Influential voices are urging a hard line. Ely Ratner, a senior fellow at the U.S. Council on Foreign Relations, recommended last week the U.S. should consider basing troops on disputed South China Sea islands. Whether the White House takes that suggestion, once its disillusion with Beijing's North Korea efforts sets in, expect renewed bellicosity.

In a speech two years ago, Mr. Xi insisted that "there is no such thing as the so-called Thucydides trap." But he went on to warn against strategic miscalculations by unnamed "major countries" that "might create such traps."

The next few years will be perilous: The risks of conflict can't simply be dismissed. Mr. Waldron is confident that Chinese leaders would quickly smother any unintended conflict rather than risk their country's ruin.

"They are, after all, not idiots," he writes.

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## IN DEPTH

# RETAIL

Continued from Page One

TJX's European division. "It's a very simple business model, but it's hard to execute."

Little is known publicly about how the retailer executes its strategy, and TJX declined to make current executives available for interviews. The Wall Street Journal pieced together how the company operates in interviews with former executives and people familiar with its business practices. Debra McConnell, a TJX spokeswoman, confirmed some facts about its strategy.

### Art of the 'deal'

TJX is known as an off-price retailer because it offers brand-name goods at 20% to 60% below regular retail prices. The company takes an average of 25 days to sell its merchandise, a quarter of the time it takes department stores like Macy's and Kohl's Corp. to sell their inventory, according to research from investment bank UBS.

"I like hunting for clothes," said 18-year-old Bailey Mizell, who visits the T.J. Maxx near her home in Windsor, N.C., about once a week. "If you find something, then you feel like you've scored a deal." One of her favorite purchases this year is a \$250 Calvin Klein peacoat she bought for \$80.

Traditional retailers are struggling with falling foot traffic as shoppers shift their spending online and eschew brand loyalty in favor of low prices. Abercrombie & Fitch Co. is up for sale, J. Crew Group Inc. and Neiman Marcus Group Ltd. are struggling with heavy debt loads. Macy's, Penney and Sears Holdings Corp. are closing hundreds of stores. Amazon.com Inc. on Tuesday announced a new service that lets its Prime members try on clothing before paying for what they choose to keep, an attempt to wrest market share from department stores and apparel retailers.

Off-price chains are not immune to these forces. Syms Corp., Filene's Basement LLC and Daffy's Inc. have gone out of business since 2011. Some lacked scale and lost out to larger rivals. After going through bankruptcy proceedings, fashion retailer Loehmann's converted its business in 2014 to selling only online.

TJX, which emerged a winner in the sector's earlier shakeout, in May surprised investors when it said sales at stores open at least a year rose 1% in the three months to April 29, versus a 7% increase in the year-earlier period. Analysts, who had predicted an increase closer to 2%, attributed the shortfall to weak demand across the retail sector and the tough year-earlier comparison. "We're approaching the end of the runway of easy growth for off-price chains," said Steven Dennis, president of SageBerry Consulting LLC, a retail advisory firm. Designer brands including Ralph Lauren Corp. and Coach Inc. are reducing shipments to off-price chains in efforts to protect their brand image. Department stores are



KEVIN HAGEN FOR THE WALL STREET JOURNAL

**A T.J. Maxx store in New York City. Defying a retail slump, the owner of T.J. Maxx and Marshalls plans to open 250 stores this year.**

also expanding their own off-price chains, such as Macy's Backstage, Saks Off 5th and Nordstrom Rack.

TJX Chief Executive Ernie Herrman sees opportunities, not threats. On an earnings call last month he said a "disruption" in retailing is creating a glut of merchandise that TJX is scooping up at bargain prices. Products become available when department stores cancel orders or when companies manufacture too many items. Many big brands also make some merchandise for TJX, typically by recycling past sea-

its merchants. The company employs more than 1,000 buyers who buy apparel and other goods from more than 18,000 suppliers around the world. Each buyer controls millions of dollars and has authority to cut deals on the spot, unlike most department stores, which can take weeks to review and approve orders.

Buyers undergo intensive schooling. Trainers travel with new buyers for their first three years on the job. Buying techniques are codified at TJX University, an in-house training program that teaches employees how to identify value. Staff learn to evaluate products based on a formal formula that rates brand, fashion, quality and price on a scale of one to four. A total score of 16 is considered the perfect buy.

An oft-repeated anecdote in training sessions involves two dress buyers in the early 1990s. All the hot dress styles were on the West Coast, so the buyer on the East Coast assigned her purchasing budget to the West Coast buyer.

"The best decision my dress buyer ever made was not to buy," former TJX CEO Ted English has told staffers. Mr. English was the divisional merchandise manager for dresses at the time. Because employee bonuses are awarded on the basis of divisional and company performance, the East Coast buyer's compensation wasn't hurt.

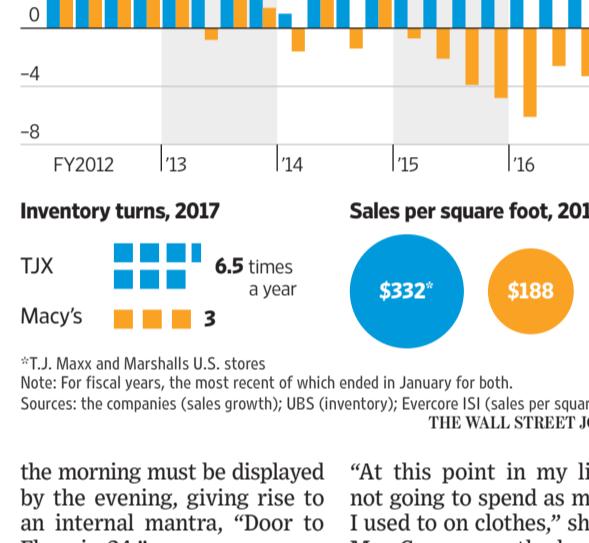
TJX is obsessed with getting merchandise to stores quickly. On a recent afternoon in early May, a large New York manufacturer was looking to unload several hundred thousand swimsuits. A TJX buyer cut a deal. The supplier shipped the suits to TJX's warehouses within a week, and they were in its U.S. stores before Memorial Day weekend.

### 'Door to Floor in 24'

Merchandise often arrives at stores on racks that employees wheel off trucks and move straight onto the sales floor. Products arriving at stores in

### Retail Shift

TJX sales have outpaced Macy's. The owner of T.J. Maxx and Marshalls rapidly turns over inventory.



<sup>a</sup>T.J. Maxx and Marshalls U.S. stores

Note: For fiscal years, the most recent of which ended in January for both.

Sources: the companies (sales growth); UBS (inventory); Evercore ISI (sales per square foot)

THE WALL STREET JOURNAL.

the morning must be displayed by the evening, giving rise to an internal mantra, "Door to Floor in 24."

Stores typically get deliveries several times a week. The schedule ensures a continuous stream of products to lure shoppers. And because TJX doesn't purchase the full range of colors and styles, stores have one or two items in a particular color or size, giving customers an urgency to buy.

Consumers on average visit an off-price retailer about seven times a year and a majority of them will purchase something, according to Craig Johnson, president of consulting firm Customer Growth Partners. Shoppers visit a department store four times a year and a third buy something during those trips. TJX shoppers have an average household income of roughly \$72,000, the same as those who shop at Macy's, according to Cowen & Co. research.

Carole Cusa, 65, used to shop at Saks Fifth Avenue and Bergdorf Goodman when she worked as a real estate broker in Manhattan. She began shopping at T.J. Maxx after retiring.

"At this point in my life I'm not going to spend as much as I used to on clothes," she said. Ms. Cusa recently bought a Lilly Pulitzer dress for \$39.99 and a pair of Ralph Lauren jeans for \$34.99.

TJX doesn't offer discounts or promotions. Items that don't sell within a month are marked down and moved to clearance racks. Most are sold after one or two markdowns.

Nor is it wedded to specific product categories. "It can be the biggest retailer of Italian soaps one year and be out of that business next year," said Mr. Sweetenham, who held various roles at the company from 1993 to 2012.

If the off-price model is underpinned by speed and agility, traditional retailers are at the other end of the spectrum. They tend to be locked into a group of suppliers and order goods months in advance, which makes it harder to adjust to changing trends.

Macys' will carry Ralph Lauren, Tommy Hilfiger, Michael Kors and other big brands—whether or not they sell well. Large suppliers guarantee Macy's a gross margin of

around 40% even if retail prices are marked down.

Brands also pay to staff their own boutiques inside Macy's stores and kick in money for advertising and special events. That makes it harder for traditional department stores to change their layout, because space is devoted to specific brands. TJX, on the other hand, can choose not to buy products from any one brand if it doesn't like the styles. Its stores have no walls between departments, so it can quickly reconfigure floor plans. Similar clothes from different labels can be found on the same rack.

Sales at U.S. T.J. Maxx and Marshalls stores average roughly \$332 a square foot, higher than the averages of Macy's and Kohl's, whose store sales approximate \$188 and \$186 per square foot respectively, according to investment-research firm Evercore ISI.

A Macy's spokeswoman said the chain's newer stores have a more flexible format, which enables them to better allocate space. She declined to comment on margin arrangements with suppliers, but said Macy's introduces dozens of new brands a year, many of which it sells exclusively. The company is also working to reduce the amount of time it takes merchandise to reach its sales floor after being ordered. That lead time currently ranges from nine weeks to six months for branded goods.

### Trailing online

One area where TJX trails other retailers is on the Internet. Nearly 18% of Macy's revenue comes from e-commerce, estimates research firm eMarketer. That compares with just over 1% at TJX, according to Ms. McConnell. It is hard to make money selling inexpensive apparel online, where return rates can approach 40%, according to Mr. Dennis, the retail consultant.

TJX rolled out an e-commerce site for T.J. Maxx in 2004 but shut it down a year later. It didn't relaunch the site until 2013. The online operation now has its own buyers to minimize overlap with what is sold in stores. Some brands won't let TJX sell their products online because they don't want the items to be easily searchable at lower prices. For certain brands that allow online sales, shoppers have to click on items before they can see brand names. The restraints are similar to those in the physical world, where some companies don't allow TJX to advertise their brands.

Advertising individual labels isn't part of TJX's marketing strategy, Ms. McConnell said.

Another complication: TJX's systems are designed to move merchandise in and out of its distribution centers quickly, and not to hold products until they can be packed for home delivery. Many stores don't have stock rooms, making it hard to ship online orders from those locations.

The company is "a bit tech phobic," said Mr. Sweetenham, the former TJX executive. "But they do have a great business model."

# PHONES

Continued from Page One

ing a lifeguard. Teens like Mr. Shaw are answering the entrepreneurial call by going into business repairing the device their generation knows so well.

"I would think in any high school in America, you're going to be able to find someone who has decided to be an entrepreneur and is fixing phones," says Kyle Wiens, chief executive of iFixit, a website for sharing repair knowledge.

Mr. Shaw, who says he has fixed iPhones since age 12, will set up shop in July at a table outside Jack and Charlie's Ice Cream store in Nantucket, Mass., to fix screens, microphones and other parts of iPhones and iPads.

Joseph Kokenge, 18, found customers among fellow high-school students in Lafayette, La. He learned to fix smartphones as a freshman watching his dad repair his sister's cracked iPhone 3GS screen.

When a friend asked if his father could fix an iPhone 5, the teen watched YouTube how-to videos and repaired it himself. He soon earned a reputation at school, he says: "If a phone was broken, they knew to go to me."

Word spread and parents,



SARAH DESFORGES

**Joseph Kokenge learned to fix phones as a freshman. By senior year, he had quit his bowling-alley job.**

too, approached him. By senior year, he had quit his job at the bowling alley his father manages. "I told him that my time was worth more than \$7.50 an hour," he says. "He was proud that I was making more money on my own."

Debbie Anderson, 60, says she has known Mr. Kokenge through her daughter since they were in elementary school and has twice turned to him with a cracked screen. "Youth isn't always an asset when you're hiring someone," but "I had all the confidence in his ability."

Teens interviewed say they

fix mostly Apple Inc. iPhones, though some work on Android devices. They typically bill something less than adult competitors, though not always.

Mr. Kokenge charges \$50 to fix an iPhone 5 screen and \$200 for an iPhone 7 Plus. He usually does repairs at a coffee shop. For those models, iCracked, an online network that pairs technicians with customers, charges \$74.99 and \$189.99, while Apple charges \$129 and \$149 for phones not under warranty.

An Apple spokesman says the company has long respected customers' rights to get iPhones

fixed by technicians of their choice but says it is best they turn to Apple-authorized channels, which use Apple-authorized parts, to ensure "that their Apple product continues to perform the way it did when they first purchased it."

AJ Forsythe, iCracked's CEO, attributes young entrepreneurs' success to availability of training materials and tools, and to their customer base. "You have this ecosystem of your peers that all have smartphones," he says. "Most of them are out and active and breaking them."

Of the 79,901 people apply-

ing to be technicians with iCracked last year, 12% were under 18. Its policy is that technicians must be at least 18.

Fixing phones has presented tough lessons for Jack Hancock, 18, of Mason, Ohio, who says he has repaired them since age 15.

He once drove 45 minutes to tackle four phones for a client, working at a Panera Bread restaurant table until getting ejected at closing time. He finished outside, but not before breaking one phone. He footed the cost to replace it. Another time, he accidentally clipped a cable in an iPhone, killing the fingerprint sensor. He paid the customer \$400 for a new phone.

He looks forward to college this fall, where students "tend to be less careful with their phones," he says. "There's a lot of partying, obviously."

Ethan Damm, a phone fixer in Wichita, Kan., says he faced Facebook attacks from an adult competitor. "He would throw out, 'He's only 17,'" says Mr. Damm, now 18, and claims he used low-quality screens.

Mr. Damm responded by linking to the website of his wholesaler, Mobile Defenders, to show his legitimacy. Derek Becker, who manages Mr. Damm's account there, says "everything from his follow-through and how he carries himself and communicates, he's

top-notch."

One set of parents was so pleased with Mr. Damm's service, "they said you should come to the bar with us some time," he says. "I was like, 'I can't really go in the bar.'"

On Nantucket, Mr. Shaw is the "go-to guy," says Peter Bordes, executive chairman of software company oneQube, who got his phone fixed by Mr. Shaw after a tip from a friend's teenage daughter. "She said go to this place, and you'll find him in this store," Mr. Bordes says. "It's like a mafia; they know who to go to." The repair, he says, was "flawless."

Mr. Shaw, a high-school sophomore this fall, learned from YouTube videos. This summer, he'll get backup from Smith Mohler, 15, whom he trained last summer. Picking the right partner was crucial, he says. "It would be hard to hire a kid and trust him to fix an iPhone under your name."

Mr. Mohler says he has repaired more than 40 phones from students at high schools near his Washington, D.C., school. He learned a lesson on pressing clients for devices' histories after a neighbor brought him a faulty phone. He installed a new screen, but it wouldn't turn on. "I didn't know why," Mr. Mohler says, "until she told me she dropped it in the toilet."

# GREATER NEW YORK



New York Penn Station commuters recently dashed through a new concourse under the Farley Post Office Building in Manhattan.

## LIRR Offers a Fare Break

Commuters will get an average 25% reduction while summer repairs cause disruptions

BY PAUL BERGER

The Long Island Rail Road will reduce fares by an average of 25% for commuters who are diverted because of disruptions at New York Penn Station this summer.

Earlier this month, the interim executive director of the Metropolitan Transportation Authority, which runs the LIRR, said the agency wouldn't

discount tickets.

Veronique Hakim said the MTA would concentrate instead on "providing service" to riders. But New York Gov. Andrew Cuomo, who controls the MTA, announced on Monday that he believed passengers who are diverted deserve discounted tickets.

By Tuesday, the MTA had released a statement that tickets to Hunterspoint Avenue in Queens and to Atlantic Terminal in Brooklyn, where most commuters will be diverted, would be discounted according to the length of their journey.

From there, commuters will get a free transfer to the sub-

way system.

Although the plan was announced as a fait accompli, the chairman of the MTA's Long Island Rail Road committee, Mitch Pally, said Tuesday that he believed any fare reduction should be voted on by the agency's board when it meets on Wednesday. "My position has been and continues to be that the MTA board has to approve any change in fares of this nature," he said.

An MTA spokeswoman said the agency believes it has the power to offer the discount without board approval.

Amtrak, which operates Penn Station, will reduce weekday service into the terminal

starting July 10 so it can carry out extensive repairs to tracks and switches following two low-speed derailments this year. The disruption is expected to continue through Sept. 1.

The LIRR will cancel or divert up to 20% of rush-hour trains. Some services that continue into Penn Station will have additional cars. The MTA is offering commuters ferry and bus services.

NJ Transit riders also will be affected by the disruption. Thousands of daily commuters who use Morris and Essex Lines Midtown Direct trains will be diverted to Hoboken. NJ Transit is offering discounts of up to 63% during July and August.

## Suit Filed Against Clinic Protesters

BY MARIANA ALFARO

New York state Attorney General Eric Schneiderman on Tuesday filed a lawsuit against antiabortion protesters who he said harass women outside a Queens health clinic, calling them murderers and carrying posters of mangled fetuses.

The suit, filed in the U.S. District Court for the Eastern District of New York, alleges that since 2012 antiabortion protesters have tried to block the entrance to the Choices Women's Medical Center, and have physically and verbally harassed patients in an attempt to impede access to reproductive services.

"Opponents of a woman's right to exercise her constitutional right to an abortion or other reproductive health services, have the right to protest to make their opinions heard" but not to harass them, Mr. Schneiderman said during a press conference outside the clinic in Jamaica, Queens.

Barbara Meara, chairwoman of the New York State Right to Life, an antiabortion group, said the people she knows who have demonstrated outside Choices clinic are nonviolent.

"They're just offering choices to women to let them know there are pregnancy care centers to help them if they decide to have the baby," she said in an interview. "They're not there to intimidate or fight with anyone."

Mr. Schneiderman, Democrat, said his office also is seeking civil penalties and damages against 14 named defendants who allegedly have violated fed-



Eric Schneiderman

eral and state clinic-access laws. Schneiderman seeks to keep protesters 16 feet away from the clinic. A city law mandates a 15-foot buffer around abortion clinics.

The lawsuit alleges the named defendants have made death threats to escorts, pinned patients against the wall and distributed posters of what appear to be mangled fetuses.

They also have chanted "murderer, murderer, murderer, murder" at people who approach the clinic and referenced terrorist attacks, saying, "You never know when you are going to die," the suit stated.

The lawsuit, Mr. Schneiderman said, doesn't violate protesters' freedom of speech by prohibiting them from demonstrating; it limits the physical contact they can have with patients who visit the clinic.

Merle Hoffman, the founder of Choices Center, said some women enter the clinic protected by volunteers to avoid being photographed or hurt by demonstrators.

## N.J. Honors Commissioner Who Clashed With Cuomo

BY PAUL BERGER

in the Manhattan neighborhood of Greenwich Village.

A spokesman for Mr. Cuomo, Jon Weinstein, said Mr. Lipper didn't face pressure on the agency board. "Commissioner Lipper was frequently a minority of one on issues facing the board," he said.

The Port Authority controls most of the region's major bridges, tunnels and airports, as well as the 16-acre World Trade Center site. Every year it spends billions of dollars building and maintaining infrastructure across the region.

The governors of New York and New Jersey each appoint six commissioners to the board. Mr. Lipper's term, which ended this month, was notable for his outspokenness, in particular against some of Mr. Cuomo's Port Authority priorities.

During Mr. Lipper's first year on the board he blocked a \$1.2 billion subsidy to Silverstein Properties for the building of 3 World Trade Center.

Later, he joined forces with New Jersey commissioners and state senators to fight for a new Port Authority Bus Ter-

minal in Manhattan, which Mr. Cuomo tried to stall.

Mr. Lipper also called proposals to build rail links to LaGuardia and Newark Liberty International airports a \$4 billion waste of public money.

Mr. Cuomo has made infrastructure central to his admin-

istration. At the Port Authority, he has made renovations of LaGuardia and John F. Kennedy airports a priority.

That has brought him into conflict with Mr. Lipper, who believes that in a constrained financial environment a new Manhattan bus terminal is a

higher priority than elements of Mr. Cuomo's agenda, such as an AirTrain to LaGuardia.

New Jersey state Sen. Loretta Weinberg said she and her colleagues want to recognize Mr. Lipper's approach to the agency. "I think he always had the interests of the region

at heart," she said.

Mr. Lipper's former Port Authority colleague, Scott Rechler, was less effusive. The former vice chairman of the agency and an ally of Mr. Cuomo, said Mr. Lipper sometimes made life more difficult at an agency where it's hard to get things done. "He added roadblocks and became less constructive, even though he may have been well intentioned," Mr. Rechler said.

At Mr. Lipper's last board meeting, on June 15, the Port Authority's vice chairman, Jeffrey Lynford, an appointee of Mr. Cuomo, called Mr. Lipper "a role model for speaking without fear or favor."

At the same meeting, Port Authority Chairman John Degnan bade farewell to two other New York appointees, Hamilton "Tony" James, president of private-equity firm Blackstone Group LP, and Michael Fascitelli, a former president of Vornado Realty Trust.

"Public service is a wonderful thing," Mr. Lipper said. "But when you feel in peril for doing the right thing, it's a huge counterbalance."

## Three Hurt In Mishap At Queens Work Site

BY ZOLAN KANNO-YOUNGS AND MARIANA ALFARO

Three people were injured, including two critically, when construction materials collapsed through the roof of a building Tuesday afternoon in Queens, Fire Department of New York officials said.

A boom truck had delivered the materials to the roof of the two-story structure undergoing renovation on 28th Road near 31st Street, officials said. The collapse trapped two people in the basement.

Firefighters rescued those two people, who were transported to Elmhurst Hospital Center in critical condition, officials said. A third person who escaped on his own was taken to the hospital.

An official with the FDNY said the materials dropped "from the roof level...to the basement, taking down anyone

PETER J. SMITH FOR THE WALL STREET JOURNAL



A worker injured in the collapse is taken to an ambulance.

within its way."

It took more than an hour to rescue one of the construction workers who was trapped in the basement under "a few thousand" pounds of material, including beams and concrete blocks, the FDNY said.

"This was the real deal, he was trapped, he was in a great deal of pain, initially he was very scared," said Juan Henriquez of the FDNY.

Timothy Hogan, deputy commissioner of enforcement for the city's Department of Buildings, said materials should be delivered to the first floor and

only to the roof if approved by an engineer. It wasn't clear if there was any approval.

A sustained building boom in New York has raised a forest of cranes across the New York skyline and has led to a series of accidents, some fatal.

Last November, a crane operator and a construction worker were killed at a Queens site when a cable snapped, hurling a 6,500-pound beam to the ground. At the time the building commissioner attributed the accident to "material failure."

—Josh Barbanel contributed to this article.

## U.S. Attorney and FBI Join Probe of Jersey City Incident

BY ZOLAN KANNO-YOUNGS

Two federal agencies have joined the probe into a police car chase and fiery crash in Jersey City that critically injured a bystander.

The participation of the U.S. attorney's office for New Jersey and the Federal Bureau of Investigation brings the possibility of federal charges if any Jersey City police officers are found to have committed wrongdoing in the car chase and alleged subsequent beating of a bystander, a spokesman for the U.S. attorney's office said Tuesday.

"We welcome the participation of the U.S. attorney's office and the FBI in our investigation," said Hudson County Prosecutor Esther Suarez, who is leading the investigation. "This cooperative multiagency effort will provide that justice demands—a fair, expeditious, thorough and impartial determination of all facts."

Carmine Disbrow, president of the Jersey City Police Officers Benevolent Association,

said the union supported the Hudson County prosecutor's investigation.

Last week, Jersey City suspended three officers and one lieutenant without pay for tactics used during the car chase.

Mayor Steven Fulop has threatened to fire the officers involved in the incident.

The incident occurred on the night of June 4, when police said they tried to stop a vehicle driven by Leo C. Pinkston, 48 years old, of Jersey City.

Mr. Pinkston fled and led police on a chase that lasted more than six minutes, at times driving in between two lanes of traffic, according to authorities.

At one point, police opened fire on Mr. Pinkston's vehicle, they said.

The chase ended when Mr. Pinkston crashed into a utility pole, causing 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 the

car on fire before officers approach him. In the video, one officer, who appears to have his gun drawn, began kicking Mr. Feliz-Rodriguez before he is dragged onto the street by the officers.

Mr. Disbrow previously said the video showed "officers acted quickly to extinguish the flames."

Mr. Feliz-Rodriguez was taken to the hospital in critical condition. A spokeswoman for St. Barnabas Medical Center in Livingston, N.J., said Tuesday that his condition was upgraded to serious.

Prosecutors are investigating the events that led up to the chase, the chase itself and the alleged beating captured on the video just after the crash. Ms. Suarez said previously that her office would use the video as evidence in the investigation.

Mr. Pinkston was charged with attempted assault and eluding officers. His next court appearance is set for Thursday. His attorney didn't respond to requests for comment.

## GREATER NEW YORK

METRO MONEY | By Anne Kadet

# Contest Brings Tech Help to Small Businesses



Little known fact:  
Every summer, New York City awards piles

of money to nonprofits that dream up novel experiments to perform on the city's commercial districts.

The Neighborhood Challenge Grant Competition, organized by the Department of Small Business Services, is bit like the Google Lunar XPrize. Except rather than top engineers competing to put robots on the moon, it has tiny neighborhood associations inventing new methods to improve business, from delivery service to generating foot traffic.

This year, the city gave the contest a twist. The nonprofits competing for \$500,000 in prizes had to pair with local tech startups to generate their proposals.

If you think this sounds like a waste of taxpayer dollars, settle down. The cash comes from the city's Economic Development Corp., a self-funded agency. And the contest itself is a nice admission that bureaucrats don't have all the answers.

Before last week's live-pitch competition, I got to review entries from the 12 finalists, culled from 40 submissions. Some struck me as wonderfully clever.

The nonprofit Soho Strut, for example, proposed pairing with startup Haystack to inventory neighborhood businesses and make their

shelves searchable via an app. You could use it to find the local shop selling your favorite dog biscuits.

Where has this been all my life?

The Rockaway Business Alliance, meanwhile, wants to fund high-tech marketing technology along with a startup that would have local businesses delivering everything from tacos to sunscreen directly to the beach.

Yarden Flatow, the Alliance's college-age chairman, said he'd been practicing his pitch like crazy.

"I can't say there's any competition we're too worried about," he said. "May the best man win."

The finalists at last Thursday's showdown ranged from the Manhattan Chamber of Commerce to some of the city's tiniest merchant associations. There were snazzy suits with open-collared shirts. But there also were stretch pants and tattoos.

The Rockaway Business Alliance stormed the stage with a crew of presenters and hangers-on decked out in shorts, flip flops and sunglasses.

Some presenters were snappy and polished, others spoke with trembling voices. The most endearing presentation came from Lonnie Baron of the Staten Island Economic Development Corp. who stepped up to the mike in his green paisley tie and announced, "Not nervous at all!"



Matt Blance-Stephany, right, and Justin Harter pitched their beach-food delivery service at the Neighborhood Challenge Grant Competition.

The contest aims to help the city's small businesses get tech savvy. Personally, I love it when a favorite shop doesn't even have a Facebook page. But I might not be so charmed when it goes out of business.

The Chinatown Partnership noted that 40% of its restaurants have no website, and many of its 7,000 businesses don't appear on review sites such as Yelp and TripAdvisor. It proposed sending a street team to col-

lect store information, product shots and shopkeeper narratives to post on social media.

The East Village Independent Merchants Association would have shopkeepers anonymously pool information on a platform powered by tech startup Town-squared. It could help a dress-shop owner realize her rent is 20% higher than the area average, for example, or that she's paying way too much for garbage pickup.

A few presentations were unintelligible. And there was an awful lot of overlap. Everyone wants to use beacon technology to zap cellphones with notifications about local events and deals.

The judges, which included city officials along with representatives from AOL and the Robin Hood Foundation, were encouraging but skeptical.

Could small businesses actually be persuaded to adopt these tools?

There is only one way to find out. After 90 minutes of deliberations, the judges selected five winners, including the Rockaway Business Alliance, who will each get \$100,000 and a year's time to execute.

"My jaw dropped," said Mr. Flatow, about learning his organization had won. "Now we just have to walk the walk and do everything we talked about."

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## Pennsy Food Hall To Reopen in July

BY CHARLES PASSY

There are more changes in store this summer at Penn Station—this time the culinary kind.

The Pennsy, a food hall located above the train station in the 2 Pennsylvania Plaza building, closed on Sunday. Vornado Realty Trust, which owns the building, says it plans to reopen the space on July 17 with new vendors and an expanded outdoor seating area.

The food hall opened in early 2016 to much fanfare because it represented something of a gourmet alternative to what is available in and near the station. Among the vendors when it made its debut were butcher Pat LaFrieda and celebrity chef Marc Forgione.

Vornado officials declined to

say what businesses would be part of the hall when it re-opens.

The changes at The Pennsy are far from the only developments in the New York food-hall scene. Several are opening or in the works.

DeKalb Market Hall in Brooklyn made its debut last week. Among its vendors are Katz's Delicatessen, Ample Hills Creamery and Lioni Italian He-



The Pennsy at 2 Pennsylvania Plaza is undergoing renovations.

halls competing for diners' dollars.

The business "only really works if there's a few of them," said Allen Salkin, a veteran food writer.

The Pennsy appears to be well-positioned because it is the only food hall in Penn Station and its immediate environs. And in this summer of an-

ticipated Penn Station service reduction during extensive repair work, it could provide a needed respite for frustrated commuters.

During past transit delays, the Pennsy team has made that very point on its Twitter feed. "If you're stuck," they tweeted during an April delay, "pop up for a bite or drink."

## Governor Wants More MTA Clout

BY MARA GAY  
AND MIKE VILENSKY

New York Gov. Andrew Cuomo proposed legislation Tuesday giving himself more power over the Metropolitan Transportation Authority, a day after Mayor Bill de Blasio's fourth appointment to the board was approved.

Under Mr. Cuomo's measure, he would be able to appoint two more seats to the MTA board, for a total of eight, and the chairman, whom the governor appoints, would get an extra vote. This would give Mr. Cuomo a majority of voters on the board.

The board has 23 members, though not all of them have a vote.

"The MTA is in a state of crisis," Mr. Cuomo said in a statement. "The bureaucracy is dysfunctional."

As governor, Mr. Cuomo already holds significant power over the MTA. The Democrat already has the largest number of appointees to the agency and holds sway over its policy-making and purse strings.

In recent months, the MTA has come under fire for a rash

of subway delays, breakdowns and other malfunctions.

Legislators were cool to Mr. Cuomo's proposal for additional seats, which was introduced with only some 24 hours left in the legislative session. Some transit advocates said he already had the power to fix the subways.

The Riders Alliance, a transit-advocacy group, said the proposal "obscures the very real fact that the governor already controls the MTA...The problem is not MTA board structure; the problem is the absence of leadership."

On Monday, the state Senate approved Carl Weisbrod to the MTA board. Mr. Weisbrod, a longtime city planner, is Mr. de Blasio's fourth and final board appointment, giving him his full measure of voting power as he vows to do more to speak up for subway riders.

The mayor last week described the state of the subways as a crisis and said the city would come up with a plan to address the issue if Mr. Cuomo didn't. The two Democrats have publicly feuded over who should address the transit issues.

## GREATER NEW YORK WATCH

### NEW YORK CITY

#### Agency Head Is Stepping Down

The city official whose agency oversees many of the contracts for the superstorm Sandy recovery program is stepping down, people familiar with the matter said.

Feniosky Peña-Mora is the commissioner of the New York City Department of Design and Construction. The agency oversees capital projects in the city, from roadway and water main construction to sewers and other infrastructure. Dr. Peña-Mora has led the agency since 2014, when he was appointed by Mayor Bill de Blasio.

A request for comment to the DDC wasn't immediately returned Tuesday afternoon.

Under Dr. Peña-Mora, the Department of Design and Construction, has overseen roughly \$1 billion in contracts related to Build It Back, the city's program to rebuild and elevate homes damaged in superstorm Sandy. Build It Back is significantly delayed and at least half a billion dollars over budget.

### NEW JERSEY

#### Doctor Is Sentenced In \$200 Million Fraud

An elderly doctor convicted of accepting kickbacks as part of a long-running, \$200 million bribes-for-test-referrals scheme run by a blood-testing lab was sentenced Tuesday to more than three years in prison.

Federal prosecutors say Bernard Greenspan, of River Edge, received a 41-month sentence. The 79-year-old family doctor also must forfeit \$203,693.

Dr. Greenspan was convicted in March of crimes including violating federal anti-kickback laws.

Prosecutors said he accepted about \$200,000 in bribes from employees and associates of Parsippany-based Biodiagnostic Laboratory Services from March 2006 to April 2013. They said his referrals alone generated more than \$3 million in revenue for the now-defunct company.

His attorney told jurors the payments were legitimate.

Federal authorities in New Jersey have called the case the largest fraud of its kind ever uncovered.

—Associated Press

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### NEW YORK CITY

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—Associated Press



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and**

**pharmacies**

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# LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

## Rise Above Your Awful Commute

As mass-transit delays and complaints rise in several cities, veteran commuters and other experts have tips for staying calm



### MANAGING A STRESSFUL TRIP TO WORK



ROBERT NICKELSBERG/GETTY IMAGES

#### To Stay Productive:

Download work onto your mobile device in advance, in case you lose connectivity.

Charge your devices and carry a backup battery if needed.

Use the commute time to plan your day and set goals.

Schedule a one-hour buffer before your first meeting, in case you're delayed.

#### To Lower Tensions In Crowds:

Consider how other commuters must be feeling and treat them with empathy.

Cooperate with others in finding ways to ease the strain.

Wear light, comfortable clothes and shoes and carry water.

Practice deep breathing, muscle relaxation or visualization to calm yourself.

Download and listen to calming music.

#### To Shake Off a Bad Commute:

Take a walk around the block before settling in at your desk.

Engage in a calming ritual such as stopping for a latte at a friendly coffee shop.

Think or write about an inspiring personal value, such as caring for family or being kind to strangers.

Immerse yourself in a setting with plants or natural scenes, such as a park, atrium or room with a nature mural or photos.

**DELAYS AND** commuter complaints are mounting on many of the nation's largest transit systems, including those in New Jersey, Washington, D.C., and Boston. New York's governor has declared this the "summer of hell" for commuters. San Francisco's rapid-transit system has been plagued by overcrowding and equipment breakdowns and Chicago's commuter-rail system was stalled earlier this year by computer problems.

And the Federal Transit Administration says \$90 billion in mass-transit repairs are overdue nationwide.

The big question for workers with no alternatives: How to make peace with your commute?

Some New Yorkers recently were stuck on a crowded subway car that stalled between stations without light or air conditioning. Dread of being trapped like that haunts accounting manager Matt Hopkins. He battles claustrophobia while commuting to his job in Manhattan by reading books on his e-reader—if he can find a seat. If not, he dons earbuds, closes his eyes and immerses himself in podcasts or a meditation app on his phone.

He tries not to take it personally when other commuters slam into him while rushing through the subway doors as they close. And the moment he emerges onto the street, Mr. Hopkins says he practices "wiping the entire expe-

rience from my mind."

Brad Westley of Silver Spring, Md., builds a buffer into his daily schedule to allow for commuter-train delays en route to his Washington consulting job. Breakdowns on the city's mass-transit system have risen steadily in the past five years, federal data show. Mr. Westley can't predict whether his commute will take the usual 25 minutes or twice that long, so he avoids scheduling any meetings until more than 90 minutes after he expects to arrive.

When a brake fire broke out on his train, he had to wait for the next one on a platform so crowded that he could barely move. "People are literally pushing you onto the train so they can squeeze in behind you," he says.

Having to exercise so much restraint and self-control before you arrive at work can hurt productivity later in the day, says Kathleen Vohs, a marketing professor at the University of Minnesota and author of 180 studies on self-control and related topics.

Employees whose self-control has been depleted by mental strain are less likely to take initiative on the job, she says. Rather than trying new ideas or wrestling with tough choices, they tend to punt and think, "I can't deal with that right now."

"If choosing the status quo is an option, people who are mentally fatigued are likely to choose that,"

Dr. Vohs says.

Commuters can stay productive by modifying their expectations: Prepare to be delayed, says Cali Yost, a Madison, N.J., consultant who advises employers on flexible workplace strategies.

Fully charge your phone, tablet or laptop, carry backup batteries if needed, and download work, podcasts, books or projects you can focus on during the trip, says Ms. Yost, author of "Tweak It," a book on making small changes to feel happier.

Not everyone has the patience to dive into work in crowded conditions. But some commuters use travel time to focus on an absorbing project, such as writing a presentation, which helps distract them from the frustrations, says New York stress coach Jordan Friedman.

Another approach is to think of your commute as a buffer period when you can prepare mentally for the workday, then retreat into your thoughts, says Jon M. Jacobowicz, a doctoral candidate at Columbia Business School. Commuters who were assigned to ask themselves, "What steps can I take to accomplish my career and work goals?" and to plan those steps en route to work, handled commuting hassles better, according to a four-week study under review of 443 U.S. commuters led by Mr. Jacobowicz.

Mindfulness training, which includes stopping your mind from

wandering and directing your attention to what's happening in the moment, can build resilience and help people get through periods of heavy stress with their cognitive resources intact, according to a 2016 study.

And trying to act compassionately toward others in day-to-day settings can help you feel closer and more relaxed around them, a 2017 study shows.

Susan Arons actively resists lapsing into a dark mood during her daily bus ride from New Jersey to Manhattan, which has been stretching to two hours from the usual 40 minutes. "I do conscious things to get out of that head space," she says. A managing director at a New York public-relations firm, she swipes her transit fare card for fellow commuters whose cards have expired.

And when she walks the final leg of her commute, she smiles and greets shopkeepers out sweeping or hosing down the sidewalk. "People sometimes think I'm crazy, or a tourist," she says, but she takes comfort in fostering a sense of community. Amid all the stress, "you're still part of a neighborhood."

How to shake off a disastrous commute when you finally arrive? Consider taking a walk around the block before hitting the office to calm your nerves, Ms. Yost says.

A comforting ritual can help. Rick Gould's usual one-hour commute from Long Island to his of-

fice near Penn Station is taking up to 2½ hours. Then he's frozen for several more minutes on the steps of his train car by human gridlock on the platform at "Pain Station," as he calls the terminal. "It's so jammed and you're sweating already," says Mr. Gould, managing partner of a Manhattan M&A firm.

He regains energy by downing a large coffee with an espresso shot and humming "God Bless America," Mr. Gould says, with irony. "It reminds me of the freedoms I have," he says, "when I'm not sitting on the Long Island Rail Road."

### CULTURAL COMMENTARY

## HOW THE NEW MET CAN WORK

BY ERIC GIBSON

**LAST WEEK** the Metropolitan Museum of Art announced changes in its top management that raised eyebrows because of both their timing and their character.

When Thomas P. Campbell announced in February that he was stepping down as director and CEO effective June 30, the board named the museum's president, Daniel H. Weiss, as interim CEO, and the stage was set for a director search. At the time there was every expectation that once that position was filled, the CEO title would revert back to the director, as had been the case since 1998. Under that arrangement, the president, responsible for finances and administration, reported to the director, who in turn was solely responsible for the museum's art component—acquisitions, exhibi-

tions and the like.

But in a surprise move last week, the board permanently added the CEO position to Mr. Weiss's portfolio and, most striking of all, announced that the director would now report to the president.

Institutions need to adapt and change, and when he was director Philippe de Montebello used to caution against the Met becoming "a museum of itself." But with Mr. Weiss having spent a year or more struggling to eliminate a deficit and come up with a workable budget for future years, the announcement raised the question of whether this new arrangement means that financial concerns will henceforth take precedence over the intellectual and aesthetic values that have made the Met the great museum it is.

Already there is cause for con-

Please see MUSEUM page A13



The entrance to the Metropolitan Museum of Art's flagship building on Fifth Avenue

RICHARD DREW/ASSOCIATED PRESS

## LIFE &amp; ARTS



Jeffrey Cheng at the wheel of his 2008 Koenigsegg CCX.

*Jeffrey Cheng, a private-equity investor from Newport Beach, Calif., on his 2008 Koenigsegg CCX, as told to A.J. Baime.*

Years ago, the word supercar came into vogue. A supercar is a rare, expensive performance automobile, like a Ferrari or a Lamborghini. Later, car fans started using the word hypercar. These vehicles are even more exclusive—so rare in fact, you are not likely to ever even catch a glimpse of one. They can cost well over a million dollars, and they pack so much power, they defy the whole idea of what a car is supposed to be.

In my opinion, there are only two real independent hypercar builders today: Koenigsegg of Sweden and Pagani of Italy.

I was lucky enough to see a Koenigsegg at a gas station in 2009. I was already a Ferrari collector, and I knew of this car and its ingenious creator, Christian von Koenigsegg. I was transfixed. The vehicle looked like nothing I had ever seen. A few years later, I got a call from a specialty car dealer in Seattle saying he had a Koenigsegg CCX for sale. Within 24 hours, I was at his dealership handing him a check. With a car this rare, I feared that I would never have another shot at one.

Koenigsegg was founded in Sweden in 1994 by then-22-year-old Christian von Koenigsegg, and to this day, only 134 cars have been completed. The CCX was the first Koenigsegg imported into the U.S. The experience of driving



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The CCX was the first Koenigsegg built to be sold in the U.S.

it is hard to put into words. The engine puts out 806 horsepower. The vehicle is very lightweight and full of suspension technology, so this power is delivered in a smooth, refined manner. Top speed is over 245 mph.

At the time I bought my CCX, there was no place to service my car, so a Koenigsegg technician flew in to do the work in my garage.

Last summer I drove the CCX to Monterey Car Week, a huge gath-

ering of enthusiasts. A mob crowded around. It was as if a spaceship had landed.

Koenigsegg is building a new car called Agera RS. A very few are slated for the U.S. I ordered one and it is scheduled to arrive in July. This new car will put well over 1,000 horsepower to the pavement. I cannot wait to get behind the wheel.

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



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## LIFE & ARTS



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More views of the CCX, including its scissor doors, lower left, and its flying ghost emblem, above, which is a nod to a squadron of Swedish military jet fighters.



### MUSIC REVIEW

# Boxed Sets Are Bigger Than Ever—But Who Buys Them?

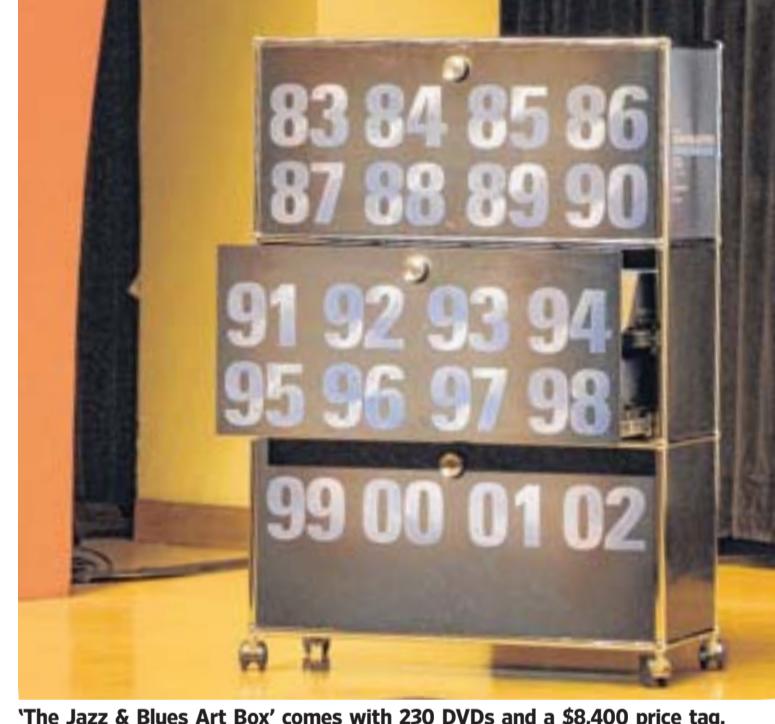
BY WILL FRIEDWALD

**BACK IN THE DAYS** when music was sold only on LP or CD, a large-format package was merely expected to serve as a delivery system for the performances themselves. (Perhaps that's why one of the first big sets that I ever owned, the 20-CD "Frank Sinatra—The Complete Reprise Studio Recordings" from 1995, was housed in a small suitcase.) Now, in the age of sound files and streaming music, any kind of physical medium seems like a fetish object, and the package in which it is contained even more so. Clearly, size matters, and the past few years have seen huge boxed sets covering the complete catalogs of such legacy artists as Elvis Presley (60 CDs), Johnny Cash (62), Miles Davis (72) and Tony Bennett (76).

But these pop, country and jazz packages pale besides those collecting the works of classical superstars, such as instrumentalists Yo Yo Ma (90 CDs) and Arthur Rubinstein (94). And even they are dwarfed by packages representing composers, such as "Mozart 225: The New Complete Edition" (200 CDs) released last fall. With 240 CDs dedicated to the conductor and a \$1,330 list price, "Herbert von Karajan: Complete Recordings on Deutsche Grammophon," issued in Japan, is surely a contender for the biggest and most expensive package yet.

The latest entry in the big-box stakes is "The Jazz & Blues Art Box," produced by the Swiss jazz impresario, trumpeter and entrepreneur Hans Zurbrügg with the cooperation of Swiss TV. Here are the numbers: 230 DVDs containing that many concerts from the Bern Jazz Festival from 1983 to 2002, a total of roughly 400 hours of music, as well as 96 interviews with the artists (included on the DVDs as bonus material), 20 booklets (one for each year), and, as the press release puts it, one 344-page "large format" book, all housed in a "tasteful cabinet." Only 5,000 copies are being produced. More than ever before, you're not just buying music (and video). You're buying furniture—even real estate. The list price is \$8,400; no, it's not exactly an impulse purchase. (You'll also need a home theater; watching this on a standard-size computer monitor or TV set just won't do.)

Excerpts shown in a teaser



**'The Jazz & Blues Art Box'** comes with 230 DVDs and a \$8,400 price tag.

PETER ROSS FOR THE WALL STREET JOURNAL

trailer on YouTube and at a launch event at the New School earlier this month are enough to make this jazz fan's mouth water: Joe Williams challenging Dizzy Gillespie to a blues/scat battle with the full Count Basie Orchestra as backdrop; Art Blakey appearing with an all-star version of his Jazz Messengers including Freddie Hubbard and Benny Golson; Sarah Vaughan reacting to the presence of trumpet great Clark Terry in her audience. While the earlier concerts showcase already established greats, like Benny Carter and Woody Herman, gradually more younger stars become visible, like Bill Charlap playing piano with Gerry Mulligan's last great quartet and Wynton Marsalis leading his 1990 sextet with Wylye Gordon.

The interviews are also priceless, such as Mulligan explaining the origin of his famous "piano-less" quartet, and Art Blakey recalling how he was originally forced to switch from piano to drums by a gangster at gunpoint. (When the lights came back on at the New School after an excerpt from this interview, Mr. Marsalis, who was also present at the launch event, told the house, "Yeah, Art liked to make up stories like that.")

Still, this boxed set raises the question of whether some of these packages have now grown so large as to be parodies of themselves. I personally don't know any jazz fan who has the means to purchase such a package. Then there's the time factor: Only younger jazz fans are likely to have the time left in their lives to watch, listen to, and enjoy all this amazing music. (As of this writing, 156 of the sets have been sold.)

Seeing as they've released remarkable performances in a package that's so enormous and overwhelmingly expensive that virtually no one can afford it, one has to wonder what purpose it actually serves.

Whatever the motivation, unless the producers start to release some of the music in smaller sets or find some other way of distributing the music, like through streaming or subscription services—which Mr. Zurbrügg has said that they do not intend to do—the best that dedicated listeners can do is hope our local libraries invest in a set and pray that no other jazz fan gets there before we do.

*Mr. Friedwald writes about music and popular culture for the Journal.*



Last week the board of the Metropolitan Museum of Art decided that Daniel H. Weiss would be full-time CEO of the institution.

## MUSEUM

*Continued from page A11*  
cern. For some months the museum has been in talks with the city about modifying its pay-what-you-wish admissions policy to institute a mandatory fee for out-of-towners. Aside from representing a startling departure from New York's historic "Give me your..." attitude of unqualified welcome to outsiders, this is an idea that smacks a little too much of the green eyeshade.

The admission fee is one of the most vexing issues museums have to deal with. It is where the idealistic goal of giving as many as possible access to culture's riches meets the unforgiving need for enough money to keep the place running. Museums have experimented with all sorts of solutions, but I've always felt the Met's was the closest to perfection. It establishes the principle that nothing in life is free, while positioning the bar so low as to be an impediment to no one.

Yet looking at the Met's proposal, you'd think this was never an issue. Instead the aim seems to be to wring revenue and savings out of every nook and cranny, regardless. This is the mindset of the head of a commercial enterprise, not a cultural institution.

Then there is the matter of the director's role. Mr. Weiss, a former college president, is also an art historian, the first such person to serve as president. But this fact, combined with the director's newly subordinate role, may make it hard for the Met to attract the top-tier talent it needs. What aspiring Philippe de

Montebello would want to walk into a glorified chief curator's job—the rung on the ladder just below director? And if they did, would they be caught up in a turf war with an art-historian-president determined to put his stamp on matters curatorial?

Hanging over the Met's new arrangement is the specter of what happened in Los Angeles nearly a decade ago. In January 2010 Michael Brand abruptly resigned as director of the J. Paul Getty Museum. Anonymous art-world insiders quoted in news reports at the time cited friction over art and museum issues between Mr. Brand and James N. Wood, president and CEO of the

Getty Trust. Mr. Wood was not only Mr. Brand's supervisor but a career museum director who had spent 25 years running the Art Institute of Chicago before coming to the Getty in 2006.

The precondition for stability going forward will be establishing clear lines of responsibility and authority. So Mr. Weiss needs to publicly telegraph that he harbors no curatorial or other ambitions related to the museum's core mission—that the director's job will be done by the director alone.

Yet this does not mean that Mr. Weiss needs to check his art-history credentials at the door. Far from it, for they allow him to bring a more nuanced perspective to financial stewardship.

Much of what a museum like the Met does is important but not necessarily "sexy." Therefore a president versed only in business administration might look askance at a funding request for an acquisition or exhibition of a rarefied sort, deeming it too obscure and lacking the necessary popular appeal. But were Mr. Weiss to get a proposal involving, say, Hiberno-Saxon manuscript illumination or Scandinavian Impressionism—the kind of subjects familiar only to specialists—he would be in a position to evaluate it on its merits. So Mr. Weiss should also declare that he will use his background as an art historian only as an "honest broker" between the competing imperatives of art and the bottom line.

The last thing the Met needs now is more turmoil. This is the way to avoid it.

*Mr. Gibson is the Journal's Arts in Review editor.*

# SPORTS

## HEARD ON THE FIELD



### PGA Tour Toughens Drug Testing Program

The PGA Tour will begin blood testing next season as part of a tighter and more transparent anti-doping program announced Tuesday.

The revised program will expand the Tour's list of banned substances to match that of the World Anti-Doping Agency. The Tour, which currently makes public only suspensions for performance-enhancing drugs, will also begin reporting suspensions for recreational drugs. The new policy will take effect in October, when the 2017-18 season begins.

Blood testing, which is already used by other pro sports organizations such as the NFL, NBA and MLB, will allow the Tour to detect the use of human growth hormone, which cannot be revealed through urine testing.

"We believe that these changes to our program are prudent in that they further our objectives of protecting the well-being of our members and better substantiate the integrity of golf as a clean sport," PGA Tour commissioner Jay Monahan (pictured) said.

The Tour first introduced its anti-doping program in 2008. Since then, only three players have been suspended for PEDs: Doug Barron, Bhavik Patel and Scott Stallings. The program has drawn criticism for not including blood testing.

—Brian Costa



### A 'Funny' Fight or a Battle of Superheroes?

Put down Gennady "GGG" Golovkin on the list of those who think the Aug. 26 fight between Floyd Mayweather Jr. and Conor McGregor shouldn't be hyped as a mega-bout for boxing.

"It is a funny fight," Golovkin (pictured) said. "McGregor is not a boxer, just a show." McGregor is one of UFC's biggest stars but has never boxed professionally. Golovkin said his Sept. 16 bout against Saul "Canelo" Alvarez is the one that fans won't want to miss.

"This is like a heroes fight," Golovkin said in New York on Tuesday. "Who will win: Superman or Iron Man?"

The 35-year-old Golovkin (37-0, 33 KOs) is boxing's undisputed middle-weight champion, while the 26-year-old Alvarez (49-1, 34 KOs) has won title belts in three different weight classes.

—Jim Chairusmi

BY ANDREW BEATON

**KANSAS'S** Frank Mason III won college basketball's player of the year honors last year. Josh Hart was a finalist, a season after leading Villanova to a national championship. For their comprehensive accomplishments and years of stellar performance, their reward during Thursday's NBA Draft will likely be hearing their names called...in the second round.

There isn't much missing from this year's draft. In the days leading up, the Celtics traded the No. 1 pick to the 76ers. More shuffling could ensue with a bevy of stars potentially on the move in exchange for one or more of the top selections.

But don't expect Mason and Hart to be a big part of the draft-night conversation. They are afflicted with professional basketball's equivalent of a scarlet letter: They're both entering the draft after their senior years in college. And they're part of a class that may get completely ignored during the entire first round.

Even in the "one-and-done" era when freshmen have routinely dominated the top picks, this year's forecast is unprecedented. In each of the prior 11 drafts, since high-school players were excluded from making the immediate leap to the NBA, at least three seniors have gone in the first round every year. The average is more than five.

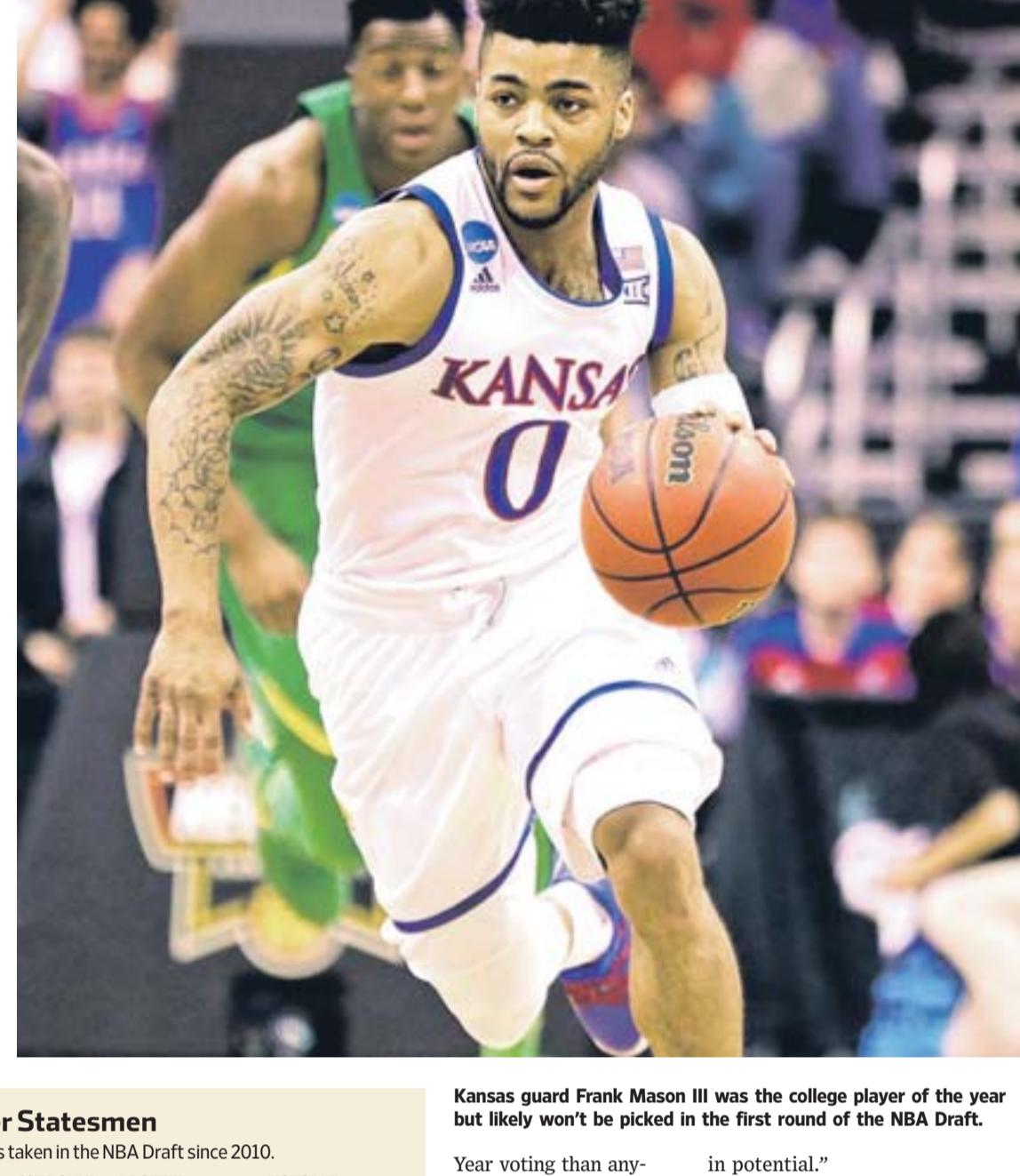
This year, just one, Colorado guard Derrick White projects to land in the first round, according to DraftExpress.com. And that's not even a sure thing—that mock draft has him barely making it in at pick No. 26.

"There's maybe a little bit of a misconception that the older you are the less value you have," said Tad Boyle, White's coach at Colorado. "There are outliers there. There are undervalued assets."

Instead, DraftExpress projects every one of the top-10 picks being used on freshmen, which if that actually happens would be the first time ever. The appeal to these younger players is simple. Their bodies can develop even more. Teams see more potential. With the older guys, by contrast, the perception is that what you see is what you get and that their ceilings are therefore lower.

What makes this so confounding is that it ignores one of the biggest lessons from recent drafts. In past seasons, seniors have routinely made general managers who

Teams routinely fixate on the potential of underclassmen, while undervaluing four-year players



### Elder Statesmen

Seniors taken in the NBA Draft since 2010.

YEAR	1ST ROUND	DRAFTED	NOTABLE
2017	1 <sup>st</sup>	9 <sup>th</sup>	?
2016	5	16	Malcolm Brogdon (36)
2015	4	17	Josh Richardson (40)
2014	5	17	Langston Galloway (UD)
2013	3	18	Robert Covington (UD)
2012	4	21	Draymond Green (35)
2011	7	19	Jimmy Butler (30)
2010	5	17	Jeremy Lin (UD)

Source: draftexpress.com \*Projected

Kansas guard Frank Mason III was the college player of the year but likely won't be picked in the first round of the NBA Draft.

Year voting than anybody from his draft class—the other two finalists, Dario Saric and Joel Embiid, were taken in prior years.

There is a Brogdon in almost every draft.

Jimmy Butler lasted until pick No. 30 in 2011, with Draymond Green waiting five picks longer than that in 2012.

Others such as Jeremy

Lin and Robert Covington went undrafted and turned out better than most players in their classes.

"Each year, we see examples,"

said Seth Greenberg, an ESPN analyst and former college coach.

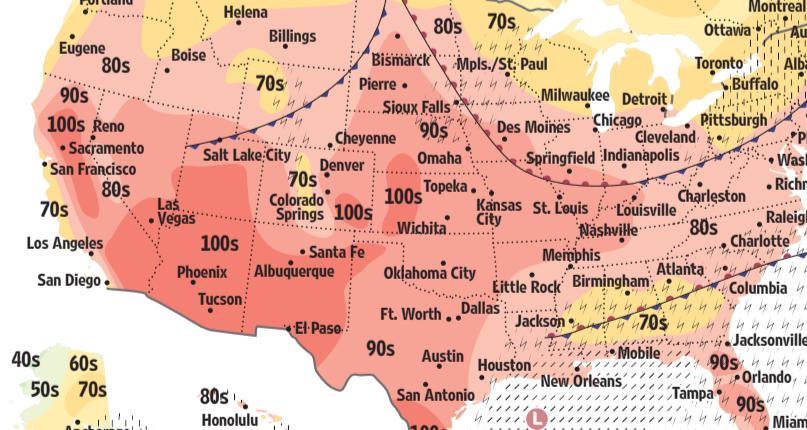
"You'd think the more examples we see, people would say, 'Wait a second.' But we don't see it a lot because people get so caught up

in potential."

Boyle, Colorado's coach, speculates that it's not just being older that hurts these prospects' stocks. It's also that they have played so much that their flaws are apparent. That also could explain why White is expected to be the first senior off the board: He has been on the national radar for just one year, after beginning his career at a Division II school.

The players at their pre-draft workouts acknowledge the reality. Hart feigned shock when a reporter noted he wouldn't be the No. 1 overall pick. Guard Sindarius Thornwell, who led South Carolina's charge to the Final Four, says he knows teams may just see him as a role player—and he accepts that it's how he has to sell himself. Mason put it bluntly: "It's just how the NBA is."

### Weather



### U.S. Forecasts

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

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

City Today Hi Lo W Tomorrow Hi Lo W

Anchorage 62 53 c 60 49 c

Atlanta 78 70 pc 79 73 t

Austin 96 74 pc 93 74 t

Baltimore 87 66 pc 91 71 pc

Boise 87 55 s 94 54 s

Boston 82 63 pc 81 67 pc

Burlington 76 57 sh 79 65 pc

Charlotte 82 69 pc 83 70 c

Chicago 80 66 pc 89 69 t

Cleveland 80 62 pc 90 72 t

Dallas 93 74 s 87 75 pc

Denver 96 63 pc 91 56 s

Detroit 80 62 pc 87 72 t

Honolulu 86 74 pc 86 74 pc

Houston 87 75 t 83 77 r

Indianapolis 87 67 pc 88 71 pc

Kansas City 93 71 s 91 71 s

Las Vegas 115 87 s 115 88 s

Little Rock 86 70 s 82 72 r

Los Angeles 87 66 pc 85 65 pc

Miami 91 81 t 91 80 c

Milwaukee 77 64 pc 87 66 t

Minneapolis 80 65 t 86 60 t

Nashville 90 70 s 82 73 c

New Orleans 83 78 r 84 78 r

New York City 84 67 pc 83 72 pc

Oklahoma City 94 67 s 92 67 s

### International

City Today Hi Lo W Tomorrow Hi Lo W

Amsterdam 83 67 pc 79 60 t

Athens 84 69 s 88 70 s

Baghdad 72 75 s 101 76 s

Bangkok 96 79 t 93 79 t

Beijing 92 71 s 78 67 t

Berlin 74 54 pc 86 62 pc

Brussels 90 70 t 89 60 t

Buenos Aires 57 47 s 69 62 c

Dubai 103 89 s 106 89 s

Dublin 77 54 pc 67 55 pc

Edinburgh 70 55 r 67 56 c

### AccuWeather.com

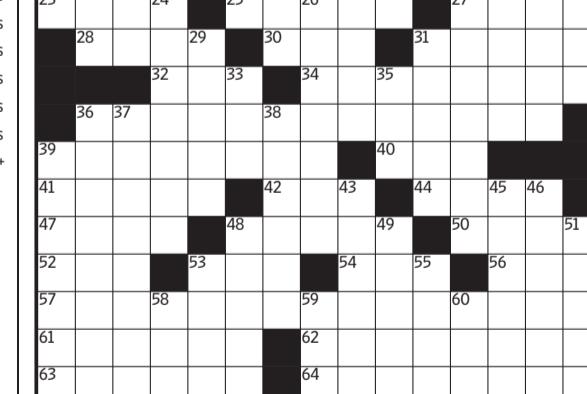
Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

Legend: <0, 0s, 10s, 20s, 30s, 40s, 50s, 60s, 70s, 80s, 90s, 100+

Rain, T-storms, Stationary, Showers, Flurries, Ice.

### The WSJ Daily Crossword

Edited by Mike Shenk



### MAKING WAVES

By Alice Long

Across

1 Follow-up to "Straight" in some bar orders

9 Relative group

15 Puzzle magazine offering

16 "Jeopardy!" fodder

17 Two favorite things for "Sunshine of Your Love" fans?

19 Hoary

20 Aluminum coin

21 Drink cooler, in Dresden

22 That bloke

23 Gauchos' throwing weapon

25 "Take a chill pill!"

27 Objective, e.g.

28 Glossary entry

30 Twaddle

31 Henry VIII's house

32 Windsurfing spot

34 Jiggly desserts

36 Music to accompany cookouts by the sea?

39 Fern feature

40 Clinic nickname

41 Bounds along

42 Windowsill sunner

44 Vogue rival

47 Astronomer's bear

48 She beat Graf in the 1992 French Open

50 Bring in

52 Car in a 1964 Ronny & the Daytans song

53 Letters for debtors

54 Greek's X

56 Co. co-founded by Michael Ovitz

57 Heads home after a day by the ocean?

58 Forested plane in Dungeons & Dragons

59 Pull on

60 It may be refined

61 Track meet makeup

62 Put beneath for support

63 Ascended again

# OPINION

## Anatomy of a Witch Hunt



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

Americans won't be really good citizens until they read Timur Kurian and Cass Sunstein's 1999 law review article about "availability cascades."

Their launching point is the process by which we (i.e., human beings) decide to believe what others believe, and judge the truth of a proposition by how familiar it is. Such "availability cascades" drive government policy in good ways and bad, but usually bad. An example the authors analyze in detail is 1989's fake "Alar" cancer scare that devastated U.S. apple growers.

Which brings us to today's question: How did it become widely believed in the first half of 2017 that a U.S. president committed treason with Russia?

Consider what has passed for proof in the media. Tens of thousands of Americans have done business with Russia since the collapse of the Soviet Union, not to mention before.

In 2009 President Obama made the first of his two trips to Russia with a gaggle of U.S. business leaders in tow.

Of these many thousands, four were associated with the Trump campaign, and now became evidence of Trump collusion with Russia.

Every president for 75 years has sought improved relations with Russia. That's

what those endless summits were about. Mr. Trump, in his typically bombastic way, also promoted improved relations with Russia. Now this was evidence of collusion.

Russian diplomats live in the U.S. and rub shoulders with countless Americans. Such shoulder-rubbing, if Trump associates were involved, now is proof of crime.

The Alar pesticide scare only took off when activists whom Messrs. Kurian and Sunstein label "availability entrepreneurs" peddled deceptive claims to a credulous "60 Minutes." We would probably not be having this Russia discussion today if not for the so-called Trump dossier alleging improbable, lurid connections between Donald Trump and the Kremlin.

It had no provenance that anyone was bound to respect or rely upon. Its alleged author, a retired British agent named Christopher Steele, supposedly had Russian intelligence sources, but why would Russian intelligence blow the cover of their blackmail agent Mr. Trump whom they presumably so carefully and expensively cultivated? They wouldn't.

Yet recall the litany of Rep. Adam Schiff, who declared in a House Intelligence Committee hearing: "Is it possible that all of these events and reports are completely unrelated and nothing more than an entirely unhappy coincidence?"

His litany actually consisted of innocuous, incidental and routine Trump associations

interspersed with claims from the Trump dossier to make the innocuous, incidental and routine seem nefarious.

Maybe Mr. Schiff is a cynic, or maybe Harvard Law sent him back into the world with the same skull full of mush with which he arrived. But ever since, every faulty or incomplete recollection of a meeting with a Russian has been promoted in the media as proof of treason by Trump associates.

### The Trump-Russia scare comes from the same playbook as fake cancer scares.

The president's obvious irritation with being called a traitor is proof that he is a traitor.

Whether the Russia incubus did more harm to Mr. Trump's vote or Hillary's vote during the election is impossible to know. But Mr. Trump won, so under the hindsight fallacy his victory is now proof that he conspired with Russia.

The term "availability bias" originated in the work of Amos Tversky and Daniel Kahneman, whose Nobel Prize-winning research gave birth to the field of behavioral economics.

Mr. Kahneman went on to write 2011's indispensable "Thinking, Fast and Slow," and I'm here to tell you that journalists especially pride them-

selves on their fast thinking—the kind that mistakes randomness for pattern, confuses correlation with causation, and gives excessive rein to emotional and cognitive biases.

Notice I don't say reporters and editors are so dumb they can't free themselves from such errors. I say that such errors are their *stock in trade*.

The original allegory of fast thinking, of course, is the old folklore tale, "the emperor's new clothes." In his 1922 book "Public Opinion," Walter Lippmann explained how journalists reduce complex, novel realities to off-the-shelf stereotypes."

Or as a colleague once said of Stalin, "[He] tries to force life into a ready-made framework. The more life resists . . . the more forcefully he manages and breaks it."

Come to think of it, that's not a bad way of describing how the D.C. anthill has reacted to the unexpected, exotic, high-risk, possibly provocative experiment of the Trump presidency.

We mean every descriptor. His very unsuitability, the mood of the American public that elected him, the obscure impasse of American politics that brought him to power—all these signs deserve more respect than they're getting.

His Torquemadas don't and can't know whether our democracy, in the improbable Mr. Trump, found a lever to move us forward, but there's something repugnant in their desire not to find out.

BOOKSHELF | By Reuel Marc Gerecht

## Tehran's Own Worst Enemy

### Democracy in Iran

By Misagh Parsa  
(Harvard, 406 pages, \$45)

**I**t's easy for scholarly books that go against the Zeitgeist to slip by unnoticed, but it would be a mistake to overlook Misagh Parsa's "Democracy in Iran: Why It Failed and How It Might Succeed." This fine book shreds the dominant narratives about the Islamic Republic as Mr. Parsa analyzes the titanic struggle under way in Iran between theocracy and democracy. Along the way, the author shows why gradual reform—the leitmotif for Western supporters of "pragmatic" Iranian president Hassan Rouhani and of the Obama administration's nuclear deal—is unlikely.

Mr. Parsa, a professor of sociology at Dartmouth, digs deep into Persian primary material often ignored in Washington policy discussions, intelligence analysis and journalism. He also mines data from other authoritarian countries to compare and contrast those that have transformed peacefully

with those that have changed more violently but still democratically (Indonesia) or erupted and returned to dictatorship (Egypt). Mr. Parsa's careful scholarship leads him to one overarching conclusion: A peaceful evolution to a more humane system in the Islamic Republic, let alone a more democratic one, isn't in the cards.

Mr. Parsa argues convincingly that Iran is instead moving toward greater internal oppression and foreign wars, which will produce even more convulsive internal dissent. As evidence, he lays out a series of ironies that highlight the dysfunction in Iran. A revolution for the common man has produced a vast empire of corruption among an all-powerful elite as society has become more stratified than under the Pahlavi dynasty. A ruling clique that saw universities in revolution against the shah is now perpetually at war with higher education—which, despite Islamized curricula, keeps producing rebellious students.

A theocratic regime has made Shiites less observant: Few attend the ever-shrinking supply of functioning mosques. The numbers here are striking: Mr. Parsa relates that "a Revolutionary Guard commander, Zia Eddin Hozni, recently announced that about 3,000 of the country's 57,000 Shiite mosques, or only 5 percent, were fully operational during the year." As of 2012, nearly half of them "lacked clerics and prayer leaders." In a clerical state, fewer and fewer young men want to become clerics, Mr. Parsa's statistics show. Young women from traditional families are declining to take mullahs as mates. (Even at the end of the Soviet Union, the communist elite never lost their cachet as marriage partners.) Clerics trying to tell citizens to behave properly have been beaten severely. Their desire to serve in parliament has waned, as has the people's willingness to elect them. In 1980, 60.7% of the deputies in the Majlis—the Iranian parliament that rubber-stamps the theocracy—were clerics. After the 2016 elections, their number had declined to 5.5%.

### A theocratic regime has made Iranians less observant. The number of clerics in parliament has diminished greatly since the revolution.

Mr. Parsa highlights how the regime is its own worst enemy: In religion, economics and culture, the state heavily intrudes, politicizing the personal and apolitical. How Iranians dress and socialize, what they read, write and watch, how they practice their faith and whom they recognize as religious authorities—areas where believers could once exercise considerable individual discretion—have all been subject to intolerant state oversight. Beyond oil and gas, the once mostly private economy has been increasingly divvied up among the clerics and their allies. "The relatively high level of state involvement in so many aspects of Iranian society has forced the state to rely on continuous repression to maintain power," Mr. Parsa writes. This violent politicization has diminished social cohesion, eroding any common ground that might allow Iran's opposing factions to come together in pursuit of peaceful reform. "The result in the long run," Mr. Parsa concludes, "is likely to be a movement to transform the political system through a disruptive, revolutionary route."

In 1978, it took a year for opposition to the shah to radicalize and openly seek revolution. In 2009, after a bitterly contested presidential election that brought millions onto the streets in Iran's major cities, dissent radicalized within one week. Yet this pro-democracy Green Movement still failed, and one of the reasons why is that its leadership—especially the presidential candidates Mir Hossein Mousavi and Mehdi Karroubi—were unprepared to back an assault on the system that they had done so much to build. Mr. Parsa suggests that inevitable future eruptions will have a leadership more in sync with the people.

Mr. Parsa gives credit to the prowess of the coercive institutions of the state, especially the Revolutionary Guard Corps and its lower-class thugs in the Basij, the regime's morality police-cum-Brownshirts who saved the day in 2009. But the author questions the solidity of the guards. The theocracy's indispensable praetorians have become in part a draft army and also a massive business enterprise. Even though the 2009 insurrection was put down, supreme leader Ali Khamenei fired several Revolutionary Guard commanders when they failed to show sufficient resoluteness against protesters.

Mr. Parsa's book isn't a stylistic tour de force, though it is mercifully free of most of the jargon that now cripples so much academic writing. While anyone curious about Iran will find it illuminating, for those working in government or the foreign-affairs community, it is mandatory reading. Although Mr. Parsa barely discusses U.S. policy toward Iran, his book is easily the most important work in English on the Islamic Republic since the revolution. He sagely casts doubt on those from Jimmy Carter to Barack Obama who have been naive about the regime's potential for reform. The book is a comprehensive refutation of the Obama administration's hopes that increasing commerce with Iran would moderate the regime and that it was safe to put an expiration date on the regulation of Iran's nuclear program.

Moderation and reform among Iran's ruling elite aren't coming. Another popular pro-democracy rebellion is. Those who value freedom for Iran's citizens and security for the rest of the world can only hope that Mr. Parsa's counter-revolutionary prediction is validated sooner rather than later.

Mr. Gerecht is a senior fellow at the Foundation for Defense of Democracies.

## Will Netanyahu Seize the Chance for Peace?



POLITICS & IDEAS  
By William A. Galston

Jerusalem I came to Israel this year to study the effects of the 1967 war and its aftermath on modern Jewish identity. I left a bit wiser about the influence of 2005 on contemporary Israeli politics.

On Aug. 15, 2005, after more than a year of parliamentary maneuvering and debate, then-Prime Minister Ariel Sharon initiated the removal of 21 Israeli settlements from the Gaza Strip. As Israeli citizens looked on, their own security forces forcibly uprooted the settlers who did not leave voluntarily, and razed nearly everything they had built. "I hope that the departure of our forces from the Gaza Strip symbolizes the beginning of a period of tranquility," said Maj. Gen. Dan Harel, the head of Israel's Southern Command, as the Israeli Army withdrew completely.

Events betrayed this hope. In January 2006, Hamas won the Palestinian parliamentary elections. The following year, it forcibly seized control of the Gaza Strip. Not long after, Hamas intensified its rocket attacks on Israel's southern cities. Right-wing Israeli leaders, who had opposed Mr. Sharon's plan from the beginning, claimed vindication. They included Benjamin Netanyahu, who had resigned in

protest from the cabinet a week before the withdrawal began, pleading with his colleagues in a Knesset speech not to give the Palestinians "a huge base for terror."

In retrospect, not even the center-left defended the Army's withdrawal. Opposition leader Isaac Herzog, of the Labor Party, called it a mistake because of its consequences for Israel's security. He added that it should not have been undertaken unilaterally. The right's conclusion was hard to gainsay: The Jewish state had given up territory and had gotten rockets in return.

The political effects of this narrative extended far beyond Gaza. Many left-leaning supporters of withdrawal from the West Bank and East Jerusalem lost confidence that such a withdrawal would be met with peace. At the other end of the spectrum, religious Zionists felt betrayed by their secular allies, and many decided to take matters into their own hands.

The product of this sad history is today's three-way division of the Israeli public. An increasingly fervent right rejects a two-state solution in theory (as a violation of God's plan for Judea and Samaria) and in practice (as a mortal threat to Israel's security). An enlarged, more skeptical center accepts it in theory but not in practice. A much-diminished left continues to believe in the two-state solution, in theory and in practice.

In the eyes of most Israelis, events have discredited the left's noble dreams. If centrist politicians offer no alternative—and most have been reluctant—the right will retain the initiative. The question is what the right's leaders will do with it.

As I was packing to return to the U.S., news broke that Prime Minister Netanyahu had offered veteran politician and current opposition leader Tzipi Livni the Foreign Affairs

Ministry to broaden his government in the face of possible new peace negotiations. An associate of Ms. Livni told the Jerusalem Post she had rejected the offer because the prime minister had no intention of doing what it would take to pursue a serious diplomatic process: "She got the impression that what Netanyahu is doing is nothing but hot air." Given his record, the burden is on Mr. Netanyahu to show that Ms. Livni is mistaken.

The American-brokered bilateral talks between Israel and the Palestinians appear perpetually destined to fail. Yet if Mr. Netanyahu is serious—and not just playing rope-a-dope until the Trump

administration exhausts itself in the Middle East—he will do his utmost to broaden the talks by bringing the Saudis, and the Sunni coalition they lead, into the process.

Forty years ago, Egyptian President Anwar Sadat flew to Israel and addressed the Knesset, setting in motion the negotiations that led to the Camp David accord. If Mr. Netanyahu is skillful and determined, he will seize on the newly strengthened ties between Washington and Riyadh to engineer a similar invitation from the Saudis to meet face-to-face. To make this happen, the Israeli prime minister would have to utter some encouraging words about the Arab Peace Plan, a 15-year-old Saudi initiative, which he did as recently as 2015.

Two parties in the current coalition—Naftali Bennett's Jewish Home and Avigdor Liberman's Yisrael Beiteinu—would leave. The leaders of the Zionist Union, Ms. Livni and Mr. Herzog, almost certainly would be willing to join. There is a potential majority coalition for new and broadened negotiations, which only Mr. Netanyahu has the hard-line credibility to lead.

This would be the moment of truth for Mr. Netanyahu's leadership. Does he want to use his mastery of coalition tactics to maintain himself in power indefinitely, or does he want to be remembered as a man who gambled on changing the course of history for his country?

• *Vertical integration.* Apple is the most successful walled garden in history. Taking video creation and distribution in-house would satisfy that longstanding business model. The approach makes strategic sense given how the digital revolution has restructured the TV and movie industry. The value of celebrities has declined and the distribution model has been upended; middlemen like traditional studios are increasingly cut out.

• *International expansion.* Content providers now have to think and act globally. Audiences outside the U.S. are growing in size, accessibility

and importance. Netflix is available in more than 190 countries. Buy it, and Apple owns the world's first truly global TV network.

One more thing, to quote the man in the black turtleneck. In addition to content, another enormous asset Apple would get from buying Netflix is its CEO, Reed Hastings. Without a clear successor to Tim Cook on the horizon, it would be malpractice if Apple's board didn't have some names in mind.

There's no one better suited to take on the mantle of Steve Jobs than Mr. Hastings.

He possesses the requisite vision, proven execution

and intellectual honesty to lead Apple through the next stage of its evolution. And no business leader is better at navigating the intersection of Hollywood and Silicon Valley than the Netflix CEO.

Mr. Vassallo is a general partner of Foundation Capital.

The computer giant could energize itself by acquiring Netflix.

Purchasing Netflix would give Apple three critical things it needs to succeed.

• *Content creation.* As Apple learned from "Planet of the Apps," its failed reality TV series about iPhone app developers (really), producing original programming is difficult.

With all due respect to Messrs. Erlicht and Van Amburg, simply adding a couple

Apple could change that impression and supercharge its video play by doing some-

thing that would make the Whole Foods deal look like small potatoes: buy Netflix.

It would cost several times the Whole Foods deal to buy Netflix, but with almost \$260 billion in cash reserves, Apple can afford it. (Full disclosure: my firm was an early investor in Netflix but no longer holds any shares in the company.)

The computer giant could energize itself by acquiring Netflix.

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## OPINION

### REVIEW & OUTLOOK

## Trump to Cordray: You're Not Fired

For a guy who supposedly likes to fire people, President Trump has been strangely reluctant to remove Consumer Financial Protection Bureau (CFPB) director Richard Cordray. Yet his own Treasury Department has made an excellent case for dismissal.

Last week Treasury issued a report with recommendations to increase certainty, consumer choice and access to credit in the financial system. Big banks are cheering proposed changes to relax liquidity and capital standards, but reforms to the CFPB might matter to more people.

Some of Treasury's recommendations would require legislation—such as making the agency subject to congressional appropriations—though most could be achieved through regulatory and procedural changes by the CFPB. The problem is that Mr. Cordray won't accept curbs on his power. Dodd-Frank states that the President may remove the director only for "inefficiency, neglect of duty, or malfeasance in office" rather than at-will like other agency heads. Yet the report enumerates a litany of ways in which Mr. Cordray has flouted the law.

Treasury notes the "CFPB has avoided notice-and-comment rulemaking and instead relied to an unusual degree on enforcement actions and guidance documents." The Administrative Procedure Act requires regulatory agencies to issue formal rule-makings, or at least formal guidance, to explicate law. Mr. Cordray says "facts and circumstances" guide the bureau's legal interpretations.

The CFPB has even refused to provide guidance to Congress on behavior that may constitute "unfair, deceptive, or abusive acts and practices." Enforcement actions are its only guidance. In 2012 the agency published a compliance bulletin for credit companies in conjunction with a \$210 million settlement with Capital One Financial Corp. for alleged deceptive marketing.

The CFPB targeted auto dealers, which Congress explicitly exempted under Dodd-Frank. The bureau charged discrimination based on a dubious disparate-impact analysis that guessed

### The many reasons to axe the consumer financial bureau chief.

the victims' race based on names and addresses. In January the CFPB accused student loan servicer Navient, which is regulated by the Education Department, of abusing borrowers by placing them in forbearance rather than loan forgiveness.

The bureau has also abused its authority by issuing sweeping civil investigative demands—essentially fishing expeditions—that lack the legal protections of subpoenas and motions for discovery for prosecuted parties. Targets can challenge the document demands, but the CFPB shames supplicants by publishing its rejections and has never publicly agreed to narrow the scope.

In April the D.C. Circuit Court of Appeals squashed a civil investigative demand to the Accrediting Council for Independent Colleges and Schools. The court whacked CFPB for extending its authority over a nonprofit that isn't even tangentially involved in finance as well as failing to provide a description "of the conduct the CFPB is interested in investigating."

The CFPB tries to avoid court rebukes by using its own administrative law judges to adjudicate cases, which occur on an expedited timeframe and lack the judiciary's due process protections. Incredibly, the bureau says its enforcement actions are also not subject to a statute of limitations, which the D.C. Circuit last year held was "absurd."

Treasury argues that the CFPB's "lack of clear regulatory standards may lead to excessive risk-aversion among regulated parties thereby undermining innovation and consumer choice." They also undermine the U.S. constitutional system of checks and balances.

Mr. Cordray's term doesn't end until July 2018, and implementing Treasury's reforms as well as attendant rule-makings could take more than a year. Meantime, Mr. Cordray can continue shaking down businesses with enforcement that he hopes will propel his expected campaign for Governor in Ohio. Mr. Cordray might not even mind being fired and becoming The Resistance's next martyr. So why not give him the heave ho?

## Free Speech for Sex Offenders

Unsympathetic plaintiffs serve a salutary purpose in the law, reminding politicians and the public that principles must govern even in unsavory circumstances. The Supreme Court rose to the occasion on Monday, ruling 8-0 that the First Amendment protects the right of even sex offenders to use social media.

Lester Packingham was 21 years old when he was convicted of statutory rape for having sex with a 13-year-old. In 2010 he posted a remark about a traffic ticket on Facebook and ran afoul of a North Carolina law that made it illegal for a sex offender "to access a commercial social networking Web site where the sex offender knows that the site permits minor children to become members or to create or maintain personal Web pages."

Packingham challenged the law as an infringement on his First Amendment right to use social media. The Justices agreed. Even if well intentioned, Justice Anthony Kennedy wrote for the majority, "the Government 'may not suppress lawful speech as the means to suppress unlawful speech.'" Barring sex offenders from all social media would block them from a source of current events, potential employment and "speaking and listening in the modern public

### A hard case that makes good First Amendment law in the internet age.

square" (*Packingham v. North Carolina*).

In a concurrence, joined by Chief Justice John Roberts and Justice Clarence Thomas, Justice Samuel Alito agreed that the law was overbroad but cautioned that the majority's opinion may go too far and discourage states from enacting more narrowly tailored laws protecting minors.

Justice Alito mentioned teenage dating sites or sites "where minors communicate with each other about personal problems" as possible examples. But states must not "burden substantially more speech than is necessary to further the government's legitimate interests," he added.

Justice Kennedy's opinion also notes that the decision "should not be interpreted as barring a State from enacting more specific laws than the one at issue. Specific criminal acts are not protected speech even if speech is the means for their commission." The broad ban on using social media seems to have been North Carolina's fatal mistake.

The internet poses new challenges for the law, but the High Court's unanimous and robust defense of the First Amendment shows that traditional American rights still apply, as they should no matter the media platform.

## The Illinois Capitulation

Bruce Rauner spent a chunk of his personal fortune running for Governor in 2014 to save Illinois from its tax-and-spend political class. More than two years later it looks like the former private equity star has made better investments.

On Tuesday evening the Governor with the worst job in America explained why he and his fellow Republicans have offered to raise taxes for the sake of ending a multiyear budget impasse with Democrats. He said he'll accept a four-year increase in the flat state income tax to 4.95% from the current 3.75%, expand the sales tax and implement a cable and satellite TV tax.

This is a political defeat by any definition since Mr. Rauner campaigned on lowering the income tax to 3%, not on restoring the rate close to what it was under the last Democratic Governor. The "temporary" 5% rate partially sunset in December 2014. Democrats who run the legislature refused to negotiate over a budget unless Mr. Rauner agreed to a tax increase, and now they're refusing to make notable spending or economic reforms in return.

Mr. Rauner is also proposing to freeze property taxes and says the deal will reduce the state's backlog of unpaid bills by at least \$4 billion. The property-tax freeze could provide some election contrast with Democrats. But a freeze isn't a reduction from already sky-high property levies, and the current backlog of unpaid state bills is \$15.1 billion.

The bigger problem is that his proposed deal includes almost none of the reforms Illinois desperately needs to compete with neigh-

### Gov. Rauner cries uncle on taxes and economic reform.

boring states and repair its fisc. It includes nothing on right-to-work and little workers' compensation reform. It doesn't give local governments the collective-bargaining reforms they need and it fails to solve the state's \$130 billion or so in unfunded pension liabilities.

The Governor's capitulation may have been triggered by the latest downgrade by Moody's and Standard & Poor's in the state bond rating to near junk status, with a warning that another downgrade could come this summer. Mr. Rauner doesn't want to run for re-election next year as Governor Junk.

But the rating agencies have never met a tax increase they didn't like. They merely want to see more revenue coming in so they can judge if bondholders will get repaid. The real threat to long-term bondholders is an unrestrained tax-and-spend political culture that drives more people out of the state and pension liabilities ever upward.

The political tragedy is that Mr. Rauner didn't make this mess; he was elected to clean it up. Former Governors Rod Blagojevich and Pat Quinn, a crook and a schmuck, borrowed some \$17 billion through pension obligation bonds. Since 2009 the state bond rating has been downgraded 21 times. The biggest culprit is state House Speaker Michael Madigan, who fronts for the government unions.

Mr. Madigan hasn't said if he'll accept Mr. Rauner's offer, and perhaps he's holding out for even more concessions. Mr. Rauner may come out the political loser, but the citizens of Illinois will suffer the most.

## Fathers, Daughters and the Sexual Revolution

William McGurn deserves high praise for his courage to state the obvious: The "sexual revolution" promised freedom but delivered bondage and destruction to millions who believed the lie that human sexuality, far from being a precious gift of near-infinite value, is little more than a bodily function ("Dad Meets the Sexual Revolution," Main Street, June 13). In the process both men and women have been degraded and dehumanized. We have believed the unbelievable lie that men and women are the same; the simple truth is that they are of equal value but are not the same. The sexual revolution has turned many men into a detestable combination of sexual predator and emasculated weakling. In our cultural drift from the elevated Genesis vision of human dignity, human sexuality and complementary roles for men and women, we have exchanged the truth for a lie.

Over more than 35 years as a pediatrician, I have witnessed the bitter harvest we have reaped from seeds planted during the sexual revolution.

JERRY A. MILLER JR., M.D.

Augusta, Ga.

I caution my family to wear sunblock during the summer, bring an umbrella when it's raining and lock the doors at night for protection. Each of these limits their vulnerability to harm. I also caution young men and women not to drink to excess because, as Mr. McGurn aptly indicates, it places them in a potentially defenseless position. There is nothing sexist about that.

KATHLEEN REILLY

Briarcliff Manor, N.Y.

My children are amazed that nobody who attended the Bristol, Tenn., schools during my stint there

(1950-1963) had a baby out of wedlock. Two couples "had to" get married. It was also rumored that a certain girl had an abortion, which at that time was not legal.

The only boy in my dating career who wouldn't take no for an answer was stopped by the college campus curfew. He had the nerve to ask me out again.

CAROL COX  
High Point, N.C.

While I appreciate Mr. McGurn's desire to help prevent sexual assaults, I would strongly suggest that he advise fathers to talk to their sons to encourage them to play an active part in their universities, workplaces and community groups advocating for a culture that vigorously condemns assault and outs perpetrators.

ASHLEY ULRICH  
Boston

As a 29-year-old father to a 13-month-old, I find Mr. McGurn's advice to be refreshing. The sexual revolution may have had the intended consequences of empowering women in some respects, but it also did away with all cultural norms. In such an environment there is no standard, and deviant behavior slips in under the radar and becomes normalized too.

Perhaps the next generation is discovering that on their own. Here in the Bay Area there was a local story about youngsters being taught about sexual consent. Since the teachers couldn't give the children any real guidance, as that would obviously be too patronizing, it left the children confused, causing one young boy to lament that maybe it'd be better to wait to have sex. What a thought, and perhaps ahead of its time.

TOM MYSZ  
Oakland, Calif.

## CON Laws Protect Incumbents, Not Patients

Dr. Hal Scherz hits the nail on certificate of need laws (CON), a continuing bad problem, but it goes way beyond this ("A Regulation That Protects Big-Hospital Monopolies," op-ed, June 14). An ER doctor friend of mine had his practice bought out by a large company. As a result, fees have tripled, and if the patients have no insurance, they must pay list price. An ambulance ride from a large company costs \$1,400-\$2,000. A house call will earn a doctor \$150, but if a visiting nurse is sent by a company, the fee is \$400. If a physician's practice is bought by a hospital, fees are doubled, as are procedures, and the insurers pay.

In order not to get sued, doctors practice defensively, adding to costs by as much as \$600-\$850 billion a year. Everyone is paying for these add-ons and not for care. The malpractice and overhead costs are fixable but not by going to a government-pay model. These costs should be reversed, and private practice should be allowed to flourish.

SIDNEY J. GOLDFARB, M.D.

Princeton, N.J.

I have seen the destructive power of the CON. The powerful hospital corporations have used the CON to

keep out any competition. With their monopoly over their community, they can dictate whatever prices they want to charge for medical care. Time after time I have seen the immensely wealthy hospital corporate lawyers fight any application to build a new emergency room or a new hospital in our area. The cost to fight the legal battles is astounding. That money paid to lawyers could be much better used for funding patient care. Market competition will lower health-care costs overnight.

WILLIAM V. CHOISER, M.D., J.D.

Orange Park, Fla.

Dr. Scherz's analysis is 100% correct. Free markets, innovation and increased competition almost always lower cost. Conversely, monopolistic and oligopolistic practices stifle innovation, disincentivize productivity and increase cost to the consumer.

We see this played out in rural America where even though both real estate as well as labor costs are significantly lower than major metropolitan inner cities, hospital charges and insurance costs are much higher.

HOWARD C. MANDEL, M.D., FACOG

Los Angeles

Dr. Mandel is a member of the Los Angeles City Health Commission.

## Undemocratic Python Administrative State

Regarding "The Weekend Interview with Philip Hamburger: The Tyranny of the Administrative State" by John Tierney (June 10): If Minnesota is an example, the administrative state is as powerful and influential at the state level as it is at the federal level. I worked for our legislature for 20 years and know from experience that legislators and legislative staff largely rely on the expertise of career bureaucrats to shape state policy and make law. These bureaucrats then, as Mr. Tierney says,

interpret and enforce the law, by way of a vast web of rules that legislatures give them the authority to enact.

Anyone who thinks term limits are a good idea should consider who would then be in charge. It wouldn't be part-time, short-term legislators with no background in any policy area or the very important institutional memory. It would be the massive administrative state—which in Minnesota employs more people than anyone but the Mayo Clinic. We need long-serving legislators who are

knowledgeable enough about specific areas of state policy who can check or correct the impulses of state agencies.

When I asked a friend of mine, a career Minnesota Department of Agriculture employee, what he thought of his new commissioner, he said, "Commissioners come and commissioners go, but we just do what we do."

SARA AMADEN

Prof. Hamburger offers hope that our administrative state can be controlled through the courts. This is unlikely. The cost of challenging these administrative cases is virtually out of reach for most of the population.

MICHAEL P. CARTER

Savannah, Ga.

## Pepper ... And Salt

THE WALL STREET JOURNAL



### CORRECTION

Pauline Kael died in 2001. The year was missstated in the June 17 Weekend Interview, "A Hollywood Legend's Life in the Country."

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## OPINION

# Congress and Obama Depleted the Military

By Dick Cheney  
And Liz Cheney

**N**orth Korea is making alarming progress in its ballistic-missile and nuclear-weapons programs. Russia and China are developing and fielding advanced weapons against which the U.S. may not be able to defend. Al Qaeda operates in more countries than ever. Islamic State is targeting the West and launching attacks throughout Europe and the Middle East. Iran is supporting terrorist organizations across the globe, modernizing its ballistic-missile and other capabilities and likely continuing to pursue nuclear weapons.

**The Trump budget would increase spending only 3%. With today's threats, that's not nearly enough.**

Defense Secretary Jim Mattis told the House Armed Services Committee last week that the U.S. is losing the military edge on which our security has long relied: "Today, every operating domain—including outer space, air, sea, undersea, land and cyberspace—is contested."

Gen. Joseph Dunford, chairman of the Joint Chiefs of Staff, seconded that worry in written testimony for the same hearing: "Without sustained, sufficient and predictable funding," he wrote, "I assess that within five years we will

lose our ability to project power; the basis of how we defend the homeland, advance U.S. interests, and meet our alliance commitments."

In short, the situation President Trump inherited is dire. America today faces an array of threats more serious and complex than at any time in the past 75 years.

President Obama and his policies are largely to blame. The 2011 Budget Control Act, which mandated across-the-board cuts, known as sequestration, at a time when threats were growing, has also done serious damage. "No enemy in the field," Mr. Mattis told lawmakers, "has done more to harm the combat readiness of our military than sequestration."

What have eight years of Mr. Obama's policies, and six years of the Budget Control Act, wrought? The military superiority America relied on after the end of the Cold War has been seriously eroded, our capabilities diminished. In the past three months alone, military leaders have testified that:

- The Army is "outranged, outgunned, outdated," with only three of 58 brigade combat teams ready to "fight tonight."

- The Navy is the smallest and least ready it has been in modern times. Fewer than half the Navy's aircraft can fly because so many are grounded for maintenance or because they lack spare parts.

- The Air Force is the oldest and smallest it has ever been, and less than half of its combat forces are sufficiently ready to fight tonight.



AGENCE FRANCE PRESSE/GETTY IMAGES

**U.S. and Australian soldiers at a military exercise in the Philippines, May 8.**

• The Marine Corps is insufficiently manned, trained and equipped across the depth of the force.

Rebuilding America's defenses will require a massive, concerted and long-term effort that must begin today. Mr. Trump rightly promised to do this during last year's presidential election. Unfortunately, the White House budget submitted to Congress earlier this month fails to provide the necessary resources.

The White House has requested only 3% more funding for defense than Mr. Obama's proposed 2018 budget, meaning the Pentagon would essentially tread water for at least a year—time the U.S. cannot spare in this threat environment. Instead of leading the effort to repeal the Budget Control Act, the White House budget envisions exten-

tending it by six years, to 2027. The president's budget also cuts funding in absolutely essential areas, including \$300 million from missile defense and \$1 billion from Navy shipbuilding. In sum, the 2018 White House defense budget differs little from what Mr. Obama would have requested were he still president.

If Congress is serious about providing the resources necessary to defend the nation, lawmakers must do two things: pass a base defense budget for fiscal 2018 of at least \$640 billion, instead of the \$603 billion the White House requested; and repeal the Budget Control Act to eliminate the arbitrary spending caps and devastating sequestration.

The figure of \$640 billion comes from the House and Senate Armed Services committees, which over the past year have conducted in-

depth analyses and concluded this is the amount necessary in 2018 to begin rebuilding the military. This figure is a floor, not a ceiling.

For context, compare it with the projections from the Pentagon's fiscal 2012 budget. Because this was the last budget prepared prior to the Budget Control Act, it was also the last one based on assessing the threats America faces and what would be needed to meet them. It projected a base defense budget of \$661 billion for 2018. That assessment was made before Islamic State arose in the Middle East, before North Korea's recent progress on nuclear weapons and ballistic missiles, before Russia invaded Ukraine, before China's aggression in the South China Sea, and before Mr. Obama's indefensible nuclear agreement with Iran.

Rebuilding the military is not a one-year project. To undo the damage of the Obama era and provide for America's security in a world of increasingly threatening adversaries, Congress must dedicate itself to providing significant resources for many years to come.

Providing for the defense of America is the most sacred constitutional obligation of the U.S. Congress. If Congress fails in this, no balanced budget, no health-care reform, no tax reform, no entitlement reform will matter. If lawmakers fail to provide the resources necessary for the defense of the nation, nothing else they do will matter.

*Mr. Cheney was vice president, 2001-09. Ms. Cheney is Wyoming's U.S. representative.*

## Fighting Poverty Isn't Brain Surgery, but Ben Carson Can Do Both



**UPWARD MOBILITY**  
By Jason L. Riley

At the end of our interview last week, I asked Housing and Urban Development Secretary Ben Carson for an example of the outside-the-box thinking that served him so well in his prior career as a pioneering neurosurgeon.

"Sure. I started advocating cervical decompression for achondroplasia," said Dr. Carson, before shooting me a sly grin and switching to English. Achondroplasia, he explained, is the most common form of dwarfism, and 40 years ago about 7% of people born with the condition died in infancy. "It's because they had tight, abnormal bone formation at the base of their skull, and that was squeezing the brain stem. And they would just stop breathing. Surgeons would try to go in sometimes and fix it, but it was so tight that they frequently made it worse or killed the patient."

When he first talked about using a different surgical procedure on children with achondroplasia, at a medical conference in Rome in the mid-1980s, many objected: "The geneticists said, 'You surgeons. If you would just leave these people alone, only 7% of them would die. But you guys think you can do anything.'"

Back home at Johns Hopkins in Baltimore, colleagues complained to the hospital president that "Carson's a wild man. You've got to stop him." But Dr. Carson didn't stop. "Finally, I had done enough cases where I was able to reveal the data. None of [the patients] had died, and they were doing well. And even though I'd gotten all the pushback, now it's a standard procedure."

"I don't get upset when people say horrible things," the secretary told me. "I understand human nature. People don't like change." A disposition that serves him well these days, when taking cheap shots at Ben Carson is something of a sport among reporters and cable-news sages. Never mind that he grew up poor in inner-city Detroit,

raised by a single mother with mental-health problems who worked as a housekeeper. Or that he blasted through racial barriers in his medical career. Or that he has used his

**'I don't get upset when people say horrible things,' the HUD secretary says. 'People don't like change.'**

fame and fortune to expand the educational opportunities of low-income minorities. After all, what could a person from that background possibly know about helping people in difficult circumstances?

In the press, however, the secretary is most often portrayed as a doctrinaire conservative who is out of his depth running an agency tasked with assisting the poor. After he told a town-hall audience in May that poverty is "in part a mindset" and "to a large extent also a state of mind," commentators couldn't stop snicker-

ing. But Mr. Carson stands by his words. "I don't say that without evidence. I think of my own life. I think of the way I used to think when I was at the bottom of my class and going nowhere fast," he told me. "A lot of it is . . . being told the system is against you or that you're a victim." Some individuals and organizations "want to convince people that somebody else is in charge of them, and that's why they get angry at people like me who say it's partly the way you think."

Media portrayals notwithstanding, Secretary Carson told me he is not opposed to government assistance and safety nets. "We have an obligation to take care of people who can't care for themselves—the elderly, the disabled, the mentally ill—and certainly at HUD we're going to take care of those people."

A case in point, he added, is dealing more effectively with the homeless population. We're doing a better job at sheltering them but not at diagnosing why they became homeless in the first place and then treating it. "If you don't

do two and three, then you're wasting your time."

The housing secretary observed that we have "about three to four times as many people in need of affordable housing than we're able to provide" and that the problem is getting worse. "Over the last decade or so, incomes have not risen in response to the rise in housing costs," he said. Reviving the economy will help, "but we don't want to just sit back and wait." In the meantime, he'd like to see more public-private partnerships that help people acquire the education and skills "that will make them able to provide for themselves."

Over and again, Dr. Carson reiterated his belief that the best way to help people is to help them do for themselves. He envisions an agency that's much more focused on enhancing human capital. The objective isn't to make people on government assistance as comfortable as possible. The objective is fewer people on government assistance. It's an approach that may not be outside the box, but it's certainly outside the Beltway.

## If You're a Kid, the Experts Want You to Have a Fun-Free Summer

By Lenore Skenazy

**I**t's summer! Time to dig in the sand,gulp from the hose, play at the park, and leap with joy.

Unless you're a kid—in which case, find yourself a comfy sofa in a dark, quiet room and settle in. This is the season your parents are bombarded with the kind of warnings previously associated with incoming torpedoes. The basic message: Don't have fun, it's too dangerous.

Yes, that would be the same kind of summer fun your parents endlessly reminisce about. "Remember when digging in the sand at the beach was a fun activity for young children," says the website KidsTravelDoc. "Sorry. No more. Based on recent findings, only with lots of do's and don'ts is frolicking in the sand a healthy activity, says the U.S. Environmental Protective [sic] Agency."

I was unable to find the EPA's granular list of caveats. But the

blog's author, Karl Neumann of the American Academy of Pediatrics, lays out his own don'ts: "Studies show that children playing in the sand are more likely to become ill than children merely walking on it. And the risk of illness increases with digging in the sand, being 'buried' in it, and digging in wet sand."

Got it. Keep your kids on dry sand. No, wait: "Dry sand presents problems, too." So, Dr. Neumann warns: "Discourage children from lying directly on the sand."

While you're at it: "Walking barefoot is another 'don't.' Have children wear lightweight, ventilated, hard-soled footwear that covers the toes. This helps prevent stubbed toes, lacerations, puncture wounds, and burns from hot sand. Ideally, footwear should be worn for wading in the water."

Why take them to the beach at all? Keep them at home on a hard, nonporous surface, free of dirt and

obstacles, checking frequently for venomous spiders, disease-bearing insects, and sewage. Children should be in steel-toed work boots at all times, as well as oven mitts and chain mail.

But even that isn't enough. Simply keeping the kids at home doesn't ensure they're safe, especially if they make it into the backyard. Parents magazine warns that "bees are attracted to flowers, so don't put fragrances or floral-patterned clothing on kids." Surely you've seen swarms of bees chasing children in floral prints, convinced they are flowering shrubs in work boots?

The American Academy of Pediatrics, meanwhile, suggests that if your moppets still insist on playing outside, the little daredevils at least "limit sun exposure during the peak intensity hours—between 10 a.m. and 4 p.m." That shouldn't put a crimp in anyone's day, should it?

The academy is afraid that kids will get too much sun. It's also afraid they'll get too little sun and end up with rickets. A related fear is that kids won't get enough water because . . . well, everyone is obsessed with "hydration" these days.

It's always seemed to me that drinking when thirsty does the trick. No. Now there's a new product on the market called Gululu, which is a water bottle with a Wi-Fi connection. The Gululu app allows parents to monitor how much water

**Digging in wet sand is dangerous. 'Dry sand presents problems, too.'**

**And don't ask about water.**

their child is drinking. The cagey gadget even knows if the kids are secretly not drinking—pouring out water to stop their parents from texting them to drink more.

To make the sipping less onerous—it really does get tiring if you're not thirsty—an animated character on the bottle's built-in screen grows happier and healthier the more the child drinks. Let's hear it for more screen time!

Gululu's other advantage is it keeps the little ones from drinking the wrong sort of water. Google "hose water" and you will be del-

uged with stories linking the stuff to just about every illness except gout. Some study, endlessly reported, found that hose water contained "PVC plastic additives, which can cause birth defects, liver toxicity, and cancer." Naturally, in these stories there is no mention of how many cisterns of water a child would have to guzzle for any of these issues to ever develop.

Being a kid these days is no walk in the park. But that's just as well. Yet another Parents magazine masterpiece warns that to keep children safe at the playground, you should "walk away if you see cement, asphalt, dirt, or grass: These surfaces are linked to head injuries."

So are walls, if you bang your head against them. My summer advice to parents is therefore short and sweet. Tell your kids they can't swim alone, get into a stranger's car, or let their parents buy them a high-tech water bottle.

And then stop reading other safety tips.

*Ms. Skenazy is founder of Free-Range Kids and a contributor to Reason.com.*

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## Notable & Quotable: A Lesson of the 1967 War

*The Hudson Institute's Michael Doran, testifying before the U.N. Security Council about the 50th anniversary of the Six Day War, June 20.*

May I again remind you of the example of [Egypt's] Gamal Abdel Nasser? A revisionist school of historiography claims that he never wanted war in 1967. His best military units were bogged down in Yemen, his economy was a shambles, and his relations with Jordan and Syria, his putative allies, were

abysmal. Why would a leader in such a precarious position behave so recklessly?

The revisionists have much of the story right but they miss a crucial factor. Nasser was applying lessons that he learned a decade earlier, during the Suez Crisis. Then, as in 1967, he had precipitated a war that he could not possibly win militarily, but which he believed he could win politically, because, he gambled, the superpowers and the United Nations would intercede on his behalf. In 1956, that proved a very smart bet.

The key lesson of 1967 war is that peace is best achieved not by United Nations intercession but by facilitating direct negotiations between the parties.

In 1967, however, it utterly failed—with disastrous consequences for Egypt—to say nothing of the Palestinians. How much better would it have been for all parties if, back in 1956, the United Nations had insisted that, in return for an Israeli withdrawal from Egyptian territory, Nasser must grant Israel meaningful security guarantees?



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## Barclays Hit With Fraud Charges

U.K. authorities say bank, former CEO raised capital in Qatar illegally in 2008

BY MAX COLCHESTER AND MARGOT PATRICK

U.K. prosecutors charged Barclays PLC's former chief executive with fraud and illegal payments, the most prominent and most senior banker to be charged with crimes relating to the global financial crisis.

John Varley, Barclays' chief from 2004 to 2011 and a longtime member of London's financial firmament, was charged Tuesday alongside three other former Barclays executives and the bank itself over how they orchestrated a cash infusion that rescued Barclays at the peak of the financial crisis. The men face jail time if convicted, and Barclays could be fined.

Britain's Serious Fraud Office has spent five years probing how Barclays wooed Qatari investors to prop up the bank during the 2008 financial mar-

ket meltdown. In total, Barclays raised £11.8 billion (\$15 billion) from investors through two emergency cash calls, in June and October 2008.

To seal the latter of those transactions, Barclays paid £322 million in "advisory services" to Qatari investors, an agreement that wasn't initially disclosed to shareholders, Barclays said in filings. In November 2008, the bank provided a \$3 billion loan facility to the State of Qatar, according to the Serious Fraud Office. The charges filed on Tuesday relate to the payment and the

loan, the fraud office said.

The Serious Fraud Office charged the bank, the former CEO Mr. Varley, former senior investment-bank executive Roger Jenkins and two other former executives with conspiracy to commit fraud. Messrs. Varley and Jenkins, along with the bank, were charged with providing unlawful financial assistance in connection with the \$3 billion loan. English law forbids a company from giving someone money to buy its shares.

Barclays said in a statement it is "considering its position

in relation to these developments." It has previously said the advisory-services payments were for legitimate business purposes and denied that the \$3 billion loan was for the purpose of buying shares. Qatar Holding held a 5.99% stake, according to Barclays's 2016 annual report.

Unlike its peers Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC, Barclays was able to avoid a bailout by British taxpayers as a result of the Qatari equity injections.

Please see BANK page B2

## YouTube Ad Mess Divides Brands

BY LARA O'REILLY AND JACK NICAS

Google's YouTube is still struggling to bring back some prominent advertisers months after a backlash over ads appearing alongside offensive videos, but it is winning over new business from others, reflecting the site's importance as a digital marketing platform.

Wal-Mart Stores Inc., AT&T Inc., J.P. Morgan Chase & Co., Starbucks Corp., Procter & Gamble Co. and at least a dozen other major brands or government agencies haven't returned to the site, those institutions and people familiar with the situation say. They pulled their spending after news organizations in March revealed that their ads ran alongside extremist or racist videos.

But some companies have resumed spending on YouTube ads—including General Motors Co., Coca-Cola Co., Lyft Inc. and McDonald's Corp.'s U.K. unit—after the site improved its technology to screen videos, committed to employing more human reviewers and gave marketers more control over where their ads appeared. YouTube also issued refunds to some companies.

The mixed response from advertisers shows their "brand safety" concerns are serious and could linger, but also aren't insurmountable, as long as Google continues its efforts to ease marketers' fears.

YouTube said in a statement: "Many advertisers never left and many have decided to come back. While they know that no system can be perfect, they appreciate the actions we've taken and know we are taking this seriously and are committed to getting better and better."

Google on Sunday also announced a series of changes to curb extremist videos on its site.

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## Asian Tycoons Look to Heirs

Retirement of CK Hutchison's Li Ka-shing next year is part of generational shift

By Wayne Ma  
in Hong Kong and  
Jake Maxwell Watts  
in Singapore

to people briefed by Mr. Li. A Chinese-born, Hong Kong-made billionaire, Mr. Li built a plastic-flower manufacturer into a global empire spanning property, energy, ports, telecom and retail.

Passing the baton to his previously anointed suc-

sor, his eldest son, Victor Li, would represent the most significant corporate abdication yet among an elite of aging billionaires in Hong Kong and Southeast Asia.

These tycoons combined business savvy and carefully cultivated political connections—often with authoritarian governments—to prosper in Asia's postcolonial economies and, more recently, from China's economic opening.

With an average age of 80, the current 10 wealthiest tycoons in Hong Kong and Southeast Asia are collectively the world's oldest by region, according to an analysis of data from Forbes's 2017 billionaires list.

They include sugar-to-palm-oil and hotel baron Robert Kuok, 93, of Malaysia; Thailand's chicken-and-pork king, Dhanin Chearavanont, 78; and Philippines shoe

Please see TYCOON page B6

## How iPhone Decade Reshaped Apple

BY TRIPP MICKLE

SAN FRANCISCO—Since Apple Inc. launched the iPhone in June 2007, the smartphone revolution it unleashed has changed the way people work and socialize while reshaping industries from music to hotels.

It also has transformed the company in ways that co-founder Steve Jobs could hardly have foreseen.

Ten years later, the iPhone is one of the best-selling products in history, with about 1.3 billion sold, generating more than \$800 billion in revenue. It skyrocketed Apple into the business stratosphere, unlocking new markets, spawning an

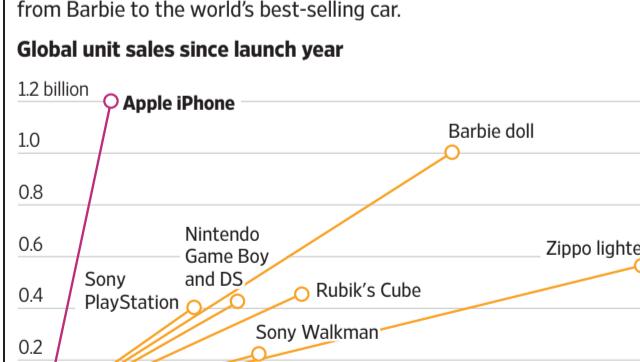
enormous services business and helping turn Apple into the world's most valuable publicly traded company.

But it also created enormous challenges for Apple, raising the bar for innovation and turning a company that thrived on its self-image as scrappy underdog into an industry leader, with a workforce more than six times what it was.

"The company has grown in every dimension and holding it together is very, very tough," said Horace Dediu, a former Nokia executive and technology analyst with Asymco.

Apple has to balance sustaining the iPhone business with preserving employees' passion to create.

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Source: the manufacturers Note: Data are approximate

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Kuperberg, Ziyora	B15
L - M	
Lattner, Chris	B5
Lefkowitz, David	B15
Li Ka-shing	B1
Liu, Richard	A2
Li, Victor	B1
Lombrozo, Eric	B15
Loustau, Meg	B4
Mallard, Zachary	B15
Mariscal, Jorge	B2
Milam, Chris	R2
P - R	
Mir, Ari	B4
Musso, Nicholas	B4
S - T	
Sakwa, Steve	B4
Schmidt, Justin	B2
Sirer, Emin Gun	B15
Staley, Jes	B2
Sy, Henry	B6
Teng, Clem	B4
Thomson, James	B5
Torres, Sidney	B4
V - Z	
Varley, John	B1
Warren, Joe	B3
Werner, Matthew	B4
West, James	B3
Wu Xiaohui	B14
Xiang Junbo	B14
Zhang Yuanhan	B14

A - B	
Accardi, Zak	R3
Atwill, Timothy	B1
Azim Alli	B14
Baker, Tim	B3
Beam, Joel	B4
Bertea, David	B8
Bezos, Jeff	B8
Bittles, Bruce	B16
Boath, Richard	B2
Boley, Warren	B9
Bravo, Alice	R3
Buffett, Warren	B15
C - D	
Carson, Ken	B3
Chearavonant, Dhanin	B1
Douthit, Jeff	B14
Durkay, Laurel	B4
E - H	
Emanuel, Julian	B16
Enders, Tom	B9
Feigenbaum, Baruch	R6
Handler, Ruth	B3
Hassler, Cindy	B3

J - K	
Jenkins, Roger	B1
Jobs, Steve	B1
Kalaris, Thomas	B2
Kangisser, Ryan	B2
Karpathy, Andrej	B5
Kaufman, Brad	B2
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Chearavonant	

## BUSINESS NEWS

# Mattel's Ken Evolves Into Modern Man

Barbie's boyfriend comes in chunky and chiseled versions; one has a man bun

By PAUL ZIOBRO

Barbie is getting a chubbier boyfriend.

A year after Mattel Inc. added new body types of its iconic Barbie doll, her long-time male companion Ken is getting his own makeover.

Her beau will now come in slim and "broad" body types, as well as his normally chiseled physique. The doll will also come in seven skin tones, nine hairstyles, including man buns and corn rows, and modern looks, from hip hoodie to preppy check.

"We are redefining what a Barbie or Ken doll looks like to this generation," Lisa McKnight, who oversees Mattel's Barbie brand,



GETTY IMAGES

said Tuesday.

Mattel will try to recreate positive buzz that translated into a sales boost for its struggling Barbie doll after it introduced slim, tall and curvy versions a year ago. Retailers placed big orders for the revamped Fashionista line of Barbie, with double-digit sales increases. Barbie accounted for 16% of Mattel's roughly \$6 billion in gross sales last year.

The doll's sales have remained strong even as Mattel's performance tumbled in the holiday quarter and beyond as retailers worked through an inventory glut.

Ken Carson has long been part of Barbie's life. He was released in 1961, two years after Ruth Handler introduced Barbie at the New York Toy Fair. Ken shares his name with Ms. Handler's son.

Mattel will now have 15 new Ken dolls available. It is also adding 25 diverse Barbie dolls to its lineup.



A contemporary Ken doll, at left, and an array of antecedents in 1961, the year of his birth.

## Frackers, Oil Drillers Collide in Shale Patch

By ERIN AILWORTH

Supersize new oil wells are sometimes running into existing wells, a little-noticed consequence of the shale boom that has started to trigger complaints and lawsuits.

The emerging problem is known as a frac hit, and it has flared up in Oklahoma, where a group of small oil-and-gas producers say more than 100 of their wells have been damaged.

Some owners of older wells have filed reports with state regulators claiming their wells were flooded with water. In

aged by hydraulic-fracturing jobs done for companies such as Chesapeake Energy Corp., Devon Energy Corp. and Newfield Exploration Co.

In hydraulic fracturing, or fracking, firms pump sand and water deep underground at high pressure to break oil and gas from rock.

Some owners of older wells have filed reports with state regulators claiming their wells were flooded with water. In

some cases, the wells became so full that the water rose to the surface and spilled over. Others have claimed that they had to shut in wells due to the damage. A few cases have ended up in court.

Almont Energy LLC and

TLS Oil & Gas Inc., vertical-well operators in Oklahoma, sued Newfield last year, claiming that fracking jobs performed by Newfield caused an Almont well to flood with wa-

ter, "negatively impacting the further development potential" of the well.

A lawyer for Almont and TLS declined to discuss the case, which was filed in federal court.

Newfield also declined to discuss the case, but spokeswoman Cindy Hassler said the company tries to be proactive when it learns of possible frac hits and works to negotiate compensation with anyone affected if an inspection shows damage.

"Newfield owns thousands of vertical wells ourselves, so we understand the challenges," Ms. Hassler said.

Chesapeake and Devon, which also have been blamed for frac hits in reports to state regulators, declined to comment.

James West, an analyst with Evertco ISI who has been following frac hits, said they are of special concern in places like Oklahoma and Texas, where those drilling new wells must navigate around older wells drilled over decades.

"It's becoming a pretty sizable issue," Mr. West said, noting that Colorado in 2013 enacted regulations after state engineers had identified frac hits as a potential problem. "I suspect every basin is proba-

bly facing the same type of challenge."

In Oklahoma, companies aren't required to report frac hits unless there is a spill. Regulators there have received fewer than 20 confirmed reports of such incidents in the past three years and are currently reviewing several more.

"I know that it's a larger problem than the data we've been given," said Tim Baker, director of the oil and gas division at the Oklahoma Corporation Commission.

Oklahoma last month passed a bill that eases restrictions on where producers can drill horizontal wells more than a mile long. Vertical-well operators now worry their wells are more vulnerable than before.

Joe Warren, a partner with Brown & Borelli Inc., a small oil-and-gas producer, said roughly two dozen of the company's wells have been damaged by frac hits. He believes the problem is particularly acute in Oklahoma's Stack, currently one of the hottest oil regions in the U.S. The Stack has many vertical wells and is now also popular with horizontal drillers.

"Most of the large players in the Stack have hit one or more of our wells," he said.



Fracking near Stillwater, Okla. Some owners of older wells complain of damage to their property.

## Total to Invest \$1 Billion in Iran Venture

By SARAH KENT

France's Total SA said Tuesday it would push forward with a \$1 billion investment this summer in a giant Iranian gas field, the first commitment by a Western company to put real money into the Islamic Republic's re-emerging energy industry.

The Paris-based oil giant has been at the forefront of Western energy companies looking to return to Iran after sanctions on its energy industry were lifted in January 2016. Total reached a preliminary agreement late last year with China National Petroleum Corp. and an Iranian company to invest \$4.8 billion to develop parts of a giant gas field in the Persian Gulf, but the deal is still being completed.

Iran's oil minister, Bijan Zanganeh, told The Wall Street Journal in May he was "very optimistic" about reaching an agreement with Total "very soon." CNPC didn't respond to requests for comment, and its investment commitment wasn't disclosed Tuesday.

A Total spokeswoman said the \$1 billion represented Total's 50.1% share of the joint venture's costs in the \$2 billion first phase of development. Total is the project's operator, with CNPC taking a 30% stake and Iranian firm Petrobras a 19.9% stake.

The imminent investment decision was first reported by Reuters. A spokeswoman for Mr. Zanganeh didn't respond to a request for comment.

The completion of the deal would mark a step forward for Iran's oil industry, which the country's oil ministry says

needs tens of billions of dollars in foreign investment. Until now, companies including Total have signed preliminary agreements in Iran and penned memorandums expressing interest but haven't committed because of uncertainty over U.S. sanctions still looming, weak oil prices and uncertain financial terms.

"You can see it as a sign that things are slowly beginning to progress in Iran's upstream, but you can also see it as a sign of just how cautious Western companies are being," said Richard Mallinson, an analyst at Energy Aspects, of Total's investment figure.

U.S. companies such as Exxon Mobil Corp. are essentially prohibited from working in Iran by remaining U.S. sanctions over terrorism, human-rights and weapons-proliferation concerns.

Royal Dutch Shell PLC agreed to explore future projects with Iran's state oil company last December but has yet to move forward. "Shell is exploring potential business opportunities in Iran in line with our long-term strategy," a company spokesman said.

Italian oil company Eni SpA said Tuesday it has signed an agreement to study two Iranian oil and gas fields as part

of a wider deal to recoup \$280 million still owed to the company for previous investments. Eni said the agreement didn't include a commitment to invest.

Iran's oil sector has endured a turbulent history marked by waves of nationalization and successive sanctions. The country holds the world's fourth-largest crude-oil reserves and second-largest natural-gas reserves, but production growth has been stymied by the political turmoil and uncertainty.

—Benoit Faucon contributed to this article.

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### NOTICE OF REDEMPTION

STATE OF MARYLAND

State And Local Facilities Loan Of 2007, Second Series

Dated August 16, 2007

Redemption Date: August 1, 2017

NOTICE IS HEREBY GIVEN of the election by the State of Maryland to redeem on August 1, 2017 (the "Redemption Date") \$173,555,000.00 aggregate principal amount of its general obligation bonds designated State and Local Facilities Loan of 2007, Second Series (the "Bonds") stated to mature and bearing interest as follows:

Maturity Date	Principal Amount	Interest Rate	Call Price	CUSIP Number
08/01/2018	\$31,330,000	5.00%	100.00	574192F21
08/01/2019	\$32,935,000	5.00%	100.00	574192F39
08/01/2020	\$34,625,000	5.00%	100.00	574192F47
08/01/2021	\$36,400,000	5.00%	100.00	574192F54
08/01/2022	\$38,265,000	5.00%	100.00	574192F62

The Bonds will become due and will be redeemed on the Redemption Date at redemption prices set forth above as percentages of the principal amount of the Bonds to be redeemed, together with interest accrued to the Redemption Date. From and after the Redemption Date, interest on the Bonds will cease to accrue.

Payment of the Bonds will be made upon presentation and surrender thereof at:

Citibank, N.A.

480 Washington Boulevard, 30th Floor

Jersey City, NJ 07310

Attn: Agency and Trust Group

Dated: June 6, 2017

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Total has been looking to return to Iran. President Hassan Rouhani of Iran, left, in 2016 with former French leader François Hollande.

## Pamplona Seals Its Purchase Of Parexel

BY DANA MATTIOLI

Private-equity firm Pamplona Capital Management LLP has reached a deal to buy Parexel International Corp. for \$4.6 billion, the latest in a series of mergers among drug-research firms.

Pamplona is set to pay \$88.10 a share in cash as part of the deal, the companies said Tuesday, confirming an earlier report by The Wall Street Journal. Parexel shares closed at \$83.92 Monday, giving the company a market value of more than \$4.2 billion.

Stock in Parexel has risen sharply since the Journal reported in early May that the Waltham, Mass., company was exploring a sale. The price represents a 28% premium to where Parexel closed on May 5, the last trading day before the Journal report.

Pamplona beat rivals including Laboratory Corp. of America and Icon PLC with a late surge in what turned out to be a spirited auction with multiple bidding rounds, people familiar with the matter said. Pamplona's offer was higher than Icon's and Lab-Corp's, which both included cash and stock, some of the people said.

Parexel's advisers initially invited only private-equity firms to make offers, but they later opened the bidding to industry players, too, some of the people said. There were at least four bidders for the company throughout the process, the people said.

Parexel has offices in 51 countries and recently had about 19,400 employees. It notched \$605 million in revenue in the quarter ended in March.

Pamplona is a private-equity firm with headquarters in London and New York. Since its inception in 2005, it has raised five funds with more than €7 billion (\$7.8 billion) of capital commitments, according to its website, and has been an active buyer of health-care-services companies.

Icon came close to winning the auction, the people said. The acquisitive company is based in Dublin—where it was founded in 1990—and specializes in product development for drug and medical-device clients. It operates in 87 locations in 38 countries and has about 12,300 employees. Companies located in low-tax jurisdictions such as Ireland can spread the benefits more widely by swallowing U.S. rivals.

# THE PROPERTY REPORT

## Storage Startups Tap Tech

New firms aim to use logistics and web know-how to make sector user friendly

By PETER GRANT

Many landlords have learned the hard way how technology upstarts like WeWork Cos. and Airbnb Inc. can disrupt traditional office-building and hotel businesses.

Now, the tech sector is turning its sights on the self-storage sector and its estimated \$30 billion in annual revenue.

A handful of startups such as Clutter Inc. and MakeSpace Labs Inc. are using the latest in logistics and web technology to offer what they say is a more efficient and user-friendly way for people to store furniture, keepsakes, sports equipment and other stuff that has been clogging basements and attics.

They work differently from the 40,000 or so traditional self-storage facilities that basically offer garages or sheds for customers to fill up as they please. The new competitors pick up and deliver items instead of forcing customers to schlep items to their facilities like the incumbent firms do. The upstarts also photograph what they store, and customers can view their items online and ask for some or all of them back with a click.

"Imagine Amazon logistics meets Dropbox software," said Ari Mir, co-founder of Clutter, which is two years old and just added Chicago to the eight other markets it serves.

Executives at big self-storage companies, like Public Storage, CubeSmart and Extra Space Storage Inc., say they aren't worried. They say the startups' costs of transportation and handling will be so high they won't be able to price service competitively.

Public Storage, the world's



Movers from startup Clutter prepare to deliver a couch to a storage facility near New York City.

largest self-storage business by market capitalization, at more than \$37 billion, lost about \$200 million in the early part of the last decade trying a similar service named Pick-up and Delivery.

"It sounds like a great product on paper," said Clem Teng, a Public Storage vice president for investor relations. "But given all the touching involved, it's difficult to price it at a point that consumers are willing to pay so you can make a profit."

Still, the self-storage startups are beginning to get traction with customers and financiers. Last week, Culver City, Calif.-based Clutter said it had raised \$64 million in its latest funding round from its existing investor, Sequoia Capital, as well as new investors Atomico, Fifth Wall Ventures and Alphabet Inc.'s GV.

MakeSpace, which has 300 employees in four cities, raised \$30 million in March for a total of about \$60 million to date. Founder Sam Rosen envisions the firm being in 30 to 50 markets five years from now.

Investors in the big storage

companies are taking notice. "They will create major headwinds," said Laurel Durkay, associate portfolio manager of Cohen & Steers, a fund manager with roughly \$60 billion in assets that is a big investor in the self-storage sector.

"But I do believe it will be more important in dense urban markets than the broader domestic landscape."

Estimated annual revenue in the U.S. self-storage industry

Ms. Durkay predicted that the big companies will respond if the startups become more competitive. "To the extent that we have a...revolution in the way people are using storage facilities, the management teams may be able to pivot and modify their strategies."

Mr. Rosen, of MakeSpace, said he isn't surprised Public Storage failed at what he and

others are trying to do. "They're a real-estate business," he said. "What do they know about logistics?"

Customers of the new firms include people like Jassim Latif, a 34-year-old employee at a San Francisco software firm, who wanted something more than traditional storage. He became a Clutter customer after a bad experience trying to get his snowboard out of a locker he rented after his twin daughters were born two years ago.

"I had to move everything out to get my stuff, then move it all back in," he recalled. "Then I thought: 'Great. In a few days I have to come back here and do the same thing all over again.'"

The new competition comes at a time when Wall Street has been losing enthusiasm for the big self-storage companies.

Last year, while the broad REIT sector was up about 8.5%, storage was down about 8%, according to Steve Sakwa, head of real-estate research at Evercore ISI. So far this year, the sector is up 3.8%, but storage REITs are down 2.4%, he said.

## New Orleans Dust-Up Entangles a TV Host

By PETER GRANT

New Orleans real-estate developer and entrepreneur Sidney Torres IV has won accolades for his success in cleaning up the French Quarter after Hurricane Katrina and for fighting crime in the storied historic district, sometimes spending his own money.

But the achievements have done little to damp the outrage some preservationists have expressed over Mr. Torres's renovation of the 4,600-square-foot house and stable building he purchased in the district four years ago.

Some of the work didn't get the proper permits from the city's Vieux Carré Commission, which oversees the French Quarter, and preservationists say he should be forced to undo it.

Mr. Torres, a host of the new CNBC home improvement show "The Deed" and a possible candidate for New Orleans mayor this year, acknowledges mistakes were made by his contractor but says the house has remained well within the character of the neighborhood.

"These are things that would have been approved anyway," he said in an interview.

This month, Mr. Torres reached a tentative compromise with the commission that requires him to report back in one month on modifying a few of the changes he had made. But preservationists remain unhappy and say he should be required to undo many more.

"What we have before us is a prime example of the adage that it's easier to ask for forgiveness than ask for permission," said Meg Louston, executive director of Vieux Carré Property Owners, Residents and Associates, at a June 7 commission meeting. She added that Mr. Torres's reputation for doing good in the district shouldn't make a dif-

ference. "I would be saying this if the applicant were Pope Francis himself," she said.

The donnybrook highlights the hazards developers face when working in some of the country's most loved historic districts. The rules in the French Quarter are particularly strict. Any change to a property's exterior, including roofs, interior courtyards and driveways, needs to be approved by the Vieux Carré Commission, named after the old French term for the French Quarter.

Mr. Torres said he originally purchased the brick house, built just before the Civil War at 730 Esplanade Ave., thinking he would upgrade it and sell. But he said it was in deplorable condition and he soon realized it wouldn't work as an investment.

He estimated his cost of buying the property, carrying costs and other expenses at about \$3 million.

So he decided to make it his home.

As work proceeded, Mr. Torres obtained the necessary permits from the city's Department of Safety and Permits. The Vieux Carré Commission approved some of the upgrades, such as painting and adding the swimming pool.

But according to a staff report made at the recent commission meeting, the panel didn't review and approve some work.

Mr. Torres's lawyer, Justin Schmidt, said at the meeting the project "highlighted some flaws" in a new approval process the city had put in place. Permits were issued by Department of Safety and Permits "without the VCC certificate of appropriateness being issued at the same time," he said.

Nicholas Musso, the commission chairman, responded by saying, "The onus is on the contractor and/or applicant and/or owner."

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A b8ta store at a Santa Monica, Calif., mall owned by Macerich, which invested in the retailer.

## Mall Landlords Roll the Dice

By ESTHER FUNG

Mall landlords are investing millions of dollars in technology to help protect them from the changes buffeting the retail sector as internet shopping gains a stronger foothold.

Some of the investments aren't faring so well.

Macerich Co., one of the biggest U.S. mall owners, in the latest quarter wrote off \$10 million invested in a startup that purported to help online and European retailers expand their physical store presence in the U.S.

Its investment in WithMe, a firm that designs pop-up stores with interactive features such as responsive display tables, led to store openings in six Macerich shopping centers last year.

But the two companies parted ways soon after. The

costs were higher than anticipated, and WithMe said it would be better for Macerich to run the program by itself.

"We realize that we've made too big of an investment into one company," said Art Coppola, chief executive of Macerich, during an April earnings call. "But the other takeaway was that we are going to be best served to have us the facilitator for clicks coming to bricks and not think about third parties being the ones to get in the middle of that."

Macerich's decision to pull out "definitely hurt," said Jonathan Jenkins, the founder of WithMe. The split enabled the startup to focus on other opportunities, such as prioritizing building experiences for the brands first, then finding the best location, he said.

Macerich, a Santa Monica,

Calif.-based real-estate investment trust, has invested \$8 million in other ventures and retailers that have been more successful, such as b8ta, which sells tech gadgets, and clothes retailer Ministry of Supply.

As changing consumer habits and e-commerce squeeze mall tenants, landlords are investing more resources to understand the industry's disrupters. Big landlords with stronger balance sheets such as Simon Property Group Inc. and Westfield Corp. have been setting aside millions of dollars for incubators to take on risks similar to venture capitalists. Doing nothing could prove just as risky at a time when retail property companies face threats to their viability from Amazon.com Inc.'s growth and from neighboring shopping centers that are innovating.

## Bargain Hunters Grab Retail REITs

The retail-property outlook has worsened in the past year, but some investors are betting that shares of mall landlords have gotten too cheap.

Real-estate investment trusts tied to retail property have been the worst performers among all REITs this year, falling 16% compared with a 1.6% gain for the category over-

all and an 8.9% advance for the S&P 500 index.

But some investors believe sector sentiment is overly negative and shares are a bargain.

"We believe the stocks have come down to fair value for the risk that we're taking," said Joel Beam, managing director and senior portfolio manager of real-estate strategies at asset management firm Salient Partners LP. Salient in January began picking up shares of mall REITs such as CBL & Associates Properties Inc. CBL, a

Chattanooga, Tenn.-based mall owner, is down 27% this year. "It just has to get rid of a few turbines," Mr. Beam said.

Some investors are adding to their exposure of blue-chip retail landlords. Matthew Werner, managing director at Chilton Capital Management LLC, said his West Loop Realty Fund recently invested in mall REITs such as Simon Property Group Inc. and in the past six to 12 months has doubled its holdings of GGP Inc.

—Esther Fung

## BUSINESS NEWS

# Big Prize for Amazon: Shopper Data

If deal for Whole Foods goes through, the two firms can join online and in-store knowledge

BY LAURA STEVENS  
AND HEATHER HADDON

**Amazon.com** Inc. spent two decades hastening the demise of the traditional brick-and-mortar retail industry. So why would the tech giant spend \$13.7 billion to acquire an organic-grocery chain with more than 460 stores?

The deal for **Whole Foods Market** Inc., which people familiar with the matter said came together quickly, presents Amazon with several potential gains.

It could use the stores as distribution hubs to build out its online grocery-delivery business. Amazon also could stock gadgets such as its Kindle e-readers and Echo speakers, as well as goods from its burgeoning private label.

The bigger opportunity, though, is data.

Amazon for years has been looking for more ways to gather information about how consumers shop. It has long been rumored to be on the prowl for a breakthrough deal, even as it

set up its own much smaller Amazon Go and AmazonFresh Pickup stores as experiments.

If the deal goes through, the combination likely will be powerful. Amazon and Whole Foods can join their online and in-store knowledge to better predict what goods to carry in each store, said James Thompson, a former senior manager in business development at Amazon and now partner at the brand consultancy Buy Box Experts.

"They'll build better private labels and squeeze national brands even more," Mr. Thompson said. "There's lots of opportunity to experiment."

The deal came together so rapidly—the companies signed a confidentiality agreement April 27—that Amazon's strategy for the acquisition is still largely in the air, according to people familiar with the matter.

Amazon shed little light on its plans for the chain of stores when it announced the deal Friday. A spokesman declined to comment on the company's strategy. Whole Foods also declined to comment.

One enticing aspect of a deal between Amazon and Whole Foods is the significant overlap, analysts say, between the companies' traditionally



A survey shows about 62% of Whole Foods shoppers are members of Amazon's Prime service.

loyal customer bases.

A Morgan Stanley survey shows about 62% of Whole Foods shoppers are members of Amazon's Prime service, opening the door for cross-sell promotions to entice customers who shop at both to spend more.

Amazon, though, doesn't know how those customers shop in stores—a gaping hole in

data about its more than 300 million shoppers.

If the deal goes through, Amazon is likely to put a team of employees to work examining Whole Foods' strategy, cost structures and business practices—as well as their data, according to former Amazon employees.

The online retail giant likely will add new ways to

track in-store consumer spending. One option is letting people purchase with Amazon Pay, a PayPal-type solution that lets customers check out with their Amazon account information. Another option is creating a Whole Foods credit card, the former employees say.

—Julie Jargon  
contributed to this article.

## Apparel Stores Get Online Challenge

**Amazon.com** Inc. is giving shoppers another reason not to visit stores. The online giant is rolling out a free service to let its Prime members try on clothes at home, its latest attempt to crack into the fashion world.

The new service, dubbed Prime Wardrobe, is a threat to traditional sellers of apparel, especially department stores, that are struggling to get shoppers to visit stores. It also challenges online players, such as **Nordstrom** Inc.'s Trunk Club and startups like Stitch Fix, which ship boxes of clothes for people to try on at home.

Shares of several retailers fell Tuesday, including Nordstrom and **Gap** Inc. by 4% each.

The service announced Tuesday would allow Amazon Prime members to fill a box with three or more eligible apparel items from its website, try them on at home for seven days and ship back what they don't want free.

—Suzanne Kapner

## BUSINESS WATCH

TESLA

### Senior Executive Leaves Autopilot

**Tesla** Inc. has lost another senior leader of its efforts to make self-driving technology.

Chris Lattner, who Tesla announced in January was hired from **Apple** Inc. as vice president of Autopilot software, has left the Silicon Valley auto maker.

"Chris just wasn't the right fit for Tesla, and we've decided to

make a change," Tesla said Tuesday.

Mr. Lattner followed with a posting on Twitter: "Turns out that Tesla isn't a good fit for me after all. I'm interested to hear about interesting roles for a seasoned engineering leader!"

Tesla said it had elevated Jim Keller, vice president of Autopilot hardware, to also oversee Autopilot software. The company said Andrej Karpathy, an expert in computer vision, would become director of AI and Autopilot vision.

—Tim Higgins

GYMBOREE

### Lower-Rank Lenders To Receive Nothing

**Gymboree** Corp.'s unsecured bondholders and creditors are slated to receive nothing in the company's reorganization plan.

The children's clothing retailer sought bankruptcy protection last week with a restructuring pact already in place with higher-ranking lenders. Gymboree and its lenders

agreed in the weeks leading up to the bankruptcy filing that the retailer would be able to slash more than \$900 million in debt off its books with the hopes of surviving a retail-sector downturn.

While higher-ranking term-loan lenders will be forgiving a big chunk of their debt in exchange for equity stakes in the reorganized company, lower-ranking bondholders owed \$171 million, as well as unsecured general claim holders, will get nothing.

—Lillian Rizzo

RIO TINTO

### Mining Company Rebuffs Glencore

**Rio Tinto** rebuffed a US\$2.5 billion offer by **Glencore** PLC for its Australian coal assets and recommended that shareholders approve a previous bid by a Chinese company.

Rio Tinto said Tuesday that its board considered a number of factors related to both proposals, including the size of both

bids, and decided to stick with a \$2.45 billion offer that **Yancoal Australia** Ltd. made in January, in part because it expects to complete the deal more quickly than one with Glencore.

The British-Australian mining company is trying to shed much of its coal assets, especially thermal coal.

A spokesman for Glencore said the company is reviewing the announcement and "will respond in due course."

—Razak Musah Baba

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## BUSINESS NEWS

# Olympics Security Is Concern For NBC

BY SARA GERMANO AND ALEXANDRA BRUELL

Longtime Olympics broadcaster **NBCUniversal** usually rewards big advertisers with tickets and parties at the Games, but the company says it may shift venues because clients have security concerns about the Winter Games next year in Pyeongchang, South Korea.

NBCUniversal's head of ad sales, Linda Yaccarino, said the network is exploring sending ad buyers and clients to Jackson Hole, Wyo., or another location instead of South Korea, because of clients' potential security concerns.

The company will still have about 1,000 people, including production staff, on the ground in Pyeongchang, which is about 50 miles south of the demilitarized zone separating North and South Korea. NBC is paying more than \$1 billion per Games for media distribution in the U.S. through 2032, making it among the International Olympic Committee's most significant financial contributors.

The IOC didn't immediately respond to a request for comment. The 2018 Winter Olympics are scheduled to begin on Feb. 9.

Tensions between North Korea and the U.S. have risen, punctuated by the return and subsequent death of U.S. student Otto Warmbier, who had been detained by the North Koreans while on a tourist trip last year. President Donald Trump on Tuesday said in a tweet that the U.S. "condemns the brutality of the North Korean regime as we mourn its latest victim."

*Matthew Futterman contributed to this article*

## TYCOON

*Continued from page B1*  
seller turned mall developer Henry Sy, 92. All are from Chinese emigrant families and became the richest men in their countries.

Mr. Kuok hasn't announced succession plans, but his eldest son is now chairman of the family's main private company. Mr. Chearavanont handed the reins earlier this year to his sons, appointing his eldest as chairman. Mr. Sy has made his six children heirs to his company.

As these men near succession, some investors question whether their privileged, mostly Western-educated heirs can steer their corporate juggernauts as effectively as their self-made fathers did. Many lack the political ties and hardscrabble upbringing of the patriarchs. They also have less access to easy opportunities.

These 10 families remain a formidable force, with a combined wealth of almost \$160 billion, according to an analysis of Forbes data. They wield huge power at home and increasingly seek foreign acquisitions. Between them, they have spent almost \$200 billion on acquisitions over the past decade, according to Dealogic.

Mr. Li, known for his horn-rimmed glasses and iron grip on his companies, rode China's economic boom and extended his reach into U.K. mobile networks, Australian utilities and Canadian air-conditioning firms. A spokesman for CK Hutchison said the chairman "has from time to time talked about his retirement and his confidence in Victor to lead the company." Mr. Li, through a company spokesman, declined to be interviewed.

Even so, the stepping back of Mr. Li—who is worth \$33 billion, according to the latest data from Forbes—may



A ceremony in Beijing's Oriental Plaza, developed by Li Ka-shing's CK Hutchison Holdings Ltd.

property developers are increasingly moving in on his home turf. Victor is likely to inherit the business empire at a challenging time.

People familiar with the family say Mr. Li's younger son, 50-year-old Richard, has more of Mr. Li's deal-making skills and charismatic traits. However, Richard early on chose to branch out on his own, using family money to buy and run media and telecoms companies, with varying success.

Victor Li still lives in the shadow of his celebrity father. A few years ago, when the elder Mr. Li and Victor attended the Queen Elizabeth II's birthday party at the British consulate in Hong Kong, diplomats lined up in droves to take selfies with the tycoon while Victor stood to the side unnoticed, according to a person at the event.

Mr. Li relies on his personal touch to charm associates. At CK Hutchison's high-rise headquarters, he takes an elevator down to the basement to greet important guests as their cars pull up. In meetings, he asks personal questions about visitors' families and hobbies.

Friends of the Li family say Victor leads an insular life in Hong Kong. He has resided for years in the same mansion with his father and his wife and children, and limits his socializing mostly to when he goes to Canada, where he has citizenship. Part of Victor's reticence stems from a traumatizing ordeal in 1996, when he was kidnapped by an armed Chinese gang and held overnight. He was gagged and badly treated, people familiar with the matter say.

Mr. Li paid 1 billion Hong Kong dollars (\$134 million) to secure Victor's release. The gang leader was later convicted and executed in mainland China.

*Trefor Moss in Shanghai contributed to this article.*

create uncertainty among shareholders over CK Hutchison's direction. The company has recently failed with separate bids of more than \$10 billion for mobile phone and energy assets in the U.K. and Australia, while homegrown Chinese billionaires are challenging its real-estate and ports businesses.

While the elder Mr. Li is known as a charismatic, politically savvy deal maker, his Stanford-educated son Victor is viewed as a more dour, details-oriented businessman who has spent more than three decades shadowing his father. Victor Li, through a company spokesman, declined to comment.

Companies the world over struggle with how best to preserve a founder's legacy. In much of Asia, the issue is acute because tycoons have outsized influence on their domestic economies, and tend to be intensely insular decision makers.

When successions go poorly, the cost to stakeholders can be enormous. A study of around 200 family-run companies in Hong Kong, Singapore and Taiwan by Joseph Fan, a finance professor at the Chinese University of

### Old Money

The average age of the top 10 richest people by region as ranked by Forbes.



\*Includes Hong Kong †Excludes Southeast Asia and Hong Kong

Source: WSJ analysis of Forbes data

THE WALL STREET JOURNAL.

eight of the 25 richest people on Forbes' global rich list. Mr. Li is the only one who remains: He has lately been vying for the title of Asia's richest man with internet titan Jack Ma of **Alibaba Group Holding** Ltd. and property magnate Wang Jianlin of **Dalian Wanda Group**.

Of all the scions, Victor Li, 52, appears among the best prepared. He joined his father's company in 1985 after studying in the U.S.

Still, many parts of Mr. Li's empire are run by lieutenants who hold considerable power. Victor Li, as well, doesn't have his father's history of relations with China's leaders and experience navigating the factional and complex politics and bureaucracy of China.

"Li Ka-shing's key asset is his outstanding relationships and those relationships aren't easily transferred," said Mr. Fan, who has studied Mr. Li's career. "His son may not inherit this from his father and be able to make friends with Chinese politicians."

The elder Mr. Li's ties to Beijing have waned under President Xi Jinping. Chinese ports are sucking up business from Mr. Li's Hong Kong terminals, while homegrown

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## MANAGEMENT

# Workers' Motivation Is Fueled By Family

By KELSEY GEE

For the sake of the children. That is the answer, according to new research, to the tough question of how workers stay motivated in rote, repetitive jobs. Employees who feel their work helps support their families are more productive and energized about their jobs, even when they stand to gain little for themselves.

"Supporting a family is one of the fundamental reasons why people work, but there's little research on how that motivation affects employees' effort and job performance," said Adam Grant, an organizational psychologist and professor at the University of Pennsylvania's Wharton School, who co-wrote the study.

Mr. Grant and his co-authors collected survey and diary data from about 100 women who perform rote accounting tasks in an office that processes coupon payments for merchants, just south of the U.S.-Mexico border. The workers scan bar codes on coupons shipped from American retailers to ensure the products have been accurately counted and categorized by the supplier and seller. The job involves manually processing hundreds of coupons each day.

Researchers interviewed the women and tracked how many coupons each processed. The study found that workers who reported the most energy and processed the largest number of coupons, despite disliking the work itself, were those who felt strong commitment to family. Those women processed about 10% more coupons a week than employees who reported less family-driven motivation.

The increased motivation wasn't a matter of merely collecting a paycheck. In the research paper, which appeared in the April edition of the *Academy of Management Journal*, the authors note that "from an identity perspective, when employees perform well, they reinforce their self-concepts as responsible breadwinners and good role models."

# Texting Might Help Land You a Job

Employers skip phone interviews, turn to messaging for early-stage interviews

By KELSEY GEE

Your next job interview might happen via text message. Srsly.

Claiming that prospective hires are too slow to pick up the phone or respond to emails, employers are trying out apps that allow them to screen candidates and conduct early-stage interviews with texts.

"People don't want to have that ten-minute [phone] conversation any more if they could just reply with a quick text," said Kirby Cuniffe, chief executive of staffing firm **Aegis Worldwide LLC**. After Aegis recruiters reported that fewer potential hires were answering their phones, the firm decided to try texting. Since March, Indianapolis-based Aegis and Priceline Group's restaurant-booking service OpenTable have been using Canvas, a messaging app from **Canvas Talent Inc.** for text-based job interviews.

The app suggests interview questions employers can use, such as: "What motivates you?"

Its software analyzes the candidates' responses. Interviewers can rate the answers with a thumbs-up or thumbs-down visible only to the employer and share transcripts of those text exchanges with their co-workers.

Canvas charges employers around \$300 per recruiter, and competes with similar apps such as Monster Worldwide Inc.'s Jobr.

The use of smartphone-based tools for job interviews shows how employers are trying to adapt to young workers' communication habits.

Some 12% of millennials—defined as those born between 1980 and the early 2000s—prefer the phone for business communication, according to a 2016 report on internet trends from venture-capital firm Kleiner Perkins Caufield & Byers. By contrast, 45% prefer chatting online or exchanging messages by email or text.

At Aegis, recruiters who



Many millennials prefer using online chat or text with employers. A Colorado job fair this month.

used to schedule back-to-back phone calls with 30 or more potential hires every day can now juggle many more conversations via texts, which take less time. Mr. Cuniffe says each of his 10 recruiters who use the Canvas app can now handle conversations with 90 to 120 candidates at a time.

The firm specializes in recruiting employees to work in the manufacturing sector. While the app seems to work best at engaging millennials in conversations about job openings, it has also been useful for interacting with plant workers of all ages who have narrow windows of free time at odd hours, he said.

Mr. Cuniffe, 48 years old, said millennial employees were far less skeptical than he was about adopting the new technology.

"To them, it was like 'Duh, why wouldn't we use this, since that's how we communicate now,'" he said.

San Francisco-based OpenTable's text-based interviews with engineers and programmers are intended to show prospective hires the 1,100-person company isn't just another boring software firm—important because the firm competes for talent with Facebook Inc. and Alphabet Inc.'s Google, said Scott Day, a human-resources executive.

*'People don't want to have that ten-minute [phone] conversation any more...'*

Texting may address the aversion to using the phone and the time constraints on a group of people who are highly sought-after in Silicon Valley," said Mr. Day.

Etiquette for job-interview

texting is a work in progress. When Erin Scott, a recent **Butler University** graduate, received a message from Canvas Chief Executive Aman Brar about a potential job with the company, she was unsure if she should reply right away. She was cheering on the sidelines of a Saturday basketball game, and decided to wait to respond until Monday.

"I just remember thinking OK this is nice to get the questions and be able to sit on them for as long as I want and answer with exactly what I want to say," Ms. Scott said via text.

Emoji, too, are tricky. Mr. Brar included a smiley face with one of his interview messages, which he said was intended to indicate the exchange was "business casual, not buttoned-up."

Ms. Scott didn't reciprocate. "Sometimes things can be interpreted different over text," she said.

## Want a Job? Text Me

Edited excerpts of a job interview between the CEO of Canvas Talent Inc. and a potential hire.

Hi Candidate Happy Monday...would like to get to know you via text--don't stress if you have delays in your response! :) . I know you have a lot on your plate

Are you a competitive person?

Yes, I would consider myself a competitive person when I want to be. When I'm passionate about something and have more desire for it I will strive to reach for it and work as hard as I have to get it. This is also something I really want in a job- I think the only way to be completely successful is when you are truly passionate about what you're doing.

Agree-passion is key! We're very excited about what we're up to and we are a passionate group as well.

What motivates you?

I think the feeling that my work is actually helping someone else motivates me to work harder. Regardless of what I'm doing I think it's always good to know my work is playing a role to better something or someone else.

Source: Canvas  
THE WALL STREET JOURNAL.

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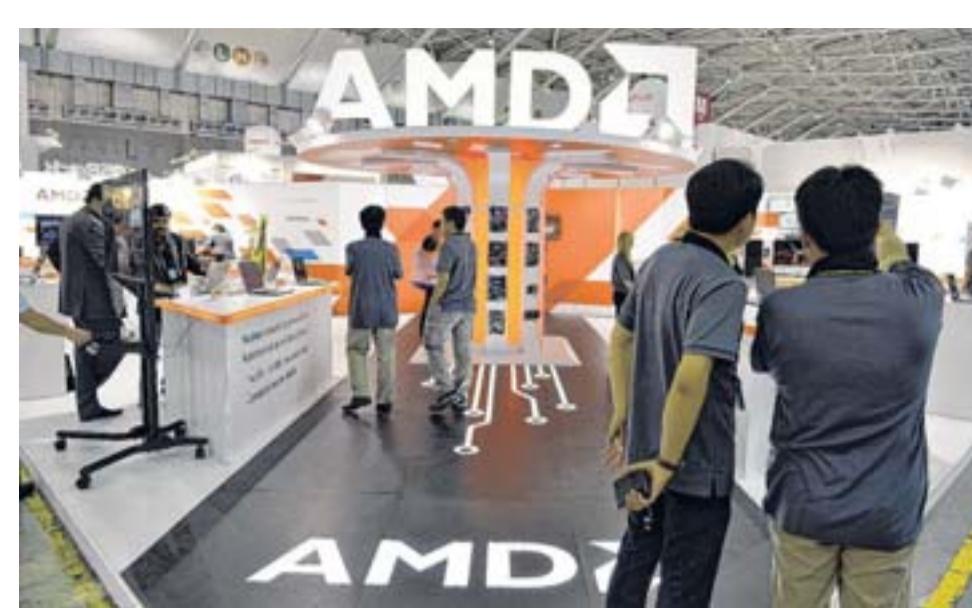
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#### CONNECTED

# AMD Takes On Intel Server Chips

A new generation is designed to compete in high-margin market; first challenge in years

By TED GREENWALD



CHRIS STOWERS/BLOOMBERG NEWS

AMD's last entry in the server-chip market was in 2013, and since then, its market share has dwindled.

relentless in clawing back any lost territory," he said, and he expects any damage to Intel to be limited because it has diversified into areas like server storage, memory and networking.

Lisa Spelman, general manager of Intel's Xeon server-chip line, expressed confidence in its products, including its forthcoming server chips, but said that "Intel takes all competitors seriously."

AMD at its Tuesday launch event in Austin, Texas, showed Epyc-based systems from several major server vendors including Dell Technologies Inc., Hewlett Packard Enterprise Co., and Lenovo Group Ltd., and announced that the chips were being used by major cloud-computing providers.

AMD touted the line's performance and pricing, but also features intended to make it more economical in data-center systems. Each chip can interact more readily with memory and ancillary equipment like graphics processors, AMD said, allowing a single Epyc to do work that would require two Intel server chips. Slimming servers from two to one chip could produce a 20% savings in total cost, AMD said.

"I think this is AMD's strongest suit—and harder for Intel to defend against because it would require an architectural shift," Mr. Moorhead said.

AMD in the past has introduced competitive products but failed to follow through with ongoing releases to sustain its momentum. The company at a recent meeting with

analysts assured them that it has a long-term road map for products this time.

Ms. Su said in an interview that despite substantial investments in PC processors and graphics chips, "the single largest bet for the company is in the data center." Her goal is to lift AMD's server-chip market share to double digits "in a couple of years," she said.

AMD's last entry in the server-chip market came in 2013, and since then, its share has dwindled to less than 1%, according to Mercury Research.

Other chip makers also are challenging Intel in servers. Qualcomm Inc. and Cavium

Inc. in March demonstrated chips running Microsoft Corp.'s Windows Server operating system—an Intel staple—based on technology from ARM Holdings, a division of SoftBank Group Corp.

International Business Machines Corp. has said it would ship new server chips based on its own designs in the second half of the year.

AMD's last entry in the server-chip market came in 2013, and since then, its share has dwindled to less than 1%, according to Mercury Research.

AMD's share price rose sharply starting last year on optimism that it was regaining competitive clout under Chief Executive Lisa Su, who took over in 2014. This spring AMD introduced its Ryzen chips for personal computers, which scored well in independent tests. That boosted anticipation of Epyc, which is based on the same core design.

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Other chip makers also are challenging Intel in servers. Qualcomm Inc. and Cavium

## Slice of the Pie

Apple's revenue, by product

Continued from page B1  
ate new products, he said, and "that's really hard."

The iPhone boom has overshadowed Apple's other products, making the company dependent on one product line for about two-thirds of its sales. That means any big stumble with the iPhone could be calamitous.

The iPhone's success is best reflected in China, where a combination of good timing, smart manufacturing and strong branding have made Apple one of the most successful American companies in the world's most populous country.

The iPhone hit Chinese shelves in 2009 as wages in that country were swelling. Apple—which relies on thousands of Chinese workers to assemble its products—benefited as Chinese consumers embraced the iPhone as a status symbol.

In 2006, all of Asia-Pacific outside of Japan accounted for 7% of Apple's revenue. Last year, greater China alone made up 23% of revenue.

The iPhone also spawned Apple's second-largest business by revenue: apps and other services offerings.

Mr. Jobs didn't plan that. In fact, he opposed it, said Scott Forstall, the company's former head of software. As a result, Apple didn't open the device to application developers until 2008, when it

added the App Store and began taking 30% of each app purchase.

The employees are spread across more than 100 buildings, creating a disparate workforce. Apple has pushed to together with a new, \$5 billion spaceship-style headquarters in Cupertino, Calif.

The company also pushed into payments with Apple Pay and a music-subscription service, creating a \$24 billion services business that is Apple's second-largest after the iPhone and is growing rapidly.

Now, the iPhone is "the razor and the blades" are the software services "said long-time Apple analyst and Steve Jobs' confidant Regis McKenna. "It creates this great annuity business."

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# BIGGEST 1,000 STOCKS

## How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISE and BATS. The list comprises the 1,000 largest companies based on market capitalization. **Underlined quotations** are those stocks with large changes in volume compared with the issue's average trading volume. **Boldfaced quotations** highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, June 20, 2017

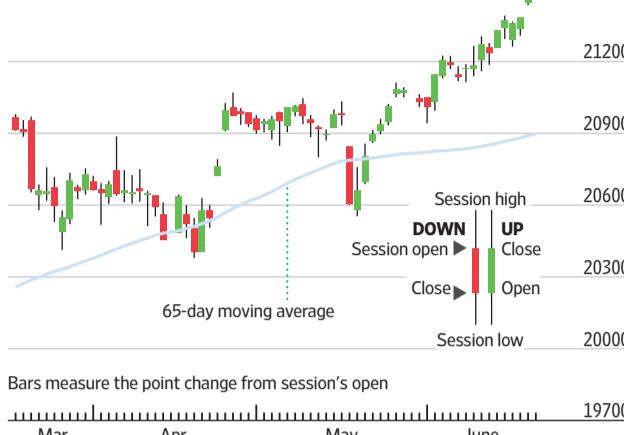
Net				Net				Net				Net				Net							
Stock	Sym	Close	Chg	Stock	Sym	Close	Chg	Stock	Sym	Close	Chg	Stock	Sym	Close	Chg	Stock	Sym	Close	Chg				
NYSE				AB InBev	BUD	114.18	.03	BlackKnightFin	BKFS	38.85	-.25	CenturyLink	CTL	24.70	-.66	Ecopetrol	EC	8.72	-.31	HPQ	17.83	.14	
AABB	ABB	25.05	-.45	AnnalyCap	NLY	12.38	-.05	BlackRock	BLK	424.69	-.39	Chemours	CC	37.95	-.05	EdisonInt'l	EIX	81.78	-.02	HSCB	43.50	-.68	
AES	AES	11.90	-.01	AnteroMidstream	AM	30.19	-.05	BoardwalkPip	BWP	32.94	-.04	Chevron	CV	106.44	-.98	EdwardsLife	EW	117.87	-.09	Halliburton	HAL	43.40	-.57
Aflac	AFL	78.71	-.55	Aon	AON	136.15	-.65	BorgWarner	BWA	40.73	-.60	ChinaEasternAir	CEA	28.79	.26	EmersonElectric	EMR	60.23	-.15	Hanesbrands	HBI	22.08	-.32
AT&T	T	38.66	-.02	ApartmentGlobal	APG	44.43	-.29	BrownBoveri	BVA	40.73	-.60	ChinaLifelabs	FL	15.31	-.03	Enbridge	ENB	37.74	-.09	HarleyDavidson	HOG	55.51	.06
AXIS Capital	AXS	65.28	-.30	Armark	ARMK	42.71	-.01	BrownSciences	BXS	28.01	-.24	ChinaMobile	CHI	53.43	-.87	Encana	ECA	8.40	-.03	Harris	HRS	111.87	-.41
Abbott Labs	ABT	48.77	-.12	AT&T	AT	17.61	-.22	BrownStreit	BST	40.91	-.51	ChinaSoAirlines	SNA	80.72	-.18	HeathcareAmer	HTA	32.49	.03	HartfordFin	HIG	52.23	-.22
AbbVie	ABBV	71.22	-.02	AT&T	AT	86.89	.04	BrownStreit	BST	40.91	-.51	ChinaUnicom	CHU	14.62	.04	HealthCareAmer	HTA	32.49	.03	HealthcareAmer	HTA	32.49	.03
Accenture	ACN	125.53	-.14	Ataroma	ARMK	41.02	-.02	BrownStreit	BST	40.91	-.51	Chipotle	CMG	425.60	-.33	Heico	HE	71.83	-.14	Lennar	L	191.25	.20
AcuityBrands	AYI	165.62	-.75	AtmosEnergy	ATM	20.63	-.03	BrownStreit	BST	40.91	-.51	Chubb	CB	146.93	-.18	Cooper	ECC	23.02	-.07	Heico	HE	60.65	-.80
Adient	ADNT	62.35	-.62	Apache	APA	47.72	-.12	BrownStreit	BST	40.91	-.51	ChungwaTelecom	CHT	35.45	-.30	EnergyTranfer	ETP	18.76	-.59	Herbalife	LFC	71.77	-.26
AdvanceAuto	AAP	123.58	-.62	ApartmentGlobal	APG	47.51	-.01	BrownStreit	BST	40.91	-.51	ChinaLifelabs	FL	15.31	-.03	Hershey	HSY	115.59	-.71				
AdvSemiMfg	ADS	6.04	-.09	ApparelGlobal	APG	47.51	-.01	BrownStreit	BST	40.91	-.51	Cigna	C	16.98	-.08	EnterpriseProd	EPP	79.74	.24	HewlettPackard	HPE	16.64	-.04
Aeon	AEG	4.94	-.09	AristaNetworks	ANET	155.03	-.16	BrownStreit	BST	40.91	-.51	CimarexEnergy	XEC	94.01	.06	Equifax	EFX	139.56	-.07	Hilton	HLT	65.88	-.06
AerCap	AER	45.72	-.05	Arrhythmia	ARRW	77.51	-.64	BrownStreit	BST	40.91	-.51	Equifax	EFX	139.56	-.07	Hyatt	H	71.83	-.14				
Aetna	AET	151.60	-.13	Assurant	AIZ	103.98	-.07	BrownStreit	BST	40.91	-.51	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AffiliatedMtrs	AMG	165.62	-.75	AquaAmerica	AQUA	33.78	.03	BrownStreit	BST	40.91	-.51	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AgilentTechs	A	60.33	-.22	Aramark	ARMK	41.02	-.02	BrownStreit	BST	40.91	-.51	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AcuityBrands	AYI	165.62	-.75	ArborMittel	MT	18.88	-.53	BroadridgeFin	BR	75.65	-.04	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
Adient	ADNT	62.35	-.62	ArcherDaniels	ADM	41.48	-.20	BroadridgeFin	BR	75.65	-.04	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AdvanceAuto	AAP	123.58	-.62	Arconic	ARCN	26.41	-.20	BroadridgeFin	BR	75.65	-.04	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AdvSemiMfg	ADS	6.04	-.09	Arco	ARCO	44.43	-.29	BroadridgeFin	BR	75.65	-.04	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
Aerogen	AEG	4.94	-.09	Arco	ARCO	44.43	-.29	BroadridgeFin	BR	75.65	-.04	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
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AffiliatedMtrs	AMG	165.62	-.75	Ataroma	ARMK	41.02	-.02	BroadridgeFin	BR	75.65	-.04	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AgileTechs	A	60.33	-.22	AtmosEnergy	ATO	84.56	-.05	Bunge	BNG	76.26	-.14	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AgnicoEagle	AEM	45.70	-.16	Autoliv	ALV	108.58	-.21	BurlingtonStores	BURL	94.01	-.09	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
Agrum	AGU	92.18	-.53	AutoZone	AZO	250.80	-.16	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AlarisTech	ATV	144.74	-.14	Avon	AV	195.39	-.19	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AlaskaAir	ALK	89.39	-.18	AvalonBay	AVB	195.39	-.19	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
Albermarle	ALB	107.34	-.09	AwayNer	AWY	87.92	.23	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
Alcoa	AA	30.45	-.04	AwayNer	AWY	87.92	.23	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AlexanderRe	ARE	119.26	.04	AwayNer	AWY	87.92	.23	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
Alibaba	BABA	138.38	-.09	Bayer	BAY	43.94	-.08	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
Alleghany	ALY	59.87	-.45	BectonDix	BDX	194.46	-.09	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
Allianz	ALL	81.94	-.26	BectonDix	BDX	194.46	-.09	CBD Pao	CBD	19.14	-.02	FidelityNatFin	FNF	38.85	-.25	Heico	HE	60.65	-.80				
AllyFinancial	ALLY	20.00	-.14	BectonDix	BDX	194.46	-.09	C															

## MARKETS DIGEST

### EQUITIES

#### Dow Jones Industrial Average

**21467.14** ▼61.85, or 0.29%  
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 19700

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

#### S&P 500 Index

**2437.03** ▼16.43, or 0.67%  
High, low, open and close for each trading day of the past three months.



Mar. Apr. May June 2270

#### Nasdaq Composite Index

**6188.03** ▼50.98, or 0.82%  
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.
<b>Dow Jones</b>										
Industrial Average	21535.03	21464.24	<b>21467.14</b>	-61.85	-0.29	21528.99	17140.24	20.4	8.6	8.2
Transportation Avg	9468.65	9303.82	<b>9303.82</b>	-172.81	-1.82	9593.95	7093.40	21.6	2.9	4.3
Utility Average	735.78	733.71	<b>734.68</b>	0.24	0.03	737.51	625.44	7.5	11.4	9.1
Total Stock Market	25357.94	25211.28	<b>25216.10</b>	-183.55	-0.72	25399.65	20583.16	17.0	8.3	7.0
Barron's 400	647.84	641.66	<b>641.73</b>	-7.25	-1.12	650.48	491.89	23.6	6.7	6.2

#### Nasdaq Stock Market

Nasdaq Composite	6234.01	6186.94	<b>6188.03</b>	-50.98	-0.82	6321.76	4594.44	27.8	15.0	12.3
Nasdaq 100	5772.17	5725.01	<b>5726.31</b>	-45.91	-0.80	5885.30	4201.05	29.7	17.7	14.6

#### Standard & Poor's

	500 Index	2437.03	-16.43	-0.67		2453.46	2000.54	16.7	8.9	7.5
MidCap 400	1761.62	1744.92	<b>1745.41</b>	-18.79	-1.07	1769.34	1416.66	16.8	5.1	7.0
SmallCap 600	855.58	846.64	<b>846.74</b>	-10.41	-1.21	866.07	670.90	19.5	1.0	7.6

#### Other Indexes

Russell 2000	1417.76	1402.79	<b>1402.97</b>	-15.11	-1.07	1425.98	1089.65	21.6	3.4	5.7
NYSE Composite	11801.20	11736.87	<b>11738.95</b>	-94.39	-0.80	11833.34	9973.54	11.9	6.2	2.1
Value Line	524.43	518.15	<b>518.22</b>	-6.21	-1.18	529.13	435.06	12.2	2.4	1.0
NYSE Arca Biotech	3878.91	3769.68	<b>3809.54</b>	35.13	0.93	3809.54	2818.70	26.9	23.9	11.5
NYSE Arca Pharma	538.69	534.85	<b>535.90</b>	1.18	0.22	554.66	463.78	4.6	11.3	0.8
KBW Bank	94.33	93.67	<b>93.69</b>	-0.90	-0.95	99.33	60.27	40.4	2.1	9.4
PHLX® Gold/Silver	79.56	78.66	<b>79.05</b>	-0.62	-0.78	112.86	73.03	-11.4	0.2	-7.1
PHLX® Oil Service	132.89	129.64	<b>132.19</b>	-3.13	-2.31	192.66	132.19	-22.7	-28.1	-24.5
PHLX® Semiconductor	1094.18	1074.62	<b>1074.88</b>	-13.03	-1.20	1138.25	648.32	53.7	18.6	19.2
CBOE Volatility	11.15	10.24	<b>10.86</b>	0.49	4.73	25.76	9.75	-41.2	-22.6	0.0

\$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	% chg	After Hours	High	Low
Altaba	AABA	13,785.2	53.81	...	unch.	54.01	53.78	
SPDR S&P 500	SPY	8,056.8	243.18	0.17	0.07	244.68	243.01	
General Electric	GE	3,035.1	28.12	-0.01	-0.04	28.25	28.12	
PwrShrs QQQ Tr Series 1	QQQ	2,988.3	139.32	-0.04	-0.03	140.48	139.29	
iPath S&P 500 VIX ST Fut	VXX	2,857.5	12.78	-0.13	-1.01	12.93	12.74	
JAKKS Pacific	JAKK	2,728.2	4.00	...	unch.	4.00	3.96	
Ambev ADR	ABEV	2,585.1	5.38	...	unch.	5.43	5.38	
Microsoft	MSFT	2,161.3	70.04	0.130	0.19	70.52	69.88	

#### Percentage gainers...

CA Inc	CA	74.3	36.50	4.92	15.58	37.00	31.58	
La-Z-Boy	LZB	65.7	29.55	3.35	12.79	29.55	25.00	
Red Hat	RHT	417.3	99.00	9.04	10.05	99.95	89.96	
InnerWorkings	INWK	6.8	11.60	0.98	9.23	12.00	10.62	
Jazz Pharmaceuticals	JAZZ	8.4	160.00	7.75	5.09	160.00	152.25	
...And losers								
YPF ADR	YPF	6.4	18.50	-3.70	-16.67	22.20	18.50	
Jabil	JBL	62.1	25.65	-2.99	-10.44	28.75	25.65	
Sangamo Therapeutics	SGMO	69.9	7.56	-0.65	-7.87	8.20	7.40	
Transportadora Gas ADR	TGS	141.6	15.50	-0.95	-5.78	16.45	15.50	
Adecoagro	AGRO	18.0	10.00	-0.31	-3.01	10.31	10.00	

\*Primary market NYSE, NYSE Mkt, NYSE Arca only. †TRIN) A comparison of the number of advancing and declining issues with the volume of shares rising and falling. An Arms of less than 1 indicates buying demand; above 1 indicates selling pressure.

#### Trading Diary

Volume, Advancers, Decliners	NYSE	NYSE Mkt




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## ADVERTISEMENT

## Legal Notices

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## BANKRUPTCIES

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MISSOURI, EASTERN DIVISION  
In re:  
PAYLESS HOLDINGS LLC, et al.<sup>1</sup> Case No. 17-42267-659  
Debtors. ) Chapter 11  
                ) Jointly Administered

## NOTICE OF THE HEARING TO CONSIDER CONFIRMATION OF THE THIRD AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION OF PAYLESS HOLDINGS LLC AND ITS DEBTOR AFFILIATES PURSUANT TO

## CHAPTER 11 OF THE BANKRUPTCY CODE

TO: ALL HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS AND PARTIES IN INTEREST IN THE ABOVE-CAPTIONED CHAPTER 11 CASES - PLEASE TAKE NOTICE

1. Approval of the Disclosure Statement and Solicitation Procedures.

On June 15, 2017, the United States Bankruptcy Court for the Eastern District of Missouri ("the Bankruptcy Court") entered an order (the "Disclosure Statement Order") in the above-captioned jointly-administered chapter 11 cases of Payless Holdings LLC and certain of its affiliates, as debtors and debtors in possession (collectively, the "Debtors") pursuant to which the Bankruptcy Court, among other things: (a) approved the Disclosure Statement for the Debtors' Third Amended Joint Plan of Reorganization of Payless Holdings LLC and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code (the "Disclosure Statement"); (b) authorized the Debtors to solicit acceptances for the Third Amended Joint Plan of Reorganization of Payless Holdings LLC and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code; and (c) approved the Disclosure Statement Order.

2. Voting Resolution Event.

Each of the following three events constitutes a "Voting Resolution Event" if such event occurs prior to the Voting Resolution Deadline, solely with respect to the temporary allowance of Claims for voting purposes:

(a) Agreement Between the Parties.

A stipulation or other agreement is executed between the Holder of such Claim and the other Debtor allowing the Holder of such Claim to vote such Claim in an agreed upon amount.

(b) Bankruptcy Rule 3018(a).

A creditor files with the Bankruptcy Court a motion seeking temporary allowance of a Claim for voting purposes an amount other than set forth in the Schedules pursuant to Bankruptcy Rule 3018(a)(1). A Motion to Vacate the Resolution Event Deadline that is granted.

3. Rule 3018(a) Motion.

(i) made in writing; (ii) in compliance with the Bankruptcy Code, the Bankruptcy Rules, and the Local Bankruptcy Rules; (iii) set forth under the name of the party asserting the Rule 3018(a) Motion; (iv) state with particularity the legal and factual bases for the Rule 3018(a) Motion; (v) be set for hearing at the Confirmation Hearing; and (vi) be served by personal service, overnight delivery, first class mail, or facsimile so as to be received by the Notice Parties no later than the Voting Resolution Event Deadline.

In the event that the Debtors and such party are unable to resolve any issues raised by the Rule 3018(a) Motion, (a) the Debtors may object, in writing, to the Rule 3018(a) Motion on or before July 21, 2017 at 4:00 p.m. prevailing Central Time; (b) the Debtor's motion will be heard by the Bankruptcy Court at the Confirmation Hearing whether including such provisional Ballot would affect the outcome of the voting to accept or reject the relevant Plan in the relevant Class in which the provisional Ballot was cast, and (c) the Bankruptcy Court shall then determine whether the provisional Ballot should be counted as a vote on the Plan.

4. Other Order of the Bankruptcy Court.

The Bankruptcy Court otherwise orders the allowance of such Claim for purposes of voting to accept or reject the Plan.

5. Voting on the Plan.

1. Record Date. June 14, 2017 for all Classes filed before such date, or, for any Claims filed after such date, the Claims Date, is the record date (the "Record Date") for determining (a) which Holders of Claims in Classes 3, 4, 5A, and 5B (which are the only Classes entitled to vote on the Plan, collectively, the "Voting Classes") and (b) whether Claims have been properly transferred to assignees pursuant to Bankruptcy Rule 3001(e).

2. Voting Deadline. July 17, 2017 at 4:00 p.m. prevailing Central Time is the date and time for the hearing to consider confirmation of the Debtors' Plan (the "Confirmation Hearing"), scheduled to be held before the Honorable Kathy A. Surratt-States, United States Bankruptcy Judge, at the Thomas F. Eagleton U.S. Courthouse, 111 S. 10th Street, 7th Floor - North Courtroom, St. Louis, MO 63102. PLEASE TAKE NOTICE THAT THE CONFIRMATION HEARING MAY BE CONTINUED DUE TO THE BANKRUPTCY COURT OR THE DEBTORS WITHOUT FURTHER NOTICE OTHER THAN BY AN ANNOUNCEMENT IN OPEN COURT OR A NOTICE OF ADJOURNMENT FILED WITH THE BANKRUPTCY COURT.

3. Effect of Confirmation.

Following Confirmation, subject to Article IX of the Plan, the Plan will be consummated on the Effective Date. Among other things, on the Effective Date, certain release, injunction, exculpation, and discharge provisions set forth in Article IX of the Plan will become effective. It is important to read the provisions contained in Article IX of the Plan very carefully so that you understand how Confirmation and Consumption of the Plan - which effectuates such provisions - will affect you and any Claim you may hold against the Debtors so that you cast your vote accordingly. Specifically, the "Third-Party Release" in Article IX.F of the Plan, provides, among other things, the following:

Exclusivity clauses specifically provided in the Plan, for good and valuable consideration, including the service of the Released Parties in facilitating the expeditious reorganization of the Debtors and the implementation of the restructuring contemplated by the Plan, effective as of the Effective Date, the Releasing Parties (regardless of whether a Releasing Party is a Released Party) shall be deemed to forever release, waive, and discharge the Released Parties of any and all claims, obligations, rights, suits, damages, causes of action, remedies, and liabilities whatsoever, including any derivative claims asserted on behalf of a Debtor, whether known or unknown, foreseen or unforeseen, liquidated or unliquidated, contingent or fixed, existing or hereafter arising, in law, at equity, or otherwise, whether for tort, contract, violations of federal or state securities laws or otherwise, including, without limitation, those that any of the Debtors, the Reorganized Debtors, the Estates, or their Affiliates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of the Claim or Right Interests on or relating to, or in any manner related to, the Debtor, the Debtor's business, the Entity or the conduct of the Debtor's business), the Chapter 11 Cases, the purchase, sale, or rescission on the purchase or sale of any security of the Debtors or the Reorganized Debtors, the subject matter of, or the transactions or events giving rise to, any Claim or Equity Interest held or asserted by the Releasing Party against the particular Debtor or Debtor(s), (iv) state with particularity the legal and factual bases for the Rule 3018(a) Motion filed with the Bankruptcy Court and served so as it is actually received on or before July 17, 2017 at 4:00 p.m. prevailing Central Time (unless otherwise agreed to by the Debtors, set forth in the Plan or Disclosure Statement, or ordered by the Bankruptcy Court), by the following notice parties: (i) Debtors: Payless Holdings LLC, 3231 SE 6th Avenue, Topeka, Kansas 66607, Attn: Robert Donohoo, Senior Vice President and General Counsel; (ii) Counsel to Debtors: Kirkland &amp; Ellis LLP, 601 Lexington Avenue, New York, NY 10022, Attn: Nicole L. Greenblatt, P.C. and William A. Guerrieri-and-Armstrong Teasdale LLP, 7700 Forsyth Boulevard, Suite 1800, St. Louis, Missouri 63105, Attn: Steven N. Cousins and Erin M. Edelman; (iii) Counsel to the Prepetition First Lien Term Loan Steering Committee: King &amp; Spalding LLP, 1185 Avenue of the Americas, New York, New York 10036, Attn: Jeffrey Pawlitz and Christopher Boies; (iv) United States Trustee: Office of the United States Trustee for the Eastern District of Missouri, 111 South 10th Street, Suite 6353, St. Louis, Missouri 63102, Attn: Michael A. Redden; (v) Counsel to the Debtor's Counselor: Hill &amp; Wang LLP, Two Madison Place, New York, NY 10022, Attn: Kevin J. Shand and Doug Gooding; and (vi) Schulte Roth &amp; Zabel LLP, 919 3rd Avenue, New York, New York 10022, Attn: Adam Harris; and (v) Counsel to the Creditors' Committee: Pachulski Stang Ziehl &amp; Jones PLLC, 480 Third Avenue, 34th Floor, New York, New York 10017, Attn: Robert J. Feinstein.

4. Additional Information.

1. Plan Supplement Documents.

On or before July 10, 2017, the Debtors will file the Plan Supplement documents, which include, among other things, forms of the Shareholders Agreement, the New First Lien Credit Agreement, the New ABL Credit Agreement, the Schedule of Assumed Executive Contracts and Unexpired Leases, the Schedule of Rejected Executive Contracts and Unexpired Leases, a list of retained Causes of Action, New Organizational Documents, and the documents and agreements necessary to implement the Cash Incentive Program. Notice of the filing will be provided to known creditors and other parties in interest informing parties that printed copies of the Plan Supplement will be available free of charge upon request to the Settlement Agent and will, among other things, (a) inform parties how to file a Proof of Claim or damages arising from a claim for cause rejection, if any, and (b) provide the object to the amount proposed by the Debtors in connection with assumption, and (b) describe how to object to the Plan.

2. Objecting to the Plan.

1. Objection Deadline. July 17, 2017 at 4:00 p.m. prevailing Central Time is the deadline for objecting to confirmation of the Plan (unless otherwise agreed to by the Debtors, set forth in the Plan or Disclosure Statement, or ordered by the Bankruptcy Court).

2. Objection Procedures.

Any objection to confirmation of the Plan must be in writing, (ii) conform to the Bankruptcy Rules, (iii) set forth the name of the objector, the nature and amount of Claims or Equity Interests held or asserted by the objector against the particular Debtor or Debtor(s), (iv) state with particularity the legal and factual bases for the Rule 3018(a) Motion filed with the Bankruptcy Court and served so as it is actually received on or before July 17, 2017 at 4:00 p.m. prevailing Central Time (unless otherwise agreed to by the Debtors, set forth in the Plan or Disclosure Statement, or ordered by the Bankruptcy Court), by the following notice parties: (i) Debtors: Payless Holdings LLC, 3231 SE 6th Avenue, Topeka, Kansas 66607, Attn: Robert Donohoo, Senior Vice President and General Counsel; (ii) Counsel to Debtors: Kirkland &amp; Ellis LLP, 601 Lexington Avenue, New York, NY 10022, Attn: Nicole L. Greenblatt, P.C. and William A. Guerrieri-and-Armstrong Teasdale LLP, 7700 Forsyth Boulevard, Suite 1800, St. Louis, Missouri 63105, Attn: Steven N. Cousins and Erin M. Edelman; (iii) Counsel to the Prepetition First Lien Term Loan Steering Committee: King &amp; Spalding LLP, 1185 Avenue of the Americas, New York, New York 10036, Attn: Jeffrey Pawlitz and Christopher Boies; (iv) United States Trustee: Office of the United States Trustee for the Eastern District of Missouri, 111 South 10th Street, Suite 6353, St. Louis, Missouri 63102, Attn: Michael A. Redden; (v) Counsel to the Debtor's Counselor: Hill &amp; Wang LLP, Two Madison Place, New York, NY 10022, Attn: Kevin J. Shand and Doug Gooding; and (vi) Schulte Roth &amp; Zabel LLP, 919 3rd Avenue, New York, New York 10022, Attn: Adam Harris; and (v) Counsel to the Creditors' Committee: Pachulski Stang Ziehl &amp; Jones PLLC, 480 Third Avenue, 34th Floor, New York, New York 10017, Attn: Robert J. Feinstein.

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# COMMODITIES

WSJ.com/commodities

## Futures Contracts

### Metal & Petroleum Futures

	Contract	Open	High	hilo	Low	Settle	Chg	Open interest
Copper-High (CMX)	-25,000 lbs.; \$ per lb.							
June	2.5865	2.5865	2.5550	2.5550	2.0345	1.220		
Sept	2.6040	2.6090	2.5635	2.5720	-0.0340	94,701		
Gold (CMX)	-100 troy oz.; \$ per troy oz.							
June	1242.20	1245.50	1240.50	1241.00	-3.20	784		
Aug	1245.40	1249.40	1242.40	1243.50	-3.20	310,937		
Oct	1248.90	1252.80	1246.00	1247.10	-3.20	11,607		
Dec	1252.30	1255.80	1249.40	1250.60	-3.10	86,836		
Feb'18	1255.80	1259.20	1253.20	1253.90	-3.10	10,178		
June	1263.50	1265.60	1259.80	1260.50	-3.20	5,934		
Palladium (NYM)	-50 troy oz.; \$ per troy oz.							
June	875.75	885.95	865.00	885.15	9.30	30		
July	873.25	873.25	871.25	878.35	9.90	38		
Aug	875.95	875.95	875.70	878.55	11.55	3		
Sept	856.00	869.95	852.75	867.15	11.55	33,950		
Dec	849.90	857.15	846.75	854.85	9.45	2,165		
Platinum (NYM)	-50 troy oz.; \$ per troy oz.							
June	925.40	926.80	925.40	920.60	-5.40	4		
July	924.60	929.10	919.20	921.50	-5.40	43,691		
Silver (CMX)	-5,000 troy oz.; \$ per troy oz.							
June	16.470	16.570	16.375	16.398	-0.085	16		
July	16.465	16.605	16.360	16.417	-0.085	82,061		
Crude Oil, Light Sweet (NYM)	-1,000 bbls.; \$ per bbl.							
July	44.11	44.40	42.75	43.23	-0.97	23,860		
Aug	44.33	44.69	42.94	43.51	-0.92	52,541		
Sept	44.58	44.94	43.22	43.77	-0.92	291,011		
Dec	45.40	45.72	44.06	44.58	-0.88	310,575		
June'18	46.67	46.83	45.43	45.79	-0.79	122,321		
Dec	47.35	47.50	46.35	46.66	-0.62	152,370		
NY Harbor Usd (NYM)	-42,000 gal.; \$ per gal.							
July	1.4087	1.4199	1.3825	1.3949	-0.0162	55,029		
Aug	1.4144	1.4275	1.3897	1.4022	-0.0164	106,372		
Gasoline-NY RBOB (NYM)	-42,000 gal.; \$ per gal.							
July	1.4486	1.4571	1.4169	1.4240	-0.0266	68,562		
Aug	1.4382	1.4510	1.4112	1.4188	-0.0258	105,988		
Natural Gas (NYM)	-10,000 MMBtu; \$ per MMBtu.							
July	2.897	2.913	2.879	2.907	.013	117,724		
Aug	2.927	2.936	2.903	2.930	.013	226,352		
Sept	2.912	2.932	2.899	2.928	.018	179,721		
Oct	2.942	2.958	2.926	2.955	.020	175,902		

## Cash Prices | WSJ.com/commodities

Tuesday, June 20, 2017

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

Tuesday

	Energy	Metals	Food	Fibers and Textiles	Grains and Feeds	Fats and Oils
Propane,tet,Mont Belvieu-g	0.5798					
Butane,normal,Mont Belvieu-g	0.6877					
NaturalGas,HenryHub-i	2.870					
NaturalGas,TranscoZone3-i	2.810					
NaturalGas,TranscoZone6NY-i	2.650					
NaturalGas,PanhandleEast-i	2.600					
NaturalGas,Opal-i	2.650					
NaturalGas,MarcellusNE PA-i	1.850					
NaturalGas,HaynesvilleLA-i	2.760					
Coal,CA,PLC,12500Btu,1S2S02-r,w	52.550					
Coal,PwdrRvrBsn,8800Btu,0.8502-r,w	11.550					
KEY TO CODES: A=ask; B=bid; BP=country elevator bids to producers; C=corrected; E=Manfra,Tordella & Brooks; G=ICE; H=Hurley Brokerage; I=Natural Gas Intelligence; L=Liverpoolindex.com; M=midday; N=nominal; n.a.=not quoted or not available; R=SNL Energy; S=The Steel Index; T=Cotlook Limited; U=USAID; W=weekly; Z=not quoted. Data as of 6/19						

Tuesday

	Energy	Metals	Food	Fibers and Textiles	Grains and Feeds	Fats and Oils
Propane,tet,Mont Belvieu-g	0.5798					
Butane,normal,Mont Belvieu-g	0.6877					
NaturalGas,HenryHub-i	2.870					
NaturalGas,TranscoZone3-i	2.810					
NaturalGas,TranscoZone6NY-i	2.650					
NaturalGas,PanhandleEast-i	2.600					
NaturalGas,Opal-i	2.650					
NaturalGas,MarcellusNE PA-i	1.850					
NaturalGas,HaynesvilleLA-i	2.760					
Coal,CA,PLC,12500Btu,1S2S02-r,w	52.550					
Coal,PwdrRvrBsn,8800Btu,0.8502-r,w	11.550					
KEY TO CODES: A=ask; B=bid; BP=country elevator bids to producers; C=corrected; E=Manfra,Tordella & Brooks; G=ICE; H=Hurley Brokerage; I=Natural Gas Intelligence; L=Liverpoolindex.com; M=midday; N=nominal; n.a.=not quoted or not available; R=SNL Energy; S=The Steel Index; T=Cotlook Limited; U=USAID; W=weekly; Z=not quoted. Data as of 6/19						

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NaturalGas,TranscoZone6NY-i	2.650					
NaturalGas,PanhandleEast-i	2.600					
NaturalGas,Opal-i	2.650					
NaturalGas,MarcellusNE PA-i	1.850					
NaturalGas,HaynesvilleLA-i	2.760					
Coal,CA,PLC,12500Btu,1S2S02-r,w	52.550					
Coal,PwdrRvrBsn,8800Btu,0.8502-r,w	11.550					
KEY TO CODES: A=ask; B=bid; BP=country elevator bids to producers; C=corrected; E=Manfra,Tordella & Brooks; G=ICE; H=Hurley Brokerage; I=Natural Gas Intelligence; L=Liverpoolindex.com; M=midday; N=nominal; n.a.=not quoted or not available; R=SNL Energy; S=The Steel Index; T=Cotlook Limited; U=USAID; W=weekly; Z=not quoted. Data as of 6/19						

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NaturalGas,TranscoZone3-i	2.810					

## BANKING &amp; FINANCE

## BANKRATE.COM® MMA, Savings and CDs

## Average Yields of Major Banks

Type	MMA	1-MO	2-MO	3-MO	6-MO	1-YR	2-YR	25YR	5YR
National average									
Savings	0.10	0.07	0.07	0.12	0.18	0.30	0.45	0.45	0.84
Jumbos	0.19	0.07	0.07	0.13	0.20	0.33	0.50	0.47	0.88
Weekly change									
Savings	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00
Jumbos	0.00	0.00	0.00	0.00	0.01	0.00	-0.01	0.00	0.00

## Consumer Savings Rates

Explanation of ratings: Safe Sound SM, (855) 733-0700, evaluates the financial condition of federally insured institutions and assigns a rank of **1,2,3,4 or 5** based on data from the fourth quarter of 2014 from federal regulators. **5:** most desirable performance; **NR:** institution is too new to rate, not an indication of financial strength or weakness. Information is believed to be reliable, but not guaranteed.

## High yield savings

Bank/rank	Phone number	Minimum	Yield (%)
Money market and savings account			
BankPerry/4	\$1 (844) 878-7359	1.30	
BankDirect, a Division of Texas Capital Bank/4	\$10,000 (877) 839-2737	1.16	
CIT Bank/4	\$100 (855) 462-2652	1.15	
One-month CD			
M.Y. Safra Bank, FSB/4	\$5,000 (212) 652-7200	0.30	
VirtualBank/4	\$10,000 (877) 998-2265	0.15	
AloStar Bank of Commerce/4	\$1,000 (877) 738-6391	0.10	
Two-month CD			
VirtualBank/4	\$10,000 (877) 998-2265	0.15	
Applied Bank/5	\$1,000 (800) 616-4605	0.05	
Three-month CD			
TAB Bank/4	\$1,000 (800) 837-4136	0.95	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	0.90	
Goldwater Bank/3	\$5,000 (480) 281-8200	0.86	
Four-month CD			
NewDominion Bank/2	\$1,000 (704) 943-5700	1.75	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	1.71	
EverBank/3	\$5,000 (855) 228-6755	1.70	
Five-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Six-month CD			
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	1.16	
VirtualBank/4	\$10,000 (877) 998-2265	1.11	
AlloBank, a division of Northeast Bank/4	\$1,000 (888) 426-2253	1.06	
Seven-month CD			
NewDominion Bank/2	\$1,000 (704) 943-5700	1.75	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	1.71	
EverBank/3	\$5,000 (855) 228-6755	1.70	
Eight-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Nine-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Ten-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Eleven-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twelve-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Thirteen-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Fourteen-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Fifteen-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Sixteen-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Seventeen-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Eighteen-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Nineteen-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-one-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-two-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-three-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-four-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-five-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-six-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-seven-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-eight-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Twenty-nine-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Thirty-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Thirty-one-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Thirty-two-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Thirty-three-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Thirty-four-month CD			
Synchrony Bank/5	\$25,000 (800) 903-8154	2.35	
First Internet Bank of Indiana/4	\$1,000 (888) 873-3424	2.27	
EverBank/3	\$0 (877) 247-2559	2.25	
Thirty-five-month CD			
Synchrony Bank/5</td			

## MARKETS & FINANCE

# Meet Buffett's Eyes and Ears in Germany

Zypora Kupferberg  
searches out deals  
for Berkshire in  
Europe's top economy

By NICOLE FRIEDMAN

When Zypora Kupferberg was charged with finding buyers for a German motorcycle-apparel company, she placed one name at the top of her list: Warren Buffett.

"I said, 'I am 100% sure I will find a way that my letter will be on his desk,'" Ms. Kupferberg said.

A year later, Mr. Buffett's Berkshire Hathaway Inc. bought the company for more than €400 million (\$448 million). The Omaha, Neb., billionaire then asked Ms. Kupferberg to bring him similar deals in the future—the bigger, the better.

Berkshire rarely relies on people outside the company to educate it on potential targets. Yet with that one deal in 2015, Ms. Kupferberg became Mr. Buffett's scout inside Europe's most powerful country.

"It's very helpful for us to have somebody that actually understands us," who can represent Berkshire's interests in Germany, Mr. Buffett said.

Ted Weschler, one of Mr. Buffett's portfolio managers, added: "She's our eyes and ears in Germany."

Ms. Kupferberg's role could become more crucial as Mr. Buffett looks for new targets in unfamiliar markets. Berkshire had \$96.5 billion in cash as of March 31, and Mr. Buffett told shareholders in May that he is eager to spend it. The conglomerate owns only a handful of businesses outside the U.S., including Netherlands-based IMC International Metalworking Cos.



ZYpora KUPFERBERG

Zypora Kupferberg's role could become more crucial as Warren Buffett looks for new targets.

The story of this unlikely pairing took six years to unfold. It began with Mr. Buffett's much-publicized tour of Europe in 2008. He was there to drum up potential deals but was unable to find an immediate target. Though she hadn't met Mr. Buffett, Ms. Kupferberg, 50 years old, suspected she could turn that around.

Ms. Kupferberg, 50 years old, was born in Mönchengladbach, Germany, to two Holocaust survivors. Her father co-founded an import-export

business in Israel after surviving multiple concentration camps; his work eventually took him to Germany.

"I'm from a family history [where] we are not used to making plans," Ms. Kupferberg said. "My parents educated us, 'Everything can change the next day.'"

After a disease from a tick bite prompted her to quit a job in private equity and venture capital, Ms. Kupferberg opened an independent consulting firm in Cologne in 1997

and started working with family-owned businesses in Germany. She gained a reputation as an astute deal maker but was largely unknown outside of the country.

She knew from experience that German companies, which typically have strong connections to their local communities and savings banks, could be wary of foreign investors. Berkshire, however, could be a good fit for such companies because it tends to seek out successful firms with

### Home Turf

Berkshire Hathaway, one of the most valuable companies in the world, derives most of its revenues from the United States

#### Percentage of revenues attributable to the U.S.

95% Railroad, utilities and energy

87% Property/casualty insurance premiums

85% Sales and service

61% Life/health insurance premiums

Source: the company

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strong competitive advantages that can be left alone.

In 2014, one of Ms. Kupferberg's clients, Ute Louis, wanted to sell Detlev Louis Motorrad-Vertriebsgesellschaft, a motorcycle helmet and equipment retailer. Ms. Louis had some tricky requirements: The management team had to stay in place and the company had to keep its headquarters in Hamburg.

"I thought, this is a perfect match" for Berkshire, Ms. Kupferberg said. Ms. Kupferberg reached out to an Omaha investment banker she met years earlier in a Frankfurt law office: Jim Zipursky.

Mr. Zipursky told Ms. Kupferberg that his father, Morley, also a banker, knew Mr. Buffett through Stan Lipsey, a mutual friend who worked for Mr. Buffett for years. He offered to deliver a letter and a deal proposal straight to the billionaire's desk. The deal closed in 2015. Halfway through the process, I thought that, really, I'd like to be on the same side of the table as Zypora sometime," Mr. Weschler said.

"It was an idea that just came out of our discussion," Mr. Zipursky said. "As we talked about the opportunity, it

became clear that Berkshire Hathaway would be the best possible acquirer for that company."

The 1½-page letter, signed by Morley Zipursky, introduced the company, and Mr. Buffett responded within days asking for a price. He then said that he liked the company but the price was too high. A few months later, Ms. Kupferberg and Mr. Zipursky tried again, with a tweaked offer. Mr. Buffett approved the new offer, and Mr. Weschler traveled to Germany to meet Ms. Kupferberg and the company's owner and managers.

Last year, Ms. Kupferberg helped arrange a meeting for Mr. Weschler with the heads of the 25 largest German savings banks. He was the first guest to meet with that group of executives, said Karl-Peter Schackmann-Fallai, managing director of the German Savings Bank Association.

In May, Ms. Kupferberg traveled to Omaha for her first meeting with Mr. Buffett. In his office, the two discussed potential investments and the economic situation in Germany and Europe.

"She has a very good sense of what might fit or not," Mr. Buffett said.

# Battle Over Bitcoin's Fate Spurs Sharp Price Swings

By PAUL VIGNA

A calcifying rift in the bitcoin world is pitting two camps with competing visions for what the virtual currency should be against each other, accentuating the volatility that has come to define this market.

Even for bitcoin, though, last week was a wild ride. It

**CURRENCIES** increased to a

high of \$3,018, only

to fall 27%.

The currency then recovered somewhat and by late Tuesday was trading at \$2,810.

The sharp swings come amid

bitter jousting by bitcoin developers and businesses over how best to expand the currency's processing capacity and could result in it being split into separate, competing coins. On one side: those who want bitcoin to act more like a digital version of gold, a commodity with a limited supply that can be held as a store of value.

The opposing camp wants bitcoin to look more like a currency, a unit that can be used to settle transactions. That faction wants bitcoin to be as fast and easy to trade as a dollar.

The two sides have been at a

stalemate, but new proposals expected to launch this summer could provide a breakthrough—either changes in the bitcoin network's processing capacity or a split between a high-speed and slow-speed bitcoin.

"You watch a fine marriage that is falling apart," says Emin Gun Sirer, a Cornell professor who studies virtual currencies. "Eventually, you say, I think a

divorce is the best thing."

The bickering has hindered interest in the virtual currency, sending some to a newer alternative, ethereum, that has surged more than 40-fold this year and is now valued at only about 20% less than all of the traded bitcoin, according to CoinMarketCap.com.

"A lot of my friends are selling their bitcoin and buying ethereum," says Zachary Mallard, who runs a men's grooming-products business in the Brooklyn borough of New York.

Mr. Mallard bought some

ethereum in recent months,

passing up on bitcoin in part because he views the potential split in the currency as limit-

businesses that confirm transactions in a process known as mining.

The network it trades on was designed to be fast and cheap, operating without middlemen, with an immutable ledger recording transactions. The ledger, also known as blockchain, is simultaneously transparent to users and protective of the identity of buyers and sellers, some of whom historically used bitcoin for money laundering or other illegal purposes.

Briefly, this is how bitcoin trades:

Individual transactions on the network are packed into blocks by companies that specialize in processing the trades, so-called miners. Under its current structure, the size of those blocks is capped, allowing only about seven transactions per second, far below the hundreds of thousands a network like Visa can process.

In bitcoin's early days, the limit wasn't an issue. That has changed as bitcoin transactions have surged and the currency has piqued more widespread curiosity. The result has been bottlenecks and rising transaction fees.

Many investors and processors have pushed to increase the limits in an effort to make bitcoin trade more like a modern-day currency.

But purists and some developers have fought back, in part because it could hurt their financial interests, but also because it goes against their libertarian, anti-big-business bent. Raising the limits would

ing the potential gains.

The debate between the two sides has intensified in recent weeks as bitcoin has rallied 190% this year—despite the recent swings in the currency's value. Ultimately, how the trading is structured will help determine who controls the currency, and who potentially gets rich from that control.

As it was developed in 2008 by the pseudonymous creator Satoshi Nakamoto, bitcoin has a limited supply, 21 million coins, that are released on a set schedule and awarded to

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# MARKETS

# Banks Rally Even as Yield Curve Flattens

Unusual trend shows divergent opinions on which way the economy is headed

By BEN EISEN

Financial stocks are getting their groove back—and they are doing it without help from the bond market.

S&P 500 financials are up 4.9% this month, on pace to be the best performer among the benchmark's 11 sectors. If that holds through the end of June, it would be the best month for the sector since February, when investors were still betting on an economic boom fueled by President Donald Trump's plans for tax cuts and deregulation.

The KBW Nasdaq Bank index is up 5.4% this month through Tuesday, while Goldman Sachs Group Inc. is up 6.6% and Morgan Stanley is up 9%.

The stocks of banks, insurers and other financial institutions typically climb when the differential between short-term rates and long-term rates is rising, a development known as a steepening yield curve. That is often thought to boost the net interest margins that banks harvest from borrowing at low short-term rates and lending at higher long-term rates.

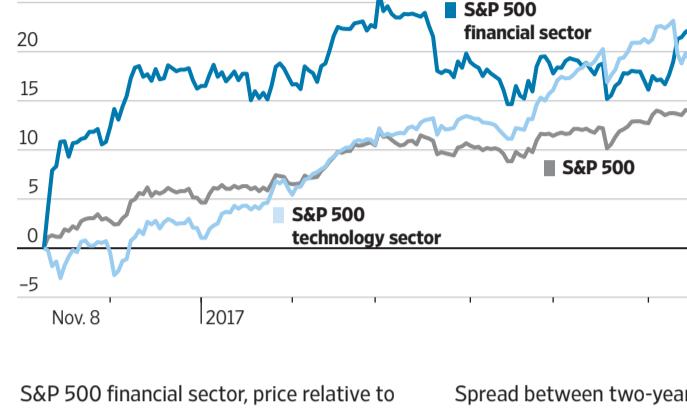
But what is remarkable is that financials have rallied while the yield curve has been moving in the opposite direction. The differential between the two-year Treasury note yield and 10-year yield was at 0.81 percentage point on Tuesday, near its smallest since 2007. That is down from 0.92 percentage point at the end of last month.

The rally in financial stocks is at the center of diverging outlooks on the economy. Major stock indexes, and sectors such as financials that are sen-

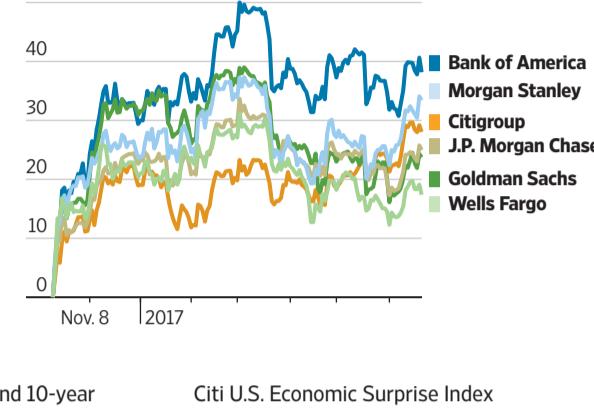
## Taking the Long View

Investors are buying bank stocks again, pushing up valuations. It's a sign many believe the U.S. expansion will continue, despite caution signals such as a flattening 'yield curve' and soft data.

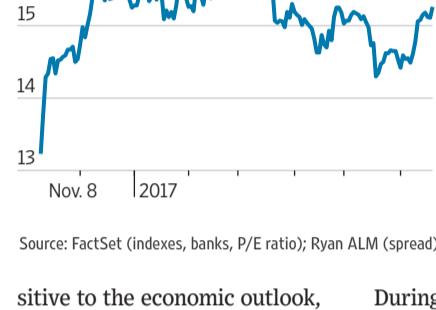
Change since Election Day



Six largest U.S. banks, change since Election Day



S&P 500 financial sector, price relative to past 12 months of earnings



Spread between two-year and 10-year Treasury yields



Citi U.S. Economic Surprise Index



Source: FactSet (indexes, banks, P/E ratio); Ryan ALM (spread); Thomson Reuters (surprise index)

THE WALL STREET JOURNAL.

sitive to the economic outlook, have been gaining steam in recent sessions. At the same time, bond yields have been falling, signaling a less robust outlook for growth and inflation.

"As much as the bond-market vigilantes like to think they are right, it's not always the case," said Julian Emanuel, an equity and derivatives strategist at UBS. "Price is a very powerful signaling mechanism, and the fact that the financials have outperformed while the yield curve is flattening leads us to believe there is a distinct possibility that the yield curve will stop flattening."

During the week that ended June 14, investors poured \$1.4 billion into funds that invest in the financial sector, the largest inflow in 14 weeks, according to Bank of America Merrill Lynch. Investors also put \$9 billion into bond funds, the 13th straight week of inflows. Meanwhile, investors have cooled on technology stocks in the past week, but still put \$100 million into funds that invest in them.

Before the recent upturn, many investors had soured on financials in recent months as Mr. Trump's policy agenda stalled and economic data took a weaker turn. Citigroup Inc.'s

U.S. economic-surprise index, which measures how data compare with forecasts, was at its lowest since 2011 on Friday after inflation and retail-sales numbers came in below economists' expectations.

If the economy continues to weaken, it could put the gains in the financial sector at risk. But at the moment, some see the economic outlook as excessively negative, meaning it is poised to rebound to match what bank stocks show. Plus, even if U.S. data continue to be soft, the global economy is expected to accelerate at the fastest pace since 2010 next year, according to Fitch Ratings.

ings.

"The market is making new highs here and expectations for the economy have gone straight south," said Bruce Bittles, chief investment strategist at Baird. "That to me suggests the potential for an upside surprise is much greater than the potential for a downside surprise."

There are signs that the new administration wants to take a lighter touch to financial regulation. And while low market volatility can pose a challenge to banks' trading businesses, some analysts say volatility is poised to tick higher.

## Latest Development Has Many Drivers

Some measures of the yield curve are hitting their flattest levels in almost a decade, a development that is being greeted with moderate concern in markets.

The yield premium of the 30-year Treasury note over the five-year Treasury note was 0.98 percentage point on Tuesday, its smallest since December 2007. The spread had hit 1.41 percentage point on the day after the U.S. presidential election, according to Tradeweb. A larger figure means a steeper yield curve, typically taken as a sign of robust economic health and strong future bank profits.

A flattening yield curve often historically suggested bond prices were reflecting downbeat prospects for the economy and inflation in the years ahead. When long-term Treasurys yield less than short-term notes, which hasn't happened since before the financial crisis, it typically signaled a recession is coming shortly.

But the yield curve has also been flattening in recent years for reasons having little to do with the economic outlook. Low government-bond rates around the world have driven investors to buy up U.S. Treasuries because their yields are comparatively higher than those in Europe and Japan. The flood of foreign money has in turn weighed on U.S. yields.

Those additional buyers have caused some to claim that the yield curve has become distorted as an economic signal, failing to show how the bond market views the economic outlook in the years ahead. That said, investors are still paying attention.

—Ben Eisen

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

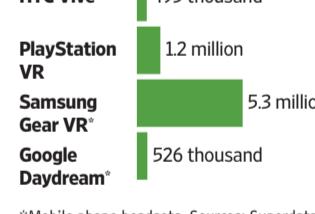
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# Virtual Reality Needs to Get Real

## Reality Bites

Unit sales of virtual reality headsets



\*Mobile phone headsets. Sources: Superdata; Mike Blake/Reuters (photo)

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estimates that HTC's Vive system and the Oculus Rift from Facebook sold less than 800,000 units combined from their launch up to the end of March. Samsung Electronics is believed to have sold more than five million units of its Gear VR that works with its mobile phones, but those are different from the headsets designed to run powerhouse videogames—and far cheaper.

High-end VR hasn't cre-

ter Facebook CEO Mark Zuckerberg spent much of his developers' conference on AR—citing "Pokémon Go" as inspiration—with scarcely a word about VR.

Another hit for VR came from Microsoft, which launched a new supercharged version of its Xbox One console at the event. The company didn't make the console compatible with existing VR systems—a distinct change from its tone the year before.

It isn't game over for VR just yet. Sony announced several new games coming for PlayStationVR later this year, and it launched a big new title called "Farpoint" just last month. Privately held publisher Bethesda Softworks spent E3 showing off three upcoming VR games based on its well-regarded "Doom," "Fallout" and "Skyrim" franchises. Those demos drew big crowds at the show, which is encouraging. But if VR is to ever level up in a big way, it needs to find something gamers simply can't live without.

—Dan Gallagher

## OVERHEARD

### Someone at Coca-Cola

read Dale Carnegie's classic "How to Win Friends and Influence People." One of his tips is that "a person's name is to that person the sweetest and most important sound in any language."

That, along with a healthy dollop of high-fructose corn syrup, has been a winning strategy as the company revived its "Share a Coke" marketing blitz last month. The idea is that people can find a bottle with up to 1,000 first and last names.

So far, so good, but the company's targeting backfired with the tweet "Today's forecast in Pittsburgh: Record heat, followed by an ice-cold wave of ahhhhh. #Share-a-Coke."

Unfortunately, the ad included a picture of Philadelphia, Pennsylvania's other major city and a bitter rival in sports.

There would have to be a lot of high-fructose corn syrup in the can to make Philadelphia sound sweet to residents of Pittsburgh.

## Housing Is In Trouble Down Under

Chinese buyers have been gobbling up houses all over the world in recent years. There could be nasty surprises when the buying stops.

There are already signs of imminent pain for the global property market, thanks to China's efforts to stop money pouring out of the country. Inquiries from China for foreign real estate fell 31% in the first quarter from a year ago, according to Juwai.com, a portal connecting Chinese buyers to overseas listings.

The property market Down Under looks vulnerable. China accounts for four in every five foreign buyers in Australia, with their interest a prime reason why home prices have surged to unaffordable levels: Prices in Sydney are up 72% since 2012.

With Australia's household debt now nearing 200% of disposable income, Moody's downgraded 12 Australian banks and their affiliates Monday, citing housing market risks. Australia's four biggest banks alone have a \$1.1 trillion exposure to Australian housing loans, some 55% of their total portfolios, according to Morgan Stanley.

And nearly 40% of home loans are interest-only. Such loans work fine when house prices keep rising. The worry now is that prices will start falling as Chinese buying interest wanes.

An Australian demographer caused an uproar last year after chastising the country's younger generation for being unable to buy houses because they spent too much money on things like avocado toast. Right now, instead of encouraging young people to jump into the housing market, it may actually be better to just let them eat toast.—Jacky Wong

# Trump Plan Offers a Potential Bonanza for Trust Banks

## Trust Surplus

Percent of total assets exempt from altered leverage ratio



Note: Includes cash, U.S. Treasuries, and deposits with the Federal Reserve

Source: Goldman Sachs

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on making loans. Instead, they tend to invest in safe, highly liquid assets like Treasury bonds or else just hold cash on deposit with the Federal Reserve.

Custody banks take some cash deposits from their investor clients, but their business models aren't focused

These are among the assets that the Treasury Department now wants to exclude from calculating total leverage, according to the department's report on banking regulation last week. If the change goes through, it would be a windfall to the custody banks.

If these assets were excluded from leverage calculations, BNY Mellon, State Street, and smaller competitor Northern Trust could have between 33% and 38% of their total assets freed up, according to analysts at Goldman Sachs Group.

J.P. Morgan Chase, which also has a sizable custody business, would see around

21% of assets exempted. At other large banks the ratio ranges from 12% to 17%, according to Goldman's analysis.

Since around 2014, BNY Mellon and State Street have shrunk their balance sheets and issued billions of dollars of preferred shares to bring down their leverage ratios. If leverage calculations are loosened, it would allow them to call back the preferred shares, lever up again, or both. Earnings would rise as a result.

Analysts at Keefe, Bruyette & Woods estimate the regulatory shift could boost 2018 earnings per share by 19% at BNY Mellon

and 26% at State Street. This assumes the banks make large, instantaneous adjustments to their balance sheets, which isn't realistic.

But it still illustrates the potential power of changes in leverage calculations.

Since the Treasury report was released, shares of BNY Mellon and State Street have risen 2.4% and 2.8%, respectively, compared with a 0.8% rise in the KBW Nasdaq Bank Index. These moves seem minor compared with the potential earnings upside.

As bank deregulation slowly moves forward, look for the trust banks to keep rising.

—Aaron Back

# FUTURE OF TRANSPORTATION

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Wednesday, June 21, 2017 | R1

## The End of Car Ownership

Ride sharing and self-driving vehicles are going to redefine our relationship with cars. Auto makers and startups are already gearing up for the change.

BY TIM HIGGINS



R. KIKU JOHNSON

CARS ARE GOING TO UNDERGO A LOT OF changes in the coming years. One of the biggest: You probably won't own one.

Thanks to ride sharing and the looming introduction of self-driving vehicles, the entire model of car ownership is being upended—and very soon may not look anything like it has for the past century.

Drivers, for instance, may no longer be drivers, relying instead on hailing a driverless car on demand, and if they do decide to buy, they will likely share the vehicle—by renting it out to other people when it isn't in

use. Auto makers, meanwhile, already are looking for ways to sustain their business as fewer people make a long-term commitment to a car. And startups will spring up to develop services that this new ownership model demands—perhaps even create whole new industries around self-driving cars and ride sharing.

Here's a look at the changes to come, and what they mean.

### DRIVERS NO MORE PERMANENT ARRANGEMENTS

Car ownership, for a long time, has symbolized freedom and independence. But in the future, it may be akin to owning a horse today—a rare luxury.

Ride sharing as we know it will grow in popularity as people get even more comfortable with the sharing economy, and more people migrate to dense cities where owning a car is a burden. One-quarter of miles driven in the U.S. may be through shared, self-driving vehicles by 2030, according to an estimate by Boston Consulting Group.

And the business of ride sharing may take on some new forms.

Startups such as Los Angeles-based Faraday Future envision selling subscriptions to a vehicle—for instance, allowing people to use it for a certain num-

ber of hours a day, on a regular schedule for a fixed price. So, people who need a vehicle for a few hours daily to attend meetings or make deliveries could subscribe and avoid having to summon on-demand rides every day (and potentially paying a lot more).

Other companies are experimenting with the idea of allowing drivers to access more than just one kind of vehicle through a subscription—so, a driver might choose a compact model one day but a minivan another day if she

needed more passenger space.

"By 2022, 2023, the majority of transportation in urban cities with temperate weather will be on demand, shared and likely autonomous," says Aarjav Trivedi, chief executive of Ridecell, a San Francisco company that provides the back-end software for car sharing.

Even people who do end up buying a car may come to see it as a short-term arrangement—and a source of income.

Chief Executive Elon Musk has hinted that he's preparing to create a network of Tesla owners that could rent out their self-driving cars to make money. Already, some drivers are testing this idea using other services that let them market their cars, something like Airbnb rentals on wheels.

Take Jeff Cohen, who works for an electric-vehicle-charging company. His wife balked at his desire to buy the Model S sedan, which Tesla Inc. typically sells for about \$100,000.

He persuaded her to allow him to buy a Tesla if he would in turn rent it out on a site called Turo. Doing so—at \$189 a day—almost covered the cost of the entire monthly loan payment while giving him the ability to drive the electric car around Atlanta when not in service, he says. "It allowed me to get the car," says Mr. Cohen, 58 years old. "We weren't in

agreement that we could get a car like this without some way to fund it."

Turo, which had more than three million people sign up for the service through the end of May, says

Teslas, along with BMW and Mercedes-Benz cars are among the more popular searched vehicles on the site.

"A lot of people are realizing that the car is no longer just a cost—it's an asset," says Andre Haddad,

Turo's chief executive.

Of course, the biggest obstacle to many of the changes may be the most simple: People have to be willing to give up the idea of owning their car—something that has been culturally ingrained over many decades.

What's more, under this vision, car buyers won't just give up the idea of sole ownership. They may also give up the idea of sitting behind the wheel by using autonomous vehicles.

They will have a powerful incentive to do so. A study by Deloitte Consulting, for example, estimates that the cost of personal car ownership is on average 97 cents a mile today but could drop by two-thirds in a world of shared, self-driving vehicles—a tipping point that could usher the technology into daily life for many people. In cities, the idea will be even more appealing, because it takes away the unpleasant sides of ownership, such as parking and negotiating traffic jams.

Companies are already looking at how to market vehicles to overcome some of the possible psychological resistance to nonownership. Waymo, the self-driving tech unit of Google parent Alphabet Inc., has begun public trials of self-driving minivans in Phoenix for select users, with the eventual goal of testing them with hundreds of families.

The goal is a better understanding how to make such a service appealing enough to take the place of a family car.

"We're really experimenting here with how far our users can go in terms of using a service like this one to replace their own personal transportation,"

Please turn to the next page

**Even people who do buy a car may see it as a source of income.**

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A service in São Paulo could spread

## JOURNAL REPORT | THE FUTURE OF TRANSPORTATION

# New York to London in 40 Minutes? Maybe Someday

Private companies are betting that they can build 'space planes' for hypersonic travel

BY ANDY PASZTOR

MORE THAN A decade after the demise of supersonic Concorde jets, the drive for easy and affordable access to space has inspired proposals for a new generation of superfast airliners able to streak across continents in minutes.

Recent advances in propulsion and spacecraft design—featuring lower-cost, reusable boosters and capsules—are transforming the way commercial and military entities view orbital missions. Elon Musk's **Space Exploration Technologies** Corp. (SpaceX), Richard Branson's **Virgin Galactic** LLC, and Jeff Bezos' **Blue Origin** LLC are among the private companies developing space vehicles designed to launch multiple times with scant refurbishment.

Public references to Pentagon research, some classified, that describe how this new space technology could be used for spy planes, or to rapidly replace national-security satellites destroyed in a conflict, also have helped fuel talk of using similar concepts to revolutionize air travel.

Now, despite daunting technical and cost challenges, some entrepreneurs are betting they can do it.

### 3,500 mph

By incorporating innovative engine designs, the benefits of 3-D printing and principles of using the same booster repeatedly, these entrepreneurs plan to transform commercial

aircraft into so-called hypersonic space planes capable of carrying passengers. Powered by engines that burn hydrogen fuel with oxygen from the atmosphere, they would travel at least five times the speed of sound, or about 3,500 miles an hour, versus the 500 mph or so at which conventional jetliners typically cruise.

Among those championing hypersonic travel for fare-paying passengers is Chris Milam, a Texas real-estate developer and technology investor who has pledged to invest as much as \$20 million of his own funds over the next few years to design such a system. Along with Preston Carter, an expert formerly with the Pentagon's advanced-research arm, Mr. Milam aims to develop a two-stage concept in which a rocket carries a hypersonic, winged vehicle and releases it to cruise at high altitude. The passenger-carrying craft would land at its destination like a conventional airliner.

"There has been lots of discussion about high-speed flight since the end of Concorde, but little has been realized," Mr. Milam says. "The reality is systems like this are expensive."

Preliminary designs call for the space plane to carry about 100 passengers and cruise at an altitude of 70,000 to 100,000 feet, with the goal of reaching any point on Earth within four hours. It would have a total takeoff weight of some 500,000 pounds, less than half of a fully loaded Airbus A380 superjumbo.



Technology from the government's planned XS-1 satellite launcher may filter into passenger craft.

shapes that allow them to stay cooler. Longer term, she says, "it can probably be broadened" to commercial applications.

Mr. Milam says there are other potential solutions to the overheating problem, some of which he is paying NASA experts to help develop.

Part of the impetus for the renewed focus on hypersonic options stems from an initially little-noticed report prepared by Air Force planners and outside experts in late 2016. Titled "Fast Space," the document spells out various strategies for "ultra low-cost," entirely reusable launchers eventually able to whisk cargo, soldiers and weapons around the globe in a matter of minutes rather than many hours.

Citing a "confluence of government research and private sector innovation," the report describes "a window of opportunity for the U.S. to shift its approach" to space access. Increasingly embraced by Air Force brass, parts of the document emphasize the long-term advantages of joining with industry to revamp commercial transportation.

Mr. Milam says his Austin, Texas, startup, **Supernature** LLC, needs substantial federal funding or additional private investors to build a prototype. On the upside, he says, interest among potential backers has been "bolstered by the success of commercial space."

**Mr. Pasztor is a Wall Street Journal senior special writer in Los Angeles. Email him at andy.pasztor@wsj.com.**

The upshot, proponents argue, would provide options far beyond those promised by most of today's civilian supersonic projects, which remain focused on building business jets or mini-airliners that essentially are updated versions of the Concorde on steroids. Closely held Boom Technology Inc., for example, is developing a three-engine, 45-passenger jet intended to fly 1,500 miles an hour—or roughly twice the speed of sound.

But if an entirely new category of airliner-like suborbital vehicles becomes reality in coming decades, they would fly many times faster and higher, traveling from London to New York in some 40 minutes—or 10 times as fast as current airline schedules. That is still less than the anticipated top speed of the Pentagon's unmanned XS-1 experimental craft being developed to launch satellites, or NASA's earlier X-43 rocket ship demonstrator that hit a record-breaking velocity of more than 7,500 miles an hour without a pilot.

### High hurdles

For a hypersonic passenger jet to become a reality, some major hurdles need to be cleared. The biggest one is that engineers so far have failed to produce materials or devise other means to safely handle the intense heat when airliners reach such hypersonic speeds. Aerospace giants

including Boeing Co. and Airbus SE have had limited success, while Lockheed Martin Corp. only recently decided to pursue a scaled-down test vehicle for military purposes.

Skeptics such as consultant and entrepreneur Joel Sercel, a former government space researcher, consider that hurdle particularly challenging. "The problem of cooling any vehicle going that fast isn't solvable," he says. "These issues have been plowed before."

But others in the aerospace industry are more optimistic. Julie Van Kleeck, vice president at engine maker **Aerojet Rocketdyne Holdings** Inc., says 3-D printing allows production of engine parts and other structures with unique

# The End of Car Ownership

Continued from the prior page  
says John Krafcik, head of Waymo and a former automotive-industry executive.

### BIG AUTO MAKERS MAKING PEACE WITH ON-DEMAND SERVICES

For auto giants, the new ownership models—whether for traditional cars or self-driving ones—constitute a major threat.

As a result of both driverless cars and fleets of robot taxis, sales of conventionally purchased automobiles may likely drop. What's more, because autonomous cars will likely be designed to be on the road longer with easily upgradable or replaceable parts, the results could be devastating to auto makers that have built businesses around two-car households buying new vehicles regularly. Currently, cars get replaced every 60 months on average, according to Experian.

"It may become more like the airline business where we see jets that have been in service for 50 years," says Chris Ballinger, chief financial officer and head of mobility services at the Toyota Research Institute. "Now I don't think a car will be in service for 50 years but I'm saying it may move in that direction...with tens of millions of miles and decades of service."

In response, some car companies are trying to meet that threat head-on, by experimenting with different ownership models.

One plan to get drivers to buy a vehicle of their own is to help owners rent out their vehicles, as they would in Mr. Musk's planned network of Tesla owners. Toyota's Lexus brand is testing payment plans that let people subsidize the purchase of pricey cars by renting them through a service called Getaround. The hope is that young buyers, who have been eschewing traditional ownership but are still attracted to luxury nameplates, will grab the chance to afford fancy cars on Corolla budgets.

**BMW**, meanwhile, is experimenting with shared rides through its Reachnow service. Members can get access to a fleet of BMW vehicles—and Minis, in some areas—that they pick up as needed and can drop off anywhere when they're done.

**General Motors** Co., the largest U.S. auto maker by sales, seems to be hedging all bets. The company acquired an autonomous-car tech startup called Cruise Automation last year in a deal with a potential value of more than \$1 billion. It also invested \$500 million in ride-share company **Lyft**, as well as starting a car-sharing service of its own called Maven.

Meanwhile, it's offering Cadillac customers the ability to subscribe to ownership, letting them use a vehicle for a month at a flat fee.

### NEW BUSINESSES HELPING TO POWER A NEW INDUSTRY

The advent of self-driving cars will give people more free time while in the vehicle. And that will create new opportunities for car makers and others to make money.

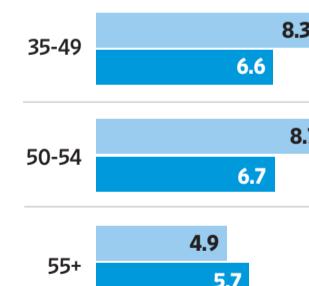
Autonomous vehicles could ultimately free up more than 250 million hours of consumers' commuting time a year, unlocking a new so-called passenger economy, according to **Intel** Corp., which is trying to provide the computing power behind self-driving software. The chip maker released a study in June that estimates



Waymo, part of the Google/Alphabet family, is in public trials of self-driving minivans in Phoenix.

### Way of the CD?

The average age of new-vehicle buyers increased by almost 7 years from 2000 to 2015, due partly to an aging population, but also to changes in buying patterns. New vehicles purchased per 100 people per year by age group:



as much as \$800 billion could be generated by 2035 by this passenger economy, while as much as \$7 trillion could be in play by 2050.

All of which might explain why new entrants to transportation, such as **Apple** Inc., **Amazon.com** Inc. and **Samsung Electronics** Co., are exploring the field. Apple in April, for example, became licensed to test-drive autonomous vehicles on California roadways.

This could lead to a turn away from using the exterior of the vehicle as a selling point and focusing on making the interior as comfortable and loaded with features as possible. In some cases, that means turning cars into living rooms on wheels: Harman International Industries Inc., the auto-parts supplier acquired by Samsung for \$8 billion, demonstrated in Las Vegas earlier this year a vision of a car that replaces a vehicle's windows with video screens that create a wraparound movie theater inside the cabin.

Design firms will also cook up features designed to ease people into the practice of sharing rides regularly. IDEO, the design firm that came up with Apple's first computer mouse, has released a vision of autonomous vehicles

### Pay to Go

Projected revenue in 2025 of automated mobility services such as autonomous taxis in the 26 U.S. cities where they're expected to be introduced first. Such services could capture 20% of consumer spending on transportation in those cities by that year.

**Likely launch market**   **Likely phase 2 market**  
**Market with snow\***   **Risky regulatory market**

CITY	REVENUE	MARKET
New York	\$20.3 bil.	■
Los Angeles	11.7	■
Chicago	9.6	■
Dallas	6.3	■
Washington	6.1	■
San Francisco	5.7	■
Boston	5.4	■
Miami	5.3	■
Houston	5.0	■
Philadelphia	4.6	■
Atlanta	4.3	■
Minneapolis	3.5	■
Phoenix	3.5	■
San Diego	3.3	■
Seattle	3.3	■
Denver	3.2	■
Detroit	3.2	■
Portland, Ore.	2.8	■
Tampa	2.6	■
Austin	2.5	■
Columbus, Ohio	2.0	■
Charlotte	1.8	■
Orlando	1.8	■
San Antonio	1.8	■
Kansas City	1.6	■
Pittsburgh	1.6	■

\* Projections assume that problems some autonomous-vehicle technologies have in snow, such as difficulty reading signs and lane markings, will be resolved by 2025.

Sources: Christopher Kurz, Geng Li and Daniel Vine, "The Young and the Careless? The Demographics of New Vehicle Purchases," FEDS Notes, 2016 (new-vehicle buyers); Rocky Mountain Institute (city markets)

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designed to accommodate strangers who end up riding together.

One central feature is "pods"—seats that can be adjusted to block a passenger from the view of the others—and there are areas in the vehicle

cle that allow them to lock items while other people use the car.

Other companies are working on ways to make cars recognize passengers' digital profiles and become more responsive to their needs. That might involve things such as reminding someone that a calendar appointment is coming up, and nudging them to leave earlier that day, or giving advice on places to eat along their route or ways to shop online while in traffic.

**Zoox**, a startup valued at more than \$1.5 billion, is working on designing a robot taxi that takes the entire riding experience into consideration, co-founder Timothy Kentley-Klay said last year. Though he didn't go into details on the so-called mobility service's features, Mr. Kentley-Klay said such a vehicle would be "smart enough to understand its environment, but importantly, it's also smart enough to understand you, where you need to be, what you want to do in the vehicle and how you want to move around the city."

Existing industries may change to support an autonomous, shared future. For instance, the alcohol industry might see a rise in drinks consumed weekly with customers not having to worry about driving home, says a Morgan Stanley report by analyst Adam Jonas. He estimates the \$1.5 trillion annual market might expand by \$250 billion due to autonomous vehicles.

One industry that knows cars very well—dealerships—may also adjust to fit the changing times: Managing autonomous car fleets may be a new line of business. Toyota's Mr. Ballinger noted that auto makers' finance arms largely finance local franchise dealers' inventories, called floor plans. "It may be a variation of that model where we continue to finance the floor plan, only the floor plan now isn't an inventory of cars ready for sale but an inventory of cars going around providing services—maintained and managed by the dealer or somebody like the dealer," Mr. Ballinger says.

For all the speculation about big changes on the way, and plans to meet those changes, it's important to remember that drivers may want to hang onto some form of ownership even if others are more convenient and cost-effective.

Mr. Cohen, after spending about two years renting out his Model S on Turo, has begun to wind down that effort. "At almost exactly the second anniversary of that note, I paid off my Tesla," he says. He's keeping an eye on Tesla's ambitions for renting out autonomous vehicles, though he is dubious about giving up the thrill of driving. "For me, autonomous driving is not something I am looking forward to," he said, "but I can tell you that my 25-year-old son and recent UVA Law School graduate certainly is."

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## JOURNAL REPORT | THE FUTURE OF TRANSPORTATION

# Public Transit Agencies Take a Lesson From Uber

With on-demand transportation services growing, cities need to adapt to compete. Some are doing just that.

BY TOMIO GERON

STARTING THIS MONTH, commuters in Austin, Texas, can open a smartphone app and order a shared ride with the tap of a button—not from **Uber** or **Lyft** but from the city's transit agency.

The new service is part of a broader move by public transit agencies to make their systems more convenient and attractive to people who are used to being able to hail a car with the push of a button. In an era when ride-sharing services offer convenience, speed and trip-planning information, transit agencies are trying to catch up.

These efforts include offering their own on-demand transportation services, joining with private transit services to give customers more options for getting around, adding apps that help riders plan trips across public and private transit, and making it easier to pay on mobile apps.

Transit agencies have no choice: With the growth of Uber and Lyft, people may be using those services instead of public transit in some cases, says Zak Accardi, program analyst at TransitCenter, a New York-based foundation that supports public transit across the country. A 2016 study of eight metropolitan areas by the Transit Cooperative Research Program sponsored by the Federal Transit Administration found that 15% of people whose top transit mode is Uber or Lyft would use public transit instead if Uber and Lyft weren't available.

"We like to say this is not your grandfather's bus system," says Dan Dawson, vice president of marketing and communications at Austin's Capital Metropolitan Transportation Authority, or Cap Metro. "We can't operate the same way we did 50 years ago and expect to be relevant. We have to use technology and new types of transit to both entice and provide the type of experience our customers want."

Cap Metro rolled out a test of an on-demand shared van service this

month, using an app designed for Austin by **Via Transportation Inc.** Similar services are sprouting across the U.S., with local twists, as cities work with various app developers.

The transit agency in Nashville, Tenn., working with **TransLoc Inc.**, is testing an on-demand van service that takes riders crosstown, a trip that has less fixed-line public transit service than other routes. TransLoc provides software that routes the vans to the riders on the most efficient path. In King County, Wash., where Seattle is located, the metro system's TripPool service provides vans private citizens can use to commute to and from park-and-ride lots or transit centers, picking up passengers along the way who request rides through an app from **iCarpool**.

Some cities are working with Lyft and Uber. Transit agencies in Centennial, Colo., and in the California cities of Dublin and San Clemente have formed partnerships with Lyft to offer subsidized or free Lyft service—to train stations or other destinations—where it isn't efficient to run fixed-line bus or train routes because the population is less dense. Los Angeles's LA Metro and Seattle's regional Sound Transit system in 2016 received a federal grant to test a program of discounted Lyft rides to and from transit stations. Uber has similar partnerships in Pinellas Park, Fla., Summit, N.J., and elsewhere to connect riders with transit.

Providing easier ways to get around town can make a difference for many residents. A 2014 study by professors at the University of Southern California found that residents in San Diego who could drive 30 minutes to work could get access to about 32 times more jobs than those making a 30-minute commute by mass transit.

### Covering all bases

Some cities are helping residents integrate ride-sharing services into trip planning, with apps that allow users to plug in a destination and get various public or private travel options—and the best combinations.

Los Angeles's Go LA app presents



Cap Metro, the city transit agency in Austin, Texas, has begun offering rides on demand via Pickup smartphone app. BRANDON GUDRY/CAPITAL METRO

train, bus, bike, Lyft and other options. For example, a commuter looking to go from Santa Monica to USC would find options including **Zipcar**, train service, a Lyft ride to a train, and a ride to a bus on a bike. Riders can choose the fastest, cheapest or greenest option. **Conduent Inc.** built the app, as well as a similar app for Denver.

"We want to give Angelenos multiple transportation options," says Bruce Gillman, spokesman for the city's Transportation Department. "No one is just a cyclist, driver or rider. We're some of those people at all different times."

Portland, Ore.'s TriMet system, which has a trip-planner app that includes biking and walking options in addition to mass transit, has received a U.S. Transportation Department grant to integrate ride services such as Uber and Lyft. In the Research Triangle area of North Carolina, riders using TransLoc's Rider app can see trip options that include a bus and then an Uber, and can click to request the Uber ride. And Austin's Cap Metro is working on expanding its trip-planning apps to show commuters options including public transit, bike sharing, car sharing and ride sharing.

"For Cap Metro and probably other transit agencies, this is a real

paradigm shift—not looking at ourselves as a bus or rail company anymore," says Joe Iannello, vice president and chief information officer at Cap Metro. "We have to look at ourselves as a transportation provider. That means all kinds of transportation."

### Paying for it

The next step: one payment for every mode of transportation. **MaaS Global Ltd.** in Helsinki offers an app that enables users to pay a flat monthly fee for seamless access to a range of private and public transit options, including bus, train, taxi and rental bike. In the U.S., agencies in Austin, Portland and other cities are working on technology that will eventually allow residents to pay once for access to many different kinds of public and private transportation systems.

Meanwhile, many agencies now offer the ability to buy rides or monthly passes on a mobile app and use the app to get on buses or trains. The Regional Transportation Commission of Nevada's Washoe County, which includes Reno, rolled out a mobile app from San Francisco-based **Token Transit Inc.** in December that allows people to show a changing daily bus pass to the driver for rides. After four months, 4% of

the system's riders are using the app and 6% of all bus passes are digital, says Ed Park, project manager at the commission. "We've been pleasantly surprised by how quickly people adopted it," he says.

Big transit agencies such as Miami-Dade County's are also aiming to make payments easier by adding mobile apps. The county rolled out a mobile app in October for riders to use a one-day mobile bus pass and will soon add monthly passes. The app, built by **Cubic Transportation Systems Inc.**, which also provides systems for the San Francisco Bay Area, London and Chicago, is expected to add near-field communication technology next year, which will enable riders to wave their phones to board buses, says Alice Bravo, director of transportation and public works for Miami-Dade County.

That ability offers several advantages. There's no risk of the bus driver being tricked by a fake or outdated pass. And because the bus driver doesn't have to visually verify each person's pass, boarding could be faster, especially since passengers could board through both the front and rear doors.

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## JOURNAL REPORT | THE FUTURE OF TRANSPORTATION

# Take Rickshaws. Add Smart Phones and Big Data.

The result is improved transportation networks in the megacities of the developing world

BY JASON BORDOFF

IN CITIES WHERE a nightmare commute consists of a train delay, it is hard to imagine the challenge of getting around in the developing world's megacities, where a dearth of public transit means residents may have to rely on a rickshaw or an unregulated minivan to get where they need to go.

Routes and times on these informal transportation networks can change without notice, causing people to waste hours in transit, and fares can be unpredictable.

Now, new technologies—from big data to mobile-payment systems to geolocation-enabled smartphones—are helping to make some of these informal networks safer and more efficient. And that is allowing public officials to better integrate public transportation systems with the informal ones, creating a future in which residents in cities such as Delhi, India, and Bangkok, Thailand, will be able to plan an efficient trip that involves taking a public bus two stops and then transferring to a tuk-tuk (a three-wheeled rickshaw known for its distinctive engine sound).

### Identifying patterns

The issue is becoming more critical because in the coming decades, hundreds of millions of people will move to vast urban areas already choked with pollution and snarled by traffic congestion. In 1950, there were two cities of more than 10 million people; by 2040, there will be more than 40. From Lagos, Nigeria, to Karachi, Pakistan, to Kinshasa in the Congo, populations rely on informal mass-transit systems employing everything from minibuses to motorbikes to get them from place to place.

In Nairobi, Kenya, for example, 20,000 colorful "matatu" minibuses operate with little regulation, and many routes are run by local gangs. To maximize income, drivers try to carry as many passengers as possible and drive as fast as possible. The vehicles are poorly maintained and often unsafe.

In India, tuk-tuks account for 20% of motorized trips in some cities. But an inability to match supply and demand can result in inefficient pricing and low usage rates. Drivers spending hours looking for fares are more likely to refuse to take passengers to distant locations, or to jack up rates if they worry about finding a return fare. Residents thus spend even more of their already meager

incomes on transportation. Uncertainty about being able to hail a ride also raises safety concerns, especially for female travelers.

Even in areas where local officials want to improve the transportation situation, they often lack good information about riding habits and preferences or about the informal network that most people use, making it difficult to build a public transportation system that connects with the informal one.

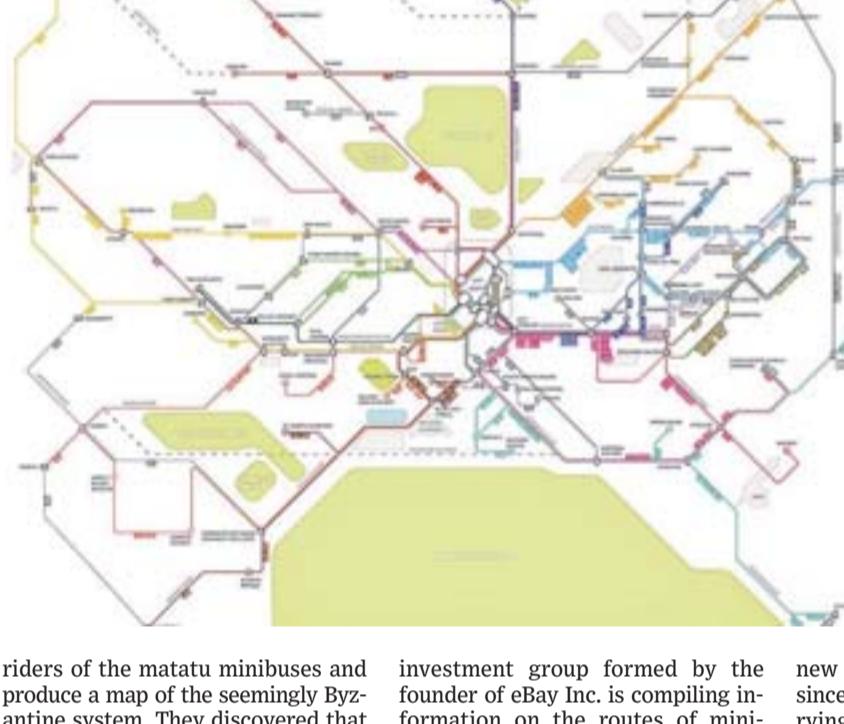
But that is starting to change.

In Nairobi, my colleagues from Columbia University collected GPS data from mobile phones to track

Nairobi's 20,000 private 'matatu' minibuses can seem chaotic. But when mapped, they have a logic and pattern to them that riders and local officials can plan around.



SAYID AZIM/ASSOCIATED PRESS



NAIROBI MATATU ROUTES

DIGITALMATATUS.COM

riders of the matatu minibuses and produce a map of the seemingly Byzantine system. They discovered that these bottom-up networks actually have a logic and pattern to them. With these networks now mapped, users can access the system more easily and efficiently, and local officials can plan bus and train routes around it. This comprehensive database of the matatu system allows easy mapping in Google Maps or other trip-planning applications.

Elsewhere in Africa and the Middle East, a startup backed by an Uber Technologies executive and an

investment group formed by the founder of eBay Inc. is compiling information on the routes of minibuses and tuk-tuks so that it, too, can be compiled into network maps. This company, called **Where-IsMyTransport**, has data for 21 cities, and has fully mapped the informal transportation networks in Gaborone, Botswana, as well as in East London and Cape Town in South Africa.

In South Africa, planners initially intended to replace the informal networks, but they now plan to integrate them more seamlessly into

new Bus Rapid Transit systems, since the informal networks are carrying an increasing fraction of passengers in the country. Similar efforts are under way in Manila; Mexico City; Dhaka, Bangladesh; and Middle Eastern cities such as Beirut, Cairo, and Amman, Jordan.

### Ride-hailing apps

In India, local startups have developed new mobile applications so that riders can hail rickshaws more easily, reducing uncertainty for riders and standardizing fares. Data collected through ride-hailing apps

also allows for route optimization. And ride-hailing apps improve safety, especially for female riders now able to identify their drivers and more easily report harassment.

Technology also can ease congestion by improving the efficiency of carpooling, already very much part of the culture in many developing economies.

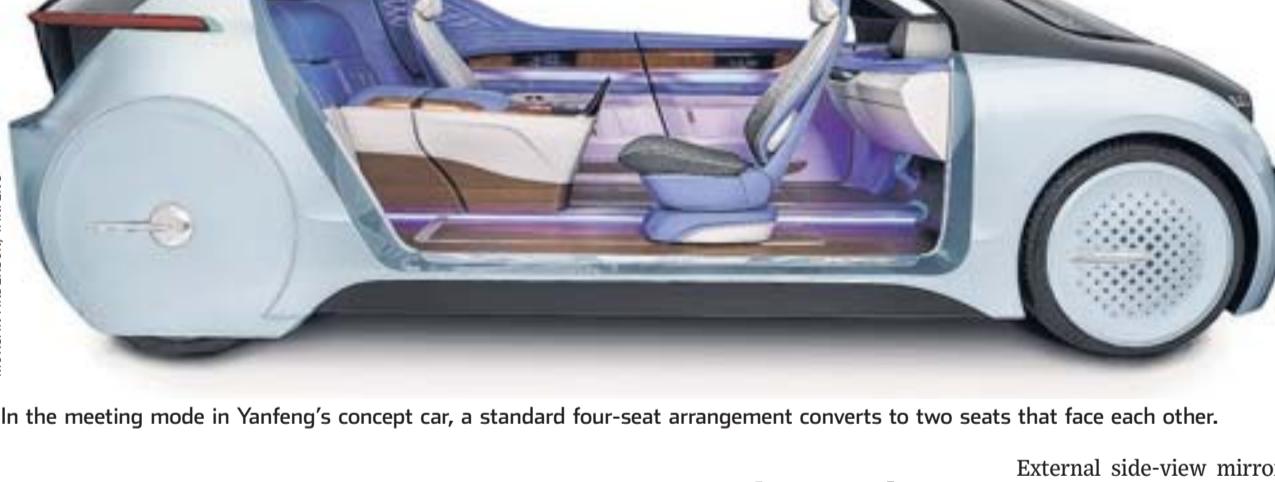
In Southeast Asian countries like Thailand, Indonesia and Singapore, the ride-hailing company Grab has created a service called GrabHitch in which people can earn extra cash by allowing others to hitch a ride on their motorbikes.

Even in poorer cities, most people own mobile phones, and thus can pay for rides using mobile payments. This improves safety and convenience, reduces haggling, and enables innovative pricing schemes like peak and off-peak pricing.

Although new forces of information technology, data analytics and local entrepreneurship are coming together to improve the safety, reliability, and efficiency of the informal mass-transit networks that many in the developing world rely on, that doesn't mean governments are off the hook.

In the long term, rapidly growing megacities will struggle to keep pace with the demand for urban mobility without an increase in government investment.

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In the meeting mode in Yanfeng's concept car, a standard four-seat arrangement converts to two seats that face each other.

# A Living Room on Wheels

How a driverless future may transform the inside of cars. In fact, some of that future is already here.

BY CHESTER DAWSON

IMAGINE REARRANGING the seats in your car to watch a movie on a big screen in the dashboard. Or controlling functions like air conditioning by touching the window. Or replacing rearview mirrors with cameras that give you a live-action look at the surrounding traffic.

Those are just some of the ideas car makers and designers are kicking around as they imagine a driverless future. When cars can largely navigate roads on their own, there's no need for the interior design to rigidly follow the model established in the early days of automobiles. The inside of driverless cars might look more like living rooms or

meeting places on wheels, with a focus on flexibility and entertainment.

Industry officials say fully autonomous and shared-mobility vehicles may be a decade or more away, but increasingly high-tech interiors will start showing up in the next few model years. On the latest luxury-car models, information has begun to move from digital instruments behind the wheel to head-up displays projected on the windshield, so drivers can monitor things like speed and turn-signal indicators without looking down. And other amenities are in the works, such as seats that fully recline or rotate 180 degrees, dashboard ice chests and ambient lighting.

"Sci-fi is really not fiction anymore—it's really here,"

Ralph Gilles, head of design at Fiat Chrysler Automobiles NV, said recently at an industry conference. Mr. Giles talked up the idea of cars becoming more of a "third space" outside the work and home.

The idea is showcased in his company's Portal concept vehicle, featuring removable seats and a retractable steering wheel, which made its debut at the Consumer Electronics Show earlier this year in Las Vegas.

### Closer than they appear

One of the biggest changes on the way is in visual-display technology, which will transform vehicles inside and out, says Carter Cannon, a product manager for electronic integration at International Automotive Components Group.

External side-view mirrors will disappear as digital camera images migrate to interior screens, similar to those that rearview cameras use now. And back-seat buttons and switches will move from arm rests to touchscreen-like side windows to control functions such as back-seat air conditioning.

"Information will move above the belt line and become displayed on the glass," Mr. Cannon told attendees at an industry conference in May. All this will free up the cabin for further design changes.

Another design change that promises to radically reshape the driving experience: movable seats. This change may be anything from giving people more-flexible storage options, all the way up to completely remaking the interior of the car to suit different purposes.

For an idea of what's possible, consider a concept car from auto supplier **Yanfeng Automotive Interiors**, which made its debut at the Detroit auto show earlier this year. The XiMi17 (short for "Experience in Motion 2017") showcased several different seating

configurations depending on the mode selected: driving, family, lounge and meeting.

The driving mode is fairly standard, but in the other set-ups, the car retracts the steering wheel and radically reconfigures the cabin. The family mode creates a home-theater experience: The front seats rotate inward and the rear seats slide together into a bench, so that everyone can watch an elongated screen at the center of the dashboard. The screen, about 10 by 36 inches, would be used for instrument displays when not showing movies.

"It's a living room on wheels," says David Muyres, an executive director in the North American unit of Yanfeng, in which Chinese auto maker Shanghai Automotive Industry Corp. owns a 70% stake through subsidiaries.

The XiMi17's meeting mode envisions the car as an extended office. To create space, it collapses the rear seats, rotates the passenger seat 180 degrees and slides the driver's seat back to the rear. Stow-away trays in a center console provide perches for laptops and can be combined into a single center table.

Lounge mode offers an LCD-like screen on the ceiling that can show images while music plays on a multispeaker audio system and LED lights on the floor pulsate and flash to the beat.

Other companies are coming up with ways to make sure that passengers will have plenty of snacks for their new home theater or meeting space on wheels. Sweden-based Dometic Group AB, which already supplies center-console mini-refrigerators to luxury brands such as Audi, Mercedes-Benz and Porsche, has sketched out concepts for door-mounted bottle coolers, dashboard-embedded ice

chests and compact microwave ovens for truck cabins.

### Cleaning up

Of course, there's a downside to turning cars into entertainment centers or other multiuse spaces: lots of dirt and other messes. Those could be an even bigger problem for one group of self-driving vehicles in particular—those used by shared-mobility services like Uber, which will carry multiple passengers and for more hours of the day.

So auto makers will need to come up with carpets and seat cushions that can hold up to

### Car interiors will no longer have to follow the standard setup.

greater added wear and tear, and cope with messy one-time riders who have little or no ownership of a particular car. Possible solutions include more-resilient fabrics that can be cleaned easily.

"The interiors of these vehicles are going to have to be puke-proof," says Ralph Gilles, head of design at Fiat Chrysler Automobiles NV.

Already, auto makers are looking to service industries such as airlines and hotels to learn how to better maintain shared spaces. At a recent industry conference, Tim Boundy, an interior-engineering technical fellow at General Motors Co., highlighted the need for "odor management" and other solutions. Among his intriguing suggestions: "self-cleaning cup holders."

**Mr. Dawson** is a reporter in The Wall Street Journal's Detroit bureau. Email him at [chester.dawson@wsj.com](mailto:chester.dawson@wsj.com).

## JOURNAL REPORT | THE FUTURE OF TRANSPORTATION

# Animal Crossings Go Beyond the Pedestrian

New designs do more than enhance safety for both creatures and people. They're also about expanding habitats and creating striking landmarks.

BY KEN WELLS

WHY DID THE black bear cross the road?

Actually, it didn't—because it didn't have to.

A motion-activated camera shows that the bear in question took an overpass—essentially a large, camouflaged arch—that gracefully carves over Montana's Highway 93 just north of the town of Evaro at the entrance to the Flathead Indian Reservation. Thirty-eight more of these man-made wildlife crossings allow all manner of critters to take a safe route over or under the stretch of highway between Evaro and Polson, 56 miles to the north.

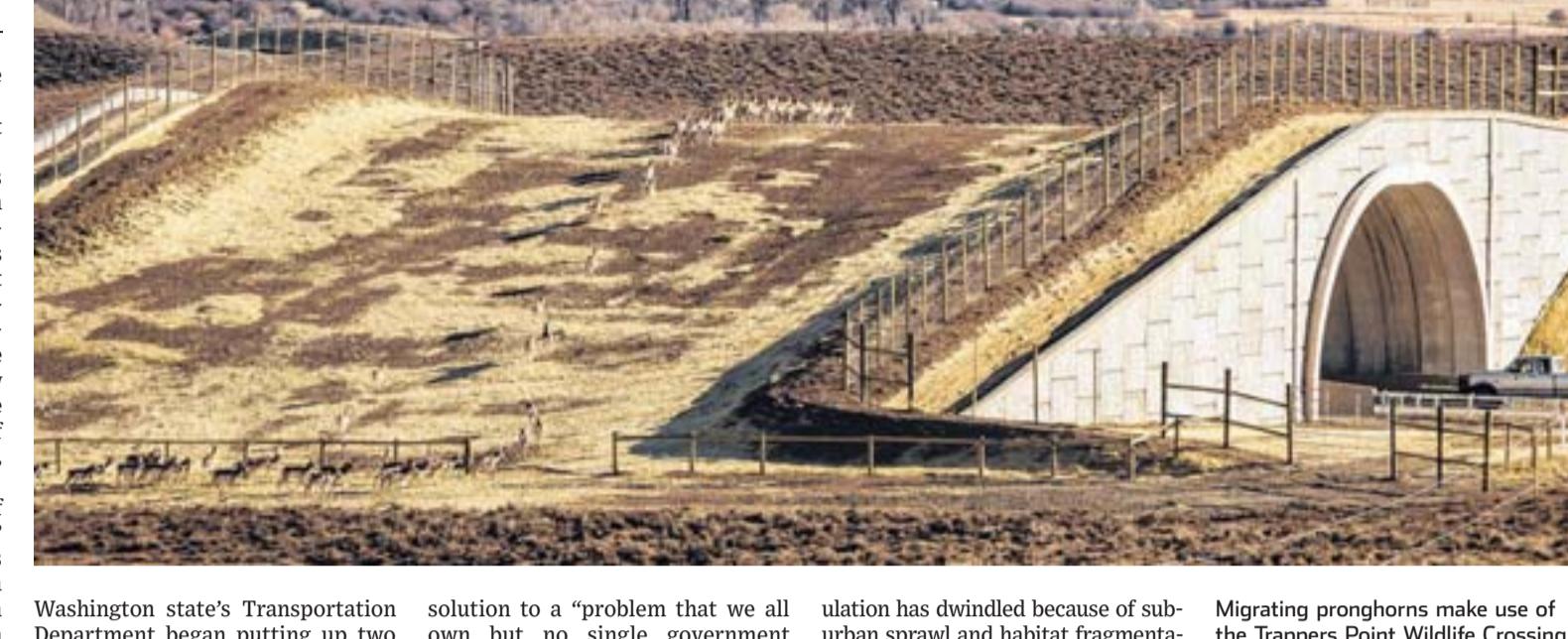
But do the crossings, the last of which was completed in 2010, work? Cameras in 29 of the structures show almost 23,000 crossings in 2015, about double the number from five years earlier, according to data compiled by the Western Transportation Institute, a research arm of Montana State University in Bozeman. Even more intriguing, scientists found through scenes caught on camera that some animals—deer and bear among them—were teaching their young to use the crossings.

And a November 2016 Western Transportation Institute report based on five years of animal-vehicle collision data showed that roadkill numbers for large wild mammals fell 80% along sections of the highway served by three of the more prominent crossings, while such deaths rose along sections with no structures.

Crossings, especially when combined with miles-long fences that steer animals toward them, "can substantially reduce collisions," says Marcel Huijsler, a Western Transportation Institute road ecologist and the report's lead author.

### Reducing roadkill

Something of a novelty in the U.S. a decade ago, wildlife crossings are proliferating all across North America and are increasingly being built into the design of new highway projects where vehicle and wildlife crashes are a major threat. Last fall,



JEFF BURRELL/WILDLIFE CONSERVATION SOCIETY

Washington state's Transportation Department began putting up two sweeping, 66-foot wide arches that will form the backbone of the Keechelus Lake Wildlife Overcrossing, one of more than 30 crossings that will be built into a multiyear makeover of a 15-mile stretch of Interstate 90 east of Snoqualmie Pass.

Safety—for both animals and humans—is the main driver in crossings growth in the U.S. Collisions between wildlife and vehicles have risen 50% in the past 15 years, and such accidents now cost Americans \$8 billion annually in damages and cleanup costs, according to research by ARC Solutions, a coalition of conservationists, ecologists, engineers and planners that advocates for crossing construction.

About 200 people a year die and 29,000 are hurt in wildlife-vehicle crashes in the U.S., according to data published by Defenders of Wildlife, a conservation group. For animals, it's a slaughterhouse: There may be as many as 1.5 million wildlife-vehicle collisions a year—and the animals almost always die, the group says.

"We shouldn't be acclimating to roadkill," says Nina-Marie Lister, a landscape ecologist and ARC adviser who teaches at Ryerson University in Toronto. Crossings, she says, are a

solution to a "problem that we all own but no single government agency is in charge of solving."

Awareness of both roadkill data and the effectiveness of crossings is growing. "It's a values shift, like seat belts. Nobody had them when I was growing up but these days everyone wears them," says Jeremy Guth, an ARC founder and a trustee of the Woodcock Foundation, which works on land-conservation issues.

### A lonely lion

Also driving growth in crossings is conservation, or the notion of using them to reconnect wildlife habitats fragmented by roads and bridges. The Trappers Point Wildlife Crossing over U.S. 191 near Pinedale, Wyo., completed in 2012, diverts thousands of mule deer and pronghorns over the highway as they seek passage to the spring and fall pastures they've used for millennia.

In Southern California, environmentalists are seeking to help raise an estimated \$55 million to build the Liberty Canyon Wildlife Crossing over Highway 101 in Agoura Hills, 35 miles west of Los Angeles. The project's main goal is to provide safe passage over the 10-lane freeway for mountain lions in the surrounding Santa Monica Mountains whose pop-

ulation has dwindled because of suburban sprawl and habitat fragmentation. Among them is the solitary young lion known as P-22 that has settled in Los Angeles's 4,310-acre Griffith Park after somehow safely crossing both the 405 and 101 freeways from mountains to the east.

"We're confident we're going to raise every bit of the money we need because P-22 is such a great story," says Beth Pratt, California director of the National Wildlife Federation, which aims to raise \$10 million this year to help fund the engineering and design part of the project. "We have a lonely bachelor lion living in L.A., cut off from a potential mate. The crossing is his chance for happiness."

Mr. Guth, meanwhile, says he recently consulted with wildlife officials in St. Mary Parish, La., about saving black bears in the Atchafalaya Basin, America's largest contiguous hardwood swamp. The bears, cut off from upland populations by highways, have begun to inbreed, and their only hope of long-term survival may be road crossings, he says.

"The old model of conservation—acquire large islands of habitat for wildlife and check the box, done—well, we know that alone doesn't work anymore," says Ms. Pratt. "We have to look at large landscape cor-

Migrating pronghorns make use of the Trappers Point Wildlife Crossing over U.S. 191 in Wyoming.

ridors for all wildlife."

The challenge in building crossings isn't simply where to put them but also in their design. To encourage animals to use them, Ms. Lister says, the goal is to fold them seamlessly into the natural landscape.

For people, the aim is no longer just utilitarian—an afterthought of road construction—but something more aesthetically pleasing.

The I-90 Keechelus Lake crossing is the product of an intensive collaboration of wildlife scientists at Central Washington University and engineers, architects and planners from the Washington state Transportation Department and the U.S. Forest Service. The idea was to build a structure that animals more or less see as a path through the woods, yet one whose sweeping arches will become something of a landmark for the 27,000 motorists who travel that section of the freeway every day.

"There's no reason," says Ms. Lister, "that they can't be pretty, even iconic."

Mr. Wells is a writer in Chicago. Email him at [reports@wsj.com](mailto:reports@wsj.com).

## How Technology Can Eliminate Traffic Congestion

At last, variable pricing is ready for prime time

BY PETER CRAMTON  
AND R. RICHARD GEDDES

FOR YEARS, we economists have claimed to have a miracle cure for heavy traffic. It's "congestion pricing": Charge drivers more to use roads and bridges during the busiest times, and clogged roadways will clear up overnight.

Now, at last, technology can make that miracle a reality.

With apps, GPS and other tools, roadway officials can track traffic and set prices in real time. Then drivers will get updates about traffic conditions and costs—letting them decide as they travel if they want to pay more to take a crowded road or pay less to use an emptier one.

But keeping traffic moving smoothly day to day is just one benefit of this system. Congestion pricing will enhance safety by making sure cars aren't bunched in stop-and-go traffic. It will reduce the need for new roads, by using existing ones to their fullest capacity. And, as dynamic pricing has done in other industries, it will raise enough revenue to modernize decaying infrastructure.

### A heavy cost

Reducing congestion is urgent because, as things stand, it imposes massive costs—in air pollution and wasted fuel, for instance, as well as wasted time and frustration. Traffic jams cost \$23.3 billion a year in Los Angeles alone, according to an analysis by the Centre for Economics and Business Research, an economics consulting firm. The cost of congestion will rise as the population and number of vehicles on the road grows in coming years.

Managing a problem by congestion pricing isn't a novel idea. For example, wholesale electricity markets have been dynamically priced for more than a decade, charging higher rates at times of peak demand. But efficient road-use pricing

has become feasible only recently, as advances in mobile communications now make it possible to identify and communicate the location of a vehicle with great accuracy.

How would the system work? The price of a given route would vary in real time depending on current demand and supply—increasing, for instance, if a lane was closed for repairs. In uncongested times and locations, motorists would

pay only a nominal fee, to recover operating and maintenance costs. The costs would apply to all roads, not just those with tolls, and would likely be collected through a monthly credit-card charge.

Drivers would receive the price information in real time—perhaps every five minutes—through an app in their car or smartphone, to make their driving choice. It's similar to how Google Maps presents people with real-time driving information, and then they decide how to use it.

Drivers could lock in that low price for their trip or take their chances of paying more or less along the way, depending on how congestion turns out to be. So, if they must be at an urgent meeting, then they would tell the system to take the fastest route regardless of cost, based on fluctuating conditions along the way.

If they weren't in a rush, they might tell it to choose the lowest-cost route regardless of how long it takes.

Real-time road prices would also allow the motorist to properly schedule travel. If they discovered after several days that waiting 15 minutes to leave for work would save

money, then a few minutes of properly scheduled work at home may pay handsome dividends, both to the driver and to others who want a less-crowded roadway.

### The driverless future

This system will also have a big impact on driverless vehi-

cles when they eventually reach the market. Just as wholesale electricity prices direct energy around the grid, real-time road prices will become part of what driverless cars and buses "consider" in deciding how to take passengers to school or work. They will change their routes in real time to avoid, and thus eliminate, congestion and bottlenecks.

Accurate road prices will also help us make smarter infrastructure investments. A new lane, for instance, can be targeted to where its value—as reflected in prices—is greatest.

One concern is that real-time road prices would put greater cost burdens on drivers who need to travel at certain times and on certain routes—and poor drivers in particular. What if road prices are high when low-income drivers need to get to work? We shouldn't distort the market to help them, but instead allow prices to move as they will, and then provide vouchers or credits to help them along.

We shouldn't allow problems like these—which can be solved with smart planning—to stop us from moving ahead with congestion pricing. This major step in the transport transformation can happen now. With today's technology we can monitor a vehicle's road use and directly charge for that use. With the right prices to guide behavior, we can eliminate congestion, accurately direct investment and maximize the value of scarce road capacity. The only thing lacking is the political will.

**Dr. Cramton is a professor of economics at the University of Maryland, and Dr. Geddes is a professor in the department of policy analysis and management and director of the program in infrastructure policy at Cornell University. Email them at [reports@wsj.com](mailto:reports@wsj.com).**

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## JOURNAL REPORT | THE FUTURE OF TRANSPORTATION

# The Future of U.S. Train Travel

Three experts with very different visions debate what should come next

BY HEIDI MITCHELL

IS LONG-DISTANCE train travel in America near its end or just getting started?

Support in Washington for passenger-train service, already tepid, looks ready to lose more steam under the Trump administration. Amtrak funding gets slashed in the White House's 2018 budget. And Amtrak leadership is facing criticism for delays in service, a March derailment at New York's Penn Station and the handling of overdue repairs there.

Advocates of faster service and more business-class amenities, meanwhile, see hope in several privately funded projects under way, including a line starting service soon in Florida and efforts to launch a high-speed Dallas-Houston train. A federal grant for electrification of tracks in California, meanwhile, has breathed new life into a proposal for faster service between San Francisco and Los Angeles.

To get a clear picture of what passenger rail transport might look like going forward, The Wall Street Journal reached out to three experts: Andy Kunz, president of the U.S. High Speed Rail Association, a nonprofit advocating for the creation of a high-tech, cross-country rail network; Baruch Feigenbaum, assistant director of transportation policy at the Reason Foundation, a libertarian think tank; and Robert Puentes, president and chief executive of the Eno Center for Transportation, a nonprofit that provides professional development for executives and managers in the transportation sector. Here are edited excerpts. A longer version—including a discussion of the impact of driverless cars on rail traffic—can be found online at WSJ.com/LeadershipReport.

### In a Perfect World...

**WSJ:** What is your vision of passenger rail transport for America?

**MR. KUNZ:** Our vision [at the U.S. High Speed Rail Association] includes a network of fast trains connecting America's metro areas as our main form of national transportation. This would be seamlessly integrated with local rail, bus and bicycle networks in each city, and supported by dense, walkable communities around the stations.

In 2009 we laid out a national high-speed-rail [HSR] vision map showing a 17,000-mile HSR network of 220-mph trains to be built in

phases for completion by 2030.

**MR. PUENTES:** The country's 100 largest metropolitan areas are primarily behind the recent growth in Amtrak passengers: Ten major cities are responsible for nearly two-thirds of total ridership.

To continue the growth, my vision is a system where the federal government and states broker a new agreement between Amtrak and the states to share operating costs and other responsibilities for corridors longer than 750 miles; refine, empower and create a dedicated funding source for future rail investments; and complete a national rail plan that fosters a stronger relationship between public agencies and private capital and management firms.

**MR. FEIGENBAUM:** I work for a free-market think tank. So in general I oppose subsidies to transportation modes that don't recover their costs.

Having said that, I support funding for transit targeted at low-income passengers and the disabled

### Some advocates of faster service see hope in privately funded projects.

even though transit does not come close to covering its costs. That does not mean we support every transit project; I oppose many because I see them as a poor use of taxpayer funds.

High-speed rail is different. In Europe and Asia, HSR's biggest customer is businesspeople who do not need a taxpayer subsidy. As a result I don't believe in subsidizing high-speed rail. My vision is limited to building out areas in which rail can be profitable or break even, like the Northeast Corridor between Boston and D.C., as well as a direct line between Los Angeles and San Francisco. I have looked at the Midwest, and although Chicago is a good city, no other cities in that region have sufficient central-city employment/population density and good enough local transit systems to make HSR work.

**MR. KUNZ:** First off, Baruch, the biggest customers of HSR around the world are people...all sorts of people, not just businesspeople, but families going on trips, students, retired people, young professionals, schoolchildren, basically their entire society.



A rendering of California's high-speed rail project, which has hit bumps but is still advancing.

In countries that have HSR, it becomes their main form of transportation for everyone.

And your statement that no other cities in the Midwest have sufficient density or local transit systems to make HSR work is completely false. If you look all around the world at the 20-plus countries that have high-speed rail, most of them serve smaller cities than the size of U.S. cities, and they get enormous ridership. The point is to create a network so the HSR lines connect all the major cities together, and along the way are also connecting into smaller cities.

**WSJ:** Who bears the cost?

**MR. KUNZ:** For the past 70 years, rail has been at the bottom of the priority list for investment and focus. We funded a national interstate system somehow, and a trillion-dollar aviation system somehow. We currently are spending something like \$200 billion a year between federal and state funds on endlessly expanding our highways.

**MR. FEIGENBAUM:** I would prefer our system be operated by the private sector or as a public-private partnership.

### The Future of Amtrak

**WSJ:** Does it make sense to keep putting money into existing Amtrak rail lines, which are government-subsidized and often shared with freight?

**MR. PUENTES:** America's passenger rail network is really made up of two types of routes: those less than 400 miles and those greater than 400 miles. The former typically enjoy direct state support and always serve at least one large metropolitan area. The latter represent the "geographic

equity" portion of the network. These routes travel for vast stretches and offer service to many smaller, relatively isolated communities with limited inter-metropolitan alternatives. Together, they carry about 17% of Amtrak's passengers but constitute 43.6% of its route-associated operating costs.

If Congress wants to continue serving rural areas with passenger rail, it needs to recognize it as "geographic equity" and not expect it to run "like a business."

**MR. FEIGENBAUM:** With three other modes (aviation, intercity bus and passenger vehicles), I don't see the wisdom in subsidizing a fourth mode when the other three are largely (although not totally) unsubsidized. I also think that Amtrak's political challenge is one of the top reasons for having a private company or public-private partnership build and operate the lines.

**MR. KUNZ:** I hate to point out the obvious, but all transportation is subsidized. No roads make money. Airports don't make money. The FAA doesn't make money. Transportation is a public service that makes our economy work.

**WSJ:** Is there a business case for building out and repairing America's aging rail system?

**MR. KUNZ:** The thing about HSR is that it does have a huge business case, from the actual time savings of businesspeople using the trains daily, to the massive real-estate opportunities that surround the stations. In addition, the rail operator is a for-profit business that contributes to society.

We agree HSR should be built where it makes sense first. These are the places with high-population cen-

ters and high movement between them already, but suffering from excessive congestion and delays.

**MR. PUENTES:** When it comes to high-speed rail, the U.S. is in kind of an emerging market. In Japan and European countries, they don't build the whole network at once. They build a trunk line, and they make that work. They build another one and then make that work.

That's what's emerging here. We have the California HSR project that's very bumpy but still moving along—and it has the potential to be very competitive.

There are two other projects that are mostly private ventures: one between Dallas and Houston and one between Orlando and Miami. It's a very strong market signal that you have private investors willing to spend money to build and operate these services.

**WSJ:** What have been the big failures of rail travel in the U.S.? Can they be overcome?

**MR. PUENTES:** The goal should not be to eliminate long-distance routes by "offloading" responsibility from the federal government to states, but strengthening the partnership and reaffirming the commitment of states to long-distance routes over time.

**MR. KUNZ:** We recommend a public-private partnership to build these rail systems in America. The result is you get the safety and security of a government-owned piece of infrastructure and the best innovation and competitive pricing of the private-sector operator.

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# A Flying Car? It May Be Getting Off the Ground

After many years of promises, current designs offer a different approach

BY ROBERT WALL

TO MOST AMERICANS, commuting to work in a flying car is something reserved for cartoons and sci-fi. Now a wide range of companies—including plane maker **Airbus SE**, ride-sharing specialists Uber Technologies Inc., and a startup backed by **Intel Corp.**—are racing to turn the concept into reality.

Different ideas for flying cars have been tried for years, but the current designs are less about cars with wings and more about small vehicles that take off and land vertically for short commutes by air. The varied configurations are generally more compact and smaller than helicopters. The new designs lack the distinctive protruding large bladed rotors that make helicopter operations a challenge in tight urban settings.

Some designs are already flying in testing areas; others are set to take to the air in the next few years. If the technologists have their way, the vehicles will start zipping amid skyscrapers early next decade.

Still, there's ample reason to doubt such a timetable. Many underlying technologies for these concept vehicles remain unproven, and regulators haven't decided how such air traffic would be managed.

"The market has real potential" if barriers can be overcome, says James McMicking, chief strategy officer at Britain's Aerospace Technology Institute. "The manufacturers of these things can probably put them together relatively easily, but then to demonstrate they can work in the airspace above



An Intel-backed German company, E-Volo, aims to have a model in trials next year.

cities is going to be really hard to do."

Airbus, the European aerospace giant best known for the A320 short-haul airliner and A380 superjumbo, has made solving the airborne urban-mobility problem one of the first major tests for its new technology accelerator, A3. That organization, set up in Silicon Valley in 2015, is supposed to help the company break with its history of spending many years and billions of dollars to develop new systems.

Rodin Lyasoff, A3's chief executive, says a number of developments in energy storage, electric motors, public acceptance and regulatory environment are converging to make intra-urban flying—even without pilots—possible. "This is a completely new time for this

type of aircraft," he says.

A3's first prototype, the Vahana—a fully automated, pilot-less vehicle—could take to the sky before year-end, at which point testing is expected to last at least several months. The prototype has four propellers on each of two wings that can rotate to a vertical position for takeoff and landing, like a helicopter, and to a horizontal position for level flight. The propellers are driven by electric motors, says project manager Zach Lovering.

The initial Vahana can carry one person weighing as much as 220 pounds a range of about 31 miles. Improvements in battery and other technologies should double the range, the company says. Airbus is still assessing whether to build a one- or two-person vehicle. It may attempt to win

regulatory approval to put its system into service around 2021.

Assuming the vehicles do become operational, the plan is for Airbus or another company to use the aircraft to create an airborne ride-hailing service. Passengers would be charged a rate of \$250 an hour, similar to what they pay a taxi on the road, but arrive at their destinations much faster. Getting from San Francisco to San Jose, for example, would cost the same \$80 to \$100 as a taxi charges but take a fraction of the time.

Mr. Lyasoff says there are some air-traffic-management issues to work through. The plan, he says, is for the vehicles to fly at an altitude of around 1,000 feet, staying out of the way of big commercial jets but leaving enough air-

space below for drone-delivery systems to operate.

A rival concept is on the drawing board at Uber. The ride-sharing giant is preparing to test its flying car near both Dallas and Dubai within three years, though it has provided few details on its business plan. Uber says it is working with companies such as Brazilian plane maker **Embraer SA** and **Textron Inc.**

Intel's venture-capital arm, meanwhile, has thrown an unspecified amount of financing behind the Volocopter, under development by **E-Volo GmbH** in Germany. It would sport multiple, shrouded rotors intended to be easy to pilot—or fly autonomously—in a flying-taxi configuration. The aim is to have a model in trials next year under a German light-aircraft license. A four-seat design that would seek approval from European and U.S. regulators is on the drawing board.

One of the big questions about battery-powered flying taxis has been how to refuel them when landing-pad space may be limited. The Volocopter will feature a system that will allow its battery to be swapped out in a few minutes, so the vehicles can get out of each other's way quickly.

Another German newcomer is **Lilium Aviation**, which flew a two-seat prototype in April. The company expects a five-seat version—a pilot and four passengers—to take to the air in 2019, and hopes to offer on-demand air transport starting around 2025. Its electric engines are embedded in its wings to allow it to operate in tight spaces.

While many newcomers bet on electric propulsion, Israel's **Urban Aeronautics Ltd.**, a

more established company, is working on a small, emergency-response helicopter with a more traditional design.

Its prototype, the Cormorant, which began flying late last year, uses a common, industry-approved helicopter engine, which powers smaller shrouded fans. The Israeli designers picked the concept specifically to fly into locations that would be too confined for helicopters.

In April, however, not to be left behind in the more experimental space of futuristic flying vehicles, an Urban Aeronautics subsidiary said it would start work on a four-passenger, hydrogen-powered, vertical-takeoff-and-landing car that it calls the CityHawk. Where most cars now have their engine and trunk, the CityHawk will feature large fans driven by a helicopter engine.

**Small vehicles take off and land vertically for short commutes.**

gine to keep the piloted craft aloft. The company hasn't indicated a deadline for when it hopes to have the aircraft ready for market.

While more manufacturers continue to work on these and other plans, Mr. McMicking of the Aerospace Technology Institute urges patience. "It is difficult," he says, "to imagine anything happening in the next decade or so."

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