

# THE WALL STREET JOURNAL.

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

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WSJ.com

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DJIA 25320.73 ▼ 1.58 0.01%

NASDAQ 7703.79 ▲ 0.6%

STOXX 600 387.53 ▼ 0.1%

10-YR. TREAS. unch, yield 2.95%

OIL \$66.36 ▲ \$0.26

GOLD \$1,295.10 ▼ \$3.80

EURO \$1.1745

YEN 110.38

## What's News

### Business & Finance

**A**T&T can proceed with its acquisition of Time Warner without any conditions, a federal judge ruled, marking a historic defeat for the Justice Department. **A1**

◆ **The ruling paves** a clear path for Comcast to bid for Fox assets and could trigger a round of deal making by smaller media companies. **A6**

◆ **Tesla plans** to cut about 9% of its workforce in an effort to deliver a profit as it ramps up Model 3 production. **A1**

◆ **A recent divergence** in economic fortunes looks set to keep the Fed and ECB on different interest-rate tracks for many months to come. **A2, B1**

◆ **Powell is considering** holding a press conference after every Fed policy meeting. **A2**

◆ **AstraZeneca and Lilly** scrapped trials of an experimental Alzheimer's drug, saying the treatment wasn't working as well as hoped. **B1**

◆ **Revolve is preparing** for an IPO that is expected to value the online clothing retailer at over \$1 billion. **B1**

◆ **U.S. stocks showed** little reaction to the Korea summit, but the AT&T ruling spurred after-hours moves in media shares. **B16**

◆ **Merrill will pay** \$15.7 million to settle claims that traders lied about prices they paid for mortgage bonds. **B14**

◆ **Facebook is cracking** down on e-commerce sites with a new feature that lets users leave feedback. **B4**

### World-Wide

◆ **Trump launched** a high-stakes diplomatic effort to rid North Korea of its nuclear weapons, betting that a friendlier approach with Kim, including a surprise promise to halt military exercises with Seoul, would work better than intimidation. **A1, A10-11**

◆ **The president said** Canadians would pay a price for countering the U.S. on trade, while his aides sought to tamp down tensions between the allies. **A4**

◆ **House Republicans** will hold votes next week on two bills to protect Dreamers, Speaker Ryan's office said. **A4**

◆ **Senior GOP senators** signaled that Trump was unlikely to block an effort to derail a deal to save China's ZTE. **A4**

◆ **The U.S. military** is providing its Gulf allies with intelligence to fine-tune a list of airstrike targets in Yemen's most important port. **A7**

◆ **Eight people**, including five Russians, were charged by the U.S. with helping ship jet fuel to Syria. **A4**

◆ **Britain's May** narrowly escaped a bruising Brexit defeat in Parliament. **A8**

◆ **Rep. Sanford** of South Carolina conceded in his Republican primary election Tuesday, defeated by a challenger backed by Trump. **A3**

◆ **Hundreds of migrants** whose boat was denied entry to Italy will be ferried to Spain by Italian vessels. **A9**

◆ **Kudlow is expected** to make a swift recovery from a heart attack. **A2**

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#### Hot startups in hot sectors

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## AT&T Beats U.S. in Antitrust Fight

Judge backs \$80 billion Time Warner deal as media companies eye wave of consolidation

BY BRENT KENDALL AND DREW FITZGERALD

WASHINGTON—A federal judge ruled Tuesday that AT&T Inc. can proceed with its blockbuster acquisition of Time Warner Inc., without any conditions, marking a historic defeat for the Justice Department.

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ment that could rewrite the media landscape and set the stage for more deals.

Other companies had been waiting to see how the AT&T case turned out, including Comcast Corp., which has been planning a bid to buy the bulk of 21st Century Fox Inc.'s assets. The decision will give ammunition to Comcast as it argues to Fox and its shareholders that a tie-up between the companies could withstand a regulatory review. A Comcast offer would disrupt Walt Disney Co.'s \$52.4 billion

### Gates Open

- ◆ Up next, a possible Comcast move on Fox... **A6**
- ◆ AT&T CEO took big risk in antitrust case..... **A6**
- ◆ Heard on the Street: Open line for M&A..... **B16**

all-stock deal with 21st Century Fox, announced in December.

U.S. District Judge Richard Leon told a packed courtroom that the department hadn't proved its case that the deal

would suppress competition in the pay-TV industry.

At one point waving his 172-page opinion in the air, Judge Leon declared: "The court has now spoken and the defendants have won."

The moment provided a final act of drama in a case that carried the highest stakes for the two companies, their leaders and the Trump administration's antitrust enforcement.

President Donald Trump was direct in opposing the deal, both before and after taking office, giving the case an unusual political cast.

The decision, in one of the biggest antitrust cases in decades, is a milestone victory for AT&T as it looks to reposition itself in a rapidly evolving media landscape. Its deal for Time Warner, now valued at roughly \$80 billion, has been pending since October 2016.

Underlining the magnitude of AT&T's victory, Judge Leon took the unusual step of urging the Justice Department to let the companies close their Please turn to page A6

## Tricky Path Ahead After North Korea Summit

SINGAPORE—President Donald Trump launched a high-stakes diplomatic effort to rid North Korea of its nuclear weapons, betting that a friendlier approach with North Korea's Kim Jong Un—including a surprise promise to halt military exercises with South Korea—would work better than intimidation.

By Michael R. Gordon, Jonathan Cheng and Michael C. Bender

With the task ahead to make the agreement concrete, Secretary of State Mike Pompeo is scheduled to travel to Seoul on Wednesday for talks with South Korean and Japanese officials, followed by a trip to China. The decision to cancel the exercises, the refining of the timetables for denuclearization and possible future sanction relief are expected to be on the agenda.

North Korea said Wednesday that Mr. Trump had told Mr. Kim he intended to halt U.S.-South Korea military exercises and lift sanctions against the North, suggesting through its state media that Mr. Trump had explicitly acceded to two longstanding North Korean demands during bilateral talks at their summit meeting a day earlier.

The North Korean report also quoted Mr. Trump as crediting Mr. Kim's "proactive peace-loving measures" for having created the atmosphere of peace Please turn to page A10

◆ More coverage of the Singapore summit..... **A10-11**



President Trump, who departed Singapore on Tuesday, pledged big changes would come from his summit with the North Korean leader.

## The Gamble of the Trump-Kim Embrace

BY GERALD F. SEIB

Midway through the press conference after his summit meeting with North Korean leader Kim Jong Un, President Donald Trump offered

his basic argument for why this effort at diplomacy with Pyongyang will succeed where

so many others have failed:

"This is a much different time, and this is a much different president," Mr. Trump said.

As that suggests, the prospects for turning Tuesday's vague agreement into lasting change on the Korean Peninsula hinge on two new factors in the equation. The first is the calculation that Mr. Kim

represents not just a younger North Korean leader but a wholly different one prepared to shift his country's strategic goal away from a quest for more powerful arms into a quest for a more powerful economy.

The gamble, in short, is that this is a different time because the young Mr. Kim rather than his father or grandfather is running the

show in Pyongyang.

The second calculation is that it is possible to turn the usual process of reaching significant international agreements on its head. Normally, leaders have their subordinates carefully work out details of big deals beforehand, ensuring that their countries are in agreement before the Please turn to page A10

## Tesla to Cut Workforce by 9% In Bid for Sustainable Profit

BY TIM HIGGINS

Tesla Inc. on Tuesday said it will cut about 9% of its workforce in an effort to deliver its first profit during a make-or-break period of building a mass-market electric car.

The layoffs of about 3,500 employees come as Chief Executive Elon Musk reorganizes Tesla's management structure to make it flatter, and as the company tries to ramp up production of the all-electric

Model 3 compact sedan.

In a memo to employees, Mr. Musk said the job cuts are mostly aimed at salaried staff and won't affect production workers assembling the company's vehicles. "This will not affect our ability to reach Model 3 production targets in the coming months," he wrote.

Tesla investors welcomed the news on Tuesday, sending the company's shares up more than 3% to \$342.77. The stock has fallen about 8.8% over the

past 12 months amid Tesla's struggles to crank up vehicle production.

The Silicon Valley auto maker, which hasn't turned an annual profit in its 15-year history, is facing heightened scrutiny from analysts and investors after starting assembly of the Model 3 last July and missing several production milestones that would have enabled it to generate free cash flow.

Mr. Musk has promised to fix

Please turn to page A8



### WORLD CUP PREVIEW

The matches to watch, the missing Americans and the two stars who still rule. **A15-18**

### Competitive About Meditation? Relax, Everyone Else Is, Too

\* \* \*

Hard-chargers descend on ancient practice, tweaking quest for inner peace

BY ELLEN GAMERMAN

This week, Alan Stein Jr. hit his 325th straight day meditating—a streak he is tending with the mindfulness of a monk.

The 42-year-old performance coach from Gaithersburg, Md., has kept his record using the Headspace app, despite early-morning flights and travel across time zones. On a recent work trip to Atlanta, he remembered to meditate only just after the clock struck midnight. Worried he'd blown his record, he closed his eyes and quickly tried to meditate on the hotel bed for 10 minutes. "The whole time I'm just

waiting for the 10 minutes to be over to see if my streak was alive," he said. Thanks to the app's built-in grace period, his frantic attempt counted toward his total. He was, in the words of the mindful on social media, #Grateful.

Type-A people are descending on the ancient practice of meditation and tweaking the quest for inner peace to suit their hard-charging needs—racking up streaks and broadcasting their running tallies to the world. The result, for some: Meditation has never been more stressful.

In one online group, members regularly check a leader

Please turn to page A8

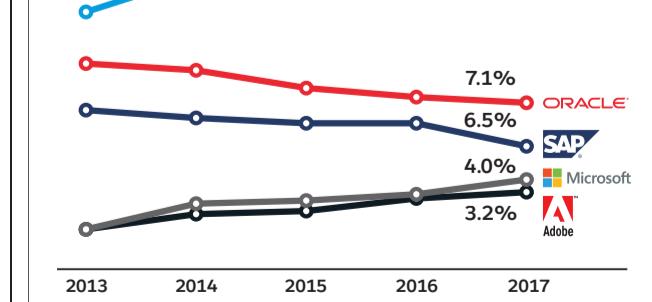
## Trump Aide Says 'Hell' Was Too Hot



CANADIANIRE: Trump trade adviser Peter Navarro apologized Tuesday at an event of The Wall Street Journal CFO Network for a comment about Canadian Prime Minister Justin Trudeau. **A4**

## Salesforce. #1 CRM.

Ranked #1 for CRM Applications based on IDC 2017 Market Share Revenue Worldwide.



Source: IDC, Worldwide Semiannual Software Tracker, April 2018.

## U.S. NEWS

## U.S., Europe Rate Gap to Widen

Central banks in the U.S. and Europe are both expected to move this week to unwind stimulus policies adopted since the global financial crisis a decade ago.

*By David Harrison in Washington and Tom Fairless in Frankfurt*

But the likely steps mask a recent divergence in the fortunes of the world's top two economic blocs, which looks set to keep the central banks on different interest-rate tracks for many months to come.

The Federal Reserve is likely to raise short-term interest rates Wednesday and pencil in more increases in coming years, to keep the U.S. economy from overheating.

The European Central Bank could signal on Thursday it won't start raising rates for some time even as it moves to phase out its €2.5 trillion (\$2.95 trillion) bond-buying program.

ECB officials are pondering the causes of a slowdown in

eurozone growth that appears to have continued through the spring, as well as the risks posed by international trade spats, higher oil prices and political turbulence in the bloc's No. 3 economy, Italy.

The gap between the two central banks' key policy rates is expected to widen to about 3 percentage points by the end of next year, from about 2 percentage points today, according to forecasts by Fed officials and investors.

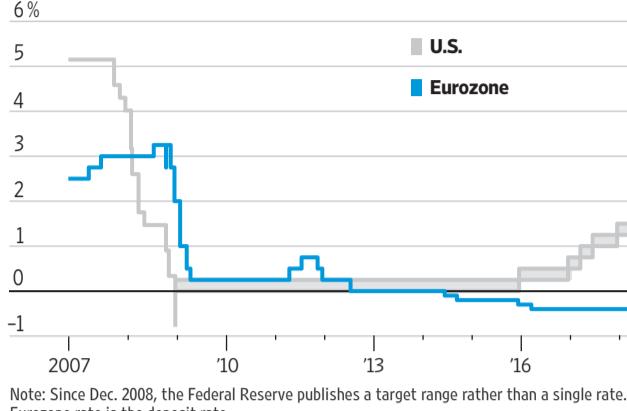
That would be the biggest gap since late 2008, when the Fed cut its short-term interest rates far below those of the ECB as it reacted to the sub-prime crisis.

"With some uptick in political uncertainty, and inflation still below target in the euro area and Japan, monetary policies among the advanced economies look likely to be divergent for some time," said Federal Reserve governor Lael Brainard last month.

That reflects different economic fortunes: The eurozone economy currently appears to be growing at half the speed of

## Separate Ways

The U.S. and Europe have been diverging on their key policy rates.



Note: Since Dec. 2008, the Federal Reserve publishes a target range rather than a single rate. Eurozone rate is the deposit rate.

Sources: Federal Reserve Bank of St. Louis, Bank of England, European Central Bank

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the U.S. after outpacing its trans-Atlantic counterpart over the past two years.

The American economy, fanned by the recent tax cuts, could grow by more than a 4% annual rate in the second quarter, according to Atlanta Fed projections, the fastest since 2014. Unemployment hit 3.8% in May, the lowest in 18

years, and inflation has reached the Fed's 2% target after undershooting it for much of the past six years.

In the 19-nation eurozone, where second-quarter growth is expected to be about 2%, the ECB has signaled it could announce as soon as this week plans to phase out its bond-purchase program, known as

quantitative easing, which is credited with supporting the region's economic recovery.

But analysts say that move is probably necessary because the ECB is approaching the limits of what it can buy under rules aimed at limiting the impact on markets, and ensuring the program doesn't finance eurozone governments.

Some investors had until recently expected the ECB to start raising rates this year, but most now don't see a first increase until late next year.

A political crisis in Italy last month sent bond markets swinging wildly and raised fears that the new government could push the country out of the eurozone. Rising oil prices and the threat of trade wars have also raised concern in Europe and around the world.

The U.S., by contrast has been better insulated, partly because its economy is less reliant on trade and because it is one of the world's top oil producers.

♦ No market taper tantrum over the ECB..... B1

## U.S. WATCH

## U.S. GOVERNMENT

## Budget Deficit Grew In Fiscal Year to Date

The U.S. government's budget deficit widened in the first eight months of the fiscal year, reflecting lower revenue from corporate taxes and ramped-up government spending.

The deficit, or the difference between the amount of money the federal government spent and what it took in, totaled \$532.24 billion in October through May, the Treasury Department said Tuesday. That was 23% more than the deficit of \$432.85 billion during the same period a year earlier.

Tuesday's report showed the federal budget deficit was \$146.80 billion in May, 66% wider than the same month a year earlier. Government revenue fell 10% last month compared with a year earlier, while spending grew 11%.

Corporate income taxes from October through May were about 25% lower than the first eight months of fiscal 2017, pulling down revenue.

Over the same period, individual income-tax collection rose. Much of this period reflected the months before a tax cut passed in late December took effect. Individual income taxes fell to \$92.5 billion in May from \$104 billion a year earlier.

Meanwhile, spending in the first eight months of the fiscal year increased from a year earlier for military programs, Homeland Security, Medicare and Medicaid.

—Sarah Chaney

## ECONOMY

## Consumer Prices Accelerated in May

U.S. consumer prices last month notched the steepest annual growth since the beginning of 2012, a further sign that price pressures in the economy are solidifying.

The consumer-price index, which gauges what Americans pay for goods like lettuce and toys and services like haircuts, rose a seasonally adjusted 0.2% in May from the prior month, the Labor Department said Tuesday. Prices rose 2.8% last month from the prior year, the strongest reading since February 2012, when inflation was 2.9%.

Tuesday's report came before Federal Reserve officials start a two-day meeting in which they are expected to raise rates to keep inflation under control.

—Sharon Nunn

## WASHINGTON

## Sen. Paul Didn't Talk To Neighbor for Years

Sen. Rand Paul says he hadn't spoken for years to a neighbor who said in court documents that he lost his temper and attacked the senator after a problem with yard debris in their Kentucky subdivision.

A statement from Sen. Paul's office Tuesday said he "had no conversations or discussions with the attacker" in the last decade.

The neighbor, Rene Boucher, is facing a 21-month sentence for assaulting a member of Congress. Dr. Boucher said in a sentencing memorandum that he lost his temper on the day of the Nov. 3 attack. Dr. Boucher said Sen. Paul repeatedly stacked yard debris near their property line.

Dr. Boucher said he spoke with members of the homeowner's association about the issue, but a Paul spokesman says the senator didn't hear from the association.

Sen. Paul's statement said "any description of this attack that implies a 'yard dispute' justifies such violence and misses the point."

—Associated Press

## Fed Weighs Increasing Press-Conference Frequency

By NICK TIMIRAO

Federal Reserve Chairman Jerome Powell is considering holding a press conference after every policy meeting rather than every other meeting, and his appearance Wednesday could help him decide whether it would be worth the trouble.

At issue for the Fed: Since beginning press conferences in 2011, the central bank has fallen into the pattern of making major policy changes only at meetings followed by a news conference.

The tactic has helped the Fed communicate policy changes in more detail than its heavily scrutinized, jargon-filled post-meeting statements. But the practice has lulled markets into thinking the central bank won't act between press conferences.

"We've evolved to a place where the market only thinks we'll move if there's a press conference," Atlanta Fed President Raphael Bostic said in an interview this year. This is "a sign that what we're doing right now isn't working."



Fed Chairman Jerome Powell generally won solid reviews for his first press conference in March.

To fix the problem, the Fed could raise interest rates at a meeting without a press conference, said Mr. Bostic. Or it could send Mr. Powell out to face reporters after every

meeting. "It's important that the market believes that we could potentially move at any meeting that we have," he said.

The Fed is set to announce

Wednesday it will raise its benchmark federal-funds rate to a range between 1.75% and 2%. The central bank is entering a delicate policy phase because as the economic expansion ages, it becomes more difficult

to determine how high to raise borrowing costs to keep the economy on an even keel.

Mr. Powell generally won solid reviews for his first press conference in March, during which he breezed through questions at a rapid pace. His answers were direct but provided fewer clues about how he was approaching particular decisions than those of his predecessor, Janet Yellen.

Mr. Powell doesn't want any change in the process to be misread as a signal of plans to raise rates more aggressively.

"I would want to think very carefully about it and make sure that no one would take more frequent press conferences as a signal of the path of policy," he said in March.

Former Fed Chairman Ben Bernanke instituted press conferences as part of his broader campaign to make the central bank more transparent. Making press conferences more routine would give Mr. Powell a chance to assert his voice over other Fed officials who give speeches and interviews in between scheduled meetings.

## A 'Speedy' Recovery Is Predicted For Kudlow

BY PETER NICHOLAS AND NICK TIMIRAO

WASHINGTON—The White House and friends of Larry Kudlow said Tuesday he was expected to make a swift recovery from his heart attack and resume work soon as President Donald Trump's top economic adviser.

Mr. Kudlow, 70 years, was hospitalized Monday after what the White House called a "very mild heart attack."

In a statement Tuesday, White House press secretary Sarah Sanders said Mr. Kudlow remained at Walter Reed National Military Medical Center as a standard precaution. "His doctors expect Larry will make a full and speedy recovery," she said.

"Everything we're hearing is the news is good," Kevin Hassett, chairman of the president's Council of Economic Advisors, said at a Wall Street Journal CFO conference in Washington.

Walter Reed hospital declined to comment.

Arthur Laffer, an economist and longtime friend of Mr. Kudlow, spoke to him on the phone Monday after Mr. Kudlow was admitted to Walter Reed. "He told me, 'I'm just fine, Art,'" Mr. Laffer said. "Larry doesn't bull---" on that stuff. When he says he's fine, he means it."

Stephen Moore, who with Mr. Kudlow advised Mr. Trump during the 2016 campaign, said in an interview: "He's going to be fine. How he adjusts his schedule to recuperate, that has yet to be determined. He'll be back on the job."

## Remains of Soldier Killed in Somalia Are Brought Home



ULTIMATE SACRIFICE: The body of Staff Sgt. Alexander W. Conrad of Chandler, Ariz., was moved at Dover Air Force Base in Delaware Tuesday. Sgt. Conrad, 26, died of injuries from enemy indirect fire while supporting Operation Octave Shield, according to the Pentagon.

## CORRECTIONS &amp; AMPLIFICATIONS

**The last name** of Good Party member Murat Agiril was misspelled as Agirdir in a World News article Tuesday about candidates challenging President Recep Tayyip Erdogan in Turkey's June 24 snap election.

**The type of hybrid** long-term-care insurance policy shown in a graphic with an Exchange article Saturday about long-term-care insurance has premiums that don't increase,

while premiums for a traditional long-term-care policy are subject to potential increases. The graphic incorrectly reversed the information.

**The U-2 spy plane** first became operational in 1956 under the aegis of the Central Intelligence Agency, and Air Force U-2 operations began the following year. A U.S. News article Friday about the U-2 incorrectly said it became operational in 1957.

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

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## U.S. NEWS

**Voters Head to the Polls in Five States**

**PRIMARY DAY:** Voters filled out ballots at a polling location on Tuesday in Lebanon Church, Va. Primaries also were held in four other states, including Nevada, Maine, North Dakota and South Carolina, and there were two special legislative elections in Wisconsin.

**GOP Incumbent Defeated**

President endorsed opponent of lawmaker from South Carolina in a tweet on Tuesday

BY JANET HOOK  
AND REID J. EPSTEIN

Rep. Mark Sanford of South Carolina lost his Republican primary election Tuesday, defeated by a challenger backed by President Donald Trump who accused him of being disloyal to the president.

State Rep. Katie Arrington, who was declared the winner by the Associated Press in the Charleston-based district, had portrayed Mr. Sanford as a Trump adversary because he had been openly critical of some of the president's policies and provocative statements.

Mr. Trump weighed in directly in the primary race Tuesday afternoon—just three hours before the state's polls closed—with an endorsement of Ms. Arrington in a Twitter message that attacked Mr. Sanford.

"Mark Sanford has been very unhelpful to me in my campaign to [Make America Great Again]," he tweeted. "He is MIA and nothing but trouble."

In an appearance late Tuesday before supporters in Charleston, flanked by his four adult sons, Mr. Sanford gave a speech thanking his family, and acknowledging he was likely not to carry an election for the first time in his 25-year



Rep. Mark Sanford after voting Tuesday in a primary for his seat. He lost to state Rep. Katie Arrington.

political career.

"I've always been a realist and at this point, based on the numbers I see, I think that I will end up losing this election," Mr. Sanford said.

Mr. Sanford's defeat came the same night that, in Virginia, GOP primary voters selected Trump ally Corey Stewart as their Senate nominee over a candidate favored by the GOP establishment. Together, the two primary results were a sign of how thoroughly the president has come to dominate the Republican Party.

Ms. Arrington will face Democrat Joe Cunningham, a lawyer and yoga-studio owner in Charleston, who carried his infant son with him to vote

Tuesday. Mr. Cunningham filmed an ad last year during the total eclipse, saying that Mr. Trump was a darkness falling on democracy.

When Mr. Trump tweeted his endorsement of Ms. Arrington over Mr. Sanford late Tuesday, Mr. Cunningham responded, "Shame that neither will be in Congress next year. See you in D.C."

The five-way South Carolina GOP primary for governor is headed to a runoff between incumbent Henry McMaster and 39-year-old entrepreneur John Warren.

Mr. McMaster is a fixture in state politics and was among the first elected officials to endorse Mr. Trump in the state's 2016 primary.

Mr. McMaster was endorsed in turn by Mr. Trump, most recently in a tweet this past weekend.

Mr. McMaster is headed to a June 26 runoff with Mr. Warren, a political newcomer who self-financed his campaign, and says he is more similar to Mr. Trump, as an outsider with a business background.

At Mr. Stewart's victory party in Virginia he called Mr. Trump, for whom he worked as Virginia state coordinator, the "greatest president" of the last century.

Mr. Stewart will face Democratic Sen. Tim Kaine in November.

—Valerie Bauerlein contributed to this article.

**Seattle Reverses on Tax To Help the Homeless**

BY NOUR MALAS

The Seattle City Council voted to repeal a newly passed per-employee tax on big companies designed to raise funds for homeless services, a surprise move that came after fierce opposition from the business community and growing public debate.

The council passed the levy unanimously less than a month ago. On Tuesday, seven out of nine council members voted to repeal it in a special meeting which the council unusually opened up to the public, bringing arguments from all sides.

Housing advocates who supported the tax to raise money to build more affordable homes said they felt betrayed by their representatives. Business owners who praised the council for its U-turn said they supported efforts to help the homeless but a new tax wasn't the right approach.

"This is a defining day in the city of Seattle," said Council member Lorena González before voting in favor of the repeal, which she characterized as a move forced by the business community. Council members strained to voice their votes over pro-tax protesters, who carried signs reading "Tax Amazon," and chanted "We are ready to fight,

housing is a human right!"

An antitax campaign backed by major Seattle companies, including Amazon.com Inc., to put the measure to voters in a referendum in November had gathered enough signatures by Tuesday—more than double the number needed, said John Murray, an antitax campaign spokesman. City council members said that prompted them to move pre-emptively to repeal the tax to avoid a long and costly political fight.

The Seattle tax passed May 14 would have, starting next year, levied \$275 per employee on companies with more than \$20 million in annual revenue, or about 3% of Seattle-based businesses, according to the City Council. It was projected to raise about \$47 million a year, to be spent on affordable-housing and homeless services.

That version passed after pressure from businesses reduced what had been a proposed \$500-per-employee tax. Amazon, Seattle's biggest employer, had slammed the tax.

On Tuesday, the company called the repeal vote "the right decision for the region's economic prosperity." Amazon Vice President Drew Herdener said in a statement the company was committed to being a part of the solution to end homelessness in Seattle.

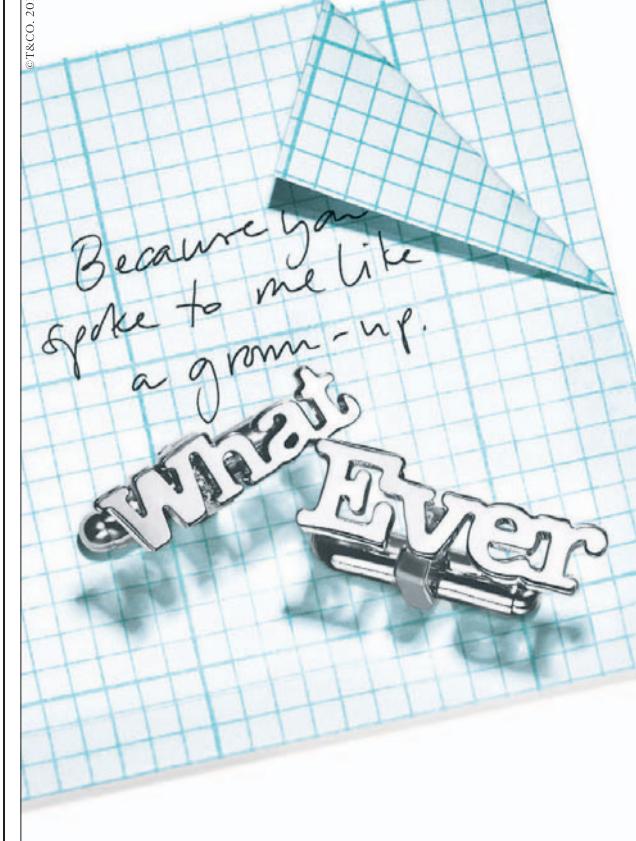
**HAMILTON**  
**AMERICAN SPIRIT**  
**SWISS PRECISION**

A Hamilton Khaki Aviation X-Wind Automatic watch with a black dial, silver-tone case, and brown leather strap. The watch is set against a backdrop of a desert landscape with red rock formations and a small airplane flying overhead.

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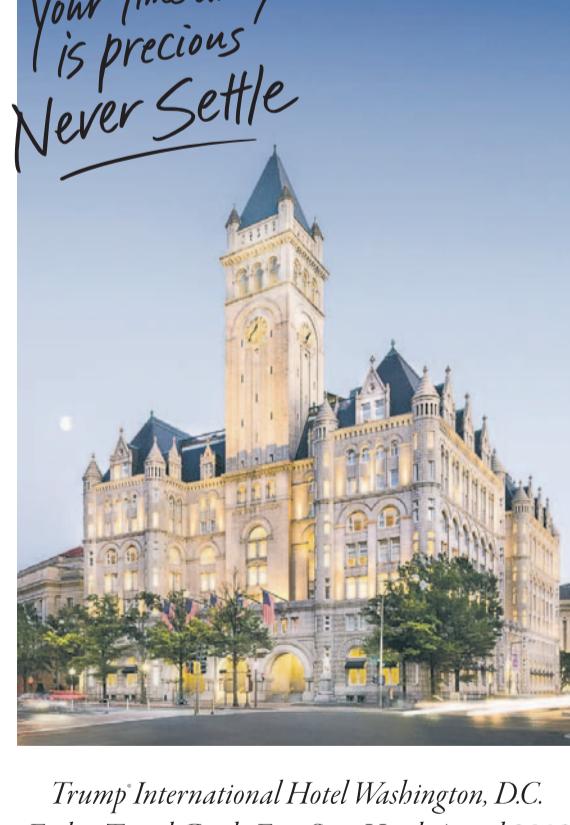
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## U.S. NEWS



Alex Azar, secretary of the Department of Health and Human Services, prepares to testify before Capitol Hill about the administration's plan to combat high drug prices.

## Lawmakers Scrutinize Drug Plan

**Trump official says some companies are considering price cuts; Democrats have doubts**

BY STEPHANIE ARMOUR AND PETER LOFTUS

Health and Human Services Secretary Alex Azar touted on Tuesday the administration's plan to combat high drug prices, saying several drug companies are looking at "substantial and material" price cuts, while Democrats said the plan would accomplish little.

Mr. Azar said in testimony before the Senate health committee that companies are working with industry middlemen, including pharmacy-benefit managers, to make sure "they're not discriminated against" for cutting their prices. Middlemen currently have an incentive to provide more favorable coverage to drugs with higher list prices, he said.

The secretary didn't identify any of the companies that were considering such price cuts. President Donald Trump said in late May that drug companies would announce "voluntary massive drops in

prices" in two weeks.

Sen. Elizabeth Warren (D., Mass.) said she and Sen. Tina Smith (D., Minn.) had sent letters to several large drugmakers—including AbbVie, GlaxoSmithKline and Johnson & Johnson—asking if they have lowered prices. None has cut list prices, according to a statement from the senators, and one company, Novartis AG, said "we do have some planned price increases later this year," according to a copy of a letter from the company that the senators posted online.

The Food and Drug Administration also released guid-

ance Tuesday to make it easier for drug companies to provide insurers and other payers with economic information about their drugs, including those that aren't yet approved.

Drug companies said this guidance will make it easier for them and insurers to enter into so-called value-based contracts in which the price of a drug is more closely tied to how well it works for patients.

Mr. Azar also urged Congress to take action to ban gag clauses that prevent pharmacists from telling consumers about lower-priced drug options.

Democrats said the admin-

istration's proposals omit key steps that would lower costs, such as allowing the importation of lower-cost prescription drugs.

Sen. Patty Murray (D., Wash.) called the proposal a "big nothingburger."

The administration's 39-page blueprint contains dozens of initiatives to change government rules the administration contends have allowed drugmakers and pharmacy-benefit managers to game the system.

The plan moves to increase rebates and discounts for Medicare enrollees and provides other incentives to lower prices.

## Senators Move To Kill ZTE Deal

BY SIOBHAN HUGHES AND KATE O'KEEFE

WASHINGTON—ZTE Corp. once again appeared to teeter on the brink of demise Tuesday as senior Republican senators signaled that President Donald Trump was unlikely to block a congressional effort to derail a deal he brokered to resuscitate the Chinese telecommunications giant.

The president hasn't issued tweets urging Republicans to stand down, and lawmakers detect no backlash building within Congress against the move to unravel the White House agreement.

"I don't think the president cares about ZTE," Sen. Bob Corker (R., Tenn.) told reporters. "Someone told me that he gave [GOP lawmakers] a wink and a nod and told them he didn't care. I don't know if that's true or not, but I think he did what he did for the Chinese leader but he doesn't really care what Congress does."

Representatives for the White House, the Commerce Department and ZTE didn't immediately comment.

Mr. Trump had spent the previous week in closed-door meetings trying to sell Senate Republicans on the deal, which coincided with his effort to build goodwill with Chinese President Xi Jinping ahead of this week's talks with North Korea about denuclearization. And in a briefing late on Monday with GOP senators, Commerce Secretary Wilbur Ross again tried to get lawmakers to drop their resistance to the ZTE agreement.

But on Monday night, the Senate added language that would undo the deal to a must-pass National Defense Authorization Act bill. The accord had sought to save ZTE by allowing it to resume buying components from U.S. suppliers despite the fact that it had broken an earlier settlement with the Commerce Department over sanctions-busting sales to North Korea and Iran.

The amendment to reverse Mr. Trump's rescue of ZTE was backed by a group of senators including Tom Cotton (R., Ark.), Marco Rubio (R., Fla.), Minority

Leader Chuck Schumer (D., N.Y.) and Chris Van Hollen (D., Md.).

The Senate is expected to pass the defense bill this week. The measure would then move to a conference committee with the House, which has already passed its own version of the defense authorization bill that doesn't address the China deal. Both chambers must pass identical bills before they can be sent to Mr. Trump.

On Monday, Mr. Cotton predicted that Mr. Trump wouldn't use his veto power to reject the defense bill over the ZTE language. Mr. Cotton, who speaks regularly to Mr. Trump, declined to say whether the president had given him a personal guarantee. "I don't reveal my private conversations with the president," Mr. Cotton said.

In a Tuesday interview, Mr. Van Hollen said: "If the president's backing down, that's a good thing for the country."

The fight over ZTE between Trump administration officials and lawmakers began last month. Just weeks after the Commerce Department had banned U.S. companies from selling to ZTE, as punishment for ZTE's failure to honor an earlier U.S. agreement to resolve the firm's sanctions violations, Mr. Trump suggested he was considering reversing the penalty. He tweeted May 13 that he and Mr. Xi were "working together to give massive Chinese phone company, ZTE, a way to get back into business, fast." He added: "Too many jobs in China lost. Commerce Department has been instructed to get it done!"

The tweet incensed many members of Congress, as well as intelligence and military officials, who moved swiftly to denounce any prospect of a reprieve through a series of legislative actions and an aggressive public campaign.

But despite widespread bipartisan opposition, Mr. Trump and the Commerce Department on Thursday struck a new deal with ZTE, which requires the company to pay a \$1 billion fine, replace its entire board of directors and senior leadership team and fund a team of U.S. compliance officers to monitor the company for 10 years.

WASHINGTON—President Donald Trump said Canadians would pay a price for countering the U.S. on trade, while his aides sought to tamp down tensions between the allies after a dust-up with Prime Minister Justin Trudeau over the weekend.

U.S. officials have been hammering the Canadian leader for declaring Saturday after meeting with Mr. Trump and other world leaders that Canadians "will not be pushed around" by the U.S. Mr. Trump saw the statement as a slight after concluding what he considered friendly meetings.

"I think that Justin probably didn't know that Air Force One has about 20 televisions, and I see the television," Mr. Trump said Tuesday after concluding his summit with North Korean leader Kim Jong Un in Singapore. "He's giving a news conference about how he will not be pushed around by the United States. And I say, 'push him around? We just shook hands.' It was very friendly."

"That's going to cost a lot of money for the people of Canada," Mr. Trump said.

Mr. Trump's latest comments suggested the U.S.-Canada spat could simmer for a while, potentially hanging over discussions to rewrite the North

American Free Trade Agreement. The conflict sharpened last week, in the days after the U.S. imposed tariffs on steel and aluminum from Canada and the European Union. Canada responded by imposing retaliatory tariffs on a range of U.S. products, including toilet paper, orange juice and whiskey, effective on July 1—Canada Day.

The Toronto-based C.D. Howe Institute said Tuesday its research indicated that among major economies, "Can-

ada suffers the largest negative impact" from the U.S. steel and aluminum tariffs. The think tank said the tariffs would lead to 6,000 job losses in Canada and shave \$8 billion Canadian dollars (\$6.15 billion) off its annual economic output.

Mr. Trump's top trade adviser, Peter Navarro, who on Sunday said there was "a special place in hell" for world leaders who "stab [Mr. Trump]

in the back on the way out the door," apologized Tuesday for his remarks, which he acknowledged referred to Mr. Trudeau. "I used language that

was inappropriate," he said at an event of The Wall Street Journal CFO Network.

Kevin Hassett, chairman of the White House Council of Economic Advisers, said at the same event: "What people need to do at this moment is take a step back, take a deep breath."

A spokeswoman for Mr. Trudeau declined to comment on Mr. Navarro's apology. Early Tuesday, when asked about attacks from the president and his top advisers, Mr. Trudeau said he was "focused on defending jobs for Canadians and supporting Canadian workers."

So far, the attacks on Mr. Trudeau appear to have given him a lift at home. In a rare show of political unity, the country's Parliament unanimously endorsed a motion condemning the attacks from Trump aides and the administration's metals tariffs, which the U.S. justified on national-security grounds.

Some of Mr. Trudeau's political foes have come to Canada's defense, among them Stephen Harper, the former Conservative prime minister whom Mr. Trudeau defeated in 2015. "I don't understand the obsession with trade relations over Canada," Mr. Harper told Fox Business Sunday. "Canada is the single biggest purchaser of U.S. goods and services in the world."

◆ See video of Navarro's apology at [on.wsj.com/navarro](http://on.wsj.com/navarro)

## GOP Sets Votes on Immigrant Measures

BY SIOBHAN HUGHES AND NATALIE ANDREWS

WASHINGTON—House Republicans next week will hold votes on legislation to protect young immigrants brought to the U.S. as minors and living in the U.S. without authorization, the office of Speaker Paul Ryan (R., Wis.) said Tuesday.

The planned votes were part of a deal that allowed House GOP leaders to stave off an uprising from centrist Republicans aimed at forcing votes on a series of immigration measures, including new protections for the "Dreamers."

Party leaders had ratcheted up negotiations to avert a vote on bills supported mostly by Democrats, which they fear will infuriate their base of loyal GOP voters. Tuesday's deal buys GOP lawmakers at least another month for negotiations.

Centrist Republicans who had formed a coalition with House Democrats fell short of collecting the final two signatures needed to advance a procedural motion called a discharge petition. The petition had 216 signatures, short of the 218 needed to trigger a quartet of immigration votes later this month.

The bipartisan coalition could still collect the last two signatures, but any votes wouldn't come to the House floor until late July at the earliest.

The night marked a come-from-behind victory for Mr. Ryan, whose grip on the House GOP has weakened since he said he would leave Congress in January.

—Kristina Peterson contributed to this article.

## U.S. Files Charges Over Syria Sanctions

BY ARUNA VISWANATHA

WASHINGTON—Eight people, including five Russian businessmen from a company with ties to the Russian military, were charged here Tuesday on allegations they helped ship jet fuel to Syria, in violation of U.S. sanctions.

In an indictment handed up Tuesday by a federal grand jury, five employees at Russian freight forwarding company Sovfracht and three Syrian men who allegedly worked with them, were charged with violating U.S. sanctions on Syria and Crimea.

Sovfracht was barred by the U.S. Treasury Department in September 2016 from access to the U.S. financial system without a special license over its alleged involvement in Russia's role in a crisis in Ukraine.

The company is close to the Russian military, and its alleged front company was nominated as the general agent of the Russian naval fleet, according to a September 2016 email the alleged front company sent to another firm, the indictment said.

"The defendants allegedly conspired to defy our sanctions against Syria and Crimea, endangering both American interests in the region as well as our foreign policy and national security at home," John Demers, who runs the Justice Department's national security division, said.

A representative for Sovfracht couldn't immediately be reached for comment. The defendants aren't in custody and are believed to be overseas.

The U.S. attorney's office in Washington filed a civil case in September 2016 to seize \$2.5 million in funds held at two U.S. banks, alleging that the funds were illicit payments that were part of a Sovfracht scheme to ship Russian fuel to Syria.

After that case was filed, the employees used another front company, Maritime Assistance LLC, to circumvent the U.S. sanctions and make payments in U.S. dollars, the indictment said.



CHIP SOMODEVILLA/GETTY IMAGES

Trump trade adviser Peter Navarro apologized for insulting Canadian Prime Minister Justin Trudeau.

## Trump Says Trade Spat to Cost Canadians 'a Lot of Money'

WASHINGTON—President Donald Trump said Canadians would pay a price for countering the U.S. on trade, while his aides

By Vivian Salama in Washington and Paul Vieira in Ottawa

sought to tamp down tensions between the allies after a dust-up with Prime Minister Justin Trudeau over the weekend.

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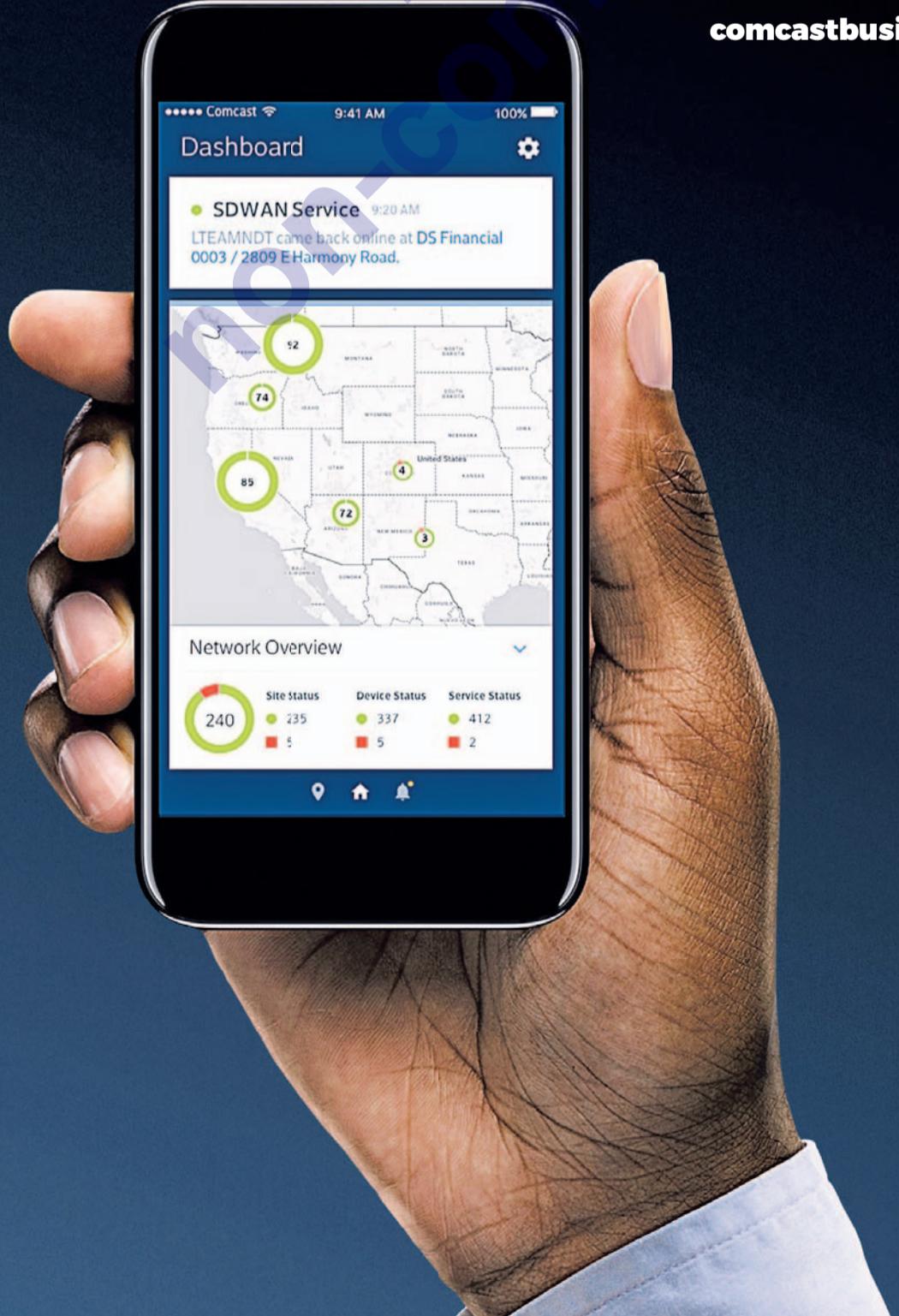
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## U.S. NEWS

# Up Next: Comcast's Move on Fox

BY SHALINI RAMACHANDRAN

A court's approval of AT&T Inc.'s merger with Time Warner Inc. paves a clear path for Comcast Corp. to bid for 21st Century Fox assets as early as Wednesday and could trigger a round of deal making by smaller media companies trying to keep up with the industry's titans.

The AT&T deal, which survived the U.S. Justice Department's legal challenge, will create a juggernaut with an unprecedented mix of assets spanning TV distribution, cable programming, wireless and broadband.

Separately, Walt Disney Co. and Comcast appear headed for a bidding war over Fox assets, including its Hollywood studio and international properties.

For Comcast, approval of the AT&T deal bolsters its case with Fox that a tie-up between the companies can pass muster with regulators. Comcast is expected to submit an all-cash bid at a substantial premium to Disney's all-stock \$52.4 billion offer, people close to the situation said.

The AT&T-Time Warner and Fox deals are the sort that media executives hope could give them the best shot to compete in a world where the superpowers of tech, from Netflix

Inc. to Facebook Inc., have disrupted the old ways of doing business, and consumers are turning away from the cable TV bundle.

As the giants get even bigger, there could be a reckoning for smaller U.S. media concerns including CBS Corp., Viacom Inc., Discovery Inc., AMC Networks Inc. and Lions Gate Entertainment Corp. The combined market values of all those companies is around \$58 billion, compared with \$150 billion for Comcast and around \$285 billion for a combined AT&T-Time Warner.

Media stocks rose in after-hours trading following the decision, as investors anticipate heightened deal activity. Lions Gate and Fox shares rose around 7%, while Disney shares fell more than 1% and Comcast shares declined more than 3% with a bidding war looming ahead over Fox. Netflix shares fell about 1% after the ruling.

The second-tier of companies will be under pressure to find deals of their own that don't just increase their exposure to traditional TV but give them the scale and mix of assets to withstand the industry's changes, investment bankers and industry analysts say.

"The floodgates will open," said Jessica Reif, a veteran

**BUYERS**  
The following are seen as interested in buying media assets.

Bob Iger,  
CEO of Disney

**SELLERS**  
The following are seen as interested in selling media assets.

Jeff Bewkes, CEO  
of Time Warner

**WILD CARDS**  
The following have the potential to be buyers or sellers.

John Malone,  
chairman of  
Liberty MediaBrian Roberts,  
CEO of ComcastRupert Murdoch,  
executive  
chairman of 21st  
Century FoxShari Redstone,  
vice chair of  
Viacom's board

programming and tie-ups with star producers such as Shonda Rhimes is driving up the market for talent.

Alphabet Inc.'s Google and Facebook, meanwhile, have revolutionized advertising, channeling large amounts of data on users to target ads at specific groups of people in a way that TV can't match.

"The combination of new technologies and new entrants...has changed the competitive dynamic in a dramatic way," said Jonathan Levitsky, a mergers and acquisitions lawyer at Debevoise & Plimpton who has played a role in several big media deals in recent years.

"This cozy ecosystem is under attack, and those changes are what's driving people's desire to do deals," he added.

Across the media industry, moguls are calculating whether now is the time to exit. 21st Century Fox Executive Chairman Rupert Murdoch's decision to sell the Fox assets he had assembled over decades was a powerful signal to many observers that something fundamentally had changed.

"Some of the most iconic media executives are transitioning right now and that's a very big deal," said Jennifer Nason, global chairman of investment banking at JPMorgan Chase.

## DOJ Faces A Heavy Merger Docket

BY BRENT KENDALL

WASHINGTON—Tuesday's AT&T ruling was a major blow for the Justice Department, putting its antitrust enforcers in the position of having to regroup quickly, as a heavy workload awaits them.

Several other closely watched mergers are already on the DOJ's plate for review and could require tough decisions. Topping that list is the proposed combination of T Mobile US Inc. and Sprint Corp., a deal that would leave the U.S. dominated by three national wireless carriers.

Obama administration officials at the Justice Department were firmly opposed to further wireless consolidation, but the companies decided to make a run at it with a new sheriff in town.

The wireless merger, a "horizontal" deal that would combine two head-to-head rivals, is far different in character from AT&T's Time Warner acquisition, which will vertically integrate two complementary companies. But whether it is the T Mobile deal review or another matter, the Justice Department will have to consider how willing—and how soon—it is willing to roll the dice again in court.

Cleveland State University law professor Christopher Sagers said he doesn't expect the Justice Department to sit on its hands after losing on AT&T. But he said the ruling could temper its appetite for bold cases challenging future vertical mergers and lead it to focus instead on big, more traditional cases.

"I just think they will become more like the Obama administration," Mr. Sagers said. "Litigated challenges will become plausible only for the biggest horizontal deals."

Gene Kimmelman, president of the public-interest group Public Knowledge and an antitrust official in the Obama Justice Department, said everything that transpired in the AT&T case "demonstrates exactly why the Obama administration was very cautious about litigating vertical mergers."

The department, for example, during the Obama era in 2011 allowed Comcast Corp. to acquire control of NBC Universal, choosing to impose restrictions on Comcast's conduct instead of challenging the deal outright.

Mr. Kimmelman, however, supported the challenge to AT&T and said the current Justice Department will have to decide whether to stick to its guns.

"Unless Justice Department quickly puts down a marker that it will litigate another vertical case, we could have massive consolidation across industries," he said.

The Justice Department could face another transformative entertainment deal soon if Comcast follows through with its plans for a bid to buy the bulk of 21st Century Fox Inc.'s assets.

Other vertical deals are already pending, including two major ones in the health-care sector: CVS Health Corp.'s planned acquisition of insurer Aetna Inc. and Cigna Corp.'s pending takeover of pharmacy-benefit manager Express Scripts Holding Co.

The AT&T decision "may make it harder for the Department of Justice to attempt to block" the two deals, Wells Fargo analysts wrote Tuesday.

While U.S. District Judge Richard Leon was tough on the Justice Department in the ruling, he went out of his way to say he didn't mean for his decision to be a categorical setback to bringing future cases. Instead, he said, his holding was based solely on the facts of the matter in front of him.

"The temptation by some to view this decision as being something more than a resolution of this specific case should be resisted by one and all!" he wrote.

—Anna Wilde Mathews contributed to this article.

## Stephenson Took Big Gamble in Antitrust Fight

BY DREW FITZGERALD

Randall Stephenson kept his chips on the table and won big.

The AT&T Inc. boss struck an \$85 billion deal nearly two years ago to buy Time Warner Inc., then took on antitrust enforcers in a high-stakes court battle after he refused their demands to divest itself of cable channels including CNN.

A federal judge on Tuesday handed Mr. Stephenson a vic-

tory, saying in an unusually harsh opinion that the Justice Department had failed to make its case and the companies should be allowed to merge without conditions.

Mr. Stephenson also had gambled his career on the deal. He was unlikely to survive as AT&T's chief executive if his merger strategy had been rejected, said people familiar with the matter. Instead of leaving, the 58-year-old

Oklahoman will take the helm of a media empire that is a country mile from the regional telephone company where he started working decades ago.

In less than three years, Mr. Stephenson has transformed the phone company he inherited into one of the world's biggest entertainment companies, snapping up satellite broadcaster DirecTV, the legendary Warner Bros. movie studio and a collection of top cable networks, in-

cluding HBO and CNN.

When Mr. Stephenson took over AT&T in June 2007 it was largely a collection of former Baby Bells with a wireless business called Cingular. The company had just completed a merger with BellSouth that doubled its revenue to about \$120 billion. With Time Warner, it will have nearly \$200 billion of revenue, about a third tied to the TV business. AT&T is entering a crowded

market. The Dallas company will be fighting Comcast Corp. and Netflix Inc. for popular shows while battling Alphabet Inc.'s Google and Facebook Inc. for advertising dollars.

Mr. Stephenson has said he plans to leave Time Warner's management alone to avoid rocking the boat. But the deal will combine two starkly different business models and work cultures, adding more risk to deliver on executives' promises.

## AT&T Beats U.S. In Fight

*Continued from Page One*  
deal without further legal interference.

Judge Leon said he hoped the Justice Department would have the "wisdom" not to seek an emergency stay of his ruling, saying such a legal maneuver would be "manifestly unjust" to AT&T and Time Warner.

The acquisition means that AT&T, already the nation's top pay-TV distributor through its ownership of DirecTV, will now also control some of cable TV's best-known channels, including HBO, CNN, TNT and TBS, as well as the Warner Bros. TV and film studio.

Judge Leon made headlines during the trial when he questioned whether a key Justice Department theory, backed by a well-respected economist, was a Rube Goldberg contraption.

He went a step further Tuesday in his strongly worded opinion. "In fairness to Mr. Goldberg, at least his contraptions would normally move a pea from one side of a room to another," Judge Leon wrote.

The decision hands the Justice Department's antitrust division one of its most stinging losses ever.

"We are disappointed with the Court's decision today," Makan Delrahim, chief of the Justice Department's antitrust division, said in a statement. "We continue to believe that the pay-TV market will be less competitive and less innovative as a result of the proposed merger between AT&T and Time Warner."

The department will review the ruling, he said, and "consider next steps."

Mr. Delrahim attended Tuesday's hearing and sat stone-faced as he listened, occasionally taking notes as the judge spoke. Some of the 100 spectators had camped out overnight, or hired line-standers, to win a seat. The judge barred people from leaving until he was done, and he commanded that there be no celebrations—or consolations—in his courtroom. Everyone abided by the orders.

Speaking to reporters outside the courthouse, AT&T's lead attorney, Daniel Petrocelli, de-

### Evolution of a Giant

**AT&T Corp.**

Born 1877 as the Bell Telephone Co.

McCauley Cellular

NAME CHANGED TO SBC

AT&T

BellSouth

Southwestern Bell

Pacific Telesis

Ameritech

Time Inc.

Created in 1969

Turner Broadcasting System

NAME CHANGED TO AOL TIME WARNER INC.

Time Warner Inc.

NAME CHANGED TO AOL

AOL

Time Warner Cable spun off

Time Inc. magazine division spun off

Time Warner Cable spun off</p

## WORLD NEWS

## U.S. Expands Its Role in Yemen Fighting

Pentagon gives allies intelligence to refine list of targets in key port city of Hodeidah

By DION NISSENBAUM

**WASHINGTON**—The U.S. military is providing its Gulf allies with intelligence to fine-tune their list of airstrike targets in Yemen's most important port, one sign of the Trump administration's deepening role in a looming assault that the United Nations says could trigger a massive humanitarian crisis.

While the U.N. is working furiously to broker a deal to avert a United Arab Emirates assault on a Red Sea port, the U.S. is helping the Gulf nation develop a list of targets meant to be off limits for airstrikes, American military officials said Tuesday.

"The intent is to minimize the number of civilian casualties and the harm to critical infrastructure," said one U.S. military official.

The expanded U.S. military help comes as the Trump administration is giving the U.A.E. cautious backing for its developing efforts to seize the port of Hodeidah from Iranian-backed Houthi forces.

Hodeidah serves as the main gateway for three-quarters of the humanitarian and commercial goods flowing into Yemen, where most of the population relies on international aid.

The U.N. has warned that an assault on the port could trigger a broad humanitarian crisis, derail new efforts to broker a peace deal and leave as many as 250,000 people dead.

Martin Griffiths, the U.N. special envoy for Yemen, has been working to broker a last-minute agreement for the U.N. to manage the port, according to people familiar with the talks, but the U.A.E. appeared to be moving forward with its



Sudanese forces fighting alongside the Saudi-led coalition in Yemen gathered on Tuesday near the port city of Hodeidah.

military planning. The U.N. and aid groups were scrambling to get their international staff out of the port as the U.A.E. has indicated that a military offensive could begin as soon as this week.

Mr. Griffiths has warned that any assault on the port could be a death knell for his nascent attempts to broker a deal.

Initially, the U.A.E. assured the U.S. and United Kingdom that it wouldn't target the port without support from both Western allies. But that changed over the weekend when the U.A.E. said its forces near the port had come under attack.

Top Trump administration officials have expressed strong concerns about the U.A.E.'s efforts to target the port, but

they have tempered their objections in recent days.

One U.S. official said that Washington was giving the U.A.E. a "blinking yellow light" of caution.

On Monday, Secretary of State Mike Pompeo and Defense Secretary Jim Mattis offered qualified support for the U.A.E. as the U.S. dropped its appeal for a de-escalation and instead turned its focus toward ensuring that an expected assault doesn't make things worse for Yemen.

Mr. Pompeo said he had made clear to Emirati leaders the U.S. "desire to address their security concerns while preserving the free flow of humanitarian aid and lifesaving commercial imports."

"We expect all parties to honor their commitments to work with the U.N. Office of the Special Envoy of the Secretary General for Yemen on this issue, support a political process to resolve this conflict, ensure humanitarian access to the Yemeni people, and map a stable political future for Yemen," he said.

Mr. Mattis told Pentagon reporters on Monday that he backed that view.

Mr. Mattis has privately expressed reservations about the looming operation, according to the people familiar with the talks, but others in the Trump administration see the U.A.E. military moves as a chance to give the Gulf nation more bargaining power in peace talks.

The Pentagon chief has voiced concerns that a protracted assault on the port could worsen the humanitarian crisis and undercut American counterterrorism operations in Yemen, where elite U.S. forces work alongside their U.A.E. counterparts to target Islamic militants.

The U.S. provides the Saudi-led coalition with modest support for the fight in Yemen. U.S. pilots carry out midair refueling operations for coalition warplanes that use American-made weapons to carry out airstrikes in Yemen. The U.S. shares limited intelligence with the Saudi-led coalition, including information used to pinpoint hospitals, mosques, U.N. offices and other locations meant to be off-limits for airstrikes.

### Some Lawmakers Oppose U.A.E. Plan To Attack Port City

Opposition to the United Arab Emirates' plans for a military assault on, and seizure of, Yemen's Red Sea port of Hodeidah is rising in Washington.

The Trump administration views the fight in Yemen as a key battle in its effort to combat Iran's expanding influence across the Middle East. U.S. and United Nations officials say that Iran has provided the Houthi fighters in Yemen with ballistic missiles they have used to repeatedly target neighboring Saudi Arabia—an accusation that Tehran denies.

But Republican and Democratic lawmakers have circulated letters of concern about the U.A.E.'s plans.

U.S. lawmakers have unsuccessfully tried to cut off American support for the war in Yemen because of concerns about American culpability in airstrikes that the U.N. estimates have already killed more than 4,000 civilians.

Hodeidah is Yemen's fourth-largest city and is home to more than 400,000 people.

In the House, lawmakers were gathering signatures for a letter that urges Defense Secretary Jim Mattis to do all he can to forestall an attack.

"We urge you to use all available means to avert a catastrophic military assault on Yemen's major port city of Hodeidah by the Saudi-led coalition, and to present Congress with immediate clarification regarding the full scope of the U.S. military involvement in that conflict," said a copy of the letter reviewed by The Wall Street Journal.



Vietnamese lawmakers on Tuesday voted to require web firms to store user data in the country.

## Vietnam Tightens Web Grip With New Cybersecurity Law

By JAMES HOOKWAY

Vietnam's plans to vigorously police the internet took a step forward when it adopted a cybersecurity law that requires internet companies such as Facebook and Google to store their Vietnam-based users' data on servers in the country.

Critics say the new law could make it easier for authorities in the one-party communist state to track down critics online. Legislation passed by the National Assembly also requires internet companies to open offices in the country, which they have been hesitant to do, in addition to removing content within 24 hours at the government's request.

Last year, China enacted a law requiring that cloud data from China-based consumers be stored in the country, sparking worries about privacy. And Vietnam has steadily increased scrutiny of what is posted online as Facebook's reach has grown.

Both Facebook Inc. and Google, owned by Alphabet Inc., have long flagged their opposition to the law through the Asia Internet Coalition, which also includes companies such as Apple Inc., Yahoo and

Twitter Inc. The group has warned that the measures could deter investment and undermine local businesses that have profited from a boom in social media in recent years.

The U.S. Embassy in Hanoi, meanwhile, warned last week that the law "might not be consistent with Vietnam's international trade commitments," notably with the World Trade Organization.

Tuesday's vote at the Na-

*Critics say the measure could make it easier to track down online critics.*

tional Assembly, which is widely regarded as a rubber stamp for the government, was conducted amid strict security, with police placing barricades at the roads leading to the building.

Vietnam has seen a surge in protests in recent days over plans to allow foreign companies 99-year land leases at strategic sites. Many of the thousands of demonstrators who took to the streets of Ho

Chi Minh City, Hanoi and other cities said they were worried that companies from Vietnam's historic rival, China, would use the proposals to get a foothold in the country.

In some areas, cars were torched outside police stations. The government pledged to review the plans.

Some of the demonstrators had also railed against the cybersecurity law, but there was little prospect of Vietnam's government relenting on that measure.

Late last year, Hanoi introduced a new 10,000-strong cyber unit called Force 47 to patrol the web to counter what it described as any "wrongful opinions" about the government.

The country has increased the penalties for anyone using Facebook as a platform to attack the government.

In November, a young blogger was given a seven-year prison sentence for "spreading propaganda against the state." Another, Nguyen Ngoc Nhu Quynh, has begun a hunger strike against her treatment in prison, according to her mother. Ms. Quynh was sentenced to 10 years in June last year for protesting the government's inaction on environmental issues.

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## WORLD NEWS

# U.K. Leader Dodges a Brexit Loss

**Vote limits Parliament's say in negotiations with the European Union, vindicating May**

BY JASON DOUGLAS  
AND STEPHEN FIDLER

**LONDON**—British Prime Minister Theresa May narrowly escaped a bruising parliamentary defeat on Tuesday over her Brexit strategy, seeing off a challenge that would have given lawmakers a much greater say over negotiations with Brussels.

Yet deep divisions remain in London over the terms of Britain's withdrawal from the European Union, with several tricky issues still unresolved almost two years after voters chose to exit from the EU in a referendum.

Mrs. May is scheduled to discuss progress with fellow European leaders at a summit in Brussels later this month.

Lawmakers on Tuesday were asked to consider an amendment to the government's flagship Brexit legislation that would have given Parliament the power to reject whatever Brexit agreement Mrs. May strikes with Brussels and dictate fresh terms for renewed negotiations.

Mrs. May's victory was slim—324 lawmakers voted down the proposition, with 298 voting in favor—and came only after her government made concessions to rebels from her own Conservative Party. The narrow margin reflects the loss of Mrs. May's parliamentary



Brexit minister David Davis spoke in the debate in the Commons. Below, a reprieved Theresa May.



majority in an election last year. She has held on to power thanks to the support of a small group of lawmakers from Northern Ireland.

Ministers had argued the amendment would have severely weakened the U.K.'s hand in negotiations with Brussels. Rebels in Mrs. May's ruling Conservatives—who inflicted a defeat on the government in a similar vote in December—mostly fell into line after senior officials pledged to listen more closely to their concerns that Parliament doesn't have a big enough role in the Brexit process.

Chief among those concerns is what happens if Mrs. May comes back from negotiations empty-handed. The rebels, led by former attorney general Dominic Grieve, want to prevent the U.K. crashing out of the EU without a deal.

Mr. Grieve on Tuesday suggested an alternative amendment to the legislation that would give Parliament extra powers in the event that no political agreement

on withdrawal was reached.

In a concession to the rebels, ministers signaled they will consider his proposals for inclusion in the final legislation—a step that could reduce the risk of a disorderly exit.

A defeat for Mrs. May would have injected a fresh dose of uncertainty into the process of untangling the U.K. from the EU.

The U.K. is scheduled to leave the EU in March next year and multiple aspects of the divorce agreement and the U.K.'s future relationship to the bloc have yet to be agreed. Mrs. May's cabinet is split over whether to seek close ties or opt for a more decisive break.

The parliamentary pitfalls for Mrs. May haven't yet passed. Lawmakers are due to vote Wednesday on legislative amendments that would oblige the government to seek closer ties with the EU on customs than it says it wants, though analysts expect her to see off that challenge, too.

The political drama was heightened earlier Tuesday when a junior minister in Mrs. May's administration resigned from his post, citing unease over the government's Brexit strategy.

Phillip Lee, a junior minister in the Justice Department who supported remaining in the EU during the 2016 referendum, said the departure, as currently pursued, would damage businesses in his district, west of London, and that he couldn't allay the fears of the people in his constituency about the outcome.

GREECE

## Deal Is Reached on 'North Macedonia'

Greece and Macedonia agreed to rename the Balkan country "North Macedonia" in a breakthrough that could end a bitter 27-year-old dispute and pave the way for expansion of the North Atlantic Treaty Organization and the European Union.

The deal, reached between Greek Prime Minister Alexis Tsipras and his Macedonian counterpart Zoran Zaev, calls for Greece to lift its longstanding veto over NATO and EU membership talks with its neighbor.

The accord must be ratified by referendum in Macedonia and by both countries' parliaments. Nationalists in both countries oppose any compromise and could derail it. Messrs. Zaev and Tsipras are to sign their accord on Saturday at Lake Prespa on the countries' border.

—Nektaria Stamouli  
and Marcus Walker

CONGO

## Court Orders Release Of Ex-Vice President

International Criminal Court judges ordered the interim release of former Democratic Republic of Congo Vice President Jean-Pierre Bemba days after he won an appeal of his conviction on charges of war crimes and crimes against humanity.

Mr. Bemba's 18-year sentence was overturned Friday, but he had remained in custody because he is awaiting sentencing in another case in which he was convicted of interfering with witnesses.

Meanwhile, President Joseph Kabila won't seek a third term in December elections because of constitutional limits that prevent him from running again, Prime Minister Bruno Tshibala said.

—Associated Press

## FROM PAGE ONE

## Tesla to Cut 9% of Workforce

Continued from Page One

nally reach the goal of making 5,000 Model 3 sedans a week by the end of June—a rate that if maintained would allow the company to show a profit in the third and fourth quarters, he has said.

"What drives us is our mission to accelerate the world's transition to sustainable, clean energy, but we will never achieve that mission unless we eventually demonstrate that we can be sustainably profitable," Mr. Musk wrote in the email to employees Tuesday. "That is a valid and fair criticism of Tesla's history to date."

Mr. Musk made similar comments in May after burning through more cash in the first quarter than analysts had expected. At the time, he also reiterated statements that he didn't want to raise more cash—even as several analysts said Tesla will have to do so.

The company finished the first quarter with \$2.7 billion in cash on hand. Tesla announced it was paring back planned cap-

ital expenditures this year to less than \$3 billion from \$3.4 billion last year. Its loss attributable to common shareholders in the first quarter was \$710 million, the fifth consecutive quarter of record losses.

Tesla said the latest workforce cuts are affecting all departments except production workers. They come as Tesla prepares to launch other vehicles over the coming years. Mr. Musk has said he expects to reveal the Model Y compact sport-utility vehicle in March, ahead of production planned to start in the first half of 2020. He also has said production of the company's tractor-trailer truck and new sports car, the Roadster, will be in 2020.

"Cutting your way to profitability as you try to grow and launch vehicles is very difficult," Dave Sullivan, an analyst for AutoPacific Inc., said. "It seems like a strange time to cut unless you have promises about profitability for Q3 and your revenue can't support current staffing levels."

"Cutting heads will likely only lead to more delays, more stress and lower morale," Mr. Sullivan said.

Tesla is facing increased competition from traditional auto makers, such as Porsche and Jaguar, which are racing to bring their own all-electric cars



The job cuts are mostly aimed at salaried staff and won't affect production workers.

to market, and from companies working to develop competing self-driving car technology. On Twitter, Mr. Musk acknowledged that he was losing good people. "I think they will find new jobs quickly," he said.

In May, Mr. Musk told workers he planned to change the management structure of the company following the abrupt decision by Tesla's chief engineer, Doug Field, to take a leave

of absence. Tesla has lost several other high-profile executives since the beginning of 2017, including the chief financial officer, who has been replaced.

The auto maker finished 2017 with about 37,500 employees, a sharp increase from previous years as it expanded its ambitions and acquired SolarCity Corp., the solar-panel maker. Tesla continued an ag-

gressive hiring pace through the first months of 2018, hitting a total of about 40,000, according to a person familiar with the effort.

Tesla had previously indicated that it finished 2017 with more than 9,000 production-line workers—but that was before a hiring spree to make up for failed efforts to automate the Model 3 assembly line.

"Tesla has grown and

evolved rapidly over the past several years, which has resulted in some duplication of roles and some job functions that, while they made sense in the past, are difficult to justify today," Mr. Musk said in his memo.

He added: "We are also continuing to flatten our management structure to help us communicate better, eliminate bureaucracy and move faster."

Under a flat management structure, employees work for top leaders with few layers of managers in between.

Mr. Musk has already taken command of several significant roles at the company, including oversight of vehicle production from Mr. Field in April, and the sales and services divisions in February following the departure of Jon McNeill as Tesla's president of global sales.

His moves are being closely tracked both by short sellers betting the company will fail to turn into a major automotive player, and by supporters who believe in his vision of a future where electric-powered cars are driven by computers.

The latter group has won out so far, pushing Tesla's market value to over \$50 billion, rivaling that of General Motors Co., which sells far more vehicles and is profitable.

"I'm fairly certain that there is no precedent for this in traditional Buddhist practice," said Benjamin Brose, associate professor of Chinese religions at the University of Michigan. "Many monks meditate every day for decades, and I have never heard of anyone keeping track."

Pavlok, which sells wearable electronic shocking devices to help people change their behavior, suggests meditation as one of the top uses for its wristbands, which cost \$145 to \$245.

Nicholas Rozier, Pavlok's 37-year-old director of operations based in Moscow, Idaho, said he cranks his device to 100% to remind himself to meditate at 7 a.m. for 10 minutes six days a week. If he fails to log a session, which he self-reports, he gets two zaps of 450 volts of electricity on the inside of his left wrist. He said it feels like a bee sting.

Ultimately, all streaks are made to be broken.

Amanda Bralley, a 37-year-old mother from Alpharetta, Ga., messed up her 18-day meditation run while focused on her teenage daughter. "Today is #Day1 again," she wrote on Twitter. "Namaste y'all."

## Meditation Grows Competitive

Continued from Page One

board to see who has meditated the most days in a row. A habit-tracking website charges the credit cards of meditators if they miss their sessions too often. One company is pitching meditators on a wristband that reminds them to practice and, if they don't, gives them a mild electric shock.

Streaks are rampant on apps such as Headspace and Calm, which are designed to log and display the consecutive days a user has meditated or practiced mindfulness. Meditation, which can mean different things to different people, is a more focused state than mindfulness, which is a state of calm attention to the present.

"There's something deep in the human psyche about wanting to compete and keep a streak going," said Calm co-founder Michael Acton Smith. "It really helps motivate peo-

ple."

Desperate to maintain streaks that can surpass 1,000 days, some driven spiritual voyagers have started looking for new ways to protect their records. On Headspace, the app counts any session completed in an eight-hour period as its own day. Pointing this out, a user on Facebook suggested logging three days in one by meditating at 4 a.m., 2 p.m. and 11 p.m.

On Mindful Makers, a private online group of roughly 250 meditators, members can check the streak rankings daily. Robin Koppensteiner was in second place with 71 days at the start of this week. Members are trusted to report their own meditation updates.

"I have to admit I check every day to see if I'm still in number two or if I've gone up to number one," said the 29-year-old author from Vienna, Austria.

For him to rise, current streak leader Jason Leow must fall. Mr. Leow, a 39-year-old design consultant from Singapore, posted a tally of 88 days this week, a record for the group. He said he wouldn't mind being dethroned. "We're all winners when we meditate together," he said.

"It's weird to admit, but it was kind of cathartic," said Mr. Merchant. "I've paid for my screw-up. Literally."



Some meditators try to keep streaks going as long as possible.

Some people are using goal-tracking services like Bee-minder, which charges fees when users don't stick to new habits, including meditation.

Michael Merchant, a 29-year-old San Francisco tech entrepreneur, found the site helpful about five years ago even though he "felt so much shame" when he lost \$810 after repeatedly failing to practice mindfulness an hour a day. He could have logged false data but decided to come clean.

"It's weird to admit, but it was kind of cathartic," said Mr. Merchant. "I've paid for my screw-up. Literally."

The guidelines for what counts toward a meditation streak can be loose; the companies allow a broad swath of mindfulness exercises to qualify. Among them: a Headspace session on eating mindfully and a bedtime story on Calm read by actor Jerome Flynn, who plays the deadly fighter Bronn on "Game of Thrones."

To maintain their records, some people just let the audio for an app's meditation session play on their phones while they're, say, watching TV.

"People have said, 'I don't want to lose my streak...I put it on, but I didn't meditate,'" said

Headspace co-founder and former Buddhist monk Andy Puddicombe, calling this group a small minority. "My hope is that 99% of members are using it not because they just want to reach a higher number. It's more about our intention and our relationship with the run streak rather than the run streak itself."

Mr. Puddicombe said his training at a Tibetan monastery in northern India featured streak-like exercises to foster accountability. He recalled writing down the number of times he completed certain mantras or visualizations every day.

Streaks are big business for Headspace and Calm, which sell access to audio-guided meditations and other features for \$12.99 a month, or less depending on the package. Headspace and Calm report roughly 30 million and 26 million downloads of their apps, respectively.

At Calm, Mr. Acton Smith said, purists on staff don't want bedtime stories to count toward the tally since some users won't even be awake for them.

Headspace, which added its streak counter at customers' request in 2014, soon will give users the option to hide the tally if it creates too much pressure.

## WORLD NEWS

# Man Is Charged In Nobel Scandal

BY DAVID GAUTHIER-VILLARS

Swedish prosecutors filed rape charges against a Frenchman at the center of a months-long sexual scandal that led the institution that awards the Nobel Prize for Literature to cancel this year's award.

Jean-Claude Arnault, a photographer and cultural figure in Sweden, was charged with raping a woman twice in Stockholm in 2011, a prosecutor said Tuesday, citing "robust and sufficient" evidence.

Mr. Arnault has denied the accusations. His lawyer, Björn Hurtig, didn't respond to messages requesting comment.

The scandal erupted last year when 18 women accused the photographer of sexual assault and harassment between 1996 and 2017, leading Swedish prosecutors to investigate.

The Swedish Academy, which awards the literature prize, was drawn into the scandal because it was financing events at Mr. Arnault's cultural club, and because his wife, Swedish poet Katarina Frostenson, sat on the academy's jury.

The academy stopped funding the club, but disagreement emerged among jury members over whether Ms. Frostenson, a co-owner of the club, should be removed.

Several members, including Ms. Frostenson, left the academy, but a question remained as to whether jury members knew about the accusations before they became public last year.

Citing findings by a law firm it hired to conduct an independent investigation, the academy has said "unacceptable behavior in the form of unwanted intimacy had indeed taken place, but the knowledge was not widely spread in the academy."

# Italy to Ferry 500 Migrants to Spain

BY GIOVANNI LEGORANO

ROME—Hundreds of migrants whose boat was denied entry to Italy will be transported to Spain by Italian Coast Guard and Navy vessels, a possible resolution to an incident the new Italian government has used to highlight its tough stance on migration.

The 629 migrants were picked up off the coast of Libya last weekend by a boat run by migrant-aid group SOS Mediterranee, but the Italian government on Sunday refused to allow the vessel to dock. That left the migrants stranded until Spain offered to take them, although it wasn't clear how they would get there.

Italian officials said Tuesday that two ships operated by the Coast Guard and Navy would take 500 of the migrants to the Spanish port of Valencia. The rest will be taken by the aid vessel, which has received food and supplies from Italian authorities.

Italy's new government, a coalition between the anties-establishment 5 Star Movement and the hard-right League, has pledged to halt mass migration to the country.

The new interior minister is Matteo Salvini, head of the League, who has become a rising star in Italy for his tough stance on migration. The new government promises to stem the flow of undocumented mi-



Stranded migrants aboard an Italian coast guard vessel. Officials said ships would take 500 of the migrants to the Spanish port of Valencia.

grants from Africa and the Middle East and to deport half a million migrants now on Italian soil.

As such, Rome views Spain's offer to take the migrants as a victory, as it has been pressing Europe to more equitably share the burden of seaborne migration. Italy had earlier

urged Malta to take the migrants, but the small nation shrugged off the request, saying it wasn't its responsibility.

The Italian Coast Guard said it estimates the boats will take four days to reach Valencia. Italian authorities said doctors will be on the Coast Guard ship to give assistance in case of

medical emergencies. The people.

United Nations is supplying staff to assist the minors on the boat.

"Teams relieved that solution starts to be found," SOS Mediterranee said on Twitter. "However, results are unnecessary prolongation of time at sea for already vulnerable peo-

KENNY KARPOV/SOS MEDITERRANEE/ASSOCIATED PRESS

# Court Affirms Guilt of King's Brother-in-Law

BY JEANNETTE NEUMANN

MADRID—A top Spanish court upheld most of a graft conviction against the king of Spain's brother-in-law in a case that has tarnished the monarchy's image.

The Supreme Court ruled on appeal a ruling that Iñaki Urdangarin, the husband of Princess Cristina de Borbón, was guilty of misuse of public funds, influence peddling and tax fraud for using his standing as

a member of the royal family to orchestrate a kickback scheme tied to public contracts.

The judges dismissed a lower court decision convicting Mr. Urdangarin of falsifying documents, lowering his prison sentence by several months to five years and 10 months.

Mr. Urdangarin, an Olympic handball medalist turned businessman, can appeal to another top court.

The case against King Felipe VI's brother-in-law is one of

dozens stemming from Spain's property boom years, when banks financed a construction binge that collapsed in 2008 after a decade of overbuilding.

Court rulings and investigations show members of the political and business establishment seized on the surge in real estate spending to inflate construction contracts, for instance, and then illegally profit from kickback schemes.

Earlier in June, the center-left Socialist Party used a cor-

ruption ruling tied to the property boom to oust the former prime minister and install its own leader as premier.

The investigation into Mr. Urdangarin's finances ensnared his wife, Princess Cristina, exposing the monarchy to criticism that the country's elites were using their positions to profit. In an attempt to shield the monarchy, King Felipe stripped his sister and brother-in-law of their titles of Duchess and Duke of Palma in 2015.



Iñaki Urdangarin can appeal his conviction on graft charges to another top court in Spain.

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## THE SINGAPORE SUMMIT

# After Offenses, a Charm Offensive

By CHUN HAN WONG

SINGAPORE—As President Donald Trump and North Korean leader Kim Jong Un exuded mutual warmth during a Tuesday summit, with beaming smiles and breezy back-patting, months of distant bickering dissolved in close-up bonhomie.

Over the past year, the two leaders traded taunts, insults and war threats as Washington pressed Pyongyang to give up nuclear weapons.

Though both men started playing nice as they prepared to meet for the first time, tensions kept simmering as Mr. Trump swung between canceling and restoring plans for the Singapore summit at the 11th hour.

Then, on Tuesday, summit stagecraft signaled a tilt toward full-on diplomatic niceties, portraying the septuagenarian president and the 30-something dictator as equals in the glare of the global limelight.

The proceedings started with a red-carpet handshake just after 9 a.m., against a backdrop of U.S. and North Korean flags. As the two leaders approached each other from opposite ends of a hotel walkway, Mr. Trump reached out first for a handshake.

Grasping hands for roughly 13 seconds, they exchanged pleasantries while Mr. Trump briefly placed his left hand on Mr. Kim's right arm. Both men appeared relaxed as they chatted, smiling broadly at times.

Their casual demeanor continued as they retreated away from the cameras for a private chat, seated on wooden chairs with cushions and separated by a small flower-topped table.

Just before journalists left the room, the two leaders shook hands, and Mr. Trump flashed a thumbs-up at Mr. Kim.

"I think the entire world is watching this moment," Mr. Kim



After trading taunts, insults and war threats over the past year, President Donald Trump and North Korean leader Kim Jong Un turned chummy in Singapore, conducting their negotiations at the Capella Hotel on Tuesday with a casual demeanor.



told Mr. Trump, through a translator. "Many people in the world will think of this as a scene from a fantasy...science fiction movie."

Emerging from a working lunch, the two leaders strolled through a hotel garden, briefly unaccompanied by aides or translators.

Mr. Kim, who brought along

two luxury cars—a Mercedes and a Maybach—for this summit, peered inside Mr. Trump's armored limousine. In a moment captured by television cameras, Mr. Trump gestured to open a rear passenger door of his presidential ride, allowing Mr. Kim a quick glimpse.

At the end of a signing cere-

mony, where Messrs. Trump and Kim signed a joint declaration on denuclearizing North Korea, the two leaders exchanged a firm handshake and put their hands on each other's backs.

Even after parting ways with his North Korean counterpart, Mr. Trump kept up the charm offensive by expressing admiration for Mr. Kim's leadership

qualities.

By the president's reckoning, since Mr. Kim ascended to power in North Korea, he has "run it, run it tough," a feat that Mr. Trump said only one in 10,000 people would be capable of.

The president said Mr. Kim was making "a first bold step toward a brighter future."

## White House Assures On Drills

By BEN KESLING AND MICHAEL R. GORDON

The White House said Tuesday that the U.S. military would continue to train with its South Korean counterparts and conduct military drills—but not large-scale, joint exercises—in a clarification of an offer by President Donald Trump to North Korea's leader Kim Jong Un.

The clarification, coming while Mr. Trump was still flying back from his summit with Mr. Kim in Singapore, was issued by a White House official after Vice President Mike Pence spent much of the day meeting with lawmakers who sought to understand what the president had promised.

Mr. Trump said at a Tuesday news conference in Singapore that for the duration of talks, he was stopping U.S. "war games," which he said were "tremendously expensive" and provocative to North Korea. The offer wasn't part of the joint statement between Messrs. Trump and Kim, and was criticized by some lawmakers for giving away too much.

Mr. Pence met in closed session with GOP lawmakers, and some later said he told them that "regular readiness training and training exchanges" would continue, according to a Twitter message by Sen. Cory Gardner (R., Colo.).

Late Tuesday, a White House official clarified Mr. Pence's comments, saying: "The VP was asked about force readiness and said that while the semiannual war games would cease—assuming parameters of the deal are met—regular readiness training would continue."

and disrespectful, the president said, to pursue the "war games" even though defense officials have said they are needed to maintain training for an ever-rotating staff of U.S. and Korean military who participate.

The move appeared to surprise many at the Pentagon and South Korean officials. Mr. Trump's critics accused him of making a major concession before winning anything concrete from Mr. Kim.

South Korea's Defense Ministry said it was trying to determine the meaning of Mr. Trump's remarks, and a senior South Korean national-security official said "nothing has changed" on the exercises.

Voicing concern, Japan's defense minister Itsunori Onodera said Wednesday that the exercises play an important role in preserving peace in East Asia.

A White House official said Tuesday that the U.S. military would continue to train with its South Korean counterparts and conduct military drills—but not large-scale, joint exercises.

The clarification, coming while Mr. Trump was still flying back from Singapore, was issued after Vice President Mike Pence spent much of the day meeting with lawmakers who sought to understand what the president had promised.

A Pentagon spokeswoman said Defense Secretary Jim Mattis had been consulted on the move and was behind it.

never before shown in letting the world look inside its most sensitive operations. Eventually, the process also will require agreement on issues ranging far from nuclear matters. Though the two leaders agreed to a framework for peace between their countries, they didn't agree to a plan to formally end the Korean War. That is a tricky process that will involve protecting the interests of South Korea and Japan as well.

The diplomacy ahead will have to take into account the wishes of the biggest party not in the room in Singapore: China. The Chinese are undoubtedly pleased that Mr. Trump talked Tuesday of potentially withdrawing American troops in South Korea, but they also will insist on being dealt into the diplomatic process that lies ahead—and they have the ability to disrupt it if they aren't happy.

In sum, the war clouds have dissipated. The weather ahead is hard to predict.

## Tricky Path Ahead After Agreement

*Continued from Page One* this year—not the president's "maximum pressure" campaign against Pyongyang—and said the two leaders accepted each other's invitations to visit their respective countries.

The report, published early Wednesday, put a distinctly North Korean spin on the meeting between the two leaders, the first between a sitting U.S. president and a leader of North Korea. The report also quoted Mr. Kim as saying that, if the U.S. were to take "genuine measures for building trust," then the North could reciprocate in a "commensurate" fashion—a clear suggestion that U.S. concessions would have to come before any North Korean move.

Tuesday's agreement, which Mr. Trump described as "very comprehensive" after decades of failed U.S. efforts, provided almost no particulars on how to come to a denuclearization that was complete, verifiable and irreversible—oft-stated U.S. goals.

Mr. Trump said he would maintain economic sanctions but would stop the "war games" with South Korea as negotiations with the North continue.

### Document Offers New Relations and Security Guarantees

**Q: WHAT'S IN THE AGREEMENT THE TWO LEADERS SIGNED?**

**A:** The two leaders committed to establishing "new U.S.-DPRK relations in accordance with the desire of the peoples of the two countries" for peace and prosperity.

President Donald Trump committed to providing unspecified "security guarantees" to North Korea, and North Korean leader Kim Jong Un reaffirmed his "unwavering commitment to complete denuclearization."

They said they would "join their efforts" to establish "a lasting and stable peace regime" on the Korean Peninsula.

**Q: WHAT ELSE DID THEY COMMIT TO?**

**A:** Mr. Trump later told reporters the U.S. would cease "tremendously expensive" joint mili-

"We're prepared to start a new history and we're ready to write a new chapter between our nations," Mr. Trump said.

As a result of these talks, Mr. Kim said, "the world will see a major change."

Mr. Trump, who described Tuesday's talks as honest, direct and productive, said after the



SAUL LOEB/AGENCE FRANCE PRESSE/GETTY IMAGES

itary exercises with South Korea. He also said Mr. Kim had agreed to destroy a missile-engine testing site.

**Q: WHAT WAS THE MOOD?**  
**A:** Chummy, at least as far as Mr. Trump was concerned. The two men shook hands for 13 seconds in front of the cameras, Mr. Trump patted Mr. Kim on the back, and he emerged effusive about his counterpart.

"We had a really fantastic meeting, a lot of progress, really very positive. I think better

than anybody could have expected—top of the line," Mr. Trump said. He lauded Mr. Kim as "a very worthy, very smart negotiator" and a "very talented man" who loves his country.

**Q: WHAT'S NEXT?**  
**A:** Mr. Trump said the two men would meet again "many times," and said he would invite Mr. Kim to the White House. The U.S. president said he expected they would have a "terrific relationship."

Trump and Kim signed Tuesday didn't set deadlines for action. Still to be answered are when North Korea will turn over its nuclear weapons, how the U.S. will verify that step, when punitive economic sanctions will be lifted and what type of U.S. security guarantees will be offered to Pyongyang.

China and Russia were quick to suggest that sanctions on North Korea be relaxed as negotiations progress which, if that were to happen, could ease economic pressure on North Korea before any tangible progress on the process for denuclearization has been made.

Prime Minister Shinzo Abe of Japan, after talking by phone with Mr. Trump, called the meeting a success but said it needed to be followed by swift action. "We will seek full implementation of U.N. Security Council resolutions based on the success of this historic meeting," he said late Tuesday.

While Mr. Trump said the economic sanctions will remain, he said that a key link in the sanctions chain—North Korea's border with China—had weakened recently, referring to administration charges that China's enforcement of sanctions has eased, which Beijing denies.

"I think, over the last two months, the border is more open than it was when we first started," Mr. Trump said. "But that is what it is."

Mr. Trump, taking a step outside the formal U.S.-North Korean agreement, said he would stop U.S. and South Korean military exercises—an important signal for deterrence for South Korea and a constant irritant for the North—while negotiations are under way.

It would be inappropriate

*Continued from Page One*

leaders personally expose their reputations and run the risks that come with shaking hands on a big world stage.

This time, Mr. Trump is doing the opposite. The Trump-Kim handshake happened at the outset, and it is to be followed later by agreement on the tough details. There is no agreement yet on how to verify the North Korean promise to "denuclearize," how to make that agreement irreversible, or when the U.S. will lift economic sanctions. Those are the key elements of an actual deal, and they have been left for the underlings to resolve going forward.

As Mr. Trump well knows, the standard against which any such final deal will be

judged is the Iran nuclear agreement negotiated under former President Barack Obama—one that Mr. Trump has belittled and discarded despite some detailed verification provisions.

The Iran precedent, as well as the uncertainty ahead, prompted cautious reactions—and even some rumblings of unease—from Mr. Trump's allies on the right. Senate Majority Leader Mitch McConnell hailed it as "a historic first step in an important negotiation." But in a statement, he also pointedly said he backed the American goal of "complete, verifiable and irreversible denuclearization of the Korean Peninsula," and cautioned: "If North Korea does not prove willing to follow through, we and our allies must be prepared to restore the policy of maximum pressure."

Similarly, GOP Sen. Tom Cotton, a vociferous critic of the Iran nuclear deal, told conservative radio host Hugh Hewitt that generally the U.S.

should be wary of sitting down with "two-bit dictators," but added that doing so was necessary "once North Korea had nuclear weapons" and the missiles to carry them.

Still, the one indisputable accomplishment of Tuesday's meeting is that it took the U.S. and North Korea off a path toward war, which they seemed to be walking just a few months ago, and Mr. Trump's friends and foes alike cheered that. "It was a welcome improvement to see the two of them having a dialogue rather than engaging in name calling and saber rattling," said Democratic Sen. Chuck Schumer.

The scene that unfolded at the summit in Singapore spoke loudly to Mr. Trump's belief in his own ability to size up other leaders and then move them in his direction in personal negotiations. An international agreement on nuclear arms isn't a real estate deal, but Mr. Trump has suggested in this case that he doesn't see the dynamic as so different. In each case, the

personal relationship is key.

That proposition will be tested in coming months and Mr. Trump suggested a couple of times on Tuesday that it will take six months to figure out whether the effort will succeed. Meanwhile, he insisted, "we haven't given up anything."

That isn't quite true. Mr. Trump gave up one of his strongest cards by giving Mr.

Kim legitimacy and international recognition up front. He also gave up something by announcing that the U.S. will stop holding joint military exercises with South Korea while diplomacy plays out, removing an irritant and granting a favor to North Korea. Implicitly, Mr. Trump is also giving up, for now, military threats against North Korea.

Yet it is also important to remember that Mr. Trump didn't give up the most powerful card he holds: He didn't agree to roll back any economic sanctions on North Korea. That is the prize Mr. Kim is seeking above all others, and it hasn't been provided.

That will leave the U.S. with significant leverage in the negotiations ahead. If history is a guide, Washington will need that leverage because the path from the framework signed by Messrs. Trump and Kim to a full, detailed agreement will be long and difficult.

It will require a degree of openness North Korea has



SINGAPORE MINISTRY OF COMMUNICATIONS AND INFORMATION/REUTERS

Kim Jong Un got no immediate relief from economic sanctions.

*Continued from Page One*

the standard against which any such final deal will be

## THE SINGAPORE SUMMIT

## U.S. Deal Tests Ties With Asian Allies

South Korea, Japan try to assess Trump's plan to scrap military exercises in the region

By NIHARIKA MANDHANA

SINGAPORE—President Donald Trump and North Korean leader Kim Jong Un declared the "opening up of a new future" for their countries after talks on Tuesday. But their agreement also raised new and complex questions for Washington's regional allies, chiefly Japan and South Korea.

In a joint statement, Mr. Trump "committed to provide security guarantees" to North Korea, a key subject of concern for the U.S.'s partners and one with potentially far-reaching consequences for Asia's security landscape.

The document didn't give details of what was promised, but Mr. Trump said in a press conference later that military exercises with South Korea would be canceled, in a conciliatory move to Pyongyang that breaks with longstanding U.S. policy.

"Under the circumstances when we are negotiating a very comprehensive, complete deal, I think it's inappropriate to have war games," Mr. Trump said. He described the exercises as "provocative" and "tremendously expensive."

South Korea's Defense Ministry appeared unaware of Mr. Trump's decision and on Tuesday said it was still trying to determine the exact meaning of his remarks.

Japan's defense minister expressed concern Wednesday.

"U.S.-South Korea exercises and the U.S. military presence in South Korea have an important role in the peace and security of East Asia," Defense Minister Itsunori Onodera told reporters in Tokyo.

Mr. Trump articulated a transactional approach to U.S. security partnerships, speaking at length about the expenses involved in flying U.S. combat aircraft from Guam to South Korea "to practice and drop bombs all over the place and go back to Guam," playing down the strategic significance of the collaboration.



The governments of Japanese Prime Minister Shinzo Abe, above right, and South Korean President Moon Jae-in, below center, are assessing President Trump's plan to end war games around the Korean Peninsula.



"The amount of money we spend on that is incredible," Mr. Trump said. "South Korea contributes, but not 100%, which is certainly a subject we have to talk to them about also."

Fumio Ota, a retired Japanese admiral and member of a foreign-policy think tank in Tokyo, said Mr. Trump had "conceded too much to North Korea" without extracting "concrete commitments" from Pyongyang on denuclearization.

"Military exercises are a very strong bargaining chip and a way to pressure North Korea," Mr. Ota said. "Mr. Trump should not have given it up."

Mr. Trump said a drawdown of U.S. troops based in South Korea wasn't a part of

current negotiations, but stressed that he ultimately wanted to "get our soldiers out." He added: "I'd like to be able to bring them home."

Japan and South Korea weren't participants in Tuesday's talks. The two have depended on the Trump administration to protect their interests.

Mr. Trump has upended U.S. foreign policy, antagonizing the country's closest partners and raising questions about Washington's reliability as an ally. Last week, the U.S. refused to endorse the final communiqué of the Group of Seven industrial nations summit and Mr. Trump lashed out at Canadian Prime Minister Justin Trudeau over trade differences.

Talks over North Korea's nuclear disarmament are being seen as a test of Washington's commitment to its Asian allies.

Leif-Eric Easley, a professor at Ewha University in Seoul, said Tuesday's deal will raise concerns in Tokyo about the reduction of military exercises and a loosening of sanctions aimed at Pyongyang "while leaving in place North Korea's current capabilities that threaten Japan."

Mr. Onodera said Tuesday that "we definitely shouldn't let down our guard until we can confirm that specific actions have been taken."

Mr. Trump appeared upbeat and said the process of denuclearization was "going to go very quickly." The document,

## Flashpoints

President Trump said he would end joint military drills with South Korea, a source of security for allies and tension for their neighbors.



## South Korea

South Korea appeared unaware of Mr. Trump's plans to end the exercises. He also said he would like to eventually bring home the 28,500 U.S. troops based there.

## Japan

Tokyo has pressed the U.S. to stick to a hard line until North Korea completely denuclearizes, which could take years.

## China

China had already suggested the U.S. end the drills in tandem with North Korean steps to lower tensions, and praised Tuesday's agreement.

## North Korea

Past U.S. military exercises with South Korea elicited virulent protests and threats from North Korea.

## Russia

Russia praised the U.S. move to end war games, saying it was necessary to ease tensions on the peninsula, Reuters reported.

THE WALL STREET JOURNAL.

clearance and security assurances," Mr. Wi said.

U.S. officials have sought to allay concerns in recent weeks and said that a drawdown of U.S. troops in South Korea would depend on negotiations between Seoul and Washington.

A troop withdrawal "would serve the North Koreans very well in terms of their security concerns, it would serve the Chinese in terms of pushing out American influence in the region, but it would deeply concern the Japanese," said Stephen R. Nagy, a senior associate professor in the Department of Politics and International Studies at the International Christian University in Tokyo.

## Student's Parents Hope for 'Something Positive' From Death

By JON KAMP

son's death.

They have said their son was "brutally tortured and murdered" while in North Korean captivity for more than a year.

Mr. Trump has also said their son was "tortured beyond belief."

Mr. Warmbier died in June 2017 at age 22, shortly after returning home to Ohio in a coma.

He had been detained at Pyongyang's airport in January 2016 as he was preparing to leave the country after a tour.

He was initially sentenced to 15 years of hard labor after the North Koreans said he allegedly defaced a political poster.

His parents' lawsuit, filed in federal court in April, said doctors concluded his brain was severely damaged because of a lack of blood flow and that he was beyond recovery.

The exact cause of his injuries during his detention remain unclear. His parents are seeking damages to be determined by the court.

The lawsuit said North Korea falsely claimed Mr. Warmbier contracted botulism and that he then was given a sleeping pill.



Cindy and Fred Warmbier, parents of Otto Warmbier

## Lawmakers Await More Details

By JESSICA DONATI AND BYRON TAU

WASHINGTON—Republican members of Congress reacted to President Donald Trump's meeting with North Korea's leader Kim Jong Un with cautious optimism, saying they supported the goals outlined in the joint communiqué the two signed after the summit, but noted that it lacked detail and was only a starting point for negotiations.

Democrats also noted the lack of specifics in the two-page statement, which reasserted North Korea's commitment to denuclearization in exchange for unspecified U.S. security assurances, saying the summit had legitimized a brutal regime and failed to make progress on the nuclear issue. They also criticized Mr. Trump's decision to unilaterally suspend military exercises with South Korea without consulting with Seoul.

"Only time will tell if North Korea is serious this time, and in the meantime we must continue to apply maximum economic pressure," said House Speaker Paul Ryan (R., Wis.), referring to the sanctions framework the U.S. and allies have imposed on North Korea.

Sen. Lisa Murkowski, an Alaska Republican, said that "while the joint statement is short on details, the significance of the meeting cannot be understated."

Several other Republicans played down Mr. Trump's announcement he would cancel joint military exercises with South Korea.

"I don't think canceling a war game is going to matter over the arc of time," Sen. Lindsey Graham of South Carolina, a senior Republican on the Senate Armed Services Committee, told NBC. "The one thing that I would violently disagree with is removing our troops."

Mr. Graham noted that two previous Korean peace summits—in 2000 and 2007—failed to end nuclear-weapons testing or secure lasting sta-



Sen. Lisa Murkowski, standing, said the meeting was significant but noted the statement was vague.

bility on the peninsula.

Sen. Tom Cotton (R., Ark.) said he believed the "proof of the pudding will be in the eating," saying the next large-scale joint military exercise wasn't scheduled until spring of 2019.

"I suspect by that point, we'll have, well before that point, actually, we'll know whether Kim Jong Un is serious about these commitments," he said. "I believe that Donald Trump is going to continue the campaign of maximum pressure, and he will not grant one-sided unilateral concessions."

Senate Minority Leader Chuck Schumer (D., N.Y.) and other Democrats expressed doubt that the meeting would lead to any concrete results.

"What the United States has gained is vague and unverifiable at best. What North Korea has gained, however, is tangible and lasting," Mr. Schumer said on the Senate floor. "President Trump has granted a brutal and repressive dictatorship the international legitimacy it has long craved."

House Minority Leader Nancy Pelosi (D., Calif.) said Mr. Trump had inappropriately elevated North Korea to the equal of the U.S. "The president handed Kim Jong Un concessions in exchange for

vague promises that do not approach a clear and comprehensive pathway to denuclearization and nonproliferation."

Sen. Brian Schatz of Hawaii, which is believed to be within range of North Korea's missiles, said the president's positive comments about the North Korean leader reflected an "abandonment of American leadership," calling them "embarrassing."

"What did we get? Do we get something later? Because it looks like [Mr. Kim] got all the stuff. Does our stuff get announced in a few months?" Mr. Schatz, a Democrat, wrote on Twitter shortly after the

summit concluded.

Away from Capitol Hill, veterans of the Washington foreign-policy establishment had a range of opinions.

Former National Security Agency and Central Intelligence Agency director Michael Hayden said the U.S. had made a "pretty significant concession"

"in agreeing to halt joint military exercises with South Korea. He said a scorecard at this stage of the game would show the North Koreans "way ahead on points" for having been treated as equals in negotiations on the world stage.

Robert Einhorn, a former U.S. negotiator on North Korea's missile programs and special adviser on nuclear issues to the Obama administration, said calling off war games with South Korea might make sense, but it should have been planned with Seoul.

Victor Cha, who helped oversee North Korea policy in President George W. Bush's second term and is now a Georgetown University professor, said the meeting was just a first step on a long road ahead, and previous negotiations had gone further.

"This is the bare bones of an agreement on denuclearization. On paper the commitment is less than we have got before in 2005 and 1994, though this time it comes from the leader directly," Mr. Cha told The Wall Street Journal. "Success will be determined by Pompeo's ability to put some meat on the bones. Otherwise it's just a photo op."

—Louise Radnofsky contributed to this article.

**Republicans and Democrats alike said the two-page statement was vague.**

# LIFE & ARTS



ARTS

## From Wreckage to Reunion

BY JOHN JURGENSEN

*Forest Park, Ill.*

**DURING THE EARLY** hours of June 22, 1918, a locomotive with a sleeping engineer at its controls plowed into the back of a circus train near Gary, Ind., smashing through cars filled with sleeping passengers and sparking a fire that spread through the wreckage.

Eighty-six men, women and children were killed, and more than 120 were injured. The dead included a lion tamer, strongmen, a trapeze artist and clowns, along with workers who set up and broke down the traveling Hagenbeck-Wallace Circus, one of the biggest in the U.S. at the time.

Though it remains one of the most deadly railroad disasters in U.S. history, the train wreck is also remembered for what happened next. It spurred other circuses to send performers that helped Hagenbeck-Wallace put on shows scheduled as soon as two days after the crash. The tragedy also rallied a fraternal order of entertainers, the Showmen's League of America, that continues to preserve traditions of outdoor show business and honor its dead.

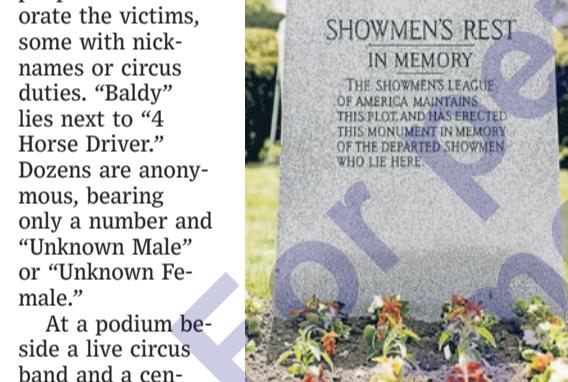
"We're all traveling people. That's the thread," says Jimmy Drew, who furnishes rides to fairs in 10 states. Of the kinship with the 1918 circus casualties, he says, "we have to remember who we were to know where we're going."

Showmen's League members, many of them operators of family-owned carnivals that travel the country, gathered last month at Woodlawn Memorial Park in this Chicago suburb to mark the centennial of the wreck. In a coincidence that forever linked the 105-year-old group to the disaster, the Showmen's League bought a cemetery plot shortly before the wreck.

It named the plot Showmen's Rest, intending it as a final home for entertainers, many of whom were rootless. That June, however, the League offered it as a mass grave for those who died in the Hagenbeck-Wallace wreck.



Dozens of Hagenbeck-Wallace Circus performers and workers were killed in a 1918 train crash, above. The Circus Hall of Fame in Peru, Ind., brought a 100-year-old wagon, left, to the centennial, where Father John Vakulskas Jr., below right, was among the attendees. At Woodlawn Memorial Park, below left, a plot called Showmen's Rest is meant as a final home for entertainers.



In the cemetery, plaques commemorate the victims, some with nicknames or circus duties. "Baldy" lies next to "4 Horse Driver." Dozens are anonymous, bearing only a number and "Unknown Male" or "Unknown Female."

At a podium beside a live circus band and a century-old gilded horse cart, Father John Vakulskas Jr. led a prayer as League members laid out a flowered wagon wheel with a missing spoke, a symbol of loss.

Mr. Vakulskas is a Catholic priest who travels the country ministering to the carnival community—blessing rides, leading masses, baptizing the children of itinerant workers. He wore a stole embroidered with a carousel horse, a ferris wheel and other emblems of traveling shows.

Afterward, he spoke of lingering misperceptions about carnival workers and why they take offense at "carny." "It's a pejorative," he said.

The Showmen's League straddles two worlds. Consider its headquarters. Eight years ago it bought a building in Chicago's former meatpacking district, Fulton Market, which soon took off as one of the city's trendiest neighborhoods. The group's airy office, where a large painting of its first president, Buffalo Bill Cody, greets visitors, is across the street from a Google office and near some of Chicago's hottest restaurants and bars.

When members assemble, they are just as likely to talk about new rides, games and food trailers as business concerns, especially the federal cap on the number of non-agricultural guest workers granted

Nearly half of its roughly 15,000 seasonal workers are foreign. But one-third of the industry's visa requests went unfilled last year. Some things that carnivals compete with are relatively new—casinos, Netflix, smartphone apps—but the core challenges haven't changed drastically.

"We're not that much different than farmers and ranchers. We're seasonal, we depend on the weather, and all our money comes in a short amount of time," says Guy Leavitt, current president of the Showmen's League.

Mr. Leavitt's children represent the third generation of his family to work for Ray Cammack Shows, a carnival operator started in 1961 by his father-in-law.

The arcana of their industry unites "show people" almost as much as the family ties. Mr. Drew, who operates Drew Exposition, a traveling amusement park based in Augusta, Ga., was so enamored of a ferris wheel made for the 1962 World's Fair that he put an illustration of it on his company's letterhead before he bought one.

"My mouth would drop open to look at that machine," said Mr. Drew, 72 years old, whose company began with one carnival purchased by his mother and father in 1948.

The Showmen's League has about 1,100 members, down from a peak of about 1,500. These days it puts more of a priority on granting college scholarships and other services, but it still offers a burial ground. There are many plots remaining at Showmen's Rest.

At the cemetery, Mr. Johnson pointed out the plot he bought for himself. It is steps away from the graves of the Hagenbeck-Wallace victims and right next to that of his late mentor, Bill Knight.

Mr. Knight brought Mr. Johnson into the business, hiring him at age 12 to pick up balls on the milk-bottle game and later manage a dart game for a cut of the profits.

"I'll be honored to be close to him," Mr. Johnson said. "Hopefully we'll see each other again someday and cut a few jackpots," carnival lingo for swapping stories.

MY RIDE | By A.J. Baime

## A CLASSIC DATSUN Z GETS A HOLLYWOOD ENDING



John Naveira stands with his 1972 Datsun 240Z in his work parking spot, in front of a 94-foot tall rainbow sculpture near the Sony Pictures lot.

John Naveira of Burbank, Calif., an executive vice president at Sony Pictures, on his 1972 Datsun 240Z, as told to A.J. Baime.

At work, my parking spot is at the bottom of a 94-foot tall rainbow sculpture in Culver City. The rainbow is a nod to "The Wizard of Oz," which was filmed on what is now the Sony Pictures lot in the late 1930s. When I park my 240Z there everyone can see it, and the symbolism is obvious. It is like a pot of gold at the end of the rainbow.

It was 2012 when my son came home and told me he saw a Datsun 240Z for sale three blocks away. The Z has always been an important car for me, but I had never owned one. When I was in junior high, a neighbor parked her red Z next to my mother's Chevy Impala, and I fell in love with that car. My wife once owned a 280Z, and both of her brothers have owned 240Zs.

I took a look at this car in my neighborhood, snapped photos and Please turn to page A14





## SPORTS

## WORLD CUP 2018



Top row, Argentina's Lionel Messi and Portugal's Cristiano Ronaldo. Bottom row, Uruguay's Luis Suárez, France's Paul Pogba, Brazil's Neymar, and England's Harry Kane.

# Messi, Ronaldo Still Rule

The pinnacle of the game still belongs to a pair of cranky geniuses who have never won the World Cup

BY JOSHUA ROBINSON AND JONATHAN CLEGG

**FOUR YEARS** is an eternity in the time warp of international soccer.

In the time since the 2014 World Cup in Brazil, whatever you thought you knew about the international game has aged worse than your iPhone 4.

The Netherlands, which came within a penalty shootout of reaching the final, didn't even make the field of 32 teams for Russia. Tournament mainstays Italy, Chile and Cameroon also failed to make the grade this time around—as did a plucky soccer upstart known as the U.S. Even the wunderkind who scored the dramatic winning goal for Germany was left off their roster for this tournament.

Only one thing has remained stubbornly unchanged, seemingly immune to the passing of time: The pinnacle of the game still belongs to a pair of cranky geniuses who have never won the World Cup, Lionel Messi and Cristiano Ronaldo.

"To compare players with Cristiano, Messi, they're in a different orbit, a different stratosphere," Real Madrid and Spain defender Sergio Ramos said.

They have been the best two players in the world for a decade. Their preeminence has been recognized over and over by fans, coaches, players and the people in shiny suits who hand out the awards. The last time a player not named Messi or Ronaldo won the Ballon d'Or award for the game's top player was back in 2007.

Their run of unchallenged dominance also raises a puzzling question. Ahead of what is almost certainly the last World Cup

they will both play in—Messi will be 34 in 2022 and Ronaldo 37—it's worth asking, why hasn't anyone else come along?

Plenty of players have aspired to join them, but no one has been able to stay there for more than a season or two. The likes of Uruguay striker Luis Suárez, Brazil playmaker Neymar and, lately, Egypt forward Mohammed Salah, all would concede that Messi and Ronaldo operate on a higher plane. World soccer is suffering from a talent bottleneck.

How this happened is down to everything from the economics of modern soccer to evolutions in tactics and conditioning. But more than anything, what explains Ronaldo and Messi's extended reign over world soccer is something that no one else in the game's 150-year history has been able to match: uncanny timing.

After bursting on the scene in the 2000s, their careers coincided with the infiltration of performance metrics and high-level sports science into the hidebound world of international soccer. Combined with their dedication to fitness (see: abs, Cristiano), that has allowed them to sidestep serious injury and extend their peaks into their 30s.

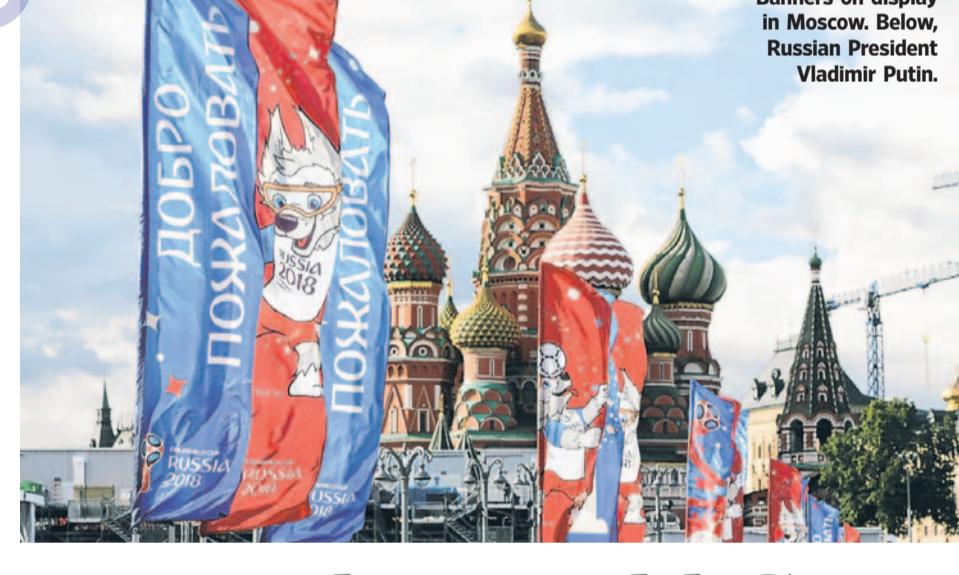
Some of the best players from earlier generations saw their heydays cut short by alcohol (Paul Gascoigne), drugs (Diego Maradona), a penchant for the nightlife (Ronaldinho)—or in the case of Northern Ireland's George Best, all of the above. But Ronaldo and Messi have long followed comparatively abstemious lifestyles.

"For Ronaldo, there is only football," says Carlo Ancelotti, who coached the Portuguese from 2013 to 2015. "When Real Madrid arrives back from a road game, it is often 1

Please turn to page A18



Russian Matryoshka dolls of Cristiano Ronaldo and Lionel Messi are seen at a shop.



Banners on display in Moscow. Below, Russian President Vladimir Putin.

# How the World Cup Landed in Russia

BY JOSHUA ROBINSON

**WORLD SOCCER** has spent much of the past decade grappling with the fallout of one evening in Zurich in December 2010.

That was the night that disgraced FIFA president Sepp Blatter ripped open an envelope to reveal that the World Cup

would be held in Russia in 2018.

That was the night, Blatter often says, when everything changed.

Since that night, when FIFA also awarded the 2022 tournament to Qatar, several of Blatter's Zurich guests have become defendants in New York courtrooms, inmates of federal prisons and, occasionally, tenants in foreign cemeteries. But on Thursday, the

broadest consequence of that December night will kick in, affecting more than 700 players, millions of traveling supporters, and over a billion fans watching worldwide: The Russia World Cup is actually happening.

"We will gift you with a real celebration filled with sporting passion and strong emotions," Russian President Vladimir Putin said in a video welcome message last week.

Putin, who is more of a hockey fan than a soccer man, hoped in 2010 that this world-class extravaganza would at least become a showcase for his nation's strength and wealth. But the reality is that the interim has brought only world-class headaches.

The value of the Russian ruble has fallen by half since 2010, amid a wider economic slowdown for the country. Its foreign policy means that it has fewer friends around the world than a bear at a picnic. And on the sporting front, Russia has been embarrassed repeatedly by allegations of systematic state-sponsored doping by its athletes,

racist behavior by its fans, and violent assaults by homegrown hooligans.

"It's something that we cannot and do not underestimate," FIFA president Gianni Infantino said. He hopes, however, that his first World Cup in charge since taking over from Blatter, will go smoothly once the games were underway.

"As soon as it kicks off, the focus will be on the pitch," he said.

That's not necessarily good news for Russia either, because right now, the Russian soccer team is dreadful. The host nation has tumbled to No. 70 in the world for the first time, making it the lowest-ranked team at its own party. Though it faces relatively soft opposition in the opener here on Thursday, 67th-ranked Saudi Arabia, victory in that petrodollar showdown is far from certain. The only people who aren't fretting over it might be Russia's own players.

"As soon as the Russian championship ended," said the country's top striker, Fedor Smolov, "I turned off all the sports news."



## WORLD CUP 2018

# How the 32 Teams Stack Up



## Group A

**Russia (FIFA ranking 70)**

Russia is the worst-ranked team in the tournament, sitting at No. 70 in the FIFA world rankings. Its squad is among the oldest with an average age of nearly 29 and only two of its players are based outside the distinctly mediocre Russian league. Luckily for the hosts, they landed in the weakest group at the World Cup—but even that could prove less hospitable than January in Siberia. ▶ **Igor Akindeev**

**Saudi Arabia (67)**

Saudi Arabia's biggest distinction at this World Cup? Not being the lowest-ranked team. That distinction belongs to Russia, the side it will play against in the tournament's less-than-glittering opener—No. 67 in the world vs. No. 70. Still, the Saudis haven't won any of their past nine World Cup games. The man hoping to end that streak is the Argentine-born manager Juan Antonio Pizzi, who took over last fall after failing to lead Chile to World Cup.

**Egypt (45)**

There is more to Egypt than Mohamed Salah, the 26-year-old forward who scored 43 goals for Liverpool this season. At least that's what Egyptian fans have been telling themselves ever since he dislocated his shoulder in the Champions League final. Salah hopes to recover in time to play, though it's going to be close. The supporting cast around him is defensively solid, but it needs its fleet-footed striker to be truly dangerous on the break.

**Uruguay (14)**

Uruguay seems to have a knack for courting controversy at World Cups—specifically through star striker Luis Suárez ▶. In 2010, he made one of the most important saves of the tournament by blocking a goal-bound shot with his hand (despite not being a goalkeeper). And in 2014, he drew a months-long ban for biting an Italian defender (though he maintains he simply fell on him teeth-first). Still, Suárez remains what makes Uruguay tick. Under the guidance of manager Oscar "El Maestro" Tabarez, Uruguay should cruise into the knockout rounds.

**France (7)**

France is, as ever, the World Cup's moody artist. Capable of winning the whole thing or flaming out in a cloud of *Gauloise* smoke, Les Bleus have their most talented squad since they lifted the trophy in 1998, anchored by the likes of ▶ Antoine Griezmann and Paul Pogba. The weakest part of the team might be its defensive-minded manager, the 1998 World Cup-winning midfielder Didier Deschamps. He was at the helm for France's run to the final of the 2016 European Championship, an overtime loss to Portugal.

## Group C

**Australia (36)**

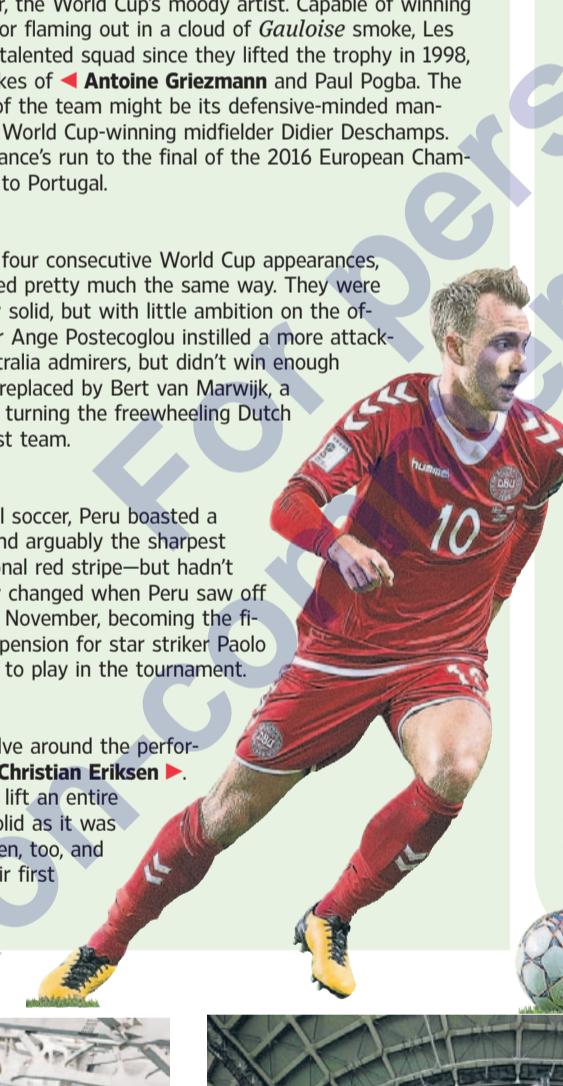
During their run of four consecutive World Cup appearances, the Socceroos played pretty much the same way. They were physically strong, defensively solid, but with little ambition on the offensive end. Former manager Ange Postecoglou instilled a more attacking style of play. It won Australia admirers, but didn't win enough games. So Postecoglou was replaced by Bert van Marwijk, a man whose claim to fame is turning the freewheeling Dutch into a pragmatic, defense-first team.

**Peru (11)**

Long a head-scratcher in international soccer, Peru boasted a large population, a decent pedigree and arguably the sharpest jerseys in the game—white with a single diagonal red stripe—but hadn't reached the World Cup since 1982. That finally changed when Peru saw off New Zealand in a home-and-home playoff last November, becoming the final country to qualify for Russia. A doping suspension for star striker Paolo Guerrero was recently put on hold freeing him to play in the tournament.

**Denmark (12)**

Danish hopes at this World Cup revolve around the performances of its playmaking midfielder Christian Eriksen ▶. The Tottenham Hotspur star has the talent to lift an entire team—provided Denmark's defense stays as solid as it was during qualifying. The Danes' group is wide open, too, and their sights could be on the round of 16 in their first World Cup appearance since 2010.



## The Venues



Fisht Stadium, Sochi - Cap. 48,000



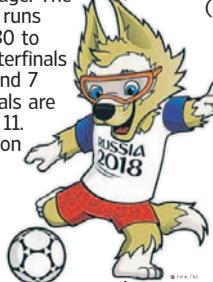
Ekaterinburg Arena, Ekaterinburg - Cap. 35,000



Kazan Arena, Kazan - Cap. 45,000

## Group Match Schedules

The eight four-team groups play from June 14-28, with the top two teams in each advancing to the knockout stage. The round of 16 runs from June 30 to July 3, quarterfinals are July 6 and 7 and semifinals are July 10 and 11. The final is on July 15 at Luzhniki Stadium in Moscow.



## JUNE 14

**Thursday****Group A**

Russia vs. Saudi Arabia  
Moscow  
11 a.m.

(All times are Eastern.)

◀ **Zabivaka**  
The official 2018 World Cup mascot

## JUNE 15

**Friday****Group A**

Egypt vs. Uruguay  
Ekaterinburg

8 a.m.

**Group B**

Morocco vs. Iran  
St. Petersburg

11 a.m.

**Group B**

Portugal vs. Spain  
Sochi

2 p.m.

## JUNE 16

**Saturday****Group C**

France vs. Australia  
Kazan

6 a.m.

**Group D**

Argentina vs. Iceland  
Moscow

9 a.m.

**Group C**

Peru vs. Denmark  
Saransk

12 p.m.

**Group D**

Croatia vs. Nigeria  
Kaliningrad

3 p.m.

## JUNE 17

**Sunday****Group E**

Costa Rica vs. Serbia  
Samara

8 a.m.

**Group F**

Germany vs. Mexico  
Moscow

11 a.m.

**Group E**

Brazil vs. Switzerland  
Rostov-On-Don

2 p.m.

## JUNE 18

**Monday****Group F**

Sweden vs.  
South Korea

Nizhny Novgorod

8 a.m.

**Group G**

Belgium vs. Panama  
Sochi

11 a.m.

**Group G**

Tunisia vs. England  
Volgograd

2 p.m.

## JUNE 19

**Tuesday****Group H**

Colombia vs. Japan  
Saransk

8 a.m.

**Group H**

Poland vs. Senegal  
Moscow

11 a.m.

**Group A**

Uruguay vs.  
Saudi Arabia

Rostov-On-Don

11 a.m.

**Group B**

Iran vs. Spain  
Kazan

2 p.m.

## JUNE 20

**Wednesday****Group B**

Portugal vs. Morocco  
Moscow

8 a.m.

**Group A**

Uruguay vs.  
Saudi Arabia

Rostov-On-Don

11 a.m.

**Group B**

Iran vs. Spain  
Kazan

2 p.m.



## Group E

## Brazil (2)

Brazil's finish four years ago was utterly agonizing: playing in its home country, it lost superstar Neymar Junior ►—and then got walloped 7-1 by Germany in the semifinals. This was a country so eager to move past that loss it sent stars—including Neymar—to win gold at the 2016 Olympics, an event soccer behemoths typically turn their noses at. Neymar is back this go around in the starring role, with a complement of studs forming arguably the world's most talented team. And they know there's only one way to exorcise the 2014 debacle: win the whole thing.



## Switzerland (6)

Xherdan Shaqiri has been Switzerland's budding star for nearly a decade. He made the 2010 World Cup roster as an 18-year-old. He netted a hat trick in 2014. And he's still only 26 years old. The winger will again lead a team that has been respectable in recent years but never quite dangerous. Manager Vladimir Petkovic will rely on Shaqiri, and newly minted Arsenal defender Stephan Lichtsteiner, as this team tries to take the next step.



## Costa Rica (23)

Giant slayers are fan favorites at the World Cup. And don't forget Costa Rica's ability to assume that role. In 2014, Los Ticos reached the quarterfinal after winning a group with Uruguay, Italy and England. And this small Central American country has the talent to surprise again. Joel Campbell has immense potential up top. Keylor Navas plays keeper for the reigning European champions, Real Madrid. So even if they struggle to score, they can make their opponents do the same. ▶ Bryan Ruiz



## Serbia (34)

Serbia is the enigma of this World Cup. Its recent results—failing to qualify in 2014, finishing last in its group in 2010—are nothing but poor. Its play in qualifying was so shaky that the country sacked its manager. But this is also a squad bustling with talent from top European clubs. The likes of Dusan Tadic, Sergej Milinkovic-Savic and Nemanja Matic form a team with far more potential than its recent performance would suggest. That puts the pressure on manager Mladen Krstajic to get this team, finally, into form.

## Group G

## Belgium (3)

Possibly the most talented squad, certainly the most combustible. Belgium boasts some of the finest players from the English Premier League—Chelsea playmaker Eden Hazard, Manchester United striker Romelu Lukaku, Manchester City midfielder Kevin de Bruyne—but has failed to live up to expectations since reaching the World Cup quarterfinals in 2014.

Belgium lost to Wales at the same stage at the 2016 European Championship amid reports of locker-room flareups. Head coach Roberto Martinez has focused on team cohesion since taking over in 2016, but has been criticized for his lack of tactical acumen—by some of his own players.

## Panama (55)

The government declared a national holiday when Panama qualified for the World Cup (at the expense of the U.S.) and if that suggests this is a team just happy to be going to Russia, that's probably not inaccurate. Panama faces Belgium in its opener, then England in its second game. At which point, it will likely be heading home. Working to keep Panama around a little longer is experienced coach Hernan Dario Gomez, who previously led Colombia and Ecuador to the World Cup and becomes only the second coach to manage three different countries at the tournament.

## Tunisia (21)

Tunisia will be making its fifth World Cup appearance in Russia, but if that suggests a team of seasoned tournament operators, the reality is a little different. It has just won just a single World Cup game in that period, and hasn't made it to the tournament in 12 years. The loss of playmaker Youssef Msakni to a knee injury in April further dampens Tunisian hopes of reaching the knockout rounds, but with an opening game against England, an upset can't be totally discounted.

## England (12)

Inventor of the game, a former World Cup winner and, more recently, the punchline of international soccer. England recorded its worst World Cup performance ever in 2014 when it was eliminated inside five days. That shame lasted all of two years until the European Championships, where it was knocked out by Iceland in what amounted to a new low for English soccer. Head coach Gareth Southgate has jettisoned many of the players involved in those calamities and England has some promising young stars—with Harry Kane and Raheem Sterling ►. But England hasn't won a knockout match in international play since 2002 and a quarterfinal spot looks like the ceiling.



Volgograd Arena, Volgograd - Cap. 45,000



Saint Petersburg Stadium, St. Petersburg - Cap. 67,000



Luzhniki Stadium, Moscow - Cap. 80,000

## JUNE 21

## JUNE 22

## JUNE 23

## JUNE 24

## JUNE 25

## JUNE 26

## JUNE 27

## JUNE 28

## Thursday

## Group C

Denmark vs. Australia

Samara

8 a.m.

## Group C

France vs. Peru

Ekaterinburg

11 a.m.

## Group D

Argentina vs. Croatia

Nizhny Novgorod

2 p.m.

## Friday

## Group E

Brazil vs. Costa Rica

St. Petersburg

8 a.m.

## Group D

Nigeria vs. Iceland

Volgograd

11 a.m.

## Group E

Serbia vs.

Switzerland

Kalininograd

2 p.m.

## Saturday

## Group G

Belgium vs. Tunisia

Moscow

8 a.m.

## Group F

South Korea vs.

Mexico

Rostov-On-Don

11 a.m.

## Group F

Germany vs. Sweden

Sochi

2 p.m.

## Sunday

## Group G

England vs. Panama

Nizhny Novgorod

8 a.m.

## Group H

Japan vs. Senegal

Ekaterinburg

11 a.m.

## Group H

Poland vs. Colombia

Kazan

2 p.m.

## Monday

## Group A

Uruguay vs. Russia

Samara

10 a.m.

## Group A

Saudi Arabia vs. Egypt

Volgograd

10 a.m.

## Group B

Spain vs. Morocco

Kalininograd

2 p.m.

## Group B

Iran vs. Portugal

Saransk

2 p.m.

## Tuesday

## Group C

Australia vs. Peru

Sochi

10 a.m.

## Group C

Denmark vs. France

Moscow

10 a.m.

## Group D

Nigeria vs. Argentina

St. Petersburg

2 p.m.

## Group D

Iceland vs. Croatia

Rostov-On-Don

2 p.m.

## Wednesday

## Group F

South Korea vs.

Germany

Kazan - 10 a.m.

## Group F

Mexico vs. Sweden

Ekaterinburg

10 a.m.

## Group E

Serbia vs. Brazil

Moscow - 2 p.m.

## Group E

Switzerland vs.

Costa Rica

Nizhny Novgorod

2 p.m.

## Thursday

## Group H

Japan vs. Poland

Volgograd

10 a.m.

## Group H

Senegal vs. Colombia

Samara

10 a.m.

## Group G

Panama vs. Tunisia

Saransk

2 p.m.

## Group G

England vs. Belgium

Kalininograd

2 p.m.



The official 2018 World Cup ball



## Group F

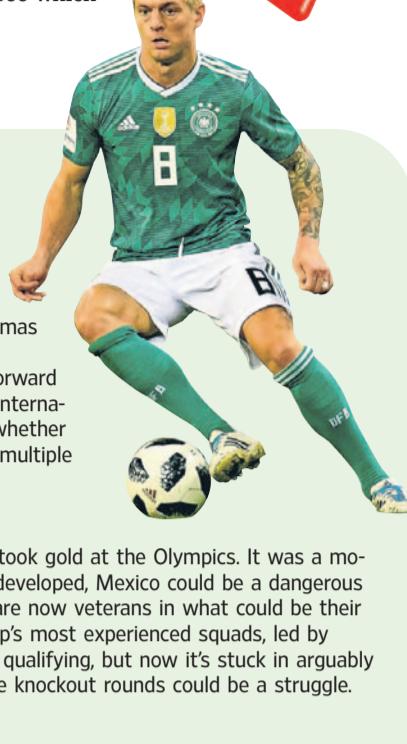
## Germany (1)

The reigning-champ Germans are the favorite yet again. But this time they look different. Are they better? Mainstays from past squads are gone, though there is still an array of familiar talent from Thomas Muller to Mesut Ozil. Still, the player that should define whether this team can go all the way is a newcomer. Forward Timo Werner is just 22 years old and doesn't have the international recognition of his peers. But he could determine whether Joachim Low becomes just the second manager to win multiple World Cups. Torri Kroos ►

hollandaise sauce on a hot dog. But fear not: You may not be able to root for America, but you can root for the next best thing. The

Wall Street Journal analyzed the 32 World Cup countries in a wide array of factors, from geopolitics to economics to beer swilling—all with one question in mind: Which country is the most American? Users can pick their categories to see which country is more American in every game.

► Try it at [wsj.com/worldcup2018](http://wsj.com/worldcup2018)



## Mexico (15)

Not long ago, in 2012, a young Mexican team took gold at the Olympics. It was a moment of hope: That, when those players fully developed, Mexico could be a dangerous player in the World Cup. Players from that same team are now veterans in what could be their last go around in this tournament. This is one of the Cup's most experienced squads, led by Javier "Chicharito" Hernandez. Mexico dominated during qualifying, but now it's stuck in arguably the tournament's toughest group where making it to the knockout rounds could be a struggle.

## Sweden (24)

No, Zlatan Ibrahimovic is not on the roster. And this country moving forward without its all-time leading scorer is the best way to understand how Sweden will look at this tournament. This is a team founded on its defense, which was stingy throughout qualifying and took the team to its first World Cup since 2006, capped off by back-to-back shutouts against Italy in a playoff. But they'll need to score, and that's still the question, so manager Janne Andersson will need to tap the abilities of those like Emil Forsberg to try and fill Ibrahimovic's shoes.

## South Korea (57)

There was a bright spot from South Korea's uninspiring performance in 2014: Son Heung-Min. Since then, Son has evolved from a budding young player into a bona fide, Premier League threat on the attack, which he has displayed

## WORLD CUP 2018



THE FANS | By Jason Gay

# A Cup With It All, Just Not U.S.



The World Cup is here—but the United States is not, having failed to qualify. Are you still pumped?

Is it tacky to put it so bluntly? Is it overly American? Parochial? Do I sound like I'm wearing a bald eagle hat? Is it just, you know...rude?

Maybe! Even the casual sports fan knows that, with or without the United States men's team, soccer's every-four-years global competition is the most popular and watched athletic event on the planet. (Yes, even more so than the NBA Draft.) To not take the World Cup seriously—or worse, to ignore it altogether—is to declare yourself in 2018 an unserious sports fan, because there is no bigger sports spectacle, with greater stakes, than this.

And I am counting SEC college football, if you're wondering.

Just because Team USA won't be there when play begins in Russia on June 14 doesn't mean it can't be a sublime World Cup, or that it won't feature the traditional heavies or the sport's greatest talent (and isn't like the U.S. was going to run away with the trophy, anyway). Germany, Argentina, Spain, France...Iceland (Hurry Iceland!)...England, France, Belgium, Mexico...Messi, Ronaldo, Neymar, Mo Salah (Mo Salah!)...they're all in. (Italy also missed out, alas.)

You may have already picked a new team to root for. Maybe it's not a new team—maybe it's a national team your family has always rooted for. Ours is a nation of immigrants, after all.

There will be heroes and villains, upsets and predictable routs, climaxing at the final at Luzhniki Stadium in Moscow on the third Sunday in July. You gotta figure you-know-who will be in the audi-



Above, fans watch the opening game of the 2014 World Cup from a bar in Brooklyn, N.Y. Left, Egypt's Mo Salah.

be an optimist.

I think we're going to learn a lot about soccer in the U.S. in the next month. I really do. There's now a whole generation in this country that has grown up familiar with the international game. Technology has made it easy to follow world-class play. You probably saw how nutso many of your fellow Americans got a couple of weeks ago for that wild Champions League final between Liverpool and Real Madrid. I can't walk down my street without passing a half-dozen kids in Messi jerseys. Major League Soccer continues to grow and bolster the domestic game. And let's not forget our habitually tail-kicking United States women's team, the winners of three women's World Cups, including the most recent in 2015.

To be very clear: the whole 'Can Soccer Thrive in America?' question is kaput. It's thriving. The traditional borders are coming down or are crumbling altogether.

I won't claim it doesn't hurt that the U.S. men didn't make it. Those stateside soccer bars were really rocking in 2014! Likewise, I can't ignore FIFA's ignominious history and the long shadow of corruption that has followed the World Cup. The next cup, Qatar 2022, is already awash in human rights controversies. Reform is badly needed.

But you'll see over the next four weeks: this event is still crazy, still worthwhile, still good for brilliant moments that reach around the globe like no other sporting event on earth. Those bars are still going to be rocking.

It's the World Cup, people. Let's do this.

ence, too—like the built-from-the-ground-up Sochi Olympics before it, this World Cup, spread across 11 Russian cities, from Kaliningrad to Ekaterinburg, is a pageant to the Vladimir Putin era.

It's a really big deal. But...

Yes, it stinks the U.S. is not in it! What do you want me to say? Am I supposed to pretend that it's perfectly alright that the American men have failed to make it for the first time since 1990? Especially after the U.S. men produced such tingly thrills in recent Cups in South Africa and Brazil, reaching the round-of-16 both times?

It's a bummer, big time. But if it's a bummer for me and you, what about the stateside people who bought plane tickets and sewed American flag overalls?

What about those Fox television executives, bidding big money for the U.S. rights—and not having a local outfit that can be counted on to goose ratings?

Look: it's easy to be a crank or Chicken Little. Today I prefer to

## Messi and Ronaldo

*Continued from page A15*

a.m. or 2 a.m. The players are tired, they get in their cars and they go home. But Ronaldo does not go home. At 1 a.m. or 2 a.m., Ronaldo goes to the ice bath."

That professionalism left Messi and Ronaldo prepared for an era in which the number of games the world's top stars are expected to play has skyrocketed. In 16 seasons as a pro, for instance, Ronaldo has played 250 more club games than former Dutch great Johan Cruyff amassed over his 20-year career.

Messi and Ronaldo have used that experience to adapt their genius on the fly. They are playing as effectively as they were a decade ago, but they aren't playing in the same way.

As Messi became a more central figure for club and country, he literally came to occupy a more central position on the field, starting out as a winger on the right side, moving up front in the middle of his career, and finally dropping into a central playmaker position when Suárez joined Barcelona in 2014.

Ronaldo's evolution has been similar, but arguably more dramatic. He, too, started out on the wing, before moving inside, where he used his pace and shooting ability to terrorize defenses. Now, at 33, his days of tearing up and down the field at breakneck speed are over and he has remade his game for a third time. Cristiano Ronaldo 3.0 is a penalty-box finisher.

"At 30 years old, no one thought he could change his game," said Leonel Pontes, Ronaldo's youth coach at Sporting Lisbon. "But he changed his game."

This eats away at them constantly. Messi was so distraught after losing the 2016 Copa America that he briefly quit the national team. "It hurts me more than anyone else," he said then, "not being able to be champion with Argentina."



Lionel Messi, front, and Cristiano Ronaldo during a match in 2014.

## FROM EKATERINBURG TO ST. PETERSBURG TO KALININGRAD



### THE COUNT

There's a consequence to holding the World Cup in the largest country on earth: the travel isn't exactly light.

This year's World Cup in Russia will take place in 11 cities, from Kaliningrad in the west to Ekaterinburg, which is east of the Ural Mountains. If your knowledge of Russian geography is based on the board game Risk, none of the host cities stretch as far east as Yakutsk or Kamchatka.

And no team will have to cross Russia like Egypt. This is part bad luck and part design by the Egyptians. Each country chooses a base and training ground, and Egypt set up its camp in Grozny, the capital city of Chechnya. That's between the Black Sea and Caspian Sea, closer to the borders with Azerbaijan and Georgia than it is to any of the cities where the World Cup will be played.

With games in Ekaterinburg, Saint Petersburg and Volgograd—and trips back to Grozny in between games—the Egyptians could expect to travel approximately 5,300 miles during the group stage. For some perspective: Grozny is closer to

Cairo than it is to Saint Petersburg. Egypt's tally is an outlier, roughly 1,000 miles more than any other team in the tournament. Still, the average team will travel 2,700 miles between cities and their base camps during the group stage, with 12 squads going

more than 3,000 miles. If you worry about how these long trips could affect one of the favorites, Brazil should be on your radar: The Brazilians will go about 3,700 miles, more than any of the other tournament favorites.

Other countries are stationed right

### Across Russia With Love

Estimates on how far every team will have to travel during the group stage:

TEAM	BASE CAMP	TOT. MILES	TEAM	BASE CAMP	TOT. MILES
Egypt	Grozny	5,288	Morocco	St. Petersburg	2,671
Nigeria	Essentuki	4,286	France	Kazan	2,649
Poland	Sochi	3,990	Ireland	Moscow	2,580
Denmark	Anapa	3,852	Costa Rica	Samara	2,340
South Korea	St. Petersburg	3,806	Belgium	Sochi	2,326
Switzerland	Tolyatti	3,760	Germany	Moscow	2,134
Brazil	Sochi	3,737	Portugal	Sochi	2,008
Saudi Arabia	St. Petersburg	3,657	Iran	St. Petersburg	1,993
England	St. Petersburg	3,554	Japan	Saransk	1,804
Peru	Moscow	3,242	Panama	Sochi	1,783
Sweden	Gelendzhik	3,205	Mexico	Moscow	1,476
Croatia	Leningrad	3,015	Tunisia	Volgograd	1,452
Spain	Krasnodar	2,969	Russia	Moscow	1,320
Serbia	Kaliningrad	2,963	Australia	Kazan	1,310
Uruguay	Nizhny	2,898	Argentina	Moscow	887
Senegal	Kaluga	2,680	Colombia	Saransk	761

Source: Google Maps. Note: Based off distance between cities. Calculations include trip from base camp (general area in which team is located) to game and back; camp to game and back; and camp to game 3.

where they are going to play. Ten teams, including reigning world champion Germany, have set up camp in the Moscow area.

The team with the easiest itinerary? Colombia is stationed in the Tatarstan Republic, and its capital city is Ka-

zan—where the Colombians play their second game.

It turns out, Colombia will have to do less traveling around Russia than the Russians, who still have an easy go of it—logging just 1,300 miles.

—Andrew Beaton

# GREATER NEW YORK

## Former State Lawmaker Admits to Fraud

Pamela Harris pocketed money earmarked for victims of superstorm Sandy

BY CORINNE RAMEY

Former New York state Assemblywoman Pamela Harris pleaded guilty to fraud charges Tuesday, admitting she pocketed city and federal funding intended for vulnerable children and superstorm Sandy victims.

Ms. Harris, a Democrat, was indicted in January and accused of defrauding government agencies out of tens of thousands of dollars from November 2012 through January 2017.

Prosecutors said this included falsely telling the Federal Emergency Management Agency that she had been forced out of her home after the storm and collecting \$25,000 in payments.

In the indictment, prosecutors said she used the funds to pay her mortgage, shop at Victoria's Secret and Kohl's, and buy tickets for a cruise with her husband.

Her trial had been scheduled for July.

Ms. Harris, 57 years old, served in the Assembly from late 2015 through April, when she resigned. She represented neighborhoods in southern Brooklyn including Bay Ridge, Coney Island and Dyker Heights.

In Brooklyn federal court on



CLOUDIO PAPAPIETRO FOR THE WALL STREET JOURNAL

**Pamela Harris left federal court in Brooklyn on Tuesday after pleading guilty to fraud charges. She will be sentenced Sept. 26.**

Tuesday, Ms. Harris pleaded guilty to four counts of the 11-count indictment. She said that while working as executive di-

rector of a youth-and-community nonprofit called Coney Island Generation Gap, she submitted false documents

when applying for funding from the New York City Council. Her nonprofit received the funding, she said, her voice shaking.

However, she appropriated the money. "I didn't return the sum to the city," she told U.S. Magistrate Judge Robert Levy, adding that she instead wrote a check to her personal account.

Ms. Harris also said that after Sandy, she applied for federal funding, claiming she had been forced to leave her home.

"I falsely represented to FEMA that I was living for about a year with my twin sister at her home in Staten Island," Ms. Harris said, her voice cracking.

She submitted falsified receipts, a fake lease and signed her twin sister's name, she said.

"These documents I filed with FEMA were false, and I knew that at the time," Ms. Harris told the judge.

She then pressured her sister to lie to investigators, she said. Her sister couldn't be reached for comment.

Judge Levy set Ms. Harris's sentencing for Sept. 26. Under federal sentencing guidelines, she faces up to 30 years in prison on the most serious count.

She had previously worked for New York City's Department of Correction. Since resigning, Ms. Harris has held a part-time catering job, court papers say.

Ms. Harris's lawyers said in a statement that she "admitted her guilt in an effort to move on with her life."

## Ex-Governor Is Rebuilding Image After Prison

BY JOSEPH DE AVILA

NEW HAVEN, Conn.—Former Gov. John Rowland, once a rising star in the Republican Party, is back home in Connecticut after serving a second prison term for public corruption.

"It's been a humiliating experience for me," the 61-year-old said in his first interview since being released. But it has also "been a good experience in that it gives me a chance to refocus myself to be a better person, to contribute to society in a different way."

Mr. Rowland, whose downfall was one of many that contributed to the state's nickname "Corrupticut," was sentenced in 2015 to 30 months for attempting to conceal his paid role in a congressional campaign from the Federal Election Commission. He served about 20 months in federal custody in prisons in New York and Pennsylvania and halfway houses in Connecticut.

He returned in May to his Middlebury, Conn., home, where he lives with his wife, Patricia Rowland.

Mr. Rowland said he is ready to close that chapter in his life and start a new career: helping inmates turn their lives around. Prison Fellowship, a Christian organization that provides re-entry services and other programs to inmates and operates in 76 prisons across the U.S., hired him to lead fundraising efforts in the Northeast.

He started in May and he said he hopes to assist families affected by incarceration by sharing his own story and emphasizing the importance of faith.

Craig DeRoche, the group's senior vice president of advocacy and public policy, first connected with Mr. Rowland when he was providing the former governor with peer support. Mr. DeRoche, a former speaker of the House in Michigan, was arrested in 2010 for possession of a firearm while intoxicated and



**Former Connecticut Gov. John Rowland said he is refocusing his life to be a better person after two stints in prison for corruption.**

driving under the influence. He was given six months probation for the DUI, and the gun-possession charge was dismissed.

"One of our sayings is that 'It takes what it takes,'" Mr. DeRoche said. "For John, it took twice—we pray, just twice—to go through the system, for him to really be looking at his life differently, as he does now."

Mr. Rowland launched his political career in 1981 as a state legislator. He went on to serve three terms in Congress starting at the age of 27. A cocky and popular politician, he later set his eyes on the governor's mansion. He was elected to three terms.

Mr. Rowland resigned in the middle of his third term as governor and pleaded guilty to a conspiracy charge for taking bribes from state contractors. He spent 10 months in prison.

"It was a remarkable fall," said Gary Rose, chairman of the department of government, politics and global studies at Sacred Heart University

in Fairfield, Conn. "Because he felt so confident, and because he was so brash, it was quite possible that he felt that he was untouchable."

After his first prison sentence, Mr. Rowland began rehabilitating his image. He worked on economic development in his hometown of Waterbury. He also hosted a political talk-radio show.

**He hopes to assist families affected by incarceration by sharing his own story.**

Mr. Rowland, however, was unable to resist politics. Federal prosecutors said he approached congressional candidates, offering off-the-books political advice. In 2011, he signed a contract to work for a congressional candidate's husband in his nursing-home business. But actually, he was

being paid for political advice, prosecutors said.

Mr. Rowland, who pleaded not guilty, was convicted on one count of conspiracy, two counts of falsifying records, two charges of causing false statements and two counts of making illegal campaign contributions.

His second corruption scandal stunned Connecticut's political community.

"I think it was a matter of him thinking he could get away with it," said Edward Marcus, former chairman of Connecticut's Democratic Party. "Despite all the politics of it all, you have to feel sorry for him as a human being. He had all these possibilities, and he just blew it."

Mr. Rowland said he has come to terms with his second conviction. When asked if he still maintains his innocence, he said: "Well, sure. I mean the process is such that you fight to protect yourself and protect your rights. But you accept the result."

James Ackerman, chief ex-

ecutive of Prison Fellowship, said Mr. Rowland has a unique set of experiences that made him a good fit for his organization: a background in fundraising and a record of incarceration.

Mr. Ackerman noted that about 25% of his field staff that works with inmates have criminal records.

"The path of restoration doesn't necessarily happen overnight," Mr. Ackerman said. Mr. Rowland is "a man who understood the mistakes he made and that he was prepared to own those mistakes and move forward."

Mr. Rowland acknowledged that he has let his ego get the best of him in the past. He added he would have done things differently after his first prison sentence.

"I would just stay away from politics. It's my drug of choice sometimes," Mr. Rowland said. "It's intoxicating, and it's exciting. But there are times when you have to walk away from it and have to decide to do something different and better with your life."

## City Allots Millions For Senior Housing

BY KATIE HONAN

New York City has committed \$500 million to build thousands of affordable apartments for low-income senior citizens on vacant public-housing land, a move advocates say would help reduce the wait list for apartments.

The plan, first pushed in the proposed new budget by New York City Council Speaker Corey Johnson, will construct new apartment buildings on lawns, parking lots and unused land at New York City Housing Authority developments.

"If you can get seniors living now in two-, three-bedroom apartments in NYCHA to move into new apartments, you make room for folks who are on the waiting list," said the Rev. David Brawley, pastor at St. Paul Community Baptist Church in Brooklyn's East New York section and member of the Metro Industrial Areas Foundation.

There are 207,000 families on the wait list for public housing, and addressing that number could help reduce homelessness, Mr. Brawley said. There are currently more than 58,700 people living in shelters across the city, according to the latest data.

Mayor Bill de Blasio, a Democrat, said the funds will help in his quest to create a fairer New York. "Fairness means all the good people of the city can actually afford to live in their own city," Mr. de Blasio said Tuesday.

Housing activists have asked for \$2 billion from the city, which they said could build 15,000 apartments for seniors. The initial \$500 million will build a few thousand residences. Activists vowed to fight for more money.

The city's \$89.15 billion budget will be voted on this week by the City Council.



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## GREATER NEW YORK

METRO MONEY | By Anne Kadet



At age 24, Paul Philpott wasn't exactly riding high. He'd just quit a job at Walmart and moved back in with his parents in the projects. So while he had no clue what to expect, he was happy to check out a job-training program suggested by his mother.

Green City Force, it turned out, was offering work on small farms located on public-housing developments around New York City. Mr. Philpott was not impressed.

"You're going to farm in the hood?" he recalls thinking after meeting a recruiter. "I don't think that's going to work!"

Eighteen months after graduating from the program, Mr. Philpott is running his own hydroponic farm business out of a shipping container in a Brooklyn parking lot.

"Farming in the city is nothing I'd ever thought I'd say I'd do," he says.

The 40-foot container, with its metal walls and pink LEDs, looks more like a lab than a farm. There's no dirt. A programmed system dispenses a nutrient cocktail, controls water flow and monitors the temperature. Rows of kale, chard and romaine grow on sliding columns suspended from the ceiling.

Mr. Philpott is not a big greens guy. Lettuce, he says, is best served atop a burger: "If I'm really bored, I'll eat a salad."

But the profits on these nutrient-dense greens are lucrative. While growing costs are astronomical—\$10 to \$15 a pound—high-end restaurants pay double, says Mr. Philpott.

"It's very crazy," he says. "But we have very premium ingredients, and grow it and deliver it to you directly."

Customer Patrick Connolly, chef-owner of Rider, a bistro



**Paul Philpott prepares kale from his Brooklyn hydroponic farm business to be packaged and distributed to high-end restaurants.**

in Williamsburg, Brooklyn, says he's not a big fan of hydroponic crops, but Mr. Philpott's greens are exceptional. "The kale has spice to it," he says.

Mr. Philpott says that despite growing up in public housing, he enjoyed a sheltered childhood. "My mom was extremely protective," he says.

But then he attended high school far from home, and fell in with the wrong crowd. "I can't lie," he says. "I did a lot of dumb things."

There was a lot of drinking and fighting. "I hung around people who went stealing and robbing places," he says.

He didn't graduate from high school until he was 20, and things went downhill from there. "I'd be on the streets getting drunk all day with my friends," he says.

"Especially if I lost my job. The week after, my check

would go to bottles and bottles."

Green City Force, a nonprofit that recruits young adults from the city's 15 highest-crime public-housing developments, offered Mr. Philpott a spot in its 10-month Urban Farm Corps program.

Earning a \$1,200 monthly stipend, Mr. Philpott learned the basics of farming and tending a produce stand, distributing free vegetables at a housing project in Red Hook, Brooklyn.

Early on, he aimed for a spot on the infrastructure team and initiated projects like repairing a dilapidated greenhouse. "I stepped up and showed I know what I'm doing," he says.

He soon joined the team building new farms at public-housing complexes in Harlem and Canarsie, Brooklyn.

By the time he finished in early 2017, he had landed a

coveted spot in the entrepreneurship program at Square Roots, the urban farm incubator currently hosting his business.

Not all his peers fared so well. Among the 24 trainees in his cohort, only 16 graduated. This year, 28 of 40 made it to the finish line, the nonprofit says.

But these graduates have enjoyed a 95% job-placement rate, in occupations ranging from landscaping to working as a chef's assistant.

It's a fine accomplishment considering the 75% unemployment rate among young adults in city public housing.

Mr. Philpott says the experience gave him a new identity as a community leader. When he's not tending crops these days, he's giving tours, supervising apprentices and volunteering at a community garden in the Bronx.

When younger guys on the

block ask if he's dealing, he tells them the cash in his wallet is from his business. "I pull out my Instagram and show them the farm," he says.

Brandee McHale, president of Citi Foundation, which focuses on economic opportunity, says the foundation donated \$1 million to Green City Force because it's not just another job-training program—participants contribute to their community and become role models. "It has a multiplier effect," she says.

Mr. Philpott's stint with Square Roots will end in October. What's next? "I have no idea," he says.

But it's a happy dilemma, he adds, induced by the skills he's learned and contacts he's made: "The weird thing is, now I have so many opportunities, I don't know which I want to do."

*Anne.Kadet@wsj.com*

## GREATER NEW YORK WATCH

## NEW JERSEY

**AG Calls for a Halt Of 'Ghost Gun' Sales**

New Jersey's attorney general on Tuesday demanded that firearms companies stop marketing and selling untraceable weapons, or ghost guns.

The weapons are illegal in New Jersey, Attorney General Gurbir Grewal said in a letter to the unidentified companies, and the state will sue the gun makers if they persist.

Mr. Grewel demanded they stop selling and advertising assault weapons to New Jersey residents that are unregistered and lack a serial number.

—Associated Press

## CONNECTICUT

**Educators Weigh Response to Veto**

Connecticut teachers, superintendents and state education officials are debating next steps for student discipline following the governor's veto of a bill that sought to set new standards for suspensions.

The bill aimed to help protect teachers from injury by removing children who are acting out in violent ways.

Democratic Gov. Dannel Malloy said he vetoed the bill because it would have a disproportionate impact on students of color and students with disabilities.

At a hearing Tuesday hosted by the Connecticut Commission on Women, Children and Seniors, Bristol teacher David Hayes said the measure would have helped clear up misunderstandings among some administrators over when it is appropriate to suspend a student.

The Connecticut Education Association, the state's largest teachers union, urged lawmakers to try to override the governor's veto.

—Associated Press

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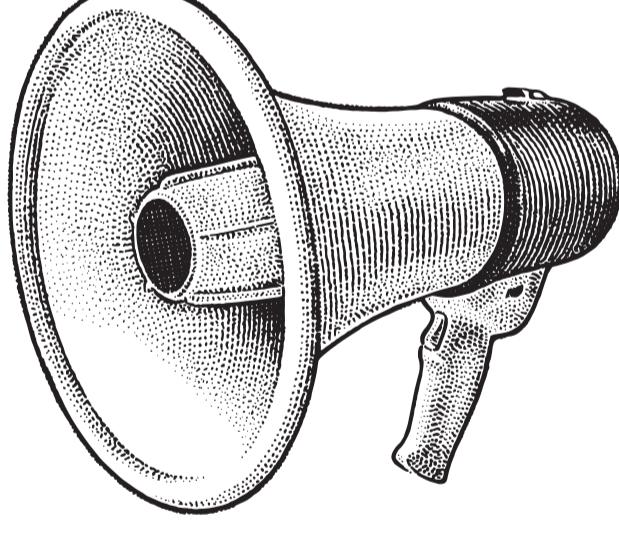
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## OPINION

## On Big Media, the Court Speaks

BUSINESS WORLD  
By Holman W. Jenkins, Jr.

In our jokey times, it is perhaps fitting that the entire media and technology sector had been waiting on the outcome of a Justice Department antitrust suit that never should have been brought in the first place. We refer, naturally, to the department's lawsuit opposing the merger of AT&T and Time Warner, which Judge Richard Leon so handily rejected in his much-awaited decision Tuesday in favor of the two companies.

Indeed, the case probably would not have been brought if Donald Trump had not spontaneously and inappropriately denounced the deal during the 2016 campaign. It would not have brought, too, if his subsequently appointed antitrust chief, Makan Delrahim, had not been on record being generically critical of negotiated consent decrees, which his agency had in the past imposed on big-media deals to mollify critics without resorting to an unpersuasive and high-risk lawsuit.

Voila. Mr. Delrahim boxed himself into a corner. An unpersuasive lawsuit was his only non-embarrassing way forward given his own and his president's statements. Unfortunately the lawsuit he filed lacked another important ingredient: any grounding in reason.

The case was idiotic, and yet it hung over the entire industry as a signal of what might be expected from the unpredictable and woolly Trump administration in a slew of deals coming down the pike. Let's not over-intellectualize this: If a court had sided with the Justice Department in a case involving CNN's parent company, Trump trust-busters would be tempted to play the same antibusiness, populist card against a bunch of proposed deals. These include Sprint's pending tie-up

now by shareholders and managements. Megadeals are in the air as media companies adapt to a marketplace being transformed by high-speed broadband. Ditto in the healthcare marketplace, where big deals like the one uniting Aetna and CVS have been broached to cope with rapid changes in technology and regulation.

Don't be misled by much of the antitrust thumb-sucking Judge Leon's decision will call forth. Tuesday's ruling was less important for any precedents it invokes than for what it says about the incentives guiding Trumpian regulators in the frenzy of deals that are about to turn business-channel pundits into overexcited Peckingese.

Still, the matter may remain not fully settled until

with T-Mobile as well as the Murdoch family's apparent plan to sell big parts of 21st Century Fox to either Disney or Comcast.

On the other hand, the court now having decided against the Justice Department, the Trump administration might be expected to revert to standard GOP permissiveness on antitrust, a development that would be very welcome right

### But the real question media moguls will ask themselves: Is Donald Trump listening?

now by shareholders and managements. Megadeals are in the air as media companies adapt to a marketplace being transformed by high-speed broadband. Ditto in the healthcare marketplace, where big deals like the one uniting Aetna and CVS have been broached to cope with rapid changes in technology and regulation.

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Mr. Trump himself tweets or fails to tweet. Will he acknowledge Tuesday's ruling or at least leave it undenounced? Or will he use the occasion to renew his claim that the AT&T merger represents "too much concentration of power in the hands of too few" and is "an example of the power structure I'm fighting"?

Mr. Trump may have the last word here, not Judge Leon, nor even the Justice Department's Mr. Delrahim, who must decide whether to pursue an unpromising appeal. A Trump tweet that calls for renewed regulatory vigilance against the president's media enemies may leave the peanut gallery CEOs who were wishing for Tuesday's outcome feeling like they snatched defeat from the jaws of victory.

Then again, Mr. Trump's preference for Fox News over CNN has been noted by many analysts. Rich Greenfield, of BTIG Research, has been particularly insistent that any deal by the Murdoch family (who also control this newspaper) to sell their Fox entertainment assets will fly through regardless of who the buyer might be.

Maybe so, though how Mr. Trump sees his interests from day to day is not always easy for outsiders to make sense of. One thing is certain: Mr. Trump's perceptions of friend and foe in the media business will remain an irresistible talking point when possible media deals are being evaluated.

BOOKSHELF | By James Rosen

## Standing By To Stand By

## First in Line

By Kate Andersen Brower  
(Harper, 336 pages, \$28.99)

"I only saw Eisenhower alone," Richard Nixon lamented in 1969, "about six times in the whole deal." This dismal recollection exemplifies the tendency of former vice presidents to remember their tenures with frustration, not elation. Kate Andersen Brower probes this institutional disharmony in "First in Line: Presidents, Vice Presidents, and the Pursuit of Power," an intimate, compulsively readable account of the dynamics that have shaped—and sometimes destroyed—relations at the top of the American political hierarchy since World War II.

A former White House correspondent and now a CNN analyst, Ms. Brower knows the terrain and has secured interviews with all six living former VPs, though not the incumbent. Their insights, along with Ms. Brower's instinct for the telling anecdote, make "First in Line" a valuable addition to the literature of the modern presidency.

Though Ms. Brower's source notes make it difficult to tell which details are previously undisclosed, some seem newsy: Bill Clinton offering not to run for president if Al Gore sought the 1992 Democratic nomination; the written agreement governing the Obama-Biden work flow (e.g., "all printed words that go to BO go to JRB"); the disclosure that Mike Pence consults Joe Biden frequently.

We also learn new details about historical episodes. Before Jimmy Carter used a prime-time Oval Office address, in July 1979, to scold the American people for "a crisis of confidence"—the infamous "malaise" speech—Walter Mondale advised against it. "Some people around the president," Mr. Mondale says, convinced Mr. Carter that "our political problems were basically emotional problems.... I couldn't go for that."

Ms. Brower also illuminates the quiet internecine struggle for influence that pitted Mr. Gore against first lady Hillary Clinton—a rivalry so fierce that the two took separate planes, carbon footprints be damned, to Nelson Mandela's inaugural. Asked by the author about his working relationship with Mrs. Clinton, Mr. Gore "declined to answer and said facetiously he thought the interview might have to be cut short."

America's newest former vice president, Ms. Brower reports, displayed in the White House a "surprisingly sharp temper that he quickly turned on members of his staff." Mr. Biden is also said to be "laying the groundwork for a 2020 presidential run." As for the current vice president, Ms. Brower portrays Mr. Pence as pious but insincere, an operator who "perfected his aw-shucks, folksy modesty" and "calculated approach to political life" in Indiana, where he served as governor. When the coarse "Access Hollywood" tape surfaced during the 2016 presidential run and Donald Trump telephoned the Pences to apologize, the governor and his wife initially refused to take the call, Ms. Brower writes. Their eventual decision to stand by the GOP nominee, she says, showed "their joint ambition overriding their concerns."

### The experience of vice presidents in the postwar years has included rivalry, neglect and even, at times, a true spirit of partnership.

This is uncharitable. Ms. Brower had already told us that the Pences had sized up Mr. Trump's strengths and weaknesses unflinchingly and believed, as devout Christians, that Mr. Pence's ascension to the ticket represented a calling from God. So why credit ambition rather than a sense of duty as the prime factor in the couple's decision making?

"First in Line" properly traces the empowered vice presidencies of recent years to Carter-Mondale, the first administration in which the chief executive treated the vice president as a true partner. In a Fox News interview in March 2017, Mr. Pence told me that he sees his boss daily and confides his views in conversation rather than writing, even as he takes notes to record Mr. Trump's flurries of ideas. Yet Ms. Brower places Trump-Pence in the same category as Ike-Nixon and LBJ-Humphrey, power relationships in which the presidents neglected, even abused, their understudies.

Alas, numerous problems plague the prose in "First in Line," the most serious of which is narrative incoherence. Obama-Biden marked the rare instance when the principals' interpersonal dynamic improved over time, Ms. Brower asserts, only to report later that "eventually, [Obama's] West Wing stopped letting [Biden] go anywhere near Congress."

In her treatment of Sarah Palin, John McCain's running mate in 2008, Ms. Brower relates the conventional wisdom that vice-presidential nominees "cannot help their candidate get elected, but they can certainly hurt," and she later quotes Dick Cheney saying: "You've got to remember, no one is voting for vice president." Midway between those passages, however, Ms. Brower insists "there was no denying that Johnson helped Kennedy win the South." Elsewhere Ms. Brower writes: "If Cheney was Darth Vader in the White House, ruthlessly seeking power and using American military forces to upend the sovereignty of foreign nations, that was fine with Bush." This is history as caricature.

And clichés proliferate. Joe Kennedy was "incredibly wealthy," LBJ was "consumed by the quagmire of the Vietnam War," and the Clinton-Gore relationship was "nothing short of Shakespearean." Twelve of 15 chapters, counting the prologue and epilogue, open with similarly weak-sounding constructions, like "The Trumps were hunkered down at their golf club" or "Donald Rumsfeld... was summoned to Nixon's penthouse." My favorite: "Walter Mondale was having lunch." I'm hooked!

"First in Line" inevitably reminds us that, in the last century, five vice presidents moved up due to death or scandal. For this reason, the chief duty of the vice president, particularly in the nuclear age, is not attending funerals or presiding over the Senate but meeting the most basic human requirement of self-preservation. Franklin Roosevelt understood this in 1944, when the Manhattan Project was nearing its objective and he advised ticket mate Harry Truman—with whom FDR would meet privately only twice in the 82 days of his fourth term—against the use of airplanes for campaign travel. "One of us," Roosevelt said, "has to stay alive."

Mr. Rosen, a former chief Washington correspondent for Fox News, is the author of "Cheney One on One," among other books.

## A Major League Pension Error

By Mike Stenhouse

I will soon start receiving a pension from Major League Baseball. Yet my dad, who racked up more active-roster time in the big leagues, is ineligible for a pension. The league should change that this year.

Before 1980, a ballplayer needed four years of big-league service to be eligible for pension status. The post-1980 collective-bargaining agreement allowed eligibility for a lifelong pension after only 43 game days on a Major League roster. The current minimum benefit is \$34,000 a year; the maximum is \$220,000.

In the 1980s, I played parts of five seasons with the Montreal Expos, Minnesota Twins and Boston Red Sox, accumulating 2½ years of roster status. My dad, who started the 1962 All-Star Game as a rookie pitcher for the Washington Senators, accumulated three

years of roster duty. The new standards cover me, but my dad and other living ex-big leaguers from his era aren't covered.

While it isn't standard for nonvested employees to be retroactively included in a pension system, it also isn't unprecedented. Major League Baseball has previously extended pension status to other groups of former players. In the late 1990s the league created a pension plan for one-time Negro Leaguers and other veterans who retired before 1947—the year the pension fund was established.

Recognizing that guys like my dad had drawn the short straw, the organization and the players union agreed in

2011 to provide retirees who played between 1947 and 1979 with a "stipend" based on their roster time. Allowing for a sizable New York City income-tax bite, my dad's stipend comes to about \$5,500 a year. The gesture was welcome, but inadequate.

Consider the incongruity: A more recent retiree than my dad, who might have pitched only a handful of career innings, qualifies for a full pension and lifetime health-care coverage. That retiree's spouse will receive his pension when he dies. When my dad, who pitched almost 400 career innings, eventually passes on, his stipend goes with him. My mother won't receive a nickel.

Many former players from my father's era who don't have pensions have suffered bankruptcy or home foreclosure. Some are so poor they can't afford health insurance. My parents' personally invested retirement funds are dwindling.

They are in their 80s now. What will they get by on when they reach their 90s?

This situation can only be rectified if the Players Association chooses to stand up for its own retirees. The league has enjoyed 15 consecutive years of rising revenue, thanks to skyrocketing income from the sale of digital and television media rights. Last year Major League Baseball pulled in more than \$10 billion for the first time. It's safe to say the national pastime is in good financial shape.

It's getting late in the game for this dwindling cohort of retirees, who gave the best years of their lives to the game we all love. They only want the pension they feel they have earned. Baseball can afford to be generous to them.

Mr. Stenhouse was a Major League Baseball player from 1982-86 and is CEO of the Rhode Island Center for Freedom and Prosperity.

## OPINION

## REVIEW &amp; OUTLOOK

## Promises, Nuclear Promises

**D**onald Trump and Kim Jong Un both received what they most wanted from their one-day summit in Singapore on Tuesday: Images of the two men shaking hands, talking across the table and getting along famously. Whether this photo-op summity achieved anything beyond the bonhomie is a lot less clear.

In Mr. Trump's telling, his willingness to engage in personal diplomacy has persuaded the young Kim to abandon the nuclear-weapons program that he and his forbears have spent decades building. Mr. Trump gave Kim the legitimacy of equal billing on the world stage, but the risk was worth the gamble and has paid off in an historic change of heart.

"Chairman Kim and I just signed a joint statement in which he reaffirmed his 'unwavering commitment to complete denuclearization of the Korean Peninsula,'" Mr. Trump told the press after the summit. "We also agreed to vigorous negotiations to implement the agreement as soon as possible. And he [Kim] wants to do that. This isn't the past. This isn't another administration that never got it started and therefore never got it done."

In this telling, the two leaders have mapped out a non-nuclear future, Mr. Kim has agreed to a radical change in policy, and all that's left is for the two sides to work out the details. Peace is at hand.

\* \* \*

Yet everything hangs on those details, not on the promises, which North Korea has made and reneged on many times. And there is little in the joint communique or in North Korean statements to demonstrate that Kim has committed to do what Mr. Trump claims.

The communique itself is a terse and general statement promising to "contribute to peace and prosperity on the Korean Peninsula." In return for Kim's commitment to denuclearize, the statement says, "President Trump committed to provide security guarantees" to the North. There are no details about timing or process or specific goals. Asked at his press conference about the lack of details, Mr. Trump said "we didn't have time."

The danger for Mr. Trump is that he is now committed to the same open-ended negotiating process that trapped his predecessors. The President claimed at his press conference that Kim had vowed to dismantle a missile site, but that may be the same site the North is already dismantling.

## Tariffs and the Tax Cut

**M**ore than a few conservative intellectuals have warmed to Donald Trump's trade protectionism because it supposedly helps blue-collar Americans. But what if his tariffs do the opposite?

Erica York at the Tax Foundation crunched some numbers recently showing that Mr. Trump's proposal for a 25% tariff on imported cars, trucks and parts could eliminate half of the income gains from tax reform for millions of Americans. Those in the lowest income quintile could lose 49% of their tax gains. Say for ease of calculation that these folks received a \$100 after-tax bonus from changes like the doubled standard deduction. After auto tariffs that would be whittled down to \$51, Ms. York notes.

The tariffs shave gains in all income brackets, but no one is hurt more than the poor and middle class. Take the fourth income quintile,

Asked how the dismantling will be verified, Mr. Trump said "it's going to be achieved by having a lot of people there, and as we develop a certain trust. And we think we have done that." But the two sides announced no details on which sites inspectors would be allowed to see or when.

If the past is a guide, all of this will be subject to painful and perhaps endless negotiation, and the North will insist on concessions from the U.S. at every stage. Having committed to talks, Mr. Trump will be under pressure to make more concessions lest Kim walk away.

Mr. Trump made the first large and unilateral concession Tuesday when he cancelled what he called U.S.-South Korean "war games." The exercises are a North Korean bugbear, and Mr. Trump even adopted the North's language in calling them "very provocative." But their vital purpose is to maintain readiness in case of an attack from the North, and his announcement startled U.S. allies. Restarting the exercises is possible, but the price could be an end to the talks.

Mr. Trump said U.S. sanctions will remain in place amid negotiations, but lifting them will be a prime negotiating target for the North. China was quick on Tuesday to call for sanctions relief, and Mr. Trump said Beijing has already eased enforcement "over the last couple of months, but that's okay." Okay? Does he want the sanctions in place or not?

Amid all the smiles and handshakes, no one should forget that Kim rules North Korea as a vast penal colony. It is also the regime that kidnapped and killed American Otto Warmbier. Mr. Trump at least acknowledged the Warmbier family, though his surmise that Otto's death changed the political dynamics in the North seems fanciful.

Perhaps guaranteeing Kim's survival in power is necessary to eliminate his nuclear threat to the U.S. mainland. But there is no excuse for a nuclear deal that doesn't entirely eliminate the program—with on-demand inspections everywhere. This is what Mr. Trump is insisting for Iran, and he can't adopt a lesser standard on North Korea.

Donald Trump's diplomacy is transactional and personal, so the test of this summit will be whether his gut instinct is right about Kim's commitments. We hope it is, but we'll believe it when Americans are packing and hauling away the missiles and enriched uranium.

or a household making at most about \$70,000 a year in adjusted gross income. The Tax Foundation says auto tariffs could erase nearly 30% of that family's after-tax income bump. Ditto for the third quintile, or a family earning no more than \$43,000 a year.

Tariffs are inherently regressive because low-income Americans spend more of their income on household goods. Commerce Secretary Wilbur Ross has argued that no one will notice price increases—what's a few cents more for a can of soup? But people in Mr. Ross's income strata are not the Trump base.

The Commerce Department is still looking at whether a muffler is a national security threat under Section 232 of the Trade Expansion Act of 1962. President Trump should abandon the idea lest Americans wonder if they really benefitted from that tax cut.

## Justice's Antitrust Humiliation

**W**ell, that was a rout. Federal Judge Richard Leon on Tuesday gave the Justice Department a much-needed kick in the shins by greenlighting AT&T's merger with Time Warner without conditions. President Trump's antitrust chief Makan Delrahim should reflect long and hard on how the government so misjudged the law and the media marketplace.

The Justice Department last November sued to block the \$85 billion deal on the dubious theory that the combined company would hinder competition by forcing competitors to pay hundreds of millions of dollars more per year for Time Warner's "indispensable" programming. If rivals refused, AT&T could supposedly withhold its content and grab rivals' customers.

The theory ignores the "tectonic changes" in the media and broadband markets, as Judge Leon explained in his 172-page analysis. "Generic statements that vertical integration 'can'" lead to "an unfair advantage over its rivals' do not come close to answering the question before the Court," he added.

Lo, video subscriptions are declining while TV ad revenues have plateaued. Consumers are "cutting the cord" from cable and buying cheaper alternatives over the web. Facebook and Google's digital ad platforms have surpassed TV advertising in revenue. Google's YouTube boasts 1.8 billion registered monthly viewers, which is 72 times as many as AT&T's TV subscribers.

The last time Justice went to court to stop a vertical merger was 1977, and it lost. Unlike with horizontal mergers between direct competitors, the government must prove that a vertical deal would reduce choice and harm consumers. Yet Justice couldn't show how a combined AT&T-Time Warner would pose any more of a threat to competition than these

other vertically integrated companies.

Government lawyers relied heavily on testimony by a University of California, Berkeley professor, but several economists disputed his models and Judge Leon said he largely agreed with their critiques.

The government also cited expert testimony from AT&T competitors. But "in the final analysis, the bulk of the third-party competitor testimony proffered by the Government was speculative, based on unproven assumptions or unsupported—or even contradicted—by the Government's own evidence," Judge Leon noted.

To significantly increase market share, AT&T would have to withhold content from most competitors, which would reduce Time Warner's \$31 billion in annual advertising and subscription revenue. This would be self-defeating. A major goal of the merger is to monetize customer data as YouTube and Facebook do.

Judge Leon also pointed out that Comcast's acquisition of NBCUniversal in 2011 did not cause content prices to increase. And Justice couldn't explain why or how conditions imposed on that merger failed to prevent anti-competitive conduct. Thus, the government "failed to meet its burden to show that the proposed merger is likely to substantially lessen competition," Judge Leon concluded.

Justice could have accepted AT&T's offer to arbitrate content fees, yet it refused to settle for anything short of divestiture of Turner Broadcasting. Bad call. President Trump famously opposed the merger during the 2016 campaign, but hostility to CNN isn't a legal argument.

Judge Leon has wisely refused to stay his ruling if the government appeals since Justice has already delayed the deal's closing by 18 months.

Mr. Delrahim should avoid another humiliation by conceding defeat and walking away.

## Trump says he can tell Kim has changed, but the evidence is scant.

## OPINION

# Don't Be So Sure the Gig Is Up

By Liya Palagashvili

**D**ata confirm the “gig economy” is taking off—or do they? A 2017 Upwork study found that 36% of the labor force engaged in some form of contract or freelance work in 2017. In 2015 the Mercatus Center counted 1099-MISC and W-2 tax forms, which report contractor and employee income, respectively. The number of W-2s declined 3.5% between 2000 and 2014, while the 1099-MISC count grew 22% (albeit from a much smaller base).

But then the Bureau of Labor Statistics weighed in. Its Contingent and Alternative Employment Arrangements survey, released last week, caused a flurry of clickbait headlines like “Everything we thought we knew about the gig economy is wrong” and “Gig economy jobs aren’t really taking over America’s workforce.”

**C**ontract work has fallen as a share of employment, a BLS study finds. But there are reasons to doubt it.

But there are reasons to doubt the BLS survey, which was last conducted in 2005. The new survey found that as a percentage of all workers, those in alternative employment arrangements—including contract, freelance and on-call work—was lower in 2017 (10.1%) than in 2005 (10.7%).

Does this mean that the gig economy is shrinking? Not necessarily—for three reasons. First, the BLS survey measures only workers whose primary job is a contractor or freelancer. Thus, for example, 69% of Uber drivers are not considered in the BLS study because they also have payroll jobs. Studies by Upwork, McKinsey Global Institute and MBO Partners all account for secondary work and report a significantly higher proportion of freelancers and contractors.

Second, the BLS statistic is a ratio of workers in alternative employment arrangements to the total number of people employed. That can be misleading. As the workforce grows, the denominator increases so that the ratio goes down. In fact, total employment grew more than 10% between 2005-17. Alternative employment, as measured by the BLS, grew only slightly less quickly.

Third, the BLS data may have a sampling bias, because the survey is conducted as an in-person or live telephone interview. Unadjusted differences in traits of contractors and gig workers, such as working longer hours, affects whether they are likely to be absent or missed during the survey, and can lead to undercoverage of that type of worker.

A notable study by economists Lawrence Katz and Alan Krueger used the same questions as the BLS survey, but worked with a different sample population (the RAND American Life Panel) and used an internet survey. It found that alternative employment arrangements as a worker’s primary form of employment grew more than 50% between 2005 to 2015, when they collected their data.

It would at least be hasty to conclude that alternative employment arrangements declined between 2005 to 2017. And more important, the BLS data are not an accurate description or measure of gig-economy work, since they exclude most workers engaged in this type of work through supplementary income.

*Ms. Palagashvili is an economics professor at State University of New York-Purchase and a research fellow at the Classical Liberal Institute at NYU Law.*

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# Who Unraveled the New World Order?

By David M. Smick

**E**uropean Council President Donald Tusk recently said that Donald Trump’s approach to trade, climate change and the Iran nuclear deal is undermining “the rules-based international order.” This is absurd. The global order began unraveling long before Mr. Trump’s debut on the world stage.

Start in 1989. That remarkable year saw the fall of the Berlin Wall, the collapse of the socialist model, and the rise of globalization. By the early 1990s, China, India, Eastern Europe and a host of commodity-producing countries had joined the global capitalist club.

That was the beginning of the so-called Washington Consensus—a new global order based on deregulating market access, liberalizing capital and trade flows, encouraging domestic competition, fortifying the rule of law, and reducing taxes, debt and market subsidies. By 1995, the leaders of this new world order established the World Trade Organization, which China joined six years later.

Much of the world initially embraced the Washington Consensus. Countries became more productive, which lowered real wage costs globally. Global trade grew at more than twice the rate of global economic output. Soon an ocean of excess savings began to swirl around a newly liberalized international financial system, a lot of it directed to U.S. assets. Long-term U.S. interest rates dropped to abnormal lows. Financial risk became underpriced. Equity markets boomed.

Even the Asian crisis of the late 1990s failed to end the party. Indeed, many countries learned and grew from it. They tied their currencies to



GETTY IMAGES/ISTOCK

the U.S. dollar, eschewed consumption and refashioned their economies as large export platforms. The global ocean of excess savings grew larger.

But the story went downhill from there. Many members of this new order, including China, failed to deliver

**I**t wasn’t Trump. The global economic consensus began falling apart years before he entered politics.

on their promises. They created obstacles, invented hardship scenarios and developed loopholes to avoid their commitments. In some cases, they engaged in outright intellectual-property theft, currency manipulation and cyberwarfare. The great vision suddenly blurred.

By 2007 the world-wide underpricing of financial risk, combined

with reckless bank leveraging, helped set the stage for the financial crisis. In 2009 British Prime Minister Gordon Brown declared, “The old Washington Consensus is over.”

This global order still had created unprecedented wealth, helping to raise a billion people out of poverty. But it also had led to wealth inequality, flat real wages, and an international financial system hugely out of balance. Central banks injected tens of trillions of dollars of liquidity, trying to protect asset prices based on an order that no longer existed.

It eventually became clear that the original vision of a new global economic order was only a romanticized dream. Many nations took part in the global system—but not to liberalize their economies or make them more transparent and accessible. They came to game the system.

In response, the Trump administration has offered some one-off tariffs. But this is like a doctor writing out a prescription for an aggressive

drug, with potentially negative side effects, without a long-term plan for the patient’s health.

The U.S. economy—the patient—has an amazing ability to innovate and reinvent. A long-term plan is necessary to preserve and protect these unique strengths in today’s increasingly lawless world. Especially since the values of free and open economies, fair play and the rule of law are increasingly out of fashion.

Tariffs are a poor substitute for strategic planning about the future of the global economy. Instead of tariffs, the U.S. should form a “values coalition of the willing.” This group of nations would agree to a tougher order that demands more transparency, accountability and fair play, along with fewer tariffs and other barriers to economic entry. This would be backed by the rule of law.

All economies would make the cut. Europe is a mixed bag. After the Brexit vote, German policy makers immediately feared that with Britain out of the European Union, Berlin would be isolated. It would have to fight off Brussels’ mercantilist, anti-free-market technocrats without another large country as an ally.

In China and other mercantilist economies, production bears no relation to market demand, the definition of the word “contract” is the beginning of negotiations, and cyberwarfare is simply part of business. Those countries should be treated separately as such.

The world has changed since 1989. The global order is gone. It is time to build a new one.

*Mr. Smick is founder, chairman and CEO of the Washington global macroeconomic market advisory firm Johnson Smick International Inc.*

## The Attack on Educational Excellence



**UPWARD MOBILITY**  
By Jason L. Riley

New York Mayor Bill de Blasio stands 6½ feet tall but still managed to come up short last week. The progressive Democrat wanted to eliminate the entrance exam for the city’s eight elite public high schools to ensure that more black and Hispanic students were admitted. State lawmakers, citing opposition from Asian families, blocked the move. Good for them.

The number of available slots at these schools is fixed, and last year Asian students were awarded 52.5% of them, according to the city’s Department of Education. By contrast, whites comprised 28% of the total, while Latinos and blacks were 6.5% and 3.8%, respectively. You’ll find similarly lopsided racial and ethnic results in other large cities—Boston, Chicago, Philadelphia—where black and Latino students are underrepresented in academically selective public high schools while whites and Asians are overrepresented.

Asian families in particular fear that replacing an objective test with what amounts to a racial quota system would come at the expense of Asian children. Given that other schools and programs for high-achieving students around the country are being pressed to become more “diverse,” those concerns are understandable.

After the Montgomery County school district in Maryland changed admissions standards for gifted-and-talented programs—by broadening the definition of “gifted,” among other adjustments—black and Latino acceptance rates ticked up while Asian admissions fell. Thomas Jefferson High School for Science and Technology is an elite magnet school in Northern Virginia that also uses an entrance exam. The school’s acceptance rate matches Georgetown University’s (just 17%) and its student body last year was 2.2% Latino, 1.5% black and nearly two-thirds Asian. A 2017 profile of the high

school in Washingtonian magazine noted that administrators are under constant pressure from outsiders to increase the number of black and Latino students by watering down the selection criteria.

In the upside-down thinking of affirmative-action advocates, academically rigorous schools should be more focused on achieving racial balance and less focused on maintaining high standards. Asian displays of academic excellence therefore become problematic. Asians are somehow to blame for outperforming others, and they are to be punished for the historical injustices that blacks suffered at the hands of whites. This is what happens when you try to reconcile what is irreconcilable: group preferences on the one hand and equal treatment of individuals on the other.

But Mr. de Blasio’s decision to call for an end to the test, instead of calling for better test preparation, is also revealing. What he and other critics of selective schools are saying is that these low-income black and Latino kids will never measure up, so we must stop trying to measure them.

The mayor and his allies seem to have given up on the very students they claim to be helping. How, exactly, you help one group by holding it to lower standards than other

groups isn’t clear. Deciding which groups deserve special treatment is also problematic. Schools today that are considered “too Asian” were in times past branded “too white” or “too Jewish.”

Mr. de Blasio and his fellow education egalitarians also conveniently ignore the ample evidence of minority academic success because it undermines their argument that the problem is the exam requirement,

**Schools considered ‘too Asian’ were once branded ‘too white’ or ‘too Jewish.’**

not poor exam preparation. But if the mayor is genuinely concerned with increasing the number of black and Latino students matriculating at top high schools like Bronx Science and Stuyvesant, he ought to pay a visit to one of New York’s high-achieving public charter schools.

Success Academy, for example, operates 46 public charter schools in New York. They serve more than 15,000 students, the vast majority of whom are poor and black or Latino. Success students regularly shellac their peers in the city and state on

standardized tests. A spokeswoman for Success Academy told me by email that the acceptance rate for Success applicants at the city’s elite schools this year was more than double that of black and Latino students citywide, and “there were three Success middle schools whose students of color were three to four times as likely to gain admission.” This year, Success Academy graduated its first high-school class, and all of its members are college-bound. These students didn’t need someone to make school admissions tests less rigorous. They needed educators and education-policy makers who believed in them.

Similarly, Mr. de Blasio doesn’t need to overhaul admissions at high-performance schools to boost percentages of minority students. Instead, he could give successful charter schools, private schools and parochial schools more access to underprivileged students—something he has resisted out of fealty to teachers union leaders who vehemently oppose school choice. Here’s an idea: Leave the best schools alone, and make sure the next mayor cares less about union support and more about the 47,800 children now sitting on New York’s charter school waiting list.

## Godspeed to AT&T-Time Warner

By Michael D. Smith  
And Rahul Telang

**W**hen the Justice Department filed suit last year to block the merger of AT&T and Time Warner, its argument hinged on seemingly reasonable fears of a monopoly. On Tuesday a federal district court disagreed. “The government has failed to meet its burden,” Judge Richard Leon ruled, “to establish that the proposed transaction is likely to lessen competition substantially.”

This is great news for the entertainment industry—and for anybody worried about genuine monopolies. Here’s why: In bringing the suit, the Justice Department’s antitrust chief, Makan Delrahim, argued that AT&T-Time Warner would quickly dominate the market for cable television, allowing the combined behemoth to raise prices at will. That sounds bad, right? Nobody wants that.

But think about it for a minute. Is this merger really about cable TV? That market is shrinking. Last year only 79% of American households paid for cable or satellite subscriptions, down from 84% in 2014 and from a peak of 88% in 2010. Would AT&T and Time Warner really ink an \$85 billion deal merely to gain control of a business in obvious decline?

Of course not. This merger is about something else. It’s about where all of those former cable subscribers are going: online. Between 2013 and 2017, the number of streaming-only households in the U.S. tripled. Today nearly 200

million households use a subscription streaming service at least once a month. AT&T-Time Warner wants a piece of this growing market.

The problem is that breaking in isn’t easy. Readers of The Wall Street Journal may remember an article last month titled “Tech’s Titans Tip-toe Toward Monopoly.” Its author, technology columnist Christopher Mims, explained that the unique

**The \$85 billion merger isn’t aimed at dominating cable TV. It’s an attempt to take on Silicon Valley.**

characteristics of digital markets have allowed a small number of internet giants—among them Amazon, Google, Netflix and Facebook—to dominate their industries and foreclose entry by competitors.

These companies have put serious money into customer connections, data analytics and back-end systems, and these investments scale very well. Netflix has penetrated more than half of U.S. households. Google and Facebook control almost three-quarters of online advertising. Amazon does nearly half of all online retail sales. These are astonishing numbers.

Now that these tech giants have established their downstream power in the distribution business, they are beginning to amass upstream power by getting into the content-creation business. Soon, Mr. Mims

asked readers to imagine, policy makers might decide they need to regulate Silicon Valley the same way that the steel, rail and telephone industries were in the 20th century.

Given the dominance of Silicon Valley’s internet giants, it makes no sense to prevent AT&T and Time Warner from merging. These companies aren’t trying to join forces because they want to take control of a dying industry; they want to be allowed to compete in a new one.

Judge Leon’s decision was wise. The focus for courts and antitrust agencies today should be to ensure healthy competition in the new entertainment landscape. With any luck, AT&T and Time Warner will shortly be integrating content creation and distribution. Other companies, including Disney, probably will follow suit. That will give them leverage to compete against the tech giants that are fast becoming the dominant entertainment players.

We have no idea who will ultimately win this battle for the future of America’s living rooms. But we do know one thing for certain: In a market with more choices, customers will win.

*Messrs. Smith and Telang are professors of information systems at Carnegie Mellon University, where they co-direct the Initiative for Digital Entertainment Analytics. They are co-authors of “Streaming, Sharing, Stealing: Big Data and the Future of Entertainment” (MIT Press, 2016).*

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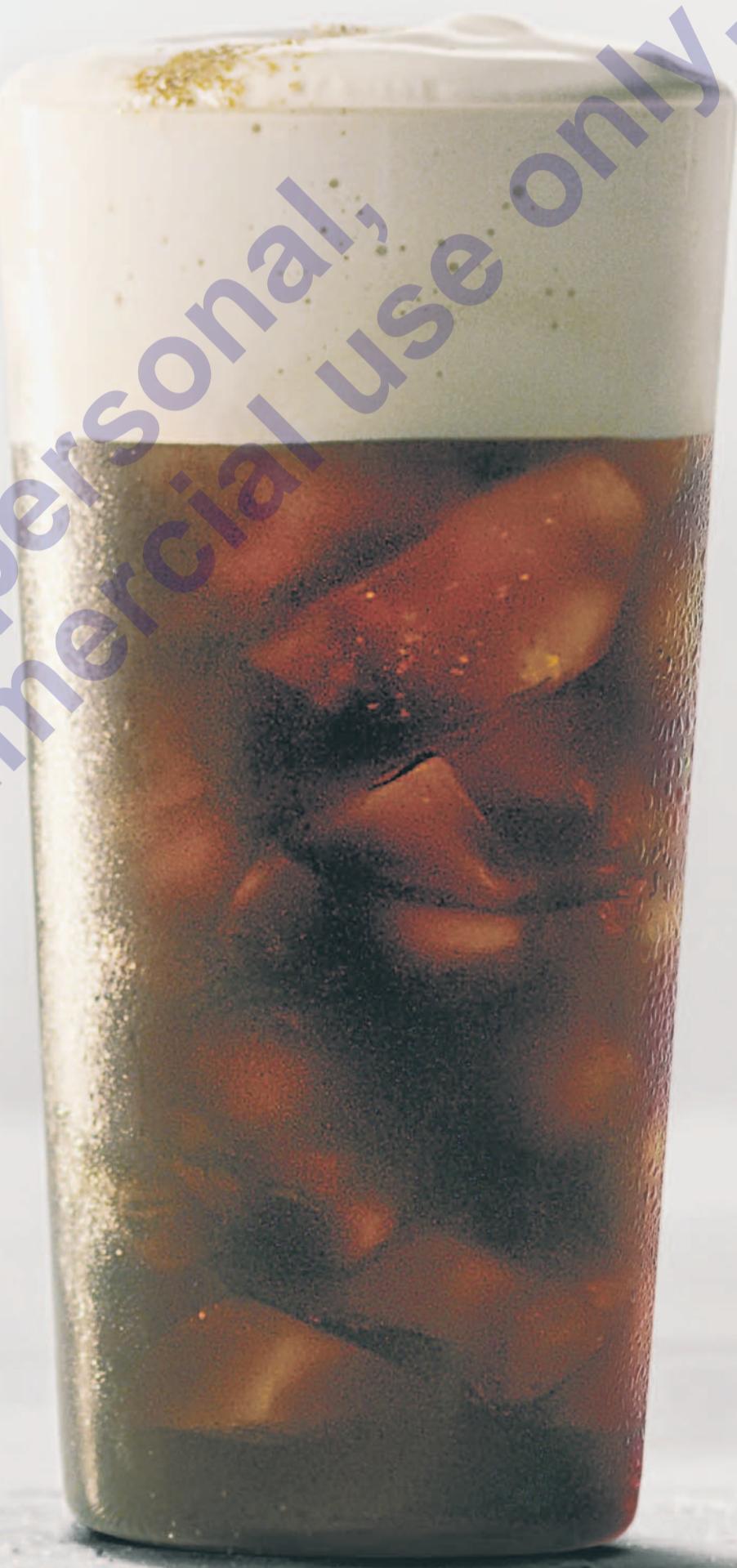
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Beijing's vow to open up access comes with a catch, as regulators affix onerous demands

BY CHAO DENG AND LINGLING WEI

BEIJING—China's promise to liberalize access to its rapidly evolving securities markets comes with a new hurdle for Wall Street firms, leaving them uncertain about meeting hefty asset requirements to do business in the world's second-largest economy.

China's leadership made a

pledge to ease foreign ownership caps on domestic securities firms to 51% from 49%, in part to cool trade tensions with the U.S. The catch: China's securities regulator is requiring that majority owners have at least 100 billion yuan (about \$15.6 billion) in net assets.

The threshold is so high that only a handful of foreign securities firms currently operating in the China market can meet it, according to the Asia Securities Industry and Financial Markets Association, or Asifma, a Hong Kong-based industry group.

To do so, though, the com-

panies would need to apply under their global units—as opposed to smaller regional entities—potentially leaving those wider businesses on the hook for losses or missteps in China, according to people with knowledge of the matter.

**Goldman Sachs Group Inc.** and **Morgan Stanley**, which hold minority stakes in securities firms in China, are assessing the potential risks posed by the asset-value requirement, according to the people. Japan's **Nomura Holdings Inc.** and Switzerland's **UBS Group AG** have applied to set up majority-owned joint ventures in China using their global head-

quarters, these people said.

**JPMorgan Chase & Co.** has made the application using its Hong Kong-based Asia entity. One month later, the securities regulator still hasn't formally accepted it.

Overall, the requirement effectively amounts to a new barrier limiting the foreign firms' participation in the market, according to the people and business groups. "It's among the highest in the world," said Jacob Parker, vice president of China operations at the U.S.-China Business Council. "This is delaying the submission of applications."

Press officials at China's se-

curities regulator didn't respond to requests for comment.

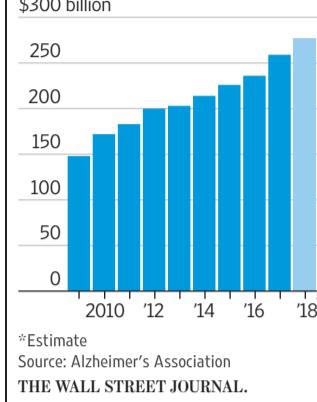
Domestic firms are also required to meet the threshold. Industry groups and people familiar with the government's thinking said that by setting the bar high the government hopes that only the fittest companies will pass.

"The direction China is going for is to level the playing field," said Lyndon Chao, head of equities at Asifma. The regulator is trying to put off subpar domestic applicants and "foreign players are just caught in the thick of it, just

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## Costly Condition

Total U.S. spending for health care, long-term care and hospice for people with Alzheimer's or other dementias



\*Estimate

Source: Alzheimer's Association

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## Alzheimer's Treatment Scrapped in Big Blow

BY PREETIKA RANA AND PETER LOFTUS

AstraZeneca PLC and Eli Lilly & Co. on Tuesday scrapped two late-stage trials of an experimental Alzheimer's drug they were co-developing, the latest blow in the long quest to find a breakthrough for the memory-robbing disorder.

The companies said the decision was taken after an independent data-monitoring committee concluded that trials associated with lanabecestat, the experimental drug, wouldn't achieve their original goals. The companies said the treatment wasn't working as well as they had hoped and that ending the trials wasn't a result of any safety concerns.

An AstraZeneca spokesman said the two will continue to jointly pursue an early-stage trial of another experimental Alzheimer's drug. Lilly separately has other Alzheimer's compounds in clinical trials, according to a company spokeswoman.

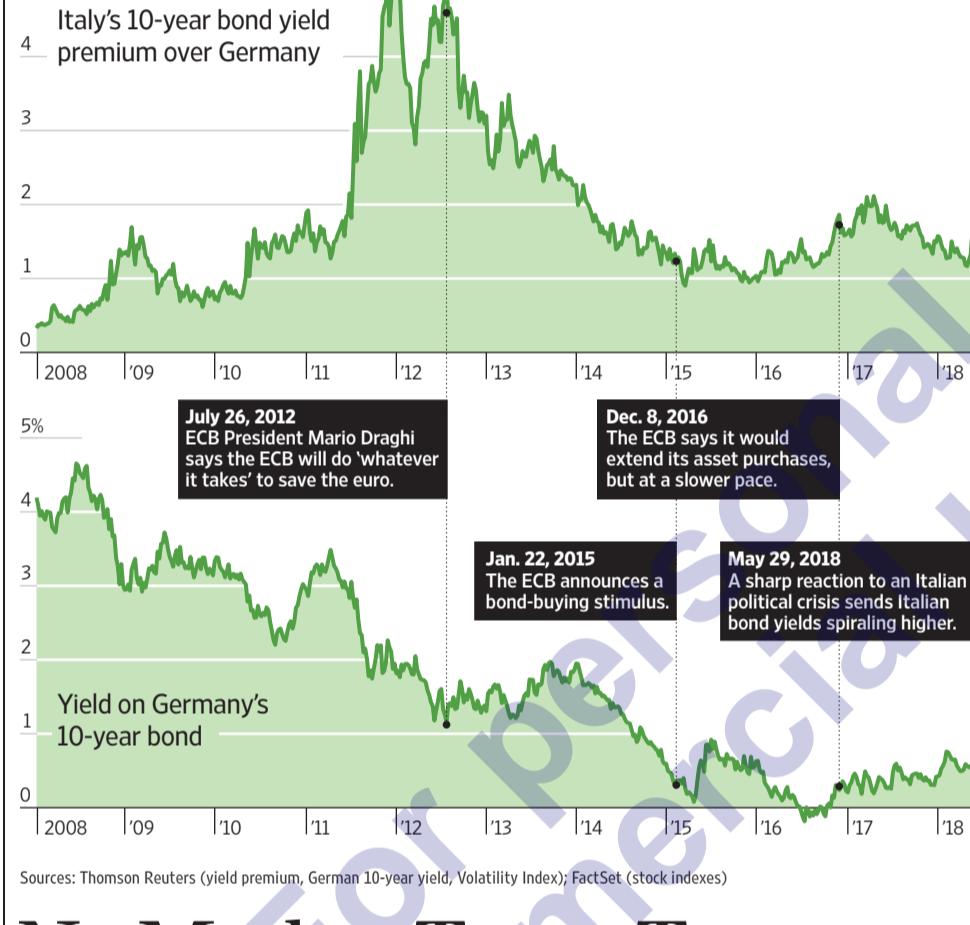
Current treatments for Alzheimer's can alleviate symptoms, but don't slow the condition's underlying progression. The brain disease affects an estimated five million Americans, and tens of millions globally, but has been tough for the drug industry to crack because scientists don't fully understand what causes it.

Pfizer Inc. in January said it would stop trying to discover new drugs for Alzheimer's and Parkinson's disease. Axovant Sciences Ltd. and Biogen Inc. have also reported disappointing results from Alzheimer's research.

Lanabecestat is known as a BACE inhibitor, aimed to prevent

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## From the sovereign debt crisis of 2010-2012 to the recent political turmoil in Italy, eurozone bonds have fluctuated wildly in recent years.



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## No Market Taper Tantrum Over ECB

BY CHRISTOPHER WHITTALL

A major global central bank is set to wind up its massive bond-buying program. The last time that happened—the Federal Reserve's 2013 taper—global markets convulsed for months.

This time, in the case of the European Central Bank, markets are digesting the news just fine—for now. But the backdrop implies a tricky road ahead.

ECB President Mario Draghi is expected to signal further trims to the central bank's

bond-buying program as soon as Thursday. His job of communicating the withdrawal of stimulus comes at a delicate moment. The Federal Reserve is expected to make an interest-rate move on Wednesday.

Trade tensions between Europe and the U.S. are high, regional growth is slowing and, notably, Italian politics have set investors on edge in the eurozone.

Based on the relative stability of the euro and German government bond yields, investors seem to be betting that Mr. Draghi will get the

balance correct. That could set up a potential volatile day of trading should he stray from the expected course.

If for instance, Mr. Draghi in his press conference talks about the challenges in Italy "in a very blasé fashion...you'd expect that to lead to a further wobble in the market and a loss of confidence," said Mark Dowding, a senior portfolio manager at BlueBay Asset Management.

Investors view Mr. Draghi as a skilled communicator, famous for his 2012 declaration to do "whatever it takes," a

phrase credited with keeping the common currency together during the then-raging sovereign-debt crisis.

But his track record isn't flawless. In late 2015, the euro rocketed and stock markets sank after the ECB announced measures that fell short of many investors' expectations. But in general, the ECB has avoided roiling markets.

Last week, Peter Praet, the ECB's chief economist, laid the groundwork for Thursday's meeting by signaling that the bank would decide whether it

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## Online Retailer Revolve Preps IPO

BY MAUREEN FARRELL

Revolve, the Los Angeles-based online clothing retailer, is preparing for an initial public offering of stock in late 2018, according to people familiar with the company's plans.

The retailer, known for selling designer brands through its website, last week met with bankers who came to pitch for roles underwriting the company's IPO, the people said. The deal is expected to value Revolve well in excess of \$1 billion, they added.

Should it move forward with an IPO this year, Revolve could seek to capitalize on investors' excitement over another online retailer, **Stitch Fix**, which in its brief life as a public company so far has debunked worries over whether online retailers can successfully compete against **Amazon.com Inc.** Stitch Fix, which selects and ships outfitts for more than two million clients and made its debut in November 2017, is trading 65% above its \$15 IPO price.

Retail and e-commerce IPOs have been relatively rare in recent years. The brick-and-mortar

retailer BJ's Wholesale Club publicly filed for an IPO last month.

Revolve, founded in 2003, is part of a cohort of companies that have stayed private for more than a decade and are seeking to tap what has been seen as a hospitable IPO market.

Revolve's growth strategy has been bolstered by retaining and collaborating with so-called influencers, the social-media stars courted by fashion, beauty and luxury brands for their large numbers of internet followers, to showcase the brands and offerings sold on its website.

U.S. IPO activity has ramped up this year, with 88 deals listing on U.S. exchanges raising more than \$29 billion, according to Dealogic.

That dollar volume is up 25% from the same time last year, which was already elevated well above 2016's levels.

In addition to Revolve, tech companies **Eventbrite** and **Upwork**, also founded more than a decade ago, have taken steps toward initial public offerings that are expected later this year, The Wall Street Journal has reported.

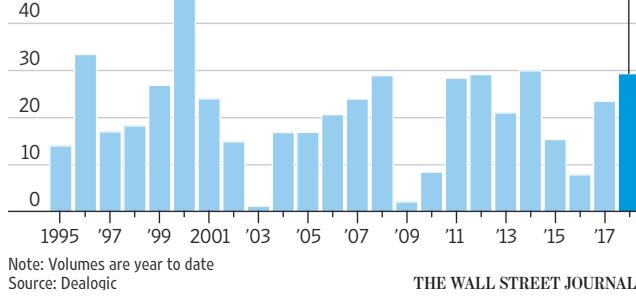


Apparel seller Revolve co-hosted a Los Angeles event in February.

## Stepping Out

U.S.-listed IPO volume is on pace for one of the busiest years on record.

\$60 billion



Note: Volumes are year to date

Source: Dealogic

2018: \$29.34 billion

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## BUSINESS NEWS

# Iqvia CEO Led Peers In Pay at \$38 Million

Ari Bousbib was tops in pharmaceutical industry last year as head of data processor

BY PATRICK THOMAS

**Iqvia Holdings** Inc. is hardly a household name, but its boss made more last year than the chief executive of **Johnson & Johnson**—or any other big pharmaceutical or biotech company.

Iqvia doesn't have some blockbuster drug or cutting-edge genetic treatment. It is a data company that collects prescription sales, medical claims and other patient records, and analyzes that information for drugmakers, insurance companies and governments. It also provides testing services to drug companies.

Last year, the Durham, N.C., company paid its chief execu-

tive, Ari Bousbib, \$38 million. J&J, the largest U.S. pharmaceutical company by revenue, paid its CEO, Alex Gorsky, \$29.8 million in 2017. J&J had about \$76 billion in revenue in 2017; Iqvia's was about \$8 billion.

The two companies delivered similar shareholder gains last year. J&J's stock-price appreciation plus dividends returned 24.4% to investors, while the smaller company returned 28.7%.

Mr. Bousbib's 2017 pay included a one-time retention equity award valued at about \$20 million following an October 2016 merger between IMS Health, a data company where he was CEO, and Quintiles, which assisted pharmaceutical companies with clinical trials. The combined company was renamed Iqvia.

"The special one-time retention equity grant vests over four years and was awarded to recognize the spe-

cial circumstances around the appointment of our CEO as the CEO of the new company that resulted from the merger," an Iqvia spokesman said. Much of the chief's compensation is tied to the company's performance, he said.

Mr. Bousbib, 56 years old, joined IMS Health in 2010 after spending 14 years in executive roles at industrial conglomerate United Technologies Inc. In 2015, IMS increased his pay to more than \$34 million from about \$25 million.

The company said in its 2015 regulatory filings that Mr. Bousbib might be an attractive job candidate for other companies, which contributed to his increased compensation, along with his performance as CEO.

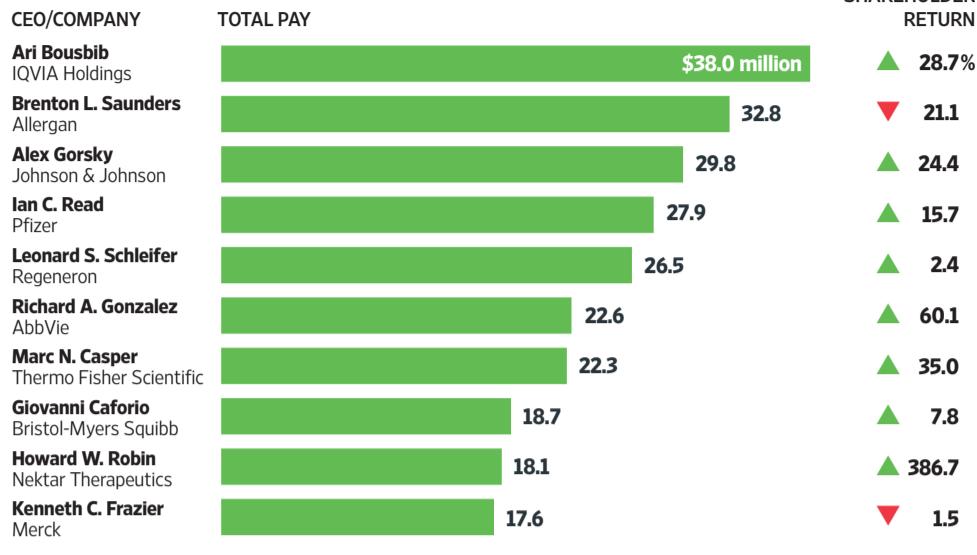
The median CEO pay in 2017 for 25 pharmaceutical, biotechnology and life-science executives in the S&P 500 was \$16.08 million, above the

overall median of \$12.1 million for CEOs at all S&P 500 companies, according to a Wall Street Journal analysis of pay data from MyLogIQ LLC.

## Pay Prescription

Top-paid pharmaceutical and life-sciences CEOs include chiefs at a mix of biotech and traditional drugmakers, as well as instrument and software makers for the industry.

### Highest-paid pharmaceutical CEOs



Notes: Industry groups defined by Standard & Poor's. Shareholder return reflects 1-year total shareholder return through the month-end closest to each company's fiscal-year end.

Sources: MyLogIQ LLC (pay); Institutional Shareholder Services (performance)

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overall median of \$12.1 million for CEOs at all S&P 500 companies, according to a Wall Street Journal analysis of pay data from MyLogIQ LLC.

Median overall shareholder returns for companies in these medical sectors were

about 22% compared with 19% overall, according to performance data from ISS Analytics.

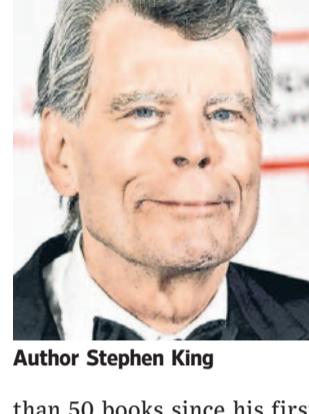
The Journal analysis used Standard & Poor's industry group for pharmaceutical, biotechnology and life-sciences

companies, which includes data providers like Iqvia as well as instrument suppliers such as Mettler-Toledo International Inc.

The Journal's analysis excludes CEOs who changed jobs or served less than a full year.

## Stephen King Spawns App to Suggest Books for Certain Tastes

BY JEFFREY A. TRACHTENBERG



Author Stephen King

That productivity made it easier for Scribner, an imprint of CBS Corp.'s Simon & Schuster Inc. publishing arm, to choose him for the project.

"We began to talk about voice-activation technology late last year, with the aim of creating a reading list tailored to a person's specific likes and dislikes," said Roz Lippel, Scribner's associate publisher. "We wanted to find a way to introduce Stephen King to new readers and entice longtime fans."

Mr. King has sold more than 50 books since his first novel, "Carrie," was published in 1974, according to longtime agent Chuck Verrill.

The company on Monday

launched "Stephen King Library," a free, voice-activated app available on Amazon Alexa and Google Assistant smart speakers, smartphones, tablets and other voice-enabled devices.

What follows is a splash of eerie music and the voice of narrator Jeremy Bobb, who asks seven seemingly unrelated questions such as:

"Imagine an apocalyptic world. You have to belong to one of three groups to survive. Your options are: the magicians, who are masters of illusion; the mentalists, who spin a web of gripping mind games; or the scientists, who are creating cutting-edge technology. Do you create ties with the magi-

cians, the mentalists or the scientists?"

The questions are intended to help the app in discerning users' taste in different genres across Mr. King's body of work.

At the end, the program provides five or six titles chosen from a total pool of 56 Stephen King books picked by Scribner editors.

There is currently no shopping experience in the app.

The books, including some not published by Scribner, were put into 11 lists by Scribner editors.

Skilled Creative, an emerging-technology creative agency that is based in Manhattan, then created an algo-

rithm that links the results of the seven questions to one of the 11 lists.

"All of the books were given thematic tags by Scribner, and we then created an algorithm so that the potential answers to every question linked back to some element of a Stephen King book," said Skilled Creative Chief Executive Brandon Kaplan.

As for Mr. King, the author pronounced himself a bit perplexed by this latest marketing venture.

"The technology has outraced my ability to comprehend," he said, via email. Scribner "told me all about it, and I'm like, 'OK, sounds good, whatever, knock yourselves out.'

## BUSINESS WATCH

GUESS

### Executive Chairman Resigns After Inquiry

Guess Inc. co-founder Paul Marciano has resigned as executive chairman and will leave the company next year after an internal investigation determined he exercised "poor judgment" in some situations involving models and photographers.

The company and Mr. Marciano, who hasn't admitted wrongdoing, have reached settlements with five people totaling \$500,000 to resolve allegations of inappropriate conduct from the Guess executive, a securities filing said Tuesday.

An internal investigation, the company said Tuesday, found instances in which Mr. Marciano placed himself in situations "in which plausible allegations of improper conduct could, and did, arise." In some cases, Guess said, no conclusion could be reached because people either declined to be interviewed or provided insufficient information.

—Maria Armenta

CREDIT SUISSE GROUP

### Bank Wins Ruling In New York Suit

The New York Court of Appeals handed **Credit Suisse Group AG** a major victory in a financial crisis-era lawsuit regarding its underwriting of residential mortgage-backed securities.

In a 4-to-1 ruling Tuesday, the court said the New York attorney general's office was late in pursuing claims under the Martin Act, a law used to police securities fraud. The office argued that the law had a six-year statute of limitations. Two lower courts agreed, but the appeals court ruled that it is three years.

The initial complaint filed in 2012 by former Attorney General Eric Schneiderman claimed that the firm had deceived investors in 2006 and 2007 regarding its risk evaluations of mortgage loans underlying the securities. As a result, investors suffered \$11.2 billion in losses, the suit claimed. Credit Suisse has denied the allegations.

—Robert Barba

PENTHOUSE GLOBAL MEDIA

### Magazine's Publisher Has a Sale Accord

**WGZ Ltd.**, an owner of adult websites, has an agreement to purchase the assets of Penthouse's bankrupt publisher out of bankruptcy for \$11.2 million. The sale, which must be approved by a judge, is anticipated to close Friday, court papers say.

The deal with the Czech Republic-based company marks the second time Penthouse has changed hands in two years.

Kelly Holland, the owner and chief executive officer of the magazine's publisher, **Penthouse Global Media Inc.**, acquired the magazine in February 2016 in a transaction that was financed with a \$6 million high-interest loan. The company sought chapter 11 protection less than two years later. A court-appointed trustee was later installed.

Ms. Holland and lawyers representing the trustee didn't immediately return messages Tuesday seeking comment.

—Jonathan Randles



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## TECHNOLOGY

WSJ.com/Tech



The videogame's popularity was credited with boosting sales of headsets that players wear so they can chat with each other.

## 'Fortnite' Joins the Switch

Combat-survival game builds on wild success with its addition to Nintendo's console

By SARAH E. NEEDLEMAN

LOS ANGELES—The biggest game of the year is coming to the hottest console right now.

**Nintendo** Co. is bringing the combat-survival game "Fortnite" to the Switch, securing the most talked-about game as the company hopes to carry strong sales for its videogame console through the machine's second year.

Nintendo announced the news Tuesday during its presentation at the annual E3 videogame expo here. "Fortnite," which analysts estimate has about 50 million players, landed on the Switch Tuesday.

The move is a coup for Nintendo, whose previous console—the Wii U—was roundly criticized for a spotty lineup of games through its five-year run, including a dearth of the

biggest games outside of those the Japanese videogame maker develops itself. "Fortnite" was created by **Epic Games** Inc.

The game's appearance on the Switch will mark its sweep of all major game-playing devices. "Fortnite" is already available for Sony Corp.'s PlayStation 4 and Microsoft Corp.'s Xbox One, the Switch's main competitors, as well as for personal computers and mobile devices.

"It's vitally important for game publishers to have the widest possible hardware reach for as long as possible," said Lewis Ward, an analyst at research firm IDC.

A key draw for "Fortnite" is that it lets some gamers using different devices to play together, a feature known as crossplay.

Switch gamers will be able to join with people using an Xbox One, PC, Macintosh and mobile devices.

As with efforts recently involving other games, Sony remains the holdout in allowing

for crossplay with its console rivals. A Sony representative didn't say whether the company would consider connecting with other consoles, but said that it listens to customers and already offers crossplay with computers and mobile devices.

"Fortnite" combines "Minecraft"-style building with a mode known as battle royale, a last-man-standing take on the traditional shooter game.

It was an almost immediate draw for gamers. It didn't hurt that Epic released the battle-royale mode free of charge.

"You could never build a business plan intended to get as many users as 'Fortnite' has," said Cowen & Co. analyst Doug Creutz.

The game is a "freak of nature," he added.

Last month alone, "Fortnite" generated an estimated \$296 million in revenue mainly from sales of virtual goods and other so-called microtransactions, according to SuperData Research.

"Fortnite" is so popular, it

was even credited with giving a boost to sales of headsets that players wear so they can chat with each other while building forts and hunting down enemies.

The game's impact on the broader videogame industry goes beyond just its spread to every major device. It can also be traced to Activision Blizzard Inc.'s announcement last month that it is adding a battle-royale mode to its next "Call of Duty" game. Electronic Arts Inc. said Saturday that it was planning to do the same for the company's "Battlefield" franchise.

The spread of "Fortnite" could help raise the game's budding profile in competitive gaming, or esports. Epic, which is 40%-owned by **Tencent Holdings** Ltd. of China, announced in May plans to dole out \$100 million in prize money for "Fortnite" competitions during the game's 2018-2019 season, an amount that far eclipses other prize pools for major videogame contests.

## Facebook to Take A Harder Line on E-Commerce Ads

By KHADEEJA SAFDAR

**Facebook** Inc. said it would crack down on e-commerce businesses that flood users' feeds with ads for products that are unsatisfactory or don't arrive on time.

The social-media giant is rolling out a new feature that lets people leave feedback about their shopping experience after viewing a Facebook ad. The company said it is warning businesses that receive a high volume of negative feedback to give them a chance to address the grievances. If feedback doesn't improve over time, Facebook will reduce the number of advertisements that businesses can deliver and could eventually ban them from the platform.

"There are some companies that are just bad actors and we have no tolerance for that," said Sarah Epps, a product marketing director at Facebook. "As soon as we can detect those companies, we enforce against them, but for companies that do want to improve, we want to give them that opportunity."

The announcement comes about three weeks after The Wall Street Journal published an article about online storefronts that have been using Facebook ads to profit from products listed on online marketplaces such as **Alibaba Group Holding** Ltd.'s AliExpress.

The entrepreneurs behind these storefronts mark up the products and transfer shopper details to an AliExpress seller, for instance, which ships the goods to the customer. The storefront bills the customer, betting shoppers won't stumble on AliExpress or other sites charging less for the same items.

Shoppers have complained about misleading marketing and low-quality goods that ar-

rived weeks later from China.

Facebook said it has already started warning hundreds of e-commerce sites that have received a high volume of negative feedback. Among those notified were the types of businesses mentioned in the Journal article.

To leave feedback, users must click on their recent ad activity to find the new tool that lets shoppers specify whether they are satisfied or dissatisfied with an advertiser's product quality, shipping speed or customer service. Facebook shares with advertisers the feedback, but not the identity of the people giving it.

Facebook said it is also providing tips to businesses that

*The company warns it will cut the number of ads or eventually ban firms from platform.*

are receiving negative feedback, such as telling them to set more realistic expectations about shipping times or provide more transparency around the return policy.

The company said it would immediately ban businesses that it considers obvious scammers.

Facebook has come under scrutiny about lax oversight of its platform after Cambridge Analytica, a research firm with ties to President Donald Trump's 2016 campaign, improperly obtained the data of millions of Facebook users.

The incident sparked an investigation by the Federal Trade Commission and has led to congressional appearances by Chief Executive Officer Mark Zuckerberg.

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# THE PROPERTY REPORT

## Prudential Sets Heart on San Francisco

Firm's property arm sees opportunity in the apartment market with stake purchase

By LAURA KUSISTO

The real-estate investment arm of **Prudential Financial Inc.** is buying a 50% stake in a \$500 million rental apartment portfolio in the San Francisco Bay Area, its largest-ever multifamily purchase on the West Coast.

PGIM Real Estate is buying the stake in roughly 750 apartments concentrated in and around San Francisco, joining with the developer and manager of the properties, Los Angeles-based CityView. The seller is a public pension fund, the Los Angeles County Employee Retirement Association, which will continue to own the remaining 50% stake.

Several times during the years following the recession, annual rent growth rates in the San Francisco Bay Area multifamily market were in the double-digit percentages in some parts of the region.

The market began to cool in 2016. There were even some cases of rents falling in San Francisco.

Today, the market is stabilizing, albeit with rents at high levels. Bay Area pricing has increased 5.2% since the beginning of 2010.

An average apartment in the Bay Area rents for just



The rental market in the San Francisco Bay Area has stabilized after a period in which prices cooled. The CityView ArcLight.

under \$2,700 a month, up 2.5% from one year ago, according to real-estate software and analytics firm **RealPage**. That increase is roughly in line with inflation.

Investor appetite has re-

mained strong in apartment markets throughout the country, even though across the U.S. rent growth is slowing and vacancy rates are rising.

PGIM executives say they saw a unique opportunity be-

cause of the high barriers to development in prime locations in San Francisco and surrounding suburbs like Menlo Park and Berkeley, where the buildings are located.

The buildings in the portfo-

lio were developed from 2012 to 2017.

"If you were to try to build these assets, these markets are hard to find development opportunities," said Alfonso Munk, Americas chief invest-

ment officer for PGIM Real Estate.

PGIM also is looking at investing in other assets that CityView develops along the West Coast in places such as the East Bay in the San Francisco area and Koreatown in Los Angeles.

The San Francisco market is facing headwinds from new supply and frustration among tenant advocates with how far rents have risen. Investors in California are weighing the risks that voters in November will decide to repeal a law that would allow municipalities to expand rent control to newer buildings, such as the ones in this portfolio.

Some investors have been selling properties, fearing the impact on the market.

While most parts of the Bay Area have seen little new development, there have been a few areas, such as SoMa near the city's financial district, where developers have been able to push through projects.

There are some 11,000 units under construction in the Bay Area.

"A lot of people panicked when we got a lot more supply than typical and job growth slowed down a bit," said Jay Parsons, a vice president at RealPage. "Some sanity has been restored a bit in San Francisco."

Sean Burton, chief executive of CityView, said all of the buildings are virtually fully leased because they are well located.



A bidding war has emerged for LaSalle Hotel Properties, which owns this property, L'Auberge Del Mar.

## Buyers Cherry-Pick REITs

By ESTHER FUNG

The mergers-and-acquisition bug has hit the real-estate investment trust industry, the long-anticipated result of the discounts that REIT stocks have been trading at compared with the private-market valuations of their properties.

But the private and public companies that have been in the buying mode haven't been fixated on the REITs that are trading at the steepest discounts. Rather, in many cases, they are looking for targets that own the kind of property most likely to weather a downturn, well aware that a bull market in commercial real estate is in its ninth year.

In other cases, buyers are simply going after the REITs that are among the leading owners of certain property types, such as skilled nursing facilities. Buyers can do this partly because the world is awash these days in private equity and debt capital.

"High-quality companies with high-quality growth numbers aren't usually targets for takeouts," said Matthew Werner, managing director at Chilton Capital Management LLC. "But with high-quality companies trading at significant discounts to net asset value at a time of record private capital looking for a home, even the best companies are vulnerable to takeouts."

Since April, there have been eight announced deals for REITs totaling \$16.5 billion, excluding debt, according to data from Dealogic, up from two announced deals totaling \$4.4 billion in this year's first quarter. In the fourth quarter last year, announced REIT ac-

quisitions totaled \$16.4 billion.

A few of the REITs with the strongest balance sheets also are shopping around. For example, San Francisco-based **REIT Prologis Inc.**, the largest owner of industrial space in the U.S., made an all-stock offer for **DCT Industrial Trust** in April.

Industrial real estate has been among the strongest-performing property types in recent years thanks to the e-commerce revolution, which is increasing demand for warehouses and distribution space. "REITs that benefit from an advantageous cost of capital have lately become somewhat more active on acquisitions, likely seeing an open window in choppy conditions," said

**Eight deals for REITs totaling \$16.5 billion, excluding debt, were announced since April.**

real-estate research firm Green Street Advisors.

Student housing is one of the property types that is considered to be a defensive play, as enrollment in colleges are expected to stay steady. One of the target companies in this sector is Memphis, Tenn.-based **Education Realty Trust**, which owns and manages more than 44,000 beds at 53 universities in 24 states. A number of private-equity firms are in talks to buy that REIT, according to people familiar with the matter.

REIT shares have been sluggish for the past two years due to slowing income growth and

concerns about higher interest rates. In 2017, the total returns of the FTSE Nareit All Equity REITs index reached 8.7%, while total returns for the S&P 500 rose 21.8%.

But the intensifying M&A binge has started to change that. Total returns in the FTSE Nareit All Equity Index outperformed the S&P 500 for the third straight month in May, reaching 3.5% compared with the S&P 500's 2.4%.

Some of the buyers in the M&A trend have been willing to bet on property types that typically suffer most during a recession, like hotels. Indeed, one of the hottest takeover battles is over **LaSalle Hotel Properties**, which owns 41 hotels across seven states. **Pebblebrook Hotel Trust**, another lodging REIT, on Monday raised its offer for LaSalle in a bidding war with **Blackstone Group LP**.

Pebblebrook, is offering about \$4.17 billion for LaSalle in cash and stock, implying a merger price of \$37.80 a share, sweetening its bid for the third time since it first made an offer in March that valued the company at \$29.95 a share.

The LaSalle board initially dismissed Pebblebrook's offer and then agreed to a \$3.7 billion, \$33.50 a share bid by Blackstone last month. The board has said it would consider Pebblebrook's revised offer.

Other pending deals include Welltower Inc.'s \$2 billion offer to buy Quality Care Properties Inc., which owns skilled nursing and assisted-living properties. Quality Care on Tuesday said another party made an acquisition proposal that could lead to a "superior offer," but didn't give details on pricing.

The big difference between nontraded and traded REITs is that nontraded REITs aren't bought and sold in the stock market. Rather, investors typically hold them for a long time and cash out—either at a profit or a loss—when the company does an initial public offering, gets acquired or goes through some other disposition of assets known as a liquidity event.

Nontraded REITs rose in popularity as the U.S. economy recovered from the 2008 financial crisis. With interest rates low and the stock market scary, investors liked them for their relatively high dividends and low volatility.

Blackstone, which has mostly been known as an investor of institutional capital, entered the nontraded REIT market in 2017, when the industry was struggling to recover from bad publicity and criticism over poor disclosure and upfront fees that could be as high as 15%.

Particularly painful was the 2014 disclosure of Nicholas Schorsch's American Realty Capital Partners Inc. that it

had falsified financial results to cover up accounting errors. Fundraising by nontraded REIT sponsors fell to \$4.5 billion in 2016 from \$19.6 billion in 2013, according to Stanger.

When Blackstone entered the picture, it immediately attracted attention because of its strong record with institutional investors. Last year, BREIT raised 45% of the \$3.8 billion raised by the top 10 sponsors, according to Stanger.

As of the end of the April this year, the top 10 sponsors had raised \$3.5 billion. Blackstone accounted for 67% of that, Stanger said.

"We want to bring everything we've done in the institutional world for individual investors," said Jonathan Gray, president of Blackstone Group, on a video on BREIT's website.

Other firms with big institutional followings—including **Starwood Capital Group LLC**, **Oaktree Capital Management LP** and **Nuveen LLC**, an affiliate of London-based TH Real Estate—have all indicated plans to launch nontraded REITs of their own, according to Stanger.

Critics of nontraded REITs remain vocal. They maintain that investing in traded REITs remains a better option for small and large investors alike

### Breaking Away

Market share for nontraded REIT sponsors

■ 2018 through April ■ 2017



Source: Robert A. Stanger & Co.

THE WALL STREET JOURNAL.

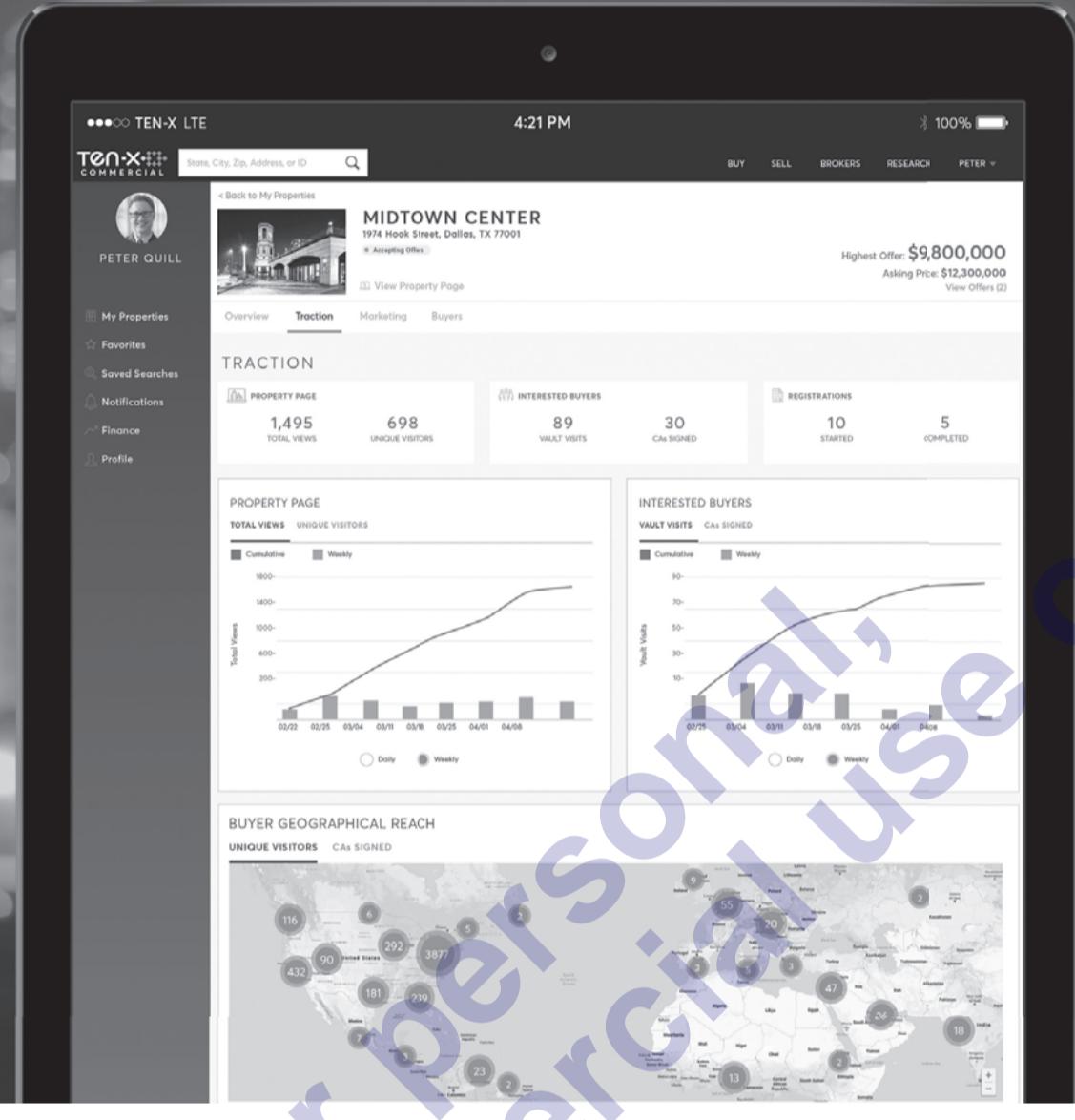


The private-equity firm now wants to raise a total of \$15 billion for the nontraded real-estate investment trust it launched in 2017.

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## BUSINESS NEWS

# New Lawyers Get \$190,000

Milbank sets pace on starting salaries for elite students, but rivals hang back

BY SARA RANDAZZO

Competition for the most elite law students is ratcheting up, with several national law firms boosting starting salaries for new law school graduates to \$190,000 in recent days.

But whether the raises will lead to an across-the-board pay bump—as they have historically—is an open question. Compared with past rounds of pay hikes, fewer firms have rushed to match the pace set last week by New York firm Milbank, Tweed, Hadley & McCloy LLP.

Milbank lawyers in their first eight years of practice will get raises of between 4.8% and 6.4% this year. Associates at the top of the scale will make \$330,000 a year.

Milbank's move comes two years after the last widespread raise for junior lawyer pay, which set incoming salaries at \$180,000. That increase was the first of its breadth in nearly a decade, and quickly became the new standard.

Law firms typically raise salaries in line with their peers, citing the need to stay competitive when hiring from law school campuses.

So far, firms to follow Milbank on raises include Cravath, Swaine & Moore LLP, Simpson Thacher & Bartlett LLP, Proskauer Rose LLP and Winston & Strawn LLP.

Simpson Thacher and Cravath sweetened the deal by doling out summer bonuses of between \$5,000 and \$25,000 on top of the raises. Cravath told associates it will pay more than Milbank to several classes at the high end of the scale, topping out at \$340,000.



Not every firm has rushed to match Milbank's lead, with some wary of angering their clients.

Many midmarket firms uniformly raised salaries in 2016 to match those of the most elite Wall Street firms, despite profitability that makes the business case behind raising salaries vary widely. Average annual profits-per-partner in the nation's top 100 firms range from \$460,000 to \$5.7 million, according to the American Lawyer.

"I think it was hard for some firms to swallow the [2016] increase. It will be even harder to swallow this increase," said Grover Cleveland, a consultant who trains new lawyers.

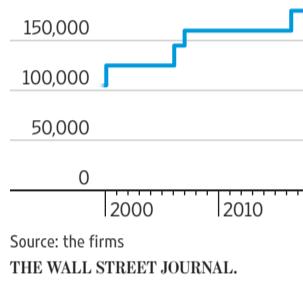
In addition to the impact on profits, some firms may fear angering clients, who have become more sensitive to hourly rates and the appearance of subsidizing hefty lawyer salaries.

Two years ago, the salary raises for associates cost big firms between \$6 million and \$14 million a year, according to

## All Together Now

Large law firms tend to raise salaries in line with their competitors.

### Standard first-year law firm associate pay



Source: the firms

THE WALL STREET JOURNAL

Jeff Grossman, the managing director for Wells Fargo Private Bank's Legal Specialty Group.

Law firms usually absorb the cost by raising rates 3% to 5% each year, even as clients push back on paying for inexperienced lawyers. New York law firms list billing rates for

their most junior lawyers at between around \$500 and \$600 an hour, according to Bodhala, a market intelligence firm.

"I hear again and again, damn those associate salaries, that is why our rates go up every year," said Ketan Jhaveri, Bodhala's co-founder. Rising partner compensation also plays a large role in rates, Mr. Jhaveri said, but clients often focus on the junior lawyer pay.

Milbank's chairman, Scott Edelman, said the raise follows several months of discussions at the management level. Revenue and profits have been rising, he said, and "we want to send the message to our associates that they're valued here."

Only a minority of law school graduates land at firms paying top dollar. But law firms compete fiercely to hire that slice of students. "We're only interested in the top of the law school population generally," said Mr. Edelman.

# ADP CFO Steps Down Amid Activist Scrutiny

BY CARA LOMBARDO AND MARIA ARMENTAL

Automatic Data Processing Inc.'s finance chief plans to resign, the payroll-processing company said Tuesday, a departure that comes as the firm faces scrutiny from a trio of activist investors.

Jan Siegmund will remain in the role while ADP looks for a replacement. Chief Executive Carlos Rodriguez said during a meeting with investors Tuesday. He said Mr. Siegmund had been planning to leave for a while, but the company had "successfully convinced him for some period of time now to stick around, because of all the exciting things we have going on."

Mr. Siegmund joined ADP in 1999 and was tapped as finance chief in November 2012.

ADP executives on Tuesday outlined plans to increase margins and accelerate the rollout of their newest platforms. The company, which offers human-resources software that handles such tasks as payroll processing and time-keeping, said it expects to reach its target for adjusted earnings before interest and tax margin of between 21% and 22% a year ahead of schedule.

Shares closed up 4% at \$139.30.

As it tries to jump-start growth, ADP has been facing increased pressure from activist investors including William Ackman.

Last year, the company defeated Mr. Ackman in a heated proxy fight. Mr. Ackman had accused ADP of falling behind technology-heavy startups and said its margins were "vastly below their potential." At the heart of ADP's problems, he charged, was an "insular, bureaucratic and staid corporate culture."

Since then, Mr. Ackman has said he is encouraged by ADP's

recent performance, including accelerated bookings and improved business retention. His Pershing Square Capital Management LP, which owns about 7.2% of ADP, including derivatives, hasn't called for Mr. Siegmund's departure.

Two other activist hedge funds, D.E. Shaw Group and Sachem Head Capital Management, also have built stakes in the firm. The Wall Street Journal reported in May that the investors hadn't decided whether to push for changes at the company, citing people familiar with the matter, but had separately met with ADP management.

Research firm Management CV last year criticized Mr. Ackman's proxy fight as misguided but noted it raised some valid points. It said ADP should change its CFO.

Mr. Siegmund, the research

Executives on Tuesday outlined plans to increase the company's margins.

firm wrote, "is an ADP lifer (like CEO Rodriguez) and is unlikely to be able to exact the hard cost cuts and restructuring steps that would materially shrink ADP's cost base and improve operating margins."

Renny Ponvert, Management CV's research director, said in an interview that Mr. Rodriguez needs a counterbalance to help him run the company, rather than someone who "just works for him as a clerical CFO."

ADP declined to comment on Management CV's criticism, but the company has repeatedly defended its executives.

—Bowdeya Tweb contributed to this article.

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## BUSINESS NEWS

# Updated Accounting Rules Reverberate

Some companies adjust operations to comply with new revenue regulations

BY TATYANA SHUMSKY

New accounting rules are prompting some corporate finance chiefs to change how they do business.

More than half of the S&P 500 companies disclosed some impact on their accounting policies since December, when new rules unified how companies account for revenue from sales and services. The change, which was in the works for more than a decade, replaces previously disparate, industry-specific rules and aligns U.S. standards closer to international guidelines.

For finance chiefs of some companies, including Red Hat Inc., Ciena Corp. and Mosaic Co., adopting the new revenue-recognition standard from the Financial Accounting Standards Board means adjusting their business operations to be in line with the new accounting framework, which is more focused on contracts and when goods and services are delivered to customers.

About 380 companies in the stock index have reported under the new rules as of June 8, and 294 companies in the index disclosed an impact on financial statements from adopting the standard, according to Audit Analytics.

Finance teams spent months rewriting accounting processes and procedures and preparing new financial statements to comply with the new rules. Roughly one in five public companies surveyed by PricewaterhouseCoopers LLP said they spent or expected to spend \$1 million or more on this effort.

Software-service provider Red Hat previously would tailor the price for its subscription bundles for each customer. Now, the Raleigh, N.C., company will have uniform pricing and discounts for clients of its open-source software, said Chief Financial Officer Eric Shander. The new reporting rules require companies to more thoroughly account for the cost of sales, such as discounts.

"We're being much more prescriptive on where you're placing the discount," Mr. Shander said. "It will be more standardized." The company closed 169 deals over \$1 mil-



A Mosaic potash mine. The fertilizer maker is revising business practices in light of the new rules.

lion during its fourth quarter, and 81% of them included multiple technologies, he said.

Some companies expect the new rules to accelerate revenue, while others say the timing of when they can record revenue as earned will be delayed, even though their underlying business remains unchanged.

Telecommunications networking-equipment maker Ciena expects to recognize some of its revenue sooner

when it switches over to the new rules in November, said CFO Jim Moylan.

"We are certainly talking about how we will restructure our contracts in a way to get access to that favorable accounting," Mr. Moylan said.

In the past, Ciena would sell and install its internet-networking equipment but only pass title and control to the customer when everything was deployed. Under the new accounting rules, the company

plans to pass title to its customers sooner so it can record revenue on the equipment first and later book the revenue on the service as it deploys that equipment, Mr. Moylan said.

Other companies doubled down on explaining the accounting changes to investors. **Dunkin' Brands Group** Inc. held a special call with analysts and investors last October to discuss pending revenue accounting changes. CFO

Kate Jaspon again walked stakeholders through the new math during an analyst and investor day in February.

Dunkin' now records its franchise fees over the term of the related license, among other changes. Previously, Dunkin' recognized franchise fees up front, either when a new restaurant was opened or when a renewal agreement became effective.

"Given the sweeping changes to revenue accounting rules, we felt it was important to educate our investment community on the impacts to our financial results early in the process and with great transparency," Ms. Jaspon said in a written statement.

But other companies are opting to adjust operating practices, where possible, rather than disrupt the pattern of revenue investors have come to expect.

Fertilizer maker Mosaic changed some of its arrangements and systems to ensure that revenue could be recorded when control of its products—potash and phosphate—transferred to the customer. "The policy changes did not affect our business economics," said a spokesman for Mosaic.

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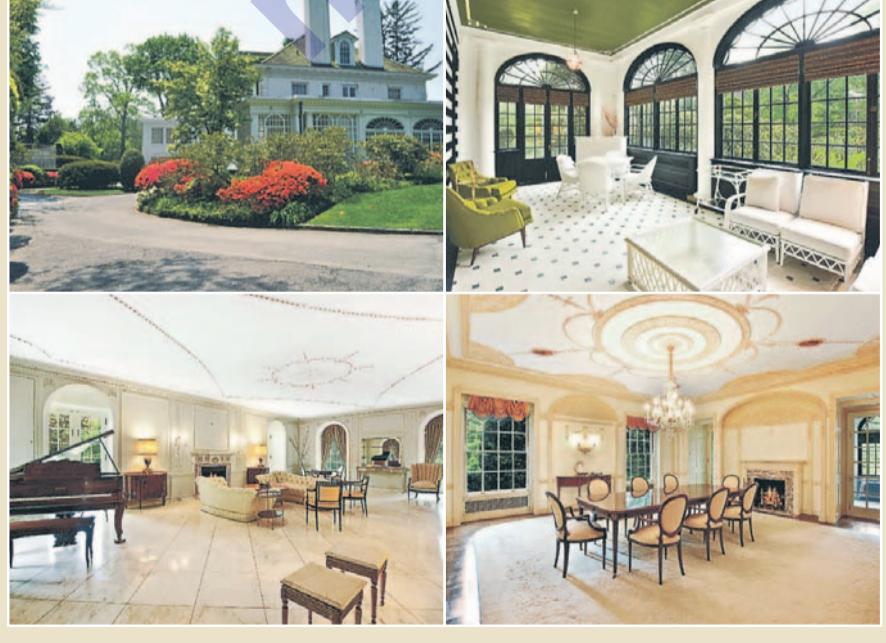
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## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
		Open	High	Low	Settle	Chg	Interest
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.							
June	3.2400	3.2400	3.2400	3.2425	-0.080	1,226	
July	3.2525	3.2685	3.2335	3.2495	-0.075	111,652	
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.							
June	1297.80	1298.10	1292.70	1295.10	-3.80	1,089	
Aug	1304.50	1304.80	1296.30	1299.40	-3.80	320,690	
Oct	1309.50	1309.50	1302.90	1305.50	-3.80	11,821	
Dec	1317.20	1317.20	1308.80	1311.90	-3.80	83,712	
<b>Feb'19</b>	1320.50	1321.10	1315.70	1318.40	-3.80	13,504	
Dec	1320.50	1321.10	1315.80	1315.80	-3.70	4,204	
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.							
June	1029.00	1029.50	1029.00	1027.60	-1.20	72	
Sept	1017.40	1018.70	1012.50	1015.30	-1.20	23,391	
Dec	1011.70	1014.10	1009.00	1011.00	-1.30	633	
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.							
July	905.10	910.70	899.40	901.50	-4.90	64,416	
Oct	910.30	915.40	904.30	906.20	-5.00	20,412	
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.							
July	16.960	16.980	16.775	16.891	-0.061	133,090	
Dec	17.120	17.180	16.995	17.098	-0.061	30,256	
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.							
July	66.07	66.69	65.87	66.36	0.26	286,575	
Aug	65.99	66.52	65.80	66.28	0.25	334,551	
Sept	65.73	66.30	65.50	65.98	0.24	224,632	
Oct	65.40	65.87	65.10	65.58	0.22	186,196	
Dec	64.88	65.43	64.66	65.16	0.19	291,441	
<b>Dec'19</b>	61.77	62.08	61.37	61.76	-0.01	185,458	
<b>NY Harbor Usd (NYM)</b> -42,000 gal.; \$ per gal.							
July	2.1619	2.1817	2.1471	2.1618	-0.011	95,333	
Aug	2.1648	2.1847	2.1497	2.1644	-0.004	80,873	
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.							
July	2.1052	2.1171	2.0778	2.0899	-0.0150	112,686	
Aug	2.0931	2.1055	2.0675	2.0789	-0.0142	96,030	
<b>Natural Gas (NYM)</b> -10,000 MMBtu.; \$ per MMBtu.							
July	2.956	2.988	2.917	2.939	-0.10	197,256	
Aug	2.947	2.974	2.912	2.929	-0.12	151,891	
Sept	2.919	2.943	2.886	2.902	-0.04	144,376	
Oct	2.931	2.954	2.899	2.917	-0.06	159,236	
<b>Jan'19</b>	3.165	3.185	3.139	3.158	-0.04	109,246	
March	3.052	3.059	3.011	3.034	-0.11	113,288	

## Agriculture Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
<b>Corn (CBT)</b> -5,000 bu.; cents per bu.							
July	368.00	379.50	367.25	377.50	10.25	566,301	
Dec	389.25	400.00	388.50	398.25	10.00	594,274	
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.							
July	242.25	244.00	240.50	242.25	-2.25	2,403	
Dec	246.50	251.50	244.50	251.25	3.50	1,892	
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.							
July	956.50	963.25	952.00	954.00	.25	311,919	
Nov	977.00	983.50	972.00	974.50	.75	313,462	
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.							
July	351.60	356.60	351.50	353.50	2.30	138,560	
Dec	355.70	360.00	355.60	357.80	2.90	139,602	
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.							
July	30.60	30.73	30.02	30.05	-0.53	157,274	
Dec	31.29	31.42	30.82	30.85	-0.44	161,552	
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.							
July	117.00	119.00	112.99	119.25	28.50	6,175	
Sept	1067.00	1067.00	1030.00	1058.50	-5.50	4,215	
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.							
July	514.75	538.25	510.25	534.50	20.00	157,417	
Sept	531.50	553.50	526.50	550.00	19.25	148,709	
<b>Wheat (KC)</b> -5,000 bu.; cents per bu.							
July	535.50	555.50	530.50	553.50	18.75	95,447	
Sept	550.25	570.00	546.25	568.00	18.00	91,469	
<b>Wheat (MPLS)</b> -5,000 bu.; cents per bu.							
July	589.75	597.50	588.00	592.50	2.75	19,811	
Sept	603.50	609.25	600.00	604.50	3.00	18,449	
<b>Cattle-Feeder (CME)</b> -50,000 lbs.; cents per lb.							
June	108.700	109.000	108.050	108.525	-1.25	11,450	
Aug	104.175	104.800	103.250	104.300	.125	154,782	
<b>Hogs-Lean (CME)</b> -40,000 lbs.; cents per lb.							
June	80.500	80.650	80.075	80.525	.375	10,886	
Aug	75.700	77.675	75.100	77.525	1.975	62,659	
<b>Lumber (CME)</b> -11,000 bd. ft., \$ per 1,000 bd. ft.							
July	572.00	573.70	569.60	569.60	-10.00	4,364	
Sept	555.80	557.00	552.50	552.50	-10.00	1,499	
<b>Milk (CME)</b> -200,000 lbs.; cents per lb.							
June	15.41	15.44	15.38	15.40	-.03	3,623	
July	15.19	15.95	15.82	15.83	-.07	3,858	
<b>Cocoa (ICE-US)</b> -10 metric tons; \$ per ton.							
July	2,373	2,420	2,347	2,413	41	27,911	
Sept	2,410	2,456	2,392	2,444	36	97,461	
<b>Coffee (ICE-US)</b> -37,500 lbs.; cents per lb.							

Source: SIX Financial Information

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Tuesday, June 12, 2018

Type	MMA	1-MO	2-MO	3-MO	6-MO	1-YR	2-YR	2.5YR	5YR
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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 12, 2018

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## BANKING &amp; FINANCE

# At Platform Launch, Discord on Agenda

**Block.one pulls in \$4 billion for EOS project but developers bicker over range of details**

BY PAUL VIGNA

Software company **Block.one** raised \$4 billion for its EOS project from investors on the promise that the blockchain platform could change the way the internet works. But infighting among the software's fragmented developers shows it still has a way to go before the platform lives up to the hype.

More than 200 volunteer developers working to launch EOS spent a fraught three hours on a conference call Friday arguing about issues related to the platform's launch. A transcript of the call was posted on the social-media site Reddit, and two participants confirmed its validity to The Wall Street Journal.

Block.one couldn't be reached for comment.

Since the Friday call, EOS's tokens have fallen roughly 20%, cutting \$4 billion off its market value, currently at about \$10 billion.

The platform technically launched on Saturday after the volunteers smoothed over their differences during a second meeting Friday, broadcast publicly on YouTube. The platform isn't yet available for public use.

Participants wrangled over issues big and small, from philosophical questions to technical arcana.

At one point, some threatened to break off and launch competing versions of the software.

"We've spent too long catering to consensus. Those who are ready should go," said Greg from a developer group called EOSsxsw, according to the call transcript. Participants generally were identified by first name and group

affiliation, when possible.

The tense call in some ways wasn't unusual. There have been far more caustic fights among bitcoin's proponents over the years. But EOS's messy launch shows just how difficult it is to build a platform for millions of users when you take its development out of the hands of a guiding leader.

EOS is a network that allows developers to build and host applications. It is similar to Google's Android, but because it is based on the concepts behind blockchain, a software protocol designed to run on a network of linked computers, there is no central authority.

EOS isn't alone in this quest. Messaging app Telegram, another digital-token project called Tezos, and even the second-largest cryptocurrency project, Ethereum, are all striving to build what has been called a "world computer."

Investors pumped some \$4 billion into EOS in a sale of digital tokens that ended this month. In a promotional video for its initial coin offering, Dan Larimer, Block.one's chief technology officer, called EOS a "blockchain technology that can support real-world use cases serving millions of users."

*Some developers threatened to launch competing versions of the software.*

communities that operate in groups.

The biggest disagreement Friday involved the platform's need for RAM, or random access memory. The way EOS works, all the resources a developer needs to run it are purchased with EOS tokens, including the RAM needed to boot up the program. The platform's first user, who would be randomly chosen from among the group, would need to make an in-network purchase of RAM before the network was operational.

Some participants suggested taking advantage of a small window dubbed "god mode" to create new tokens that could be used to "gift" the RAM to the first user. Others worried that creating these new tokens—an estimated 19,000, valued at about \$260,000—would look like these insiders were essentially printing money for themselves.

"What damages public per-

ception more," asked one participant, Aaron, "a ~0.002% increase in initial supply vs an indeterminate delay in the launch of EOS?"

Without resolving that debate, the group moved on to voting over whether to launch the software at all. At times, participants were confused about what topic they were voting on, and where. Some users were voting within a module inside Zoom, the videoconferencing service hosting the call, while others were casting votes on messaging site Telegram.

"For crying out loud we wasted more time talking about how to vote than voting," said a participant named David, according to the call transcript.

At the second meeting on Friday, the group spent about an hour debating before voting unanimously to launch the network, agreeing to issue the extra tokens needed for the initial user's RAM.

# Beijing War on Debt Doesn't Move Default Rate

BY SHEN HONG

**SHANGHAI**—Beijing's determination to tame China's soaring debt levels has won plaudits from bullish observers who believe the government is finally tackling its key economic problem.

Why, then, has there been so little stress in the country's bond market?

Defaults on Chinese bonds might appear to have risen sharply this year, in volume terms. A total of 13 issuers have defaulted on a combined 20.2 billion yuan (\$3.1 billion) worth of corporate bonds in China's domestic market in 2018, up 41% from the same period last year, when 11 issuers had defaulted.

Yet default levels remain trivial at just 0.08% of the total \$4 trillion of corporate bonds outstanding in China. Absent a major financial crisis, the corporate-debt default rate is typically around 2% globally, according to Ivan Chung, a Hong Kong-based analyst at Moody's Investors Service.

The low default rate has participants in China's bond market, now more open than ever before to foreign investors, wondering when the pain from Beijing's war on debt will hit—and just how committed the government is to tackling the problem.

In an effort to lower debt levels, Beijing has raised key short-term interest rates several times in the past year to push up borrowing costs. It has also cracked down on shadow banking as well as on various forms of short-term debt issued between banks to deter speculative, leveraged bets that have amplified risk in the bond and stock markets.

China's total debt could reach nearly 250% of its gross domestic product by the end of this year, according to S&P Global Ratings, up from 170% in 2012. Corporate debt accounts for just under half the total.

"The reason why the bond default rate remains quite low in China is still because of government intervention," said Zhu Chaoping, a Shanghai-based economist at J.P. Morgan Asset Management.

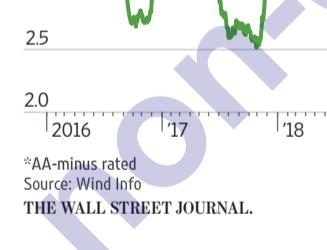


Downtown Beijing. In an effort to cut debt levels, China has raised key short-term interest rates several times in the past year.

## Paying Up

Difference between the yield of five-year corporate\* and government debt in China

4.0 percentage points



THE WALL STREET JOURNAL.

employers, Mr. Zhu said.

The authorities have also stepped in with more sweeping action when there are broader signs of market stress, as in January when Chinese government-bond prices fell to a three-year low. The central bank cut the amount of cash it requires banks to hold with it in reserve, unleashing around 450 billion yuan of liquidity into the market.

Market participants expect the central bank to ease financial conditions further later this year, if China's pace of economic growth slows and bond defaults pick up.

However, if the authorities yield to pressure on the bond market and bail out failing companies, "they could end up concealing the risk again and kicking the can down the road," Mr. Zhu said.

There have been some indications of heightened market nerves. Yields on five-year corporate bonds with a rating of AA-minus, the equivalent of junk bonds in China, thanks to

the country's generous credit-rating system, are now 3.67 percentage points above those on corresponding Chinese government bonds, the widest gap in two years. The gap, known as the credit spread, measures the extra return that investors demand for investing in risky corporate bonds versus buying relatively safe government debt.

Part of the reason this year's defaults have grabbed more attention is that some of the issuers—from a shoe and garment maker to a new energy equipment manufacturer—were listed companies.

In previous years, nearly all the firms that failed to repay bond investors were privately held.

Among the 13 issuers that have defaulted this year, four are listed companies, compared with just one out of 11 in the same period last year.

Still, "the total amount [of defaults] involved remains very small and I don't think there's panic in the market," said Moody's Mr. Chung.

The defaults that have oc-

curred domestically this year have in part resulted from Beijing's efforts to clamp down on shadow banking. Many companies in China, particularly in the private sector, have long had limited access to traditional bank loans, with major banks preferring to lend to state-owned companies. Instead they have relied on obtaining loans from outside the formal banking system.

The volume of trust loans, a key form of shadow banking in China, shrank year over year in March and April, the first such falls since November 2015.

It isn't just in China's domestic bond market where jitters are increasing. In late May, China Energy Reserve & Chemicals Group, a Beijing-based conglomerate, failed to repay investors the principal amount of a \$350 million bond, the first default on dollar-denominated Chinese corporate bonds this year.

—Manju Datal contributed to this article.

# Merrill Settles Bond Case With SEC

BY DAVE MICHAELS

**WASHINGTON**—Bank of America Merrill Lynch will pay \$15.7 million to settle claims that its traders lied about how much they paid to acquire mortgage bonds, allowing the bank to charge a higher price to clients buying securities.

The sanction includes \$10.5 million that must be returned to customers and a \$5.2 million civil penalty, the Securities and Exchange Commission said Tuesday. In some cases, the SEC said, Merrill's traders also failed to disclose that their markups "bore no reasonable relationship to the prevailing market prices."

The bank neither admitted nor denied the SEC's claims.

The settlement is the latest example of the government's battle with Wall Street over brokers accused of lying about the prices they paid to obtain bonds. A U.S. appeals court last month tossed out the conviction of former Jefferies Group LLC trader Jesse Litvak, who was accused of cheating customers out of \$2 million by inflating prices he said he paid for residential mortgage-backed bonds.

Mr. Litvak's long-running criminal case became a symbol of a government crackdown on Wall Street practices and led to changes at many dealers, from mandatory training to heightened surveillance of traders. But the Justice Department found it difficult to convince juries that lying by bond dealers was a crime. Mr. Litvak's attorneys compared his techniques with those of used-car salesmen, whose tendency to bluff is well recognized by customers.

On the same day that Mr. Litvak prevailed, a federal jury in Connecticut acquitted David Demos, a former managing director at Cantor Fitzgerald & Co. Mr. Demos also had been accused of overstating prices he paid to coax clients to pay him more.

In the civil case that the SEC settled Tuesday, the regulator accused Merrill's traders of similar conduct, sometimes inflating or deflating what they paid by significant amounts.

In one example cited by the SEC, a Merrill trader allegedly misled a bond seller about how much another bank client was willing to pay for the bond.

The maneuver allowed Merrill to get the bond for a lower price from the seller and immediately unload about \$15 million of it at a profit of \$386,042, the SEC said.

The SEC also said Merrill Lynch failed to supervise the accused traders because the bank's policies weren't reasonably designed to prevent or detect the wrongdoing. The allegations covered a period from 2009 to 2012.

A spokesman for the bank said Merrill has improved its procedures since that time and addressed the problems raised by regulators.

# Foreign Banks Hit Great Wall

Continued from page B1  
kind of as collateral damage," he said.

The asset requirement adds to skepticism among foreign businesses and Western governments, which say China's government frequently offers wider access to foreign firms only to undo the promises with burdensome rules or other barriers.

Those complaints have in part fueled the Trump administration's criticism that Beijing unfairly skews business rules to favor its companies, contributing to the U.S.'s \$375 billion trade deficit with China. Washington and Beijing have already increased tariffs

on several billions of dollars in each other's goods this year. The White House has said it would move forward with additional tariffs on \$50 billion of Chinese products shortly after June 15, and Beijing has vowed to retaliate in kind.

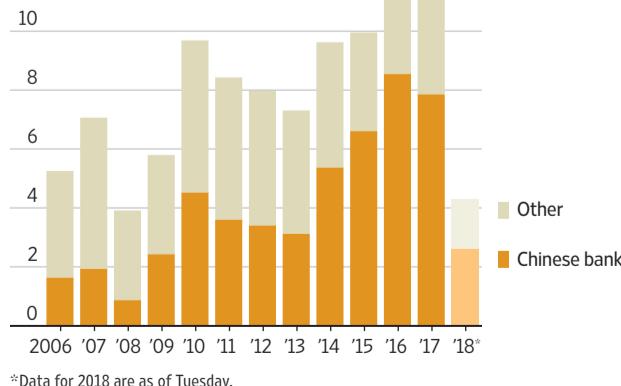
In attempts to defuse the tensions with Washington, President Xi Jinping and other Chinese leaders and senior officials have over the past nine months discussed easing access to the financial sector.

Brokerages, banks and credit-rating services are among the areas Beijing has offered to liberalize. Chinese regulators issued draft rules last week that, if adopted, would scrap a 20% ceiling for a foreigner holding a domestic bank.

Global credit-ratings firms are still waiting after Chinese officials promised immediate market access as part of a quick "100-day" market-opening package made after a summit between President Donald

## Rising Tide

Revenue earned by global and Chinese investment banks from Asian clients, excluding Japan and Australia



THE WALL STREET JOURNAL.

set-value requirement on ownership is also higher than that in domestic insurance and commercial banking, according to Mr. Parker, with the U.S.-China Business Council.

For securities firms, the as-

use their global entities and they don't want too many firms coming in," said an adviser to the securities regulator. Even if firms tick all boxes, the adviser suggested that U.S. ones may be at a disadvantage, since ownership approval is "a political decision up in the air with the ongoing trade war."

Even with ownership, opportunities may be limited for foreign firms. China's capital markets are still developing, driven by individual investors, offering less upside for Wall Street banks that cater to institutional investors. Margins for investment banking are thinning globally, including in China. Chinese domestic firms have also built a stronghold on investment banking and sales and trading, with key relationships with state-owned firms. "This is like closing the barn door after the animals have all left," said Ker Gibbs, chairman of the American Chamber of Commerce in Shanghai.

"They want foreigners to

## MARKETS

# Treasuries Steady After CPI, Summit

BY AKANE OTANI

U.S. Treasuries stalled Tuesday after a historic summit between North Korea and the U.S. and data on consumer prices failed to drive swings in the bond market.

The yield on the benchmark 10-year U.S. Treasury note settled at 2.959%, unchanged from Monday.

Yields, which rise as bond prices fall, initially climbed after North Korea's Kim Jong Un and President Donald

Trump signed an agreement saying North Korea would pursue "complete denuclearization of the Korean Peninsula"—although the two leaders provided few details for how that would proceed.

Bond yields then gradually drifted back to the flatline over the rest of the trading session as investors largely shrugged off the Labor Department's latest release on consumer prices.

The consumer-price index, which measures what Americans pay for everything from used cars to newspapers, rose a seasonally adjusted 0.2% in May from the previous month and 2.8% year over year—in line with the expectations of a group of economists surveyed by The Wall Street Journal. Investors had been closely watching for signs that inflation, a threat to government bonds because it chips away at the value of their fixed payments, is accelerating.

"Over the medium term, it seems clear that inflationary pressures are rising but that the rise remains gradual rather than abrupt," wrote Eric Winograd, senior economist at AB, in an email. The latest CPI print should neither sway the Federal Reserve, which will wrap up a two-day policy meeting Wednesday, nor change investors' views on the path of inflation, Mr. Winograd added.

**AUCTION RESULTS**

Here are the results of Tuesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

**FOUR-WEEK BILLS**

Applications	\$117,621,275,500
Accepted bids	\$35,000,150,500
"noncompetitively"	\$808,894,200
"foreign noncompetitively"	\$100,000,000
Auction price (rate)	99.980778 (1.790%)
Coupon equivalent	1.817%
Bids at clearing yield accepted	24.75%
Cusip number	912796PQ6

The bills, dated June 14, 2018, mature on July 12, 2018.

**29-YEAR, 11-MONTH BONDS**

Applications	\$33,318,151,000
Accepted bids	\$14,000,005,100
"noncompetitively"	\$7,069,000
"foreign noncompetitively"	\$0
Auction price (rate)	100.481809 (3.109%)
Interest rate	3.125%
Bids at clearing yield accepted	81.29%
Cusip number	9128105G3

The bonds, dated June 15, 2018, mature on May 15, 2048.

# Dollar Gains As Rate Rise Is Expected

BY IRA IOSEBASHVILI

The dollar rose as investors awaited the conclusion Wednesday of the Federal Reserve's two-day monetary policy meeting.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, rose 0.3% to 87.27.

Most market participants expect the Fed to raise rates Wednesday. Investors also will be trying to determine whether the central bank plans to accelerate the pace of its rate increases this year. Expectations of higher rates tend to make the dollar more attractive to yield-seeking investors.

Robust consumer-price data reported Tuesday argues for the Fed to signal an increasing risk of two more rate increases this year, analysts at Commonwealth Foreign Exchange wrote in a note to clients.

"Such a scenario would likely keep the dollar broadly supported," the note said.

In emerging markets, the dollar was up 1.6% against the Turkish lira and up 1.2% against the South African rand in late New York trading.



South Korea's Han River. Busan Industrial's shares started surging a day before North Korean leader Kim Jong Un visited the South.

# South Korean Stocks Get a Lift

## Shares of tiny manufacturer Busan Industrial surge 498% on year, tops on Kospi

BY SAUMYA VAISHAMPAYAN AND STEVEN RUSSOLILLO

Whoever says investors aren't excited about the prospect of thawing relations between North Korea and the world hasn't been looking at South Korean construction stocks.

A small company called **Busan Industrial** Co. has become the best performer in South Korea's benchmark Kospi index this year—and one of the biggest gainers in all of Asia. The South Korean construction-materials manufac-

turer, which sports a market cap of just \$174 million, according to FactSet, has soared by 498% this year. The overall index has risen 0.05%.

Busan is one of many infrastructure stocks that Korean investors, mostly retail, have embraced as they search for companies that will benefit from the potential opening up of North Korea, said Paul Choi, head of research for Korea at brokerage CLSA.

Other big year-to-date winners in South Korea's stock market include **Hyundai Cement** Co., which makes construction materials and has rallied 383%. Shares of **Namkwang Engineering & Construction** Co. have risen 297%. They all fell on Tuesday.

Busan Industrial's recent rally stands out from the rest.

Its shares started surging on April 26, a day before Kim Jong Un became the first North Korean leader to set foot in the South since the Korean War. Two weeks later, the stock had quadrupled in value. By June 1, at its peak, the stock was up nearly 700% for the year.

Its rally since April 26 alone exceeds the stock's gain during the prior 10 years, according to FactSet data.

A representative for Busan Industrial wasn't available for comment.

South Korean President Moon Jae-in has been pushing plans to connect the North and South Korean economies, including opening air, road and rail links that would require major construction efforts.

Like Busan Industrial,

other construction-related stocks have taken off since the inter-Korean summit in late April.

Busan Industrial's rally puts it ahead of the biggest year-to-date gainers in other major indexes through Tues-

day. **Sunny Optical Technology Group** Co. shares rose 73% this year, making it the best 2018 performer in Hong Kong's Hang Seng Index. The biggest winner in Taiwan's Taiex this year is **Walsin Technology** Corp., which has surged 288%. Further away, medical-device company **Abiomed** Inc. shares have gained the most in the S&P 500, up 123% this year.

Investors bidding up shares of South Korean construction companies may have gotten ahead of themselves. On Tues-

day, after the Singapore summit between President Donald Trump and Mr. Kim, Busan Industrial shares dropped 10%. The shares of many of its peers also fell. The Kospi index slipped 0.1% Tuesday.

Mr. Choi from CLSA said the recent rally prompted him to cut his ratings on some of the infrastructure companies he covers. That includes **Hyundai Engineering & Construction** Co., which is up 92% this year.

"After all, nothing has been decided" on North Korea, he said. "Even if we think of a pretty bullish scenario, we think a lot of it is already priced into the [infrastructure] related stocks," he added.

—Yun-hwan Chae contributed to this article.

# Steady Demand Gives Boost to U.S. Crude

BY CHRISTOPHER ALESSI AND BENJAMIN PARKIN

Oil prices rose in the U.S. after a monthly report from OPEC showed solid demand alongside higher output.

The Organization of the Petroleum Exporting Countries said on Tuesday that it pumped 35,000 extra barrels a day in May

from a month earlier, to average 31.87 million barrels a day. Higher output was driven by the group's de facto leader, Saudi Arabia, which pumped 85,500 more barrels a day, but partly offset by production outages in Nigeria, Venezuela and Libya.

However, OPEC kept its world oil-demand forecasts largely unchanged at a growth rate of 1.65 million barrels a day, meaning demand should stand at 98.85 million barrels a day this year.

"The overall supply and demand fundamentals look pretty good globally," said Kyle Cooper, a consultant for ION Energy. "Global production is not soaring, even as U.S. production never ceases to astound and amaze."

Oil for July delivery advanced 0.4%, to \$66.36 a barrel, on the New York Mercantile Exchange. Brent crude, the global benchmark, fell 0.8%, to \$75.88 a barrel, on ICE Futures Europe.

OPEC raised its forecast for



Higher OPEC oil output in May was driven by Saudi Arabia, which pumped 85,500 more barrels a day.

non-OPEC supply for this year by 130,000 barrels a day, to 59.75 million barrels a day, largely as a result of burgeoning U.S. shale-oil production.

The group predicts total U.S. crude output will rise in 2018 by more than double the rate last year, to average a record 10.51 million barrels a day.

Mr. Cooper said prices had fallen far enough from three-year highs reached in May to satisfy traders who had bet on lower prices. That in turn created room for a bounce as some of them cashed in, he said.

Enthusiasm over oil's rally has waned in recent weeks as traders speculate that OPEC and its allies may raise pro-

duction caps at a meeting next week, after more than a year of holding back output by roughly 1.8 million barrels a day.

The coordinated production cuts, set to expire at the end of this year, helped boost prices by more than 40%. But geopolitical risks to supply in Iran and Venezuela, two OPEC members, prompted the Saudis and Russians to reconsider the output curbs in recent weeks.

"The geopolitical risks which remained front and center for most of May have now been superseded by a policy shift by OPEC+, wherein they are deliberating to revive output on concerns that prices

have risen too much, leading to weakening demand and a slowdown in the global economy," according to Ehsan Khoman, head of research for the Middle East at MUFG Bank Ltd.

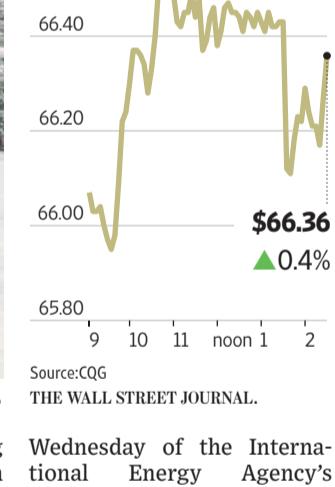
Traders also pointed to seeming progress at talks between U.S. and North Korean leaders as a positive signal for the global economy and, by extension, crude demand.

President Donald Trump and North Korean leader Kim Jong Un pledged to work toward the denuclearization of the Korean Peninsula and to begin negotiations at the earliest possible date.

The oil market is also looking ahead to the release

**Roller Coaster**

U.S. crude-oil price Tuesday



Wednesday of the International Energy Agency's monthly oil-market report, as well as data on U.S. petroleum inventories from the Energy Information Administration for the week ended June 8.

The American Petroleum Institute, an industry group, said late Tuesday that its own data showed crude-oil inventories rose by 833,000 barrels, according to a market participant, with gasoline stocks rising by 2.3 million barrels and distillate inventories by 2.1 million barrels.

Gasoline futures for July delivery fell 0.7%, to \$2.0899 a gallon, while July diesel rose less than 0.1%, to \$2.1618 a gallon.

# Markets Take ECB In Stride

Continued from page B1

would scale back its bond-buying program further. The ECB is currently set to buy €30 billion (\$35 billion) of government and corporate debt a month at least until the end of September.

There are uncertainties about whether it keeps the program open-ended while cutting back monthly purchases or announces a hard end date for purchases altogether.

When the ECB last cut its bond buying in January to €30 billion from €60 billion, it did

so on the back of the eurozone economy growing at its fastest rate in a decade the previous year.

This time around, the backdrop is less salubrious. In Italy, the eurozone's third-largest economy, concerns that a new antiestablishment government in Rome could crash the country out of the eurozone have convulsed local bond markets in recent weeks in a way reminiscent of the region's sovereign-debt crisis.

The Euro Stoxx 50 Volatility Index, Europe's "fear gauge," rose to a two-month high in late May, according to Thomson Reuters, while the cost of contracts that protect against swings in the euro also surged.

Italian bonds rallied this week after the country's new finance minister told local media the government is committed to staying in the euro. But yields remain elevated.

The other backdrop: Growth isn't as robust as it was in January. After booming in 2017, the eurozone's economy has slowed this year. A related worry is an escalating trade

**0.5%**

The current yield on Germany's 10-year-bond

war with the U.S. after Washington placed tariffs on European steel and aluminum and the European Union promised retaliatory measures.

Investors have remained sanguine about the ECB's plans, with many unwilling to make big bets that the withdrawal of stimulus will lead to much higher bond yields.

Investors know full well that the ECB taper is coming, said John Taylor, a portfolio manager at AllianceBernstein. But, he said, "people are not willing to start selling almost until the ECB has spent their last penny."

That has meant the spread in interest rates between Treasuries and German government bonds, considered the benchmark in the eurozone, has stayed historically wide, reflecting the ECB's still-easy money policies and the Fed's tightening policy.

Some are predicting that as the ECB tapers, that spread will shrink, as will the end of the decadelong bull run in German government bonds, known as bunds, one of the biggest overall beneficiaries of the ECB's buying.

"If you look at where bunds are trading versus anything else in the globe, there

is a big disconnect," said Mr. Taylor. He thinks Germany's 10-year yield will rise toward 1% by the end of the year.

At around 0.5%, Germany's 10-year-bond yield is still by far the lowest among the Group of 10 industrialized countries apart from Japan, where the central bank is pinning yields at around 0%. That compares with nearly 3% in the U.S., 1.4% in the U.K. and 2.3% in Canada.

That German yields haven't already moved higher is testament to the sway that the ECB's buying still holds over markets.

"It's somewhat psychological," said Stefan Isaacs, a portfolio manager at M&G Investments, who is also betting against German bonds. "Anyone who has [bet against] bonds for a significant period of time in the last 10 years has lost money."

## MARKETS

## U.S. Stocks Move Past North Korea Talks

BY MICHAEL WURSTHORN  
AND RIVA GOLD

Stocks showed little reaction to a landmark summit between President Donald Trump and North Korean leader Kim Jong Un Tuesday, but investors traded sharply after hours on a federal judge's go-ahead for AT&T Inc.'s planned acquisition of Time Warner Inc.

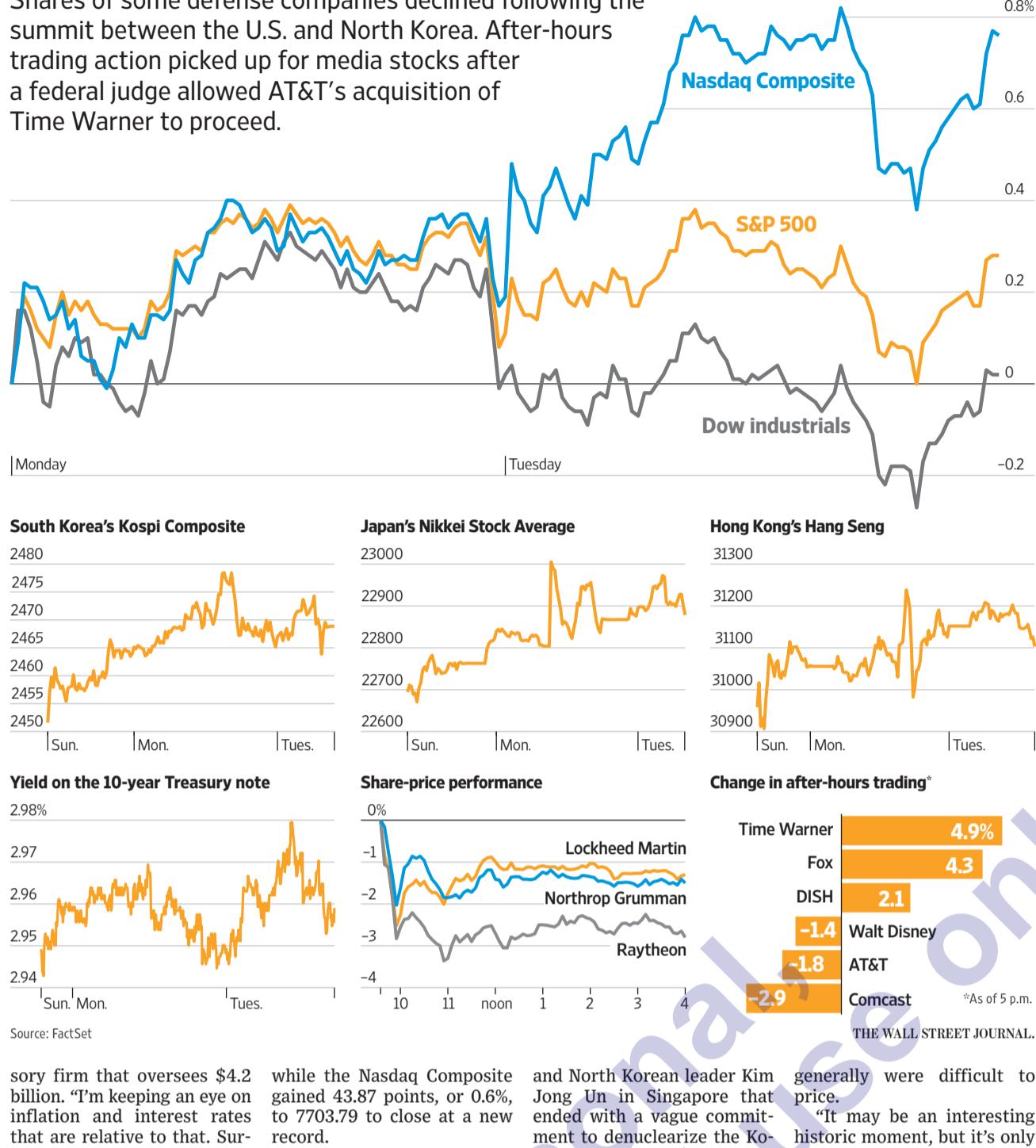
Just after the Dow Jones Industrial Average closed down 1.58 points, or less than 0.1%, at 25320.73, U.S. District Judge Richard Leon announced his decision, rejecting the Justice Department's allegations that the deal would suppress competition in the pay-TV industry. The ruling caused shares of several big media companies to swing, with investors expecting far-reaching impacts on deal-making activity that could reshape the industry landscape.

AT&T shares fell 1.8% in after-hours trading as of 5 p.m. ET, while Time Warner added nearly 5%. Comcast, which has been planning a bid to buy the bulk of 21st Century Fox's assets that could disrupt Walt Disney's roughly \$52 billion deal, declined 2.9%. Any offer from Comcast could raise similar concerns with the Justice Department. Disney shares slid 1.4% and Fox rose 4.3%. Fox and Wall Street Journal parent News Corp share common ownership.

The ruling came after a day in which several analysts said investors were reluctant to make major moves before other big decisions: announcements from the Federal Reserve and European Central Bank this week that could shape the next leg of the global economic recovery that began in the wake of the financial crisis 10 years earlier.

"Investors don't like surprises," said David Campbell, a principal with Bingham, Osborn & Scarborough, a San Francisco-based financial advi-

Shares of some defense companies declined following the summit between the U.S. and North Korea. After-hours trading action picked up for media stocks after a federal judge allowed AT&T's acquisition of Time Warner to proceed.



concrete follow-up," said Larry Hatheway, chief economist and head of investment solutions at GAM Holding.

Fewer than 5% of fund managers surveyed by Bank of America Merrill Lynch in June viewed North Korea as the biggest tail risk for markets, far behind a trade war or a hawkish policy error from the Fed or ECB.

On Tuesday, investors stuck to a strategy that has worked throughout much of the rally over the last decade: buying shares of technology companies. Tech firms in the S&P 500 gained 0.6%, as shares of Twitter jumped \$2.07, or 5%, to \$43.49 after a JPMorgan Chase analyst raised the social-media stock's price target.

Defense stocks struggled after Mr. Trump said he would halt joint military exercises with South Korea as long as talks remain productive with North Korea. Shares of Lockheed Martin and Northrop Grumman fell more than 1%.

Yields on 10-year U.S. Treasurys settled at 2.959%, little changed from a day earlier.

The Fed began its two-day policy meeting in Washington on Tuesday, and investors largely expect officials to raise the benchmark short-term interest rate by another quarter percentage point at its conclusion. On Thursday, the ECB will announce its own policy decision, which could include details on how it plans to wind down its bond-buying program.

Elsewhere, the Stoxx Europe 600 declined 0.1% after giving up earlier gains to match the muted index movements in other stock-market regions.

Early Wednesday, shares of South Korean companies, which generate roughly half their revenue abroad, were down less than 0.1%, while Japan's Nikkei was up 0.3% and Hong Kong's Hang Seng was down 0.5%.

sory firm that oversees \$4.2 billion. "I'm keeping an eye on inflation and interest rates that are relative to that. Surprises with either of those can throw things off a bit."

The S&P 500 rose 4.85 points, or 0.2%, to 2786.85, prices, or 0.2%, to 2786.85,

while the Nasdaq Composite gained 43.87 points, or 0.6%, to 7703.79 to close at a new record.

Meanwhile, the stock market appeared to have little reaction to the day of talks between President Donald Trump

and North Korean leader Kim Jong Un in Singapore that ended with a vague commitment to denuclearize the Korean Peninsula. Analysts largely said the outcome of the talks remained unclear and that North Korean risks more

generally were difficult to price.

"It may be an interesting historic moment, but it's only a modest step in removing that tail risk—markets are taking it somewhat skeptically and want to see much more

Source: FactSet

Note: 2018 data is year to date

Source: FactSet

# TECH COMPANIES TO WATCH

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THE WALL STREET JOURNAL.

Wednesday, June 13, 2018 | R1

## Hot Startups in Hot Sectors

Three industries—AI, blockchain and cybersecurity—dominate the 2018 list



VICTOR KEN

BY DAVE PETTIT

ARTIFICIAL INTELLIGENCE, blockchain, cybersecurity.

Startups working in these hot areas of the technology industry take more than half of the spots on this year's Wall Street Journal listing of 25 technology companies to watch. The list identifies startups that show signs of becoming emerging leaders in the tech industry.

"Those three make a lot of sense," says Charles Moldow, a general partner at Foundation Capital, a venture-capital firm in Palo Alto, Calif. "These are the areas we are most focused on," he says.

Artificial intelligence has benefited from advances in processing power and analysis that are opening myriad new ways to create products. Meanwhile, growing attention to cryptocurrencies has helped persuade a crop of highly skilled entrepreneurs to work on putting the underlying blockchain technology to various uses.

As for the third: "Cybersecurity should be a perennial anchor on the list," Mr. Moldow says. "So long as there are black hats, there will need to be white hats."

### WSJ Tech Companies to Watch

2018

The Journal 25 isn't a ranking of every company working in the hot corners of tech. Nor does it consist of companies with billion-dollar valuations; far from it. Rather, the list spotlights young companies—all founded since the start of 2013—that have attracted the attention of the tech community, and cash from venture-capital investors. These are companies that have expanded their workforces and, in some cases, have prominent backers and founders with prior entrepreneurial success.

Outside of the three predominant technology fields, companies on the list include those working in areas such as health care, financial services, education, and business solutions such as drones.

Tech Companies to Watch starts with a survey of technology-industry watchers. Nominations were taken in an online survey conducted by the Harris Poll among executives and others who make technology purchasing decisions for businesses, as well as a survey that included readers of certain Wall Street Journal

publications and attendees of Journal technology conferences. Survey participants were asked to identify young companies that are innovative, growing fast and expected to continue to grow fast. Only those with valuations of \$50 million to \$500 million were considered for the list.

From there, a data analysis was conducted to assess the experience of the companies' founders, the investments the companies

have attracted, the prior success of their biggest investors, the growth of their workforces, and the buzz they have begun to generate in traditional and social media. Equal weight was assigned to these five criteria to calculate overall scores for the companies.

From all of that, the top 25 companies emerged.

#### Top of the list

At the head of the list is **Bitglass** Inc., a Campbell, Calif., cybersecurity company formed in 2013. No. 2 is **Blockstream** Corp., based in Montreal, which is four years old and one of five startups on the list

whose work is tied to blockchain. Highest on the list among six companies working with AI is **Spoke**, No. 7, whose formal name is **Townsend Street Labs** Inc. It was formed in 2016 and is based in San Francisco.

**Bitglass** focuses on securing a company's data when it is used with so-called cloud applications like Salesforce, Microsoft Office 365 and Amazon Web Services. The prior entrepreneurial work of co-founder and Chief Executive Nat Kausik helped lift the company to the top of the list. Before co-founding Bitglass in 2013, Mr. Kausik was a founder of Arcot Systems Inc., a payments-security company, in 1997. In 2010, Arcot was sold to CA Technologies. In 2000, Mr. Kausik co-founded a network-security company called FineGround Networks that five years later was sold to Cisco Systems Inc.

The Journal analysis rewards companies for having founders who created or helped run other startups; they could draw on past experience in developing their business. Roger Lee, a general partner at Battery Ventures in Menlo Park, Calif., says past experience is especially relevant if the entrepreneur has previously launched a successful business in a similar market, with the same team.

Many of the most successful investments by Foundation Capital are in companies created by repeat entrepreneurs. "We love them because they bring a level of focus and discipline," Mr. Moldow says. "There is much more intellectual honesty. If they are screwing up, they are the first ones to say 'We need help.' A lot of first-time entrepreneurs think our expectation is that they are infallible...and that leads to bad decisions."

#### Who's on board?

The value that investors bring to startups is another component of the analysis. Credit is given to companies for having on their boards firms that have made sizable VC investments overall and that have invested in companies that have later gone public or been sold. Credit also is given for the number of investors the startups have and the amount of money the companies have raised. This analysis used data from Dow Jones VentureSource.

For instance, Spoke, which developed a chatbot for businesses to respond to employee queries on human-resource, IT and other issues,

Please turn to the next page

## A Conversation With...



**NAT KAUSIK**  
CEO and Co-Founder, **Bitglass**

**Q:** What is the company's biggest challenge to continued growth?

**A:** "The biggest challenge is distribution. There are so many markets world-wide, and we can't go into all of these alone," he says. Bitglass is creating distribution agreements. For the U.S. government market, for instance, it works with defense contractors that have existing relationships.

**Q:** Can you share a tip that helped you as an entrepreneur?

**A:** Larger companies tend to go for safer hires. Smaller companies should take a chance on finding outliers who have a chance to wildly outperform. "As an entrepreneur, if you hire for the variance and weed out the weak performers, you tend to outperform as a company," he says.

**Q:** What was your worst day at the office?

**A:** "A time when a system went down. It happened when I was on a plane to Singapore," he says. When he landed, he learned a supplier's software problem caused an outage that affected a large customer.

**Q:** What was your best day at the office?

**A:** "In early 2016, we won our first Fortune 50 customer," he says. "That was a big stamp of approval that made a big difference to us."

## How Individual Investors Can Get a Piece of Startups

Among the options: angel groups and online platforms

BY TOMIO GERON

YOU DON'T have to be a Silicon Valley venture capitalist to invest in the hot new technology startups.

Individuals interested in startups can invest through angel groups or online platforms for early-stage investors like **AngelList**, at angel.co, and **Propel(x)**, at propelx.com. Or they can invest in later-stage, but still young, companies through publicly traded funds that hold stakes in companies already backed by venture capitalists.

Investing in fledgling companies can bring returns that are hard to find when buying stock in publicly traded companies. And it can be a thrill. "You can't discount how psychologically interesting and intoxicating it is" for many people to get involved in startups, says Semil Shah, who invested through AngelList before going on to become a venture capitalist at two firms, Haystack Fund and Lightspeed Venture Partners. "It's an exciting thing to be around people doing new things."

But those opportunities come with a huge caveat: Investing in technology startups is high-risk, particularly for people who aren't familiar with the volatile tech scene. Angel investors, experts warn, shouldn't invest money they can't afford to lose. This isn't the place to



tate service Opendoor, which went on to raise \$310 million from big investors.

One catch: AngelList is only available to accredited investors, generally defined as having an annual income of \$200,000 for two years or having a net worth of more than \$1 million.

On its site, AngelList offers funds managed by the company's executives that provide exposure to a range of startups. Investors don't have any say in which companies are financed through these so-called Access Funds. But another option on the site gives them choices. New investors can essentially follow an experienced individual investor in two ways: by choosing to invest in all the same deals as the experienced investor, through a small fund, or by choosing to back only some of the companies the experienced investor is funding.

The minimum to invest in the next **AngelList Access Fund** is expected to be \$100,000. The minimum to invest in individual deals is as low as \$1,000, though many lead investors won't accept checks smaller than \$5,000.

For a minimum \$3,000 investment, San Francisco-based **Propel(x)** matches investors with startups focused on so-called "deep tech" advances that hinge on scientific discoveries or some type of engineering

Please turn to the next page

## INSIDE

### Top 25 Tech Companies to Watch

The full rankings, from **Bitglass** to **Keybase**

R4

**Where Are They Now?**  
A look at some of the companies on last year's list—and what their stories tell us about the current state of startups

R5



**New Funds Focus on Diversity**  
Startups led by women and people of color often struggle for funding. How to change that?

R5

### Success Strategies of Rising VC Firms

Index Ventures and Lightspeed have invested in several companies on the WSJ list

R6



**Tales From the Startup World**  
Rand Fishkin on hiring and more

R6

## JOURNAL REPORT | TECH COMPANIES TO WATCH

## Hot Startups in Hot Sectors

*Continued from the prior page*  
benefited from having on its board representatives from firms such as Accel Partners and Greylock Partners. Blockstream, the blockchain company, benefited from having among its investors Khosla Ventures and Innovation Endeavors, a firm that includes as a founding partner Eric Schmidt, the former chairman of Alphabet Inc.

Startups looking for funding are finding a receptive market. VC-backed

companies raised \$223.8 billion in total investments in 2017, up from \$165 billion in 2016, based on major countries and regions reported upon by Dow Jones VentureSource. Through the first quarter of 2018, these startups raised \$63.7 billion.

## Ready cash

"If you look at the capital markets, it's a relatively good time to find money. You just need a few key partners who can work with you,"

says Yinglian Xie, chief executive and co-founder of **DataVisor** Inc., the No. 16 company on the Tech Companies to Watch list. The Mountain View, Calif., company, which uses machine learning to identify fraud, has raised more than \$50 million from investors including Sequoia Capital China.

Entrepreneurs should focus on finding investors who can offer skills that complement the expertise of the management team, says Rich Boyle,

who is based in San Francisco and is a general partner at venture capital firm Canaan. "You want a board with a good set of skills and a good set of perspectives. [Entrepreneurs who] focus on just getting a check at the highest possible valuation...are taking a shortsighted view of what it takes to build a great company."

Mr. Lee of Battery Ventures says, "Ultimately there has to be a level of respect and mutual understanding about the partnership. It's easier to get divorced than it is to get rid of your investor. You are going to be stuck with this person for the duration of the company."

Finding investors is quickest in the earliest stages of a company, says Mr. Kausik, the CEO of Bitglass and repeat entrepreneur. The company raised \$10 million in its first round in 2013 and, to date, has attracted \$80 million in investments. "In the first round of funding, we had only 10 slides and pitched them to a handful of investors—and we got a commitment from two of them," he says. "All babies are attractive."

## Staffing issues

Recruiting, hiring and retaining workers can be tougher. Blythe Masters, CEO of **Digital Asset Holdings**, says hiring is challenging for tech entrepreneurs, whose companies are growing rapidly and whose job candidates are widely courted.

Even though New York-based Digital Asset works in the realm of blockchain, prospective employees are in demand from companies in a host of hot areas, including artificial intelligence, robotics, quantum computing and mobile technology. Ms. Masters says, Digital Asset, No. 11 on the list, has 150 employees in six locations globally.

Competition for employees based on compensation is difficult for companies outside of Silicon Valley, says Tom Blomfield, CEO and co-founder of **Monzo Bank** Ltd., which runs a mobile-phone-focused bank in the U.K. and is No. 14 on the Journal 25. He has found that in London prospective employees see less opportunity in stock options than do people in the U.S.

"If you come from a bank to work for us, you are taking a pay cut," Mr. Blomfield says. "We currently are a loss-making company. We can't compete on pure cash." To address this issue, as part of its most recent fundraising Monzo sold equity valued at £11 million (\$14.8 million) owned by employees. Those who were at the company from its early days were able to convert up to 10% of their equity into cash.

Mr. Boyle of Canaan says startups need to maintain discipline in spending on hiring and in otherwise managing their growth. "It is easy to raise money right now, and the problem is that it becomes easy to build up the cost structure of your company," he says. "The risk for companies is to get loose and to lose focus, and that kills startups."

**Mr. Pettit** is a Wall Street Journal editor in New York. He can be reached at [dave.pettit@wsj.com](mailto:dave.pettit@wsj.com).

## A Conversation With...



**BLYTHE MASTERS**  
CEO, **Digital Asset Holdings**

**Q:** What is the company's biggest challenge to continued growth?

**A:** "Talent acquisition and management is a challenge and also an opportunity," she says. There is an insufficient number of college graduates entering the jobs pipeline with necessary science, technology, engineering and math skills. That is particularly the case for women and it affects workplace diversity.

**Q:** Can you share a tip that helped you as an entrepreneur?

**A:** "It's all about focus," she says. The temptation, when you discover a technology that has myriad uses, is to try to do too many things. "Having absolutely ruthless concentration on remaining focused has been the most important learning experience for me."

**Q:** What was your worst day at the office?

**A:** "We like to keep the work environment light and enjoyable," she says. "We allow dogs in the office. I was giving a presentation to a large group of businesses when one of my two dogs decided to join me on stage and produce something."

**Q:** What was your best day at the office?

**A:** It was the day when, after 2½ years of work, the Australian stock exchange said it would use the company's technology.



**BRICE NKENGSA**  
Director of Engineering and Co-Founder of **Andela** Inc.

**Q:** What is the company's biggest challenge to continued growth?

**A:** "As we grow, sufficiently communicating the 'why' behind executive decisions is increasingly difficult. We are over 1,000 Andelans strong across four countries.... Internal communications have become integral to our rapid scaling."

**Q:** Can you share a tip that helped you as an entrepreneur?

**A:** "Shut up and listen."

**Q:** What was your worst day at the office?

**A:** "Generally, my lowest days come on days where we make tough decisions that affect many people or communicating bad news, such as an office theft or a beloved employee transitioning to a new organization. There are never the right words, so those days are quite difficult."

**Q:** What was your best day at the office?

**A:** "Mark Zuckerberg's visit to Andela Nigeria put us on the map—the feeling of reaffirmation that starting Andela was all worth it."



**YINGLIAN XIE**  
CEO and Co-Founder, **DataVisor**

**Q:** What is the company's biggest challenge to continued growth?

**A:** Explaining new technologies to potential customers can be difficult, particularly when it comes to advances in a topic like machine learning. "It takes a lot of education to the market to let them know there are new ways to tackle problems," she says.

**Q:** Can you share a tip that helped you as an entrepreneur?

**A:** "A startup is a hard journey, with a lot of ups and down, because we are creating things from nothing," she says. "Be very focused on the objectives you want." Having a strong partner as a co-founder is also crucial.

**Q:** What was your worst day at the office?

**A:** As an entrepreneur, you are exposed to rejections—from job candidates, investors and potential customers. "The worst day would be when a customer tells us that something isn't going right," she says.

**Q:** What was your best day at the office?

**A:** "The first time seeing that we have demonstrated our technology is useful to a customer," she says. The company won its first contract, with a Chinese social-media platform called Momo that at the time had 80 million users, shortly after launch in 2014.

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## Individual

*Continued from the prior page*  
breakthrough. For each potential deal, Propel(x) provides an independent panel of experts who can answer investors'

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questions to help them vet the startup.

"There's an information-asymmetry gap in private markets," says Swati Chaturvedi, co-founder and chief executive at Propel(x). "There's no research, unlike in the public markets." The expert panels, she says, are "a way to help investors make better investment decisions."

For investors who have lower risk tolerance, there are publicly traded funds that invest in later-stage private companies backed by venture capital. The risk is lower because these are companies that have survived the early stages of corporate develop-

## THE JOURNAL REPORT

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ment and have big money behind them, but that also means the potential payoff is smaller than what an investor could hope for if an angel bet pays off.

A closed-end fund called the **SharesPost 100 Fund** ([sharespost.com/share-spst-100-fund](http://sharespost.com/share-spst-100-fund)) has invested in companies such as Uber, Pinterest and SoFi. The fund's minimum to invest is \$2,500.

**GSV Capital Corp.**, with no minimum investment, is an investment fund that trades on the Nasdaq and invests in private companies such as Palantir, Lyft and Coursera. It held Spotify and Dropbox, two startups that recently had initial public offerings of shares. GSV, at [gsvcap.com](http://gsvcap.com), seeks out companies that are about two to three years away from being sold or going public, says fund founder Michael Moe.

Whatever route an investor takes, it's important to re-

member not only that investing in high-technology startups is inherently risky, but also that such investments mostly are illiquid. People investing in individual companies, rather than funds, should diversify with at least 10 to 12 investments because of the high failure rate of startups, says Marianne Hudson, executive director at the Angel Capital Association.

"Know that half to 70% of your investments you will probably lose," Ms. Hudson says.

Indeed, newcomers especially should invest only an amount they can afford to lose, says Kevin Laws, chief executive officer at AngelList. "We see a lot of angel investors burn out their entire allocation in six months," he says.

**Mr. Geron** is a Wall Street Journal reporter in San Francisco. He can be reached at [tomio.geron@wsj.com](mailto:tomio.geron@wsj.com).

## Getting Started in Startups

Anyone can be a startup investor. Here are a few platforms to help.

## AngelList

## INVESTING FOCUS:

Seed stage deals

## ACCREDITED INVESTORS ONLY?

Yes

## MINIMUM INVESTMENT

\$1,000

## DIRECT/INDIRECT EXPOSURE

Direct, in a syndicate

## DID YOU KNOW?

Alumni include house-flipping startup Opendoor and dog-walking app Wag

## WEBSITE/INFO

[angel.co](http://angel.co)

## Propel(x)

## INVESTING FOCUS:

"Deep-tech" startups

## ACCREDITED INVESTORS ONLY?

Yes

## MINIMUM INVESTMENT

\$3,000

## DIRECT/INDIRECT EXPOSURE

Direct

## DID YOU KNOW?

Offers expert panels to provide insights on companies

## WEBSITE/INFO

[propelx.com](http://propelx.com)

## SharesPost 100 Fund

## INVESTING FOCUS:

Late-stage startups

## ACCREDITED INVESTORS ONLY?

No

## MINIMUM INVESTMENT

\$2,500

## DIRECT/INDIRECT EXPOSURE

Indirect through a closed-end fund

## DID YOU KNOW?

Portfolio includes Uber, Pinterest and SoFi

## WEBSITE/INFO

[sharespost.com/sharespost-100-fund](http://sharespost.com/sharespost-100-fund)

Sources: the companies

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## JOURNAL REPORT | TECH COMPANIES TO WATCH

# Technology Companies to Watch

The Wall Street Journal spotlights 25 emerging leaders in hot corners of the tech industry

Methodology | See a summary of the methodology on page R5. For more detail, go to [wsj.com/techlist](http://wsj.com/techlist).

**1. BITGLASS INC.**

**WEBSITE:** [bitglass.com](http://bitglass.com)  
**LOCATION:** Campbell, Calif.  
**FOUNDED:** 2013  
**FOUNDERS:** Anoop Bhattacharya, Chris Chan, Anurag Kahol, Nat Kausik  
**DESCRIPTION:** A cybersecurity provider that protects a company's systems from vulnerabilities associated with using cloud-based applications such as Salesforce and Amazon Web Services, including security when using personal and mobile devices.  
**INVESTORS:** Future Fund Management Agency, New Enterprise Associates Inc., Norwest Venture Partners, SingTel Innov8 Pte. Ltd.  
**TOTAL FUNDING:** \$80.03 million  
**EMPLOYEES:** 104

**2. BLOCKSTREAM CORP.**

**WEBSITE:** [blockstream.com](http://blockstream.com)  
**LOCATION:** Montreal  
**FOUNDED:** 2014  
**FOUNDERS:** Dr. Adam Back, Matt Corallo, Alexander Fowler, Mark Friedenbach, Francesca Hall, Austin Hill, Greg Maxwell, Erik Svenson, Jorge Timon, Jonathan Wilkins, Dr. Pieter Wuille  
**DESCRIPTION:** Creating ways to handle bitcoin micropayments and a technology called sidechain that offers firms more flexibility handling bitcoin transfers. Working with Intercontinental Exchange.  
**INVESTORS INCLUDE:** AME Cloud Ventures, AXA Strategic Ventures, Blockchain Capital LLC, Innovation Endeavors, Khosla Ventures, Mosaic Ventures, Reid Hoffman  
**TOTAL FUNDING:** \$77.5 million  
**EMPLOYEES:** 50

**3. ANDELA INC. >**

**WEBSITE:** [andela.com](http://andela.com)  
**LOCATION:** New York  
**FOUNDED:** 2014  
**FOUNDERS:** Iyinoluwa Aboyeji, Ian Carnevale, Nadayar Enegesi, Jeremy Johnson, Brice Nkengsa, Christina Sass  
**DESCRIPTION:** Recruits software developers in Africa and places them to work remotely from Africa with companies, mostly in the U.S.  
**INVESTORS INCLUDE:** Chan Zuckerberg Initiative, Founder Collective, Frontier Tech Ventures, GV, Melo7 Tech Partners LLC, Omidyar Network Commons LLC, Peak Venture Partners LLC, Rothenberg Ventures, Salesforce Ventures, Spark Capital, SparkLabs Global Ventures, Susa Ventures, TLcom Capital LLP  
**TOTAL FUNDING:** \$78 million  
**EMPLOYEES:** 1,038

**4. VIRTUA HEALTH CORP.**

**WEBSITE:** [virtahealth.com](http://virtahealth.com)  
**LOCATION:** San Francisco  
**FOUNDED:** 2014  
**FOUNDERS:** Sami Inkinen, Stephen Phinney, Jeff Volek  
**DESCRIPTION:** Developing an online treatment plan for Type 2 diabetes. Virtual coaches help provide personalized diet plans. Physicians oversee the plans remotely.  
**INVESTORS INCLUDE:** Allen & Co., Cremadum, Founders Fund LLC, Great Oaks Venture Capital LLC, Obvious Ventures Management LLC, Playground Global LLC, Rock Health, SciFi VC, Uprising, Venrock  
**TOTAL FUNDING:** \$75 million  
**EMPLOYEES:** 101

**5. EERO INC. >**

**WEBSITE:** [eero.com](http://eero.com)  
**LOCATION:** San Francisco  
**FOUNDED:** 2014  
**FOUNDERS:** Nate Hardison, Amos Schallich, Nick Weaver  
**DESCRIPTION:** Sells a Wi-Fi system that eliminates dead spots and increases performance around your home by placing units in multiple places, rather than using a single router.  
**INVESTORS:** AME Cloud Ventures, First Round Capital, Great Oaks Venture Capital LLC, Homebrew Ventures, Index Ventures, Initialized Capital, Menlo Ventures, Playground Global LLC, Redpoint Ventures, Shasta Ventures Management LLC, StartX, Trae Vassallo - Defy VC  
**TOTAL FUNDING:** \$90 million  
**EMPLOYEES:** 120

**6. R3**

**WEBSITE:** [r3.com](http://r3.com)  
**LOCATION:** New York  
**FOUNDED:** 2015  
**FOUNDERS:** Jesse Edwards, Todd McDonald, David E. Rutter  
**DESCRIPTION:** Developed a blockchain-based platform to allow financial institutions and other businesses to manage secure transactions directly between parties. Has lost some early partners such as Goldman Sachs. Denied published report it is running low on cash.  
**INVESTORS INCLUDE:** Intel Capital along with several large banks including Bank of America, Barclays Bank PLC, Deutsche Bank AG and HSBC Investments  
**TOTAL FUNDING:** \$107 million  
**EMPLOYEES:** 180

**7. SPOKE**

**WEBSITE:** [askspoke.com](http://askspoke.com)  
**LOCATION:** San Francisco  
**FOUNDED:** 2016  
**FOUNDERS:** David Kaneda, Pratyus Patnaik, Jay Srinivasan  
**DESCRIPTION:** Provides chatbot for companies to respond to employee queries via Slack, email, text and websites. Used for human resources, IT and other office management. Formal name is Townsend Street Labs Inc.  
**INVESTORS:** Accel Partners, Felicis Ventures, Greylock Partners, Index Ventures, Red Dog Capital LLC, Spider Capital, Webb Investment Network  
**TOTAL FUNDING:** \$28 million  
**EMPLOYEES:** 25

**8. EXABEAM INC.**

**WEBSITE:** [exabeam.com](http://exabeam.com)  
**LOCATION:** San Mateo, Calif.  
**FOUNDED:** 2013  
**FOUNDERS:** Sylvain Gil, Domingo Mihovilovic, Nir Polak  
**DESCRIPTION:** Offers cybersecurity products that manage log-file data and analyze it to identify risks and suspicious activity, as well as assist companies in responding to security incidents.  
**INVESTORS:** Aspect Ventures, Cisco Investments, Icon Ventures, Lightspeed Venture Partners, Norwest Venture Partners, Shlomo Kramer  
**TOTAL FUNDING:** \$65 million  
**EMPLOYEES:** 203

**9. SPARKCOGNITION INC.**

**WEBSITE:** [sparkcognition.com](http://sparkcognition.com)  
**LOCATION:** Austin, Texas  
**FOUNDED:** 2013  
**FOUNDER:** Amir Husain  
**DESCRIPTION:** Utilizes machine learning to analyze data for uses such as managing maintenance and making decisions about work flows and costs. Focuses on industries including energy, utilities, defense and finance.  
**INVESTORS:** Alameda Ventures, Boeing HorizonX Ventures, Brevan Howard Investments Holding Ltd., CME Ventures LLC, InvenEnergy LLC, JC2 Ventures, MSD Capital LP, The Entrepreneurs' Fund, Verizon Ventures  
**TOTAL FUNDING:** \$72.5 million  
**EMPLOYEES:** 237

**10. STASH FINANCIAL INC.**

**WEBSITE:** [stashinvest.com](http://stashinvest.com)  
**LOCATION:** New York  
**FOUNDED:** 2015  
**FOUNDERS:** Brandon Krieg, Ed Robinson, David Ronick  
**DESCRIPTION:** Offers a mobile app that allows users to invest in select ETFs and stocks. Users can make small, regular investments without commissions; accounts with small balances pay a \$1 per month fee.  
**INVESTORS:** Breyer Capital, Coatue Management LLC, Entree Capital, Goodwater Capital, Union Square Ventures, Valar Ventures Management LLC  
**TOTAL FUNDING:** \$116.75 million  
**EMPLOYEES:** 133

**11. DIGITAL ASSET HOLDINGS**

**WEBSITE:** [digitalasset.com](http://digitalasset.com)  
**LOCATION:** New York  
**FOUNDED:** 2014  
**FOUNDERS:** Sunil Hirani, Don R. Wilson  
**DESCRIPTION:** Developed blockchain technology to securely process transactions for financial institutions. Working on financial "infrastructure," such as trade clearing and settlement for Australia's main stock exchange.  
**INVESTORS INCLUDE:** ABN AMRO Bank NV, Accenture LLP, ASX Ltd, BNP Paribas SA, Citi, CME Ventures LLC, Goldman Sachs Group Inc, International Business Machines Corp, J.P. Morgan Securities LLC, PNC Financial Services Group, Santander InnoVentures  
**TOTAL FUNDING:** \$100 million  
**EMPLOYEES:** 150

**12. BRAVE SOFTWARE INC.**

**WEBSITE:** [brave.com](http://brave.com)  
**LOCATION:** San Francisco  
**FOUNDED:** 2015  
**FOUNDERS:** Brian Bondy, Brendan Eich  
**DESCRIPTION:** Offers a web browser designed to improve privacy and includes a blockchain-based ad platform through which revenue is split with publishers. Note: Has a partnership with Dow Jones, publisher of The Wall Street Journal.  
**INVESTORS:** Digital Currency Group Inc, Foundation Capital, Founders Fund LLC, Pantera Capital Management, Propel Venture Partners  
**TOTAL FUNDING:** \$43 million  
**EMPLOYEES:** 60

**13. ABRA**

**WEBSITE:** [abra.com](http://abra.com)  
**LOCATION:** Mountain View, Calif.  
**FOUNDED:** 2014  
**FOUNDERS:** Bill Barhydt, James D. Robinson  
**DESCRIPTION:** Created a mobile app to invest in 25 cryptocurrencies and 50 traditional currencies. Users fund a "wallet," track prices and make exchanges between currencies. Formal name is Plutus Financial Inc.  
**INVESTORS INCLUDE:** AngelList LLC, First Round Capital, IGNIA Partners, Hippieau Ventures, Liberty City Ventures, MESA Ventures, Nyca Partners LLC, Operative Capital, Pantera Capital Management and RRE Ventures LLC  
**TOTAL FUNDING:** \$37 million  
**EMPLOYEES:** 50

**14. MONZO BANK LTD.**

**WEBSITE:** [monzo.com](http://monzo.com)  
**LOCATION:** London  
**FOUNDED:** 2015  
**FOUNDERS:** Jason Bates, Tom Blomfield, Gary Dolman, Jonas Huckestein, Paul Rippon  
**DESCRIPTION:** Offers bank services to U.K. residents using accounts managed on a mobile app. Users can spend money using a bank card and can transfer money to others electronically, including via Bluetooth.  
**INVESTORS:** Crowdfounding, Goodwater Capital, Orange Digital Ventures, Passion Capital Investments LLP, Stripe Inc., Thrive Capital  
**TOTAL FUNDING:** \$136.45 million  
**EMPLOYEES:** 309

**15. KESPRY INC. >**

**WEBSITE:** [kespry.com](http://kespry.com)  
**LOCATION:** Menlo Park, Calif.  
**FOUNDED:** 2013  
**FOUNDERS:** Paul Doersch, Nathan Hall-Snyder, Ben Stabler  
**DESCRIPTION:** Created a platform that gathers data using drones and analyzes it for industries such as mining, insurance and construction. Uses include inspections and inventory and operation management.  
**INVESTORS:** ABB Technology Ventures, Cisco Investments, DCM Ventures, G2VP LLC, H. Barton Asset Management, Lightspeed Venture Partners, Rothenberg Ventures, Shell Technology Ventures BV, s28 Capital, Wilson Sonsini Goodrich & Daspit  
**TOTAL FUNDING:** \$61.4 million  
**EMPLOYEES:** 104

**16. DATAVISOR INC.**

**WEBSITE:** [datavisor.com](http://datavisor.com)  
**LOCATION:** Mountain View, Calif.  
**FOUNDED:** 2013  
**FOUNDERS:** Yinglian Xie, Fang Yu  
**DESCRIPTION:** Utilizes machine learning to help protect against fraud, analyzing factors such as user behaviors and locations to identify suspicious activities. Designed for financial companies, e-commerce, social platforms and mobile apps.  
**INVESTORS:** Genesis Capital, GSR Ventures, New Enterprise Associates Inc., Sequoia Capital China  
**TOTAL FUNDING:** \$54.5 (excluding one round whose value wasn't publicly disclosed)  
**EMPLOYEES:** 81

**17. FOURKITES INC.**

**WEBSITE:** [fourkites.com](http://fourkites.com)  
**LOCATION:** Chicago  
**FOUNDED:** 2014  
**FOUNDERS:** Arun Chandrasekaran, Mathew Elenjickal  
**DESCRIPTION:** Developed a supply-chain monitoring system that integrates with sensors and internet-connected devices to track the location and temperature of shipments, and uses predictive analysis to estimate arrival times.  
**INVESTORS:** August Capital Master Management Co., Bain Capital Ventures, Bluestein & Associates, Harvard Business School Angels, Hyde Park Angels, Hyde Park Venture Partners, Otter Consulting  
**TOTAL FUNDING:** \$50.9 million  
**EMPLOYEES:** 230

**18. NAUTO INC.**

**WEBSITE:** [nauto.com](http://nauto.com)  
**LOCATION:** Palo Alto, Calif.  
**FOUNDED:** 2015  
**FOUNDERS:** Stefan Heck, Frederick Soo  
**DESCRIPTION:** Produces a camera and software system that assesses how drivers interact with the vehicle and the road. Used to monitor commercial fleets and in developing technology for autonomous vehicles.  
**INVESTORS:** Allianz Capital Partners, BMW i Ventures, Draper Nexus Ventures, General Motors Venture Group, Greylock Partners, Index Ventures, Playground Global LLC, Softbank Group Corp., Toyota AI Ventures LLC  
**TOTAL FUNDING:** \$171 million  
**EMPLOYEES:** Confidential (figure provided for data analysis)

**19. BABYLON HOLDINGS LTD.**

**WEBSITE:** [babylonhealth.com](http://babylonhealth.com)  
**LOCATION:** London  
**FOUNDED:** 2013  
**FOUNDER:** Ali Parsa  
**DESCRIPTION:** Provides health care service that connects patients with doctors via video or voice, using an app. System is available in the U.K. and Rwanda. Targets China, the U.S. and Middle East for expansion.  
**INVESTORS:** BXR Global Investment Group, Hoxton Ventures, Kinnevik AB, NNS Holdings, Vostok New Ventures Ltd., Nassef Sawiris  
**TOTAL FUNDING:** \$85 million  
**EMPLOYEES:** 347

**20. BOWERY FARMING INC. >**

**WEBSITE:** [boweryfarming.com](http://boweryfarming.com)  
**LOCATION:** New York  
**FOUNDED:** 2015  
**FOUNDERS:** Irving Fain, Brian Falther, David Golden  
**DESCRIPTION:** Operates indoor produce farms that use monitoring systems, automation and machine learning to control the growing environment. Operations are in the New York area.  
**INVESTORS INCLUDE:** Box Group LLC, First Round Capital, Flybridge Capital Partners, General Catalyst Partners, GGV Capital, GV, Homebrew Ventures, Lerer Hippeau Ventures, RRE Ventures LLC, SV Angel  
**TOTAL FUNDING:** \$27.5 million  
**EMPLOYEES:** 38

**21. AIRROBOTICS LTD.**

**WEBSITE:** [airroboticsdrones.com](http://airroboticsdrones.com)  
**LOCATION:** Petah Tikva, Israel  
**FOUNDED:** 2014  
**FOUNDERS:** Meir Kliner, Ran Krauss  
**DESCRIPTION:** Provides drones and software for uses including security monitoring; facility and emergency inspections; surveying; and inventory measurement. Used in mining and other industrial settings.  
**INVESTORS:** BlueRun Ventures, Charles River Ventures, Microsoft Ventures, OurCrowd, Upwest Labs, Charlotte Matityahu, David Roux, Eldad Matityahu, Noah Bardin, Raul Cesari, Richard Woolridge, Stephen Dattels, Yuda Doron  
**TOTAL FUNDING:** \$71 million  
**EMPLOYEES:** 250

**22. FREENOME HOLDINGS INC. >**

**WEBSITE:** [freenome.com](http://freenome.com)  
**LOCATION:** South San Francisco, Calif.  
**FOUNDED:** 2015  
**FOUNDERS:** Riley Ennis, Gabriel Otte, Charles Roberts  
**DESCRIPTION:** Developing artificial intelligence that would analyze blood to detect early-stage cancer and improve oncology treatments. One of several companies working in this area.  
**INVESTORS INCLUDE:** Allen & Co., AME Cloud Ventures, Andreessen Horowitz, Charles River Ventures, DCVC Management Co., Founders Fund LLC, GV, Innovation Endeavors, Polaris Partners, Section 32, s28 Capital, Third Kind Venture Capital, Verily Life Sciences LLC, Anne Wojcicki  
**TOTAL FUNDING:** \$77.6 million  
**EMPLOYEES:** 70

**23. CLAROTY LTD.**

**WEBSITE:** [claroty.com](http://claroty.com)  
**LOCATION:** New York  
**FOUNDED:** 2015  
**FOUNDERS:** Galina Antova, Benny Porat, Amir Zilberman  
**DESCRIPTION:** Provides cybersecurity to industries including electric power, chemicals, oil and gas, transportation and water. Services include monitoring industrial control systems and securing remote systems access.  
**INVESTORS INCLUDE:** Bessemer Venture Partners, Innovation Endeavors, Next47, NightDragon Security, Team8, Temasek  
**TOTAL FUNDING:** \$93 million (includes \$60 million investment closed June 1, not included in analysis)  
**EMPLOYEES:** 83

**24. DESCARTES LABS INC.**

**WEBSITE:** [descarteslabs.com](http://descarteslabs.com)  
**LOCATION:** Santa Fe, N.M.  
**FOUNDED:** 2014  
**FOUNDERS:** Steven Brumby, Rick Chartrand, Mark Johnson, Tim Kelton, Mark Mathis, Adam Smith, Mike Warren, Brendt Wohlberg  
**DESCRIPTION:** Creating a platform to store and analyze continually updating satellite data for uses such as predicting supply and demand for things including agricultural products.  
**INVESTORS INCLUDE:** Angel Investors, Cargill Inc., Correlation Ventures, Crosslink Capital, Cultivian Sandbox Venture Partners, DCVC Management Co., G-Bar Ventures, March Capital Partners GP LLC  
**TOTAL FUNDING:** \$38.42 million  
**EMPLOYEES:** 70

**25. KEYBASE INC.**

**WEBSITE:** [keybase.io](http://keybase.io)  
**LOCATION:** New York  
**FOUNDED:** 2015  
**FOUNDERS:** Chris Coyne, Max Krohn  
**DESCRIPTION:** Provides technology to encrypt chat, file sharing and collaboration on software code. Offers a security app for mobile phones and computers that allows secure communications among groups of users.  
**INVESTORS:** Andreessen Horowitz  
**TOTAL FUNDING:** \$10.8 million  
**EMPLOYEES:** 20

## JOURNAL REPORT | TECH COMPANIES TO WATCH

# WHERE ARE THEY NOW?

A look at some of the companies on last year's list—and what their stories tell us about the current state of startups

BY HEATHER MACK

LAST YEAR'S names on The Wall Street Journal list of Tech Companies to Watch have turned out to be, well,

**WSJ PRO** worth watching. In particular, their fates say a lot about the trends that are affecting many tech startups these days.

Among those trends:

◆ Home security is hot.

◆ Car makers are evolving with the help of startups.

◆ Investors are pouring money into new ways of delivering consumer services from renters' insurance to health-care platforms. But the health and education markets remain difficult for newcomers.

One of the clearest signs recently that the home-security market is booming was **Amazon.com** Inc.'s purchase of Ring—a maker of video-connected doorbells that allow people to remotely see and communicate with people visiting their property—in a deal valued at more than \$1 billion. Ring, based in Santa Monica, Calif., was No. 7 on last year's Tech Companies to Watch list. The acquisition, completed in April, was one of Amazon's largest, second only to its roughly \$13.5 billion purchase of Whole Foods last year.

Ring wasn't the only home-security company acquired since appearing on last year's list. August Home Inc., a San Francisco-based maker of internet-connected locks and doorbell cameras, No. 3 on the Journal's list last year, was bought by Swedish lock company Assa

**Abloy** for an undisclosed sum. The deal will help Assa Abloy, which owns the Yale lock brand, expand in the U.S.Established companies also continue to hunt for startup acquisitions that provide other types of security. Germany's Continental AG, the maker of premium tires and other technology for autos, agreed to acquire Israeli startup **Argus Cyber Security**, No. 24 on the Journal's list, for about \$400 million. The acquisition of Argus, which makes products to protect vehicles from cybersecurity threats associated with onboard electronics and communications systems, gives Continental a foothold in the expanding and competitive driverless-car sector, where such systems are crucial.Intense competition in another growth market, online financial services, spurred the acquisition by **Navient Corp.**, a servicer of student debt payments, of Earnest Inc., No. 17 on the Journal's list, for \$155 million. San Francisco-based Earnest makes personal loans and refinances student loans.**Big funding**

Aside from acquisitions, big rounds of venture-capital funding for some of the companies on last year's list reflect investors' interest in startups involved in expanding markets including ride sharing, cybersecurity and health-care services.

**Daimler** AG joined competitors **Ford Motor** Co. and **General Motors** Co. in jumping into ride-sharing services with its investment of \$200 million in New York-based startup **Via Transportation** Inc., maker of

Amazon bought Ring for more than \$1 billion—one of several 2017 Tech Companies to Watch acquired in the past year.

a ride-hailing app. At No. 21 on the Journal's list last year, Via Transportation had previously raised some \$137 million from investors. The Daimler backing and expanded partnership enables the startup to get into European ride sharing.

Japan's **SoftBank Group** has written a flurry of hefty checks for startups in recent months, including the \$100 million it invested in cybersecurity startup **Cybereason Inc.**, No. 14 on the Journal's list, in a deal that valued the Boston-based company at about \$1 billion. Cybereason's technology uses machine learning to recognize threats as they enter a company's computer network, so they can be addressed quickly.**Tough businesses**The growing market for consumer services in health care and insurance is driving some big venture investments, such as the \$110 million funding of **Collective Health Inc.**, the No. 2 company on last year's Journal list. The San Francisco-based online plat-

form allows self-insured employers and their employees to manage their health, vision and dental plans.

But while investment in health-care startups is at an all-time high, they still grapple with the reality of growing within a complex, highly regulated industry. Collective Health is one of the few health-care startups expected by industry veterans to launch a public offering in the near future.

Telemedicine startup **Doctor on Demand Inc.**, the Journal's No. 12 tech company to watch last year, saw its share price drop in its latest round of financing. Chief Executive Hill Ferguson cited the operational costs of the San Francisco-based company's shift to an enterprise model—selling its service to companies, health plans and provider networks rather than directly to consumers—as a reason for the decline in value.Like health care, education has been tough for disruptive entrepreneurs to reshape. Education startup **AltSchool Inc.**, No. 13 on last year's list, has

RING

raised more than \$174 million in venture capital. But it closed nearly half of its private schools in November, saying they didn't appear to be sustainable financially in the long term. The company's technology provides a platform for teachers to create curricula and compiles data on students to help teachers personalize their lessons. AltSchool started out by opening schools based on the technology but now is selling the technology to existing schools.

**Hollar Inc.**, the e-commerce dollar store that was No. 1 on the Tech Companies to Watch list last year, has expanded its operations. The company increased the number of products it sells by launching a marketplace that allows third-party merchants to sell via Hollar, and it raised \$35 million from investors in December. Hollar had \$35 million in sales last year, more than double the 2016 total, says David Yeom, a co-founder.

"We aren't profitable, but we are on that path," Mr. Yeom says. "Our expectation is that with this fundraising, we won't have to do another one. This will get us to profitability in 18 to 20 months." The company has reduced its workforce, in part by introducing robotics to its order-fulfillment process, he says.

**An Eventful Year**

What the past 12 months have brought for some of last year's Tech Companies to Watch (place on 2017 list shown)

**2 Collective Health Inc.** Raised \$110 million in a deal that brings its total equity raised to \$259 million**3 August Home Inc.** Acquired by Swedish lock specialist Assa Abloy for an undisclosed sum**7 Ring Inc.** Acquired by Amazon.com for more than \$1 billion**10 Lemonade Inc.** Raised a \$120 million financing round with SoftBank Group Corp. and others**12 Doctor on Demand Inc.** Saw its share price drop in a round with private investors**13 AltSchool** Closed nearly half of its private schools**21 Via Transportation Inc.** Partnership with Daimler AG includes a \$200 million investment by the auto maker**24 Argus Cyber Security Ltd.** Acquired by German auto-parts giant Continental AG for a reported \$400 millionSource: WSJ reporting  
THE WALL STREET JOURNAL.

that with this fundraising, we won't have to do another one. This will get us to profitability in 18 to 20 months." The company has reduced its workforce, in part by introducing robotics to its order-fulfillment process, he says.

**Ms. Mack is a Wall Street Journal reporter in San Francisco. Email her at [heather.mack@wsj.com](mailto:heather.mack@wsj.com).**

# New Venture Funds Put Focus on Diversity

Startups founded by women and people of color tend to struggle for funding. What can change that?



Arlan Hamilton's Backstage Capital firm has a \$36 million fund for black women entrepreneurs.

BY YOREE KOH

AS VENTURE capitalists try to find the next Facebook, they may unconsciously be scanning for someone who looks like Mark Zuckerberg—male and white.

"So much of venture capital is about comfort. Am I com-

fortable giving this person a check?" says Charles Hudson, founding partner of **Precursor Ventures**, a \$15.3 million fund based in San Francisco that invests in companies just starting out, at the so-called pre-seed stage. This is especially the case in early fundraising rounds, he says, where there are few, if any, business metrics

to judge a company on. That's a problem for women and people of color, Mr. Hudson says, because venture capitalists most often are white men, and people tend to be most comfortable with people who are the most like them. According to funding-data provider Crunchbase, women accounted for just 9% of U.S.-based venture-capital partners at the end of last year, and a 2015 analysis of more than 200 firms by then Venrock Vice President Richard Kerby found that black investors made up 1.5% of the venture-capital industry.

That may be part of the reason more than \$68 billion in venture funds went to startups founded by men in 2017, versus \$14.2 billion that went to companies started by at least one woman, according to PitchBook Data Inc., which tracks venture-capital dollars. Similar recent data based on ethnicity or race isn't available.

The tendency for people to be more comfortable with others who are most like them becomes less of an issue in funding when a company gets bigger, Mr. Hudson says, but many women and people of color don't get to that stage because they've been overlooked earlier on. Precursor Ventures is among those that are trying to give those people a better shot at funding. As a

rule, a quarter of Precursor's portfolio companies must have a female founder, and another quarter must have at least one person of color.

**No more waiting**Some investors have narrowed their focus even more. In May, **Backstage Capital** announced a \$36 million fund that will invest solely in black female entrepreneurs, writing \$1 million checks at a time.

As of November 2017, 34 black women had raised \$1 million or more in venture funding for their startups since 2009, according to ProjectDiane, a research initiative conducted by DigitalUndivided, an Atlanta-based startup accelerator that focuses on black and Hispanic entrepreneurs. In comparison, PitchBook says there were 5,447 U.S.-based startups that raised \$1 million or more in 2017 alone. Numbers like those disappoint Arlan Hamilton, founding and managing partner of Los Angeles-based Backstage.

"Things just weren't moving fast enough," she says. "We can't just be expected to sit around and wait for other people to understand us."

Black women "are going to go on to do what venture capital was made for—to innovate and scale," Ms. Hamilton says. "I want to be financially part of that so I can get their return."

Backstage also plans to start to raise \$100 million by the end of 2020 to fund founders of other underrepresented backgrounds, she says.

**Credentials fail**

Yscaira Jimenez's frustration in trying to raise money in the early days of her company was typical for female entrepreneurs. She discovered that having attended the type of elite college that many venture capitalists graduated from—usually a major plus in an industry where such connections can be the key to gaining access to investors—wasn't a surefire path to funding.

Ms. Jimenez thought a master's degree in business administration from the Massachusetts Institute of Technology and an undergraduate degree from Columbia University would give her the academic credentials for fundraising to go "fast and big" when she started seeking outside investors in 2014 for her startup, LaborX, which matches job

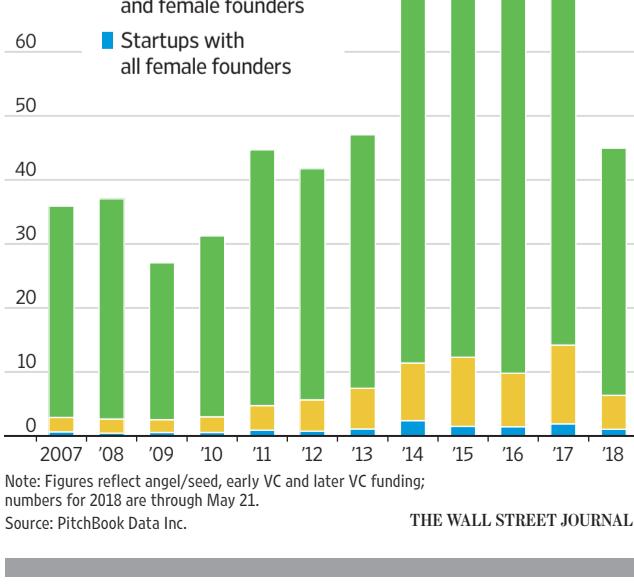
color and women.

Still, there has been some progress. The persistent spotlight on the tech industry's overall lack of diversity and a string of sexual-harassment scandals have prompted several top venture-capital firms to start changing. Over the past year, at least half a dozen firms, including **Benchmark** and **Union Square Ventures**, have added a woman to their partner ranks for the first time. And groups like **Founders for Change**, whose membership has ballooned to more than 700 startup founders since it formed in March, are keeping up the pressure on VC firms to diversify their ranks. In a pledge, the group's members say the diversity of a VC firm will be an "important consideration" when they decide who to accept money from.

Then there are the smaller firms, like Backstage, Plexo and others that have emerged in recent years, formed specifically to fund those the venture industry has largely neglected.

Others, like Jyoti Bansal, co-founder of the \$160 million seed fund **Unusual Ventures**, are simply determined to be open to all potential investments. "We are completely agnostic to what your background is," says Mr. Bansal. "If you look like Mark Zuckerberg and you have a great idea, we welcome you. If you don't look like Mark Zuckerberg and you're not a white guy who went to Harvard, we still welcome you."**Ms. Koh is a Wall Street Journal reporter in San Francisco. Email her at [yoree.koh@wsj.com](mailto:yoree.koh@wsj.com).**

## HOW THE LIST WAS COMPILED

The Tech Companies to Watch list is based on nominations from technology watchers, and a data analysis of nominees in these areas: founders' experience, investor track record, amount of venture capital raised, growth of workforce, and buzz about the company. These five factors were given an equal weighting. Companies were included in the data analysis only if they were founded from 2013 to present and had a valuation of \$50 million to \$500 million. Data sources include the companies, Dow Jones VentureSource, Dow Jones Factiva and CrowdTangle. Nominations were based on an online survey conducted by the Harris Poll among company executives and others who make technology purchasing decisions for businesses, as well as a survey of readers of certain Wall Street Journal publications and attendees of Journal technology conferences. See the full methodology at [wsj.com/techlist](http://wsj.com/techlist).

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## JOURNAL REPORT | TECH COMPANIES TO WATCH

# Success Strategies of Rising VC Firms

## Index Ventures and Lightspeed Venture

### Partners have invested in several companies on the WSJ list

BY KATIE ROOF

STARTUPS MAY have high rates of failure, but some venture-capital firms have a knack for picking winners.

Silicon Valley mainstays like Sequoia Capital, Benchmark and Accel have long commanded reputations for producing top-tier investment returns over the course of decades. Now several other firms are making their way into the upper echelons of venture capital.

One of those is **Index Ventures**, based in London and San Francisco, which in recent weeks has seen several of its portfolio companies get acquired, go public or announce plans to go public. For one, digital-payments processor **Adyen BV** has said it is gearing up for an initial public offering in Amsterdam this month. Index Ventures also invested in **Dropbox Inc.** and **Zuora Inc.** long before their recent IPOs; as well as **iZettle AB**, which was acquired by **PayPal Holdings Inc.** in May for \$2.2 billion.

Three of Index's portfolio companies are on this year's Tech Companies to Watch list: **Eero Inc.**, a high-speed home Wi-Fi system; **Nauto Inc.**, which makes systems to assess how drivers interact with the road; and

**Spoke**, which has developed a chatbot for companies to handle employee IT and human-resources requests. In addition, Index has invested in **Hollar Inc.**, an online dollar store that was No. 1 on last year's list.

**Lightspeed Venture Partners**, Menlo Park, Calif., has stakes in two companies in this year's Journal 25: **Exabeam Inc.**, for security analytics; and **Kespry Inc.**, an industrial drone company. And it also has invested in Hollar and another company from last year's list, **Branch Metrics Inc.**, which helps businesses with mobile app technology.

Lightspeed has notched some notable exits lately as well. Former Lightspeed portfolio companies **Nutanix Inc.**, **Stitch Fix Inc.** and **Snap Inc.** are a few of the names that went public in the past two years. Lightspeed also backed **MuleSoft Inc.**, which went public in 2017 only to be acquired a year later by **Salesforce.com Inc.** for \$6.5 billion. And there was **AppDynamics Inc.**, which was bought by Cisco Systems Inc. for \$3.7 billion just hours before its impending public debut.

Ravi Mhatre, a Lightspeed co-founder and managing director, says he looks for entrepreneurs with "a vision about how to fundamentally create a new market or meaningfully change it."



**Ravi Mhatre of Lightspeed Venture Partners looks for entrepreneurs with 'a vision about how to fundamentally create a new market or meaningfully change it.'**

Lightspeed partners, he says, evaluate every prospect to determine whether a "company can really become iconic and dominant in its space." They look for a growing customer base and a trajectory that puts it on a path to becoming the market leader.

And as many startup investors are quick to point out, it is not just about the business idea, but the personal qualities of the founders. Mr. Mhatre says Lightspeed spends time "trying to really understand the people we should believe in and get behind."

Mike Volpi, a general partner at Index Ventures, says the best entrepreneurs "have the personality to be able to overcome long odds." The most successful founders, he adds, are good at recruiting, leading, learning and have "a strong sense of self-determination."

And the best investors provide their portfolio companies with much more than just a check. Venture capitalists "have to help them through their journey," says Mr. Volpi. This can include finding and hiring the right executive team or "helping the company provide product market fit."

**Ms. Roof is a Wall Street Journal reporter in San Francisco. She can be reached at [katie.roof@wsj.com](mailto:katie.roof@wsj.com).**

LIGHTSPEED VENTURE PARTNERS

## Tales From the Startup World



KRISTINA KEYSER

'A business does not require funding, but it absolutely requires customers,' says Mr. Fishkin.

BY RACHEL FEINTZEIG

IN 2001, Rand Fishkin dropped out of college and joined his mother's marketing business. For seven years he was chief executive of the company, which eventually was christened **Moz** and focused on marketing software.

His tenure included ups and downs: The company enjoyed years of growth, expanded from a focus on search-engine optimization to other marketing tools, and raised \$18 million in 2012 and \$10 million in 2016. But Moz also poured time and money into a software product that ultimately flopped. In 2016 the company laid off more than a quarter of its staff and refocused on SEO exclusively.

Mr. Fishkin recently left Moz and founded a new company, **SparkToro**, which it says is building a software tool that helps companies find ways to reach potential customers. He has also written a book, "Lost & Founder," which offers an unvarnished look at the startup world.

Mr. Fishkin recently spoke with The Wall Street Journal about what he learned while at the helm of his first company. Edited excerpts follow:

### Funding vs. customers

**WSJ:** What is the biggest misconception about building a startup?

**MR. FISHKIN:** That you have to raise money. So many founders direct their efforts to building something that can get funding rather than building something that can profitably get customers. A business doesn't require funding, but it absolutely requires customers and balanced books and profitability. When you're optimizing for fundraising as opposed to profitability, your odds of success are dramatically worse.

**WSJ:** Tell me about your approach to raising money at Moz.

**MR. FISHKIN:** I did probably three relatively intensive

**MR. FISHKIN:** Maturity and experience are both missing. There's also a tremendous amount of perspective that startups miss out on by having this monoculture. They're mostly white and Asian men from mostly middle- and upper-class families who are between 20 and 35 years old. Startups miss out on making things for broader groups, because it turns out monocultures are poor at considering people who are not them.

**WSJ:** Why did you decide to give up the Moz CEO role?

**MR. FISHKIN:** At the time I was suffering from depression and getting feedback from my leadership team that that was having a really adverse effect on the company. Probably, in hindsight, it was the wrong decision.

**WSJ:** Why?

**MR. FISHKIN:** It didn't help with the issues I was experiencing. And I had not considered what should've been a really obviously smart alternative, which is to essentially say, "Hey, I'm not stepping out of the CEO role, but I am going to have the executive team report to our chief operating officer for at least the next six months, and I'm going to cut down on the things that I do." You're CEO, you can structure it how you want.

**WSJ:** Is startup CEO a dream job or a nightmare?

**MR. FISHKIN:** It depends on the person and the size of the company. For me, startup CEO was a dream job from two employees to about 50. By about 90 or 100 people, it became more nightmarish.

**WSJ:** Why didn't you like it as much when the company got bigger?

**MR. FISHKIN:** I really dislike when tribalism starts to form in companies. With your sub-50 size, people know your name, they give you the benefit of the doubt, they've worked with you personally, you've probably had lunch together at least once or twice. As opposed to: "Engineering, they're the worst." I hate the work that goes into managing that.

**Consider that early offer**

**WSJ:** What are the financial realities of startup life? You mentioned in the book you don't own a car, for example.

**MR. FISHKIN:** If you Google "Rand Fishkin net worth," you'll get to some website, which will estimate my net worth based on the valuation of Moz's last round and the amount of stock that my wife and I owned. That would give you a very nice number, maybe an eight-figure number, which sounds really exciting. In reality, I think we have, like, \$375,000 in sav-

ings. Which is wonderful. I'm very grateful for that. But it's real different than the eight-figure number. I did not have the money to bootstrap this next company.

**WSJ:** You still regret passing up a \$25 million offer from marketing software company HubSpot to buy Moz in 2011. Why do you caution businesses against passing up those early offers?

**MR. FISHKIN:** There's a mentality that gets amplified in Silicon Valley that founders are selling out too early and you should try to go for

something big. But a lot of founders could have generated wealth for themselves, their families and their employees. Moz's team at that time was small. A lot of those people would have made half a million dollars or more.

**WSJ:** What are you doing differently at SparkToro?

**MR. FISHKIN:** One of the biggest things is just setting it up so that I can maintain long-term control. I put together an unusual structure for our investment round. It allows the business to choose whether to reinvest in

growth or to pay dividends. It also does not give voting rights or create a board of directors or give investors the ability to replace the CEO.

The plan is to grow slowly and profitably over time rather than seek fast growth. I have my fingers crossed that if this company can do well, other people can look at this structure and say, "Oh wait. You can do that? Like, you're allowed to do that?"

**Ms. Feintzeig is a Wall Street Journal reporter in New York. Email her at [rachel.feintzeig@wsj.com](mailto:rachel.feintzeig@wsj.com).**



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