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EURO \$1.1720

YEN 109.79

What's News

Business & Finance

Job openings in the U.S. exceeded the number of job seekers this spring for the first time since such record-keeping began in 2000. A1

◆ **Facebook** struck data partnerships with Chinese companies, including Huawei, a firm U.S. officials view as a potential tool for spying. A10

◆ **U.K. regulators** approved Comcast's bid for Sky and gave a tentative green light to a rival offer from Fox. B1

◆ **OPEC and its allies** will consider China's store of oil in deciding whether to continue supply cuts, officials say. B1

◆ **The Nasdaq** rose 0.4% to 7637.86, a second consecutive record. The Dow slipped 13.71 points to 24799.98. B13

◆ **Connecticut** is issuing new debt that requires the state to limit spending and cap future borrowing. B1

◆ **SoftBank** is selling a 51% stake in the Chinese operations of U.K. chip designer Arm to a China-led group. B5

◆ **Australian regulators** charged ANZ, Citigroup and Deutsche Bank with cartel conduct in a 2015 fundraising. B12

◆ **The SEC** voted to allow electronic posting as the default method for disseminating mutual funds' shareholder reports, starting in 2021. B12

◆ **Banks and insurers** paid out some of the largest settlements in the past decade in lawsuits over wages, according to a new report. B3

◆ **The Wall Street Journal** named Matt Murray as its new editor in chief. He succeeds Gerard Baker, who will become editor at large. B2

World-Wide

◆ **China** offered to buy nearly \$70 billion of U.S. farm, manufacturing and energy products if the Trump administration abandons threatened tariffs. A1

◆ **Republicans** are ratcheting up their opposition to new tariffs that Trump advanced based on national security. A8

◆ **Mexico** published a list of retaliatory tariffs that it is placing on U.S. goods. A8

◆ **The administration** put its search for the Justice Department's No. 3 official on hold after failing to persuade several candidates to take the job. A1

◆ **Eight states held primaries**, a major step in setting the stage for the battle over control of Congress in the midterm elections. A5, WSJ.com

◆ **Social Security's costs** will exceed its income this year for the first time since 1982, forcing the program to dip into its trust fund. A3

◆ **The EU's top court** ruled that same-sex partners have the right to live in any country in the bloc. A9

◆ **David Koch** is retiring from his family-owned firm and all political organizations due to deteriorating health. A4

◆ **McConnell canceled** much of the Senate's August recess to work on spending bills and confirmations. A4

◆ **Senators cautioned** the administration about the risk of moving too quickly to ease pressure on North Korea. A8

◆ **USA Gymnastics officials** knew of sex-abuse allegations against Nassar, an ex-employee of the organization said. A3

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It's a Jungle Out There for California's Gubernatorial Candidates



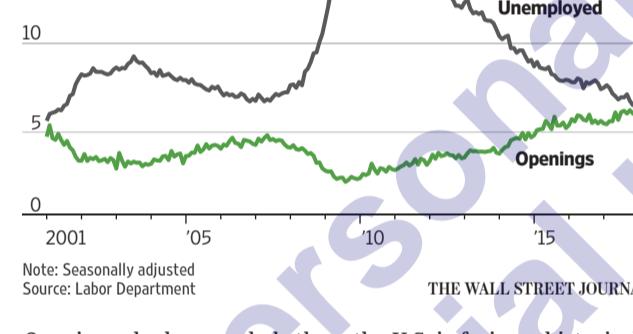
ON THE BALLOT: Three of California's more than two dozen gubernatorial candidates—clockwise, from top left, Republican businessman John Cox, Democrat Lt. Gov. Gavin Newsom and Democrat Antonio Villaraigosa, a former Los Angeles mayor—voted Tuesday. In the state's 'jungle primary,' the top two vote getters, regardless of party, will advance to a November runoff. Go to WSJ.com for election results.

U.S. Has More Jobs Than Jobless

By ERIC MORATH

Gap Closes

Level of unemployment and job openings in the U.S.



Note: Seasonally adjusted
Source: Labor Department

Openings had exceeded the available labor pool beginning in March, according to revised figures released Tuesday.

The data are the latest sign

the U.S. is facing a historically tight labor market. The shortage of workers is made more intense by the fact that a smaller share of U.S. adults are

in the labor force. That reflects everything from baby boomers retiring in greater numbers to students staying in college longer to opioid abuse preventing people from taking jobs.

The unemployment rate ticked down further in May to a seasonally adjusted 3.8%, the lowest since April 2000, the Labor Department said last week. The last time the rate was lower was in 1969, when young men were being drafted into the Vietnam War.

While the labor market has tightened there still is a greater share of workers than 18 years ago saying they are stuck in part-time jobs and

Please turn to page A5

◆ Heard on the Street: A reason jobs are tough to fill..... B14

Beijing Proposes A Deal On Trade

China says it will buy \$70 billion in U.S. goods if Trump drops threat of tariffs

China offered to purchase nearly \$70 billion of U.S. farm, manufacturing and energy products if the Trump administration abandons threatened tariffs, according to people briefed on the latest negotiations with American trade officials.

By Lingling Wei in Beijing and Bob Davis in Washington

In weekend talks in Beijing, Chinese negotiators led by Liu He, President Xi Jinping's economic envoy, presented a U.S. team headed by Commerce Secretary Wilbur Ross a package that includes Chinese companies buying more U.S. soybeans, corn, natural gas, crude oil, coal and manufactured goods.

Chinese and U.S. officials estimated the value of the package at nearly \$70 billion in the first year.

President Donald Trump has pressed China to commit to reducing the \$375 billion U.S. merchandise trade deficit with China by \$200 billion. Chinese officials are arguing their offer could go a long way toward meeting that target.

Throughout the negotiations, Mr. Liu made clear to Mr. Ross that the offer would be void if Washington proceeds with its plan to impose tariffs on \$50 billion of products made in China, the people

Please turn to page A8

◆ Mexico details tariffs on range of U.S. goods..... A8

Designer Kate Spade Dies at 55



FASHION FAVORITE: Kate Spade—whose handbags were a rite of passage for a generation of young, urban women—was found dead from an apparent suicide at her Manhattan apartment. A2

Facebook's Messy Split With WhatsApp Founders

They are walking away from \$1.3 billion after pressure to increase revenue

By KIRSTEN GRIND AND DEEPA SEETHARAMAN

How ugly was the breakup between Facebook Inc. and the two founders of WhatsApp, its biggest acquisition? The creators of the popular messaging service are walking away leaving about \$1.3 billion on the table.

The expensive exit caps a long-simmering dispute about how to wring more revenue out of WhatsApp, according to people familiar with the matter. Facebook has remained committed to its ad-based business model amid criticism, even as Facebook Chief Executive Mark Zuckerberg has had to defend the company before American and European lawmakers.

The WhatsApp duo of Jan Koum and Brian

Acton had persistent disagreements in recent years with Mr. Zuckerberg and Chief Operating Officer Sheryl Sandberg, who grew impatient for a greater return on the company's 2014 blockbuster \$22 billion purchase of the messaging app, according to the people.

Many of the disputes with Facebook involved how to manage data privacy while also making money from WhatsApp's large user base, including through the targeted ads that WhatsApp's founders had long opposed. In the past couple of years especially, Mr. Zuckerberg and Ms. Sandberg pushed

Please turn to page A10

◆ Facebook struck data deals in China..... A10

◆ Apple fires shots across Facebook's bow..... B4

Clash Over Album Notes Comes Calling

Inside one fan's lonely quest to alter rock history

By CAMERON MCWHIRTER

When the British punk band the Clash's acclaimed double-album "London Calling" came out in the U.S. in January 1980, Dave Marin rushed to buy it. The cover featured the famous image of rocker Paul Simonon smashing his bass guitar on stage.

Mr. Marin, then a college student, had been in that New York audience to witness rock star history. But as he read the album's liner notes, his heart sank. The photo was dated Sept. 21, 1979. He knew that was off-key: He witnessed the bashing and his ticket stub—which he still

Search Is Put on Hold For No. 3 Justice Aide

By SADIE GURMAN AND ARUNA VISWANATHA

The Trump administration has put its search for the Justice Department's No. 3 official on the back burner after failing to persuade several candidates to take the challenging position, according to people familiar with the matter, in the latest sign of the difficulties besetting the agency.

The department lacks permanent, politically appointed leaders to oversee at least five high-profile units, including the criminal, civil and tax divisions. And it has been a frequent target of attacks by President Donald Trump for what he claims are its shortcomings, including its handling of the probe into Russian interference in the 2016 election that he has repeatedly called a "witch hunt" and allegations of misconduct by the Federal Bureau of Investigation, which is part of the Justice Department.

On Tuesday, Mr. Trump took aim again at his attorney general, saying on Twitter that someone in the post other than Jeff Sessions could have avoided "so much time and money wasted, so many lives ruined" by the Russia probe, which is being led by special counsel Robert Mueller and overseen by Deputy Attorney General Rod Rosenstein.

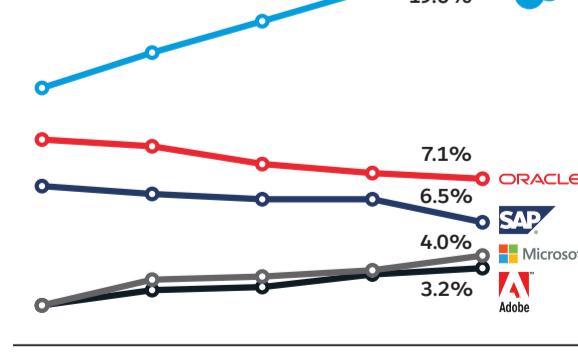
In the past week, Mr. Trump has tweeted about the Russia probe or the Justice Department more than 20 times. Mr. Sessions recused himself from the probe because he was a member of Mr. Trump's 2016 campaign, which is being investigated for possible collusion with Russia. Mr. Trump has denied any collusion.

Without any immediate candidate ready to sign on to the job of associate attorney general, the administration is instead focusing on other vacancies. Department officials say

Please turn to page A4

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

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CRM Applications market includes the following IDC-defined functional markets: Sales, Customer Service, Contact Center, and Marketing Applications. © 2018 salesforce.com, Inc. All rights reserved. salesforce.com is a registered trademark of salesforce.com, Inc., as are other names and marks.

U.S. NEWS

Designer Found Dead in Apparent Suicide

BY SUZANNE KAPNER
AND ZOLAN KANNO-YOUNGS

The fashion designer Kate Spade—whose sophisticated handbags with a touch of whimsy were a rite of passage for a generation of young, urban women—was found dead from an apparent suicide at her Manhattan apartment Tuesday morning.

The 55-year-old sold a controlling stake in her namesake brand 19 years ago, cut ties with it in 2007 and took time off from the fashion business to focus on raising her daughter. She returned to the industry in 2016, designing shoes and handbags under the brand name Frances Valentine.

Officials said the designer appeared to have hanged herself with a scarf in her Park Avenue apartment at about 10:20 a.m. and was found by her housekeeper. At a separate press briefing Tuesday, NYPD Chief of Detectives Dermot Shea said there was a suicide note at the scene.

Ms. Spade was married to her business partner, Andy Spade, who is the brother of actor David Spade. The couple's 13-year-old daughter wasn't home at the time of the incident, an official said.



The designer Kate Spade was found at her Park Avenue apartment by her housekeeper yesterday.

ers that had initially carried the line such as Bloomingdale's have dropped it.

The designer, born Katherine Noel Brosnahan in Kansas City, was one of six children. She met her husband as a student at Arizona State University, where she graduated with a journalism degree. "Andy and I met in a little clothing store" where they worked, Ms. Spade said in a 2016 interview with The Wall Street Journal.

The designer said she showed an early flair for fashion. "I would have my mother take me to vintage stores and wear leopard swing coats and cigarette pants," she said in the interview. "In Kansas City I looked very odd." She said she designs the way she shops. "If I love it, I buy it."

The couple moved to New York, and Ms. Spade started at Mademoiselle magazine as an assistant and worked her way up to fashion editor, she told NPR in a 2017 interview.

Ms. Spade said she felt handbags at that time were too complicated, and there was a dearth of bags with clean, simple shapes.

The couple debuted the

bags in bright-colored utilitarian shapes at a New York City trade show and landed just two buyers, leaving Ms. Spade in tears and convinced she should quit. When she went home and told Mr. Spade who the buyers were—the retailers Barneys New York and Fred Segal—he said, "No, keep it going," she recalled.

"It became a cultural phenomenon," said William McComb, Liz Claiborne's former chief executive, who said the brand resonated far beyond its size. Kate Spade had less than \$100 million in annual sales when Liz Claiborne bought it, he said. Mr. McComb oversaw the brand's expansion to include hundreds of retail stores and new product lines such as men's accessories, stationery and housewares. By the time Coach bought it last year, it had more than \$1 billion in annual sales.

Ultimately, though, growth of the Kate Spade brand lagged behind that of Coach and Michael Kors Holdings Ltd., its rivals in "affordable luxury" accessories.

—Sara Germano contributed to this article.

U.S. WATCH

NEW YORK

Weinstein Enters Not-Guilty Plea

Famed Hollywood producer Harvey Weinstein pleaded not guilty to sex-crime charges during a court proceeding that highlighted the challenges of trying a high-profile case under intense media attention.

A clerk in state Supreme Court in Manhattan asked Mr. Weinstein how he would plead to the charges, which are first- and third-degree rape and first-degree criminal sexual act. "Not guilty," Mr. Weinstein replied.

Justice James Burke set Mr. Weinstein's next appearance for Sept. 20. Mr. Weinstein is free on \$1 million bail.

During Tuesday's arraignment, Benjamin Brafman, an attorney for Mr. Weinstein, accused the "law-enforcement community" of being "prolific" in leaking information. He then mentioned a former New York Police Department official by name.

An NYPD spokesman didn't immediately respond to a request for comment.

Assistant District Attorney Joan Illuzzi said prosecutors weren't the ones "who went out to the courtroom steps and were talking about a casting couch."

After Mr. Weinstein's first court appearance, Mr. Brafman told reporters that Mr. Weinstein "did not invent the casting couch in Hollywood."

—Corinne Ramey

WHITE HOUSE

Worker Faces Charge Of Attempted Murder

A White House contract employee wanted on an attempted murder charge was arrested Tuesday as he came to work at the tightly regulated presidential compound, according to law-enforcement officials.

Martese Edwards, 29 years old, was expected to face extradition to Maryland, the officials said. It couldn't immediately be determined if he had a lawyer.

Secret Service officers arrested Mr. Edwards at a checkpoint outside the White House when he arrived for work. The Secret Service wouldn't say whether he was inside or outside the gates when he was arrested.

A photograph shot by the Washington Post showed a man in a suit, identified as Mr. Edwards, being escorted out of the Eisenhower Executive Office Building, the complex next to the White House that serves as home for much of the staff working for the president, including the National Security Council.

The Secret Service said Mr. Edwards' name turned up Monday in a criminal database as being wanted by authorities in nearby Prince George's County, Md.

White House officials declined to comment on Mr. Edwards' job, or to discuss how long he had worked there.

—Dion Nissenbaum

Splashdown in Texas to Beat the June Heat



TUBULAR TIME: The Guadalupe River offered a cool place to play Tuesday in New Braunfels, Texas, where temperatures neared 100.

Clash Over Album Notes

Continued from Page One

has—is dated Sept. 20.

"I've been stewing about this for more than 35 years," said Mr. Marin, now a 59-year-old retired salesman living in Pleasantville, N.Y. "That was my one and only guitar smash—I had a perfect view."

He regularly monitors Twitter and other social media for mentions of the Sept. 21 date and then sends proctoring messages correcting the record. Many recipients are glad to be enlightened, but some think Mr. Marin is marching to an odd tune—taken with an artifact of a bygone era, like the 8-track cassette.

Mr. Marin is a member of an informal coterie on a quest to amend album liner notes—information printed on covers, cases and sleeves of records and CDs.

Liner notes were pop culture mainstays, from a time when teens and college students spent hours in their rooms analyzing covers, lyrics and acknowledgments. The digital era muted that pastime; music is streamed over the internet to laptops, phones and other devices.

Liner-note purists refuse to move on. On online message boards, they trade intelligence about apparent bloopers in liner notes for albums by Frank Zappa, The Beatles and others.

Steve Hoffman Music Forums, based in California, and Black Cat Bone, a British music chat board, both have discussion threads on liner-note mistakes. Fans vent about typos, misspelled musicians' names, producers denied credit, vocals attributed to the wrong person, omitted capitalization, re-

versed photo images, missing songs, faulty song order and incorrect song length.

Frustrated liner-note monitors find that no matter how loudly they crow about the flubs to record companies and the artists themselves, their pleas fall on deaf ears.

Most people in a position to correct don't care or don't want to turn back the dial, especially since they won't be issuing a lot of albums and CDs in the future.

He followed up with an 11-minute, three-second YouTube video that showed ticket stub and recordings of the two Manhattan shows, one on Sept. 20 and one the next day, that Mr. Marin believes are being confused.

His video showed photographs of Mr. Simonon's bass guitars for each show—which don't appear to be the same—and footage of portions of the Sept. 21 show. He analyzed the band members' attire.

So far, the surviving members of the Clash, Ms. Smith and Epic Records, which released "London Calling" in the U.S. and is today owned by Sony Music Entertainment, have "shown absolutely no interest," despite his requests, Mr. Marin lamented.

He plans to persist until the date is changed on future re-

leases.

"It's my life goal," he said. Reached at the London bookshop she co-owns, Ms. Smith said Mr. Marin might be correct, but "I don't care what date it is."

Touring with the band was "completely madcap," she said, and she wouldn't immediately date every photo contact sheet she developed. Joe Strummer, the band's frontman, who died in 2002, picked the guitar-smashing photo, she said, for the cover.

"I don't know when the wretched thing was taken," she said.

Officials at Epic Records didn't respond to requests for comment. Mr. Simonon didn't respond to requests for comment. Other band members couldn't be reached.

Mr. Marin often quotes lyrics from the song "Crosseyed and Painless" by the Talking Heads, which he saw perform the same year he saw the Clash.

"Facts are simple and facts are straight."

Facts are lazy and facts are late.

Facts all come with points of view.

Facts don't do what I want them to."

CORRECTIONS & AMPLIFICATIONS

Joanne Anderson, an Oregon woman who won a lawsuit against Johnson & Johnson, is 68 years old. A May 29 Business News article about mesothelioma lawsuits against J&J incorrectly said she is 66.

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

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U.S. NEWS



Other states, including New Jersey, Mississippi and West Virginia are expected to soon join Delaware in offering sports betting.

Sports Betting Expands

Delaware is first state to add gambling on games since May's Supreme Court ruling

BY SCOTT CALVERT AND KATE KING

WILMINGTON, Del.—Shortly after 1:30 p.m. Tuesday, professional sports handicapper Tom Barton slapped down \$1,000 at the Casino at Delaware Park here, making him among the first people in the state to take advantage of a recent U.S. Supreme Court decision legalizing sports betting.

"One thousand dollars on the New York Yankees to win

the World Series," Mr. Barton shouted, drawing whoops from a casino teller wearing a striped referee jersey.

Delaware became the first state outside Nevada to allow bets on individual sports games, as its three casinos simultaneously launched full-scale sports gambling.

Several other states are expected to follow, hoping to tap new gambling revenue in a saturated casino market. The rush to cash in on sports wagering comes after the high court ruled last month in favor of New Jersey, which had challenged a 1992 federal law that had prohibited wagers on individual sports games in all states except Nevada.

The betting offered Tuesday

in Delaware included single-game and championship wagering on professional baseball, football, basketball and soccer.

Despite the hype, casino operators say expectations are modest. William Fasy, president of Delaware Park, said sports betting wasn't likely to be a big moneymaker. Still, he said he was "super excited" because of the potential to entice more people to the casino and horse track.

The World Cup should attract a younger, more ethnically diverse crowd, he said. "And college football? It's going to be nuts on a Saturday" in the fall, he said, adding that he hopes those visitors will also play slots and bet on

horse races. The casino industry could use a boost. Delaware, like other East Coast states that were early to adopt casino gambling, has been hit hard by more recent competition from other states. Mr. Fasy said Delaware Park's slots revenue was 40% of what it was in 2006.

In New Jersey, lawmakers are set to hold final votes Thursday on legislation to regulate sports wagers.

Other states, including Mississippi and West Virginia, passed sports-betting legislation ahead of the Supreme Court decision, and officials in those states said they are working now to get regulations in place in time for football season.

Social Security to Tap Into Reserves

BY DAVID HARRISON

The Social Security program's costs will exceed its income this year for the first time since 1982, forcing the program to dip into its nearly \$3 trillion trust fund to cover benefits.

This is three years sooner than expected a year ago, partly due to lower economic growth projections, according to the latest annual report the trustees of Social Security and Medicare released Tuesday. The program's income comes from tax revenue and interest from its trust fund.

The trust fund will be depleted in 2034 and Social Security will no longer be able to pay its full scheduled benefits unless Congress takes action to shore up the program's finances. Without any changes, recipients then would receive only about three-quarters of their scheduled benefits from incoming tax revenue.

The report also said that

Medicare's hospital insurance fund would be depleted in 2026, three years earlier than anticipated in last year's report. Absent changes, the program then would be able to handle 91% of costs.

The nation's aging population is boosting the costs of Social Security and Medicare, while revenue gains lag due to slower growth in the economy and the labor force.

About 61.5 million people receive retirement or disability benefits from Social Security and 58.4 million receive Medicare.

The Social Security program works by using payroll taxes paid by workers and employers to pay for retirees' benefits. What is left over is invested in the trust fund. Interest earned is reinvested in the fund.

Over time, the trust fund has grown to nearly \$3 trillion. But long-running demographic trends threaten its finances. Last year, there were 2.8 work-

ers for every Social Security recipient, down from 3.3 in 2007.

Treasury Secretary Steven Mnuchin said in a statement that the Trump administration's efforts to cut taxes, reduce regulatory burdens and overhaul trade agreements would boost economic growth and generate new money for

The retirement program's reserves are now projected to be depleted in 2034.

the country's two largest entitlement programs.

Social Security consists of two programs, one for retirees and one for people who claim disability benefits.

The retirement program's reserves are projected to be depleted in 2034, a year sooner

than projected in last year's report.

The disability fund is expected to run out in 2032, as opposed to 2028 as forecast in last year's report. The program's financial health has improved in recent years as the growth in disability applications has fallen, the report said.

The tax cuts signed into law last year have slightly lowered Medicare and Social Security's projected revenue over the next few years. Lower income-tax rates reduced projected revenue from the taxation of Social Security benefits. That means less money flowing into both programs because that revenues is transferred to the trust funds.

President Donald Trump's decision to end a program offering young undocumented immigrants reprieve from deportation while allowing them to work also reduced anticipated tax revenue into the Social Security program, the report said.

Gymnastics Brass Knew of Abuse Claims

BY LOUISE RADNOFSKY AND REBECCA DAVIS O'BRIEN

WASHINGTON—A half dozen high-ranking USA Gymnastics officials were aware of sexual-misconduct allegations against team physician Larry Nassar during the year in which gymnasts' claims languished at the Federal Bureau of Investigation, a former employee of the organization told U.S. senators Tuesday.

Rhonda Faehn, who was fired in April as the women's program director for USA Gymnastics, presented a vivid picture of how the organization grappled with claims about Nassar after they were brought to Ms. Faehn's attention by a gymnast's coach in June 2015, according to her prepared statement and exhibits of internal communication.

Those claims against Nassar—who is now serving three effective life sentences after his conviction on sexual-abuse charges—have brought USA Gymnastics to the brink of collapse, toppling its leadership as well as that of Michigan State University and the U.S. Olympic Committee.

Steve Penny, who resigned as USA Gymnastics president and chief executive under pressure in March 2017, was at the committee hearing Tuesday afternoon, but he declined to answer

REBECCA COOK/REUTERS
Larry Nassar is now serving three effective life sentences.

questions. Robert Bittman, an attorney for Mr. Penny, said after he left the hearing that his client "has devoted his professional life to promoting the development of athletes at all levels in a safe and positive environment," was "repulsed" by Nassar's crimes and had opted not to speak at the hearing "while the matters that attempt to wrongly shift blame for Nassar's crimes remain open."

In her prepared remarks, Ms. Faehn—who was fired from USA Gymnastics last month in the middle of a training camp—laid out USA Gymnastics' internal grappling in the weeks and months after she reported Nassar to Mr. Penny. Ms. Faehn's firing came as part

of a broad restructuring at the group; she said at the time that athletes' welfare had been her "absolute top priority."

"My goal in immediately reporting complaints to my superior at USA Gymnastics was and always has been to protect and care for the athletes I served," Ms. Faehn said, adding that she was told regularly that the issue was being handled by law enforcement and that it was important for the investigation not to discuss it.

In one instance, in February 2016, some USA Gymnastics officials asked Nassar to be a guest speaker at the USA Gymnastics Congress, even though the doctor had been dismissed from the organization amid

complaints of possible sexual abuse. It doesn't appear that Nassar actually appeared at the congress.

Others at the top were looped in sooner than has been previously reported, according to Ms. Faehn. One email Ms. Faehn submitted to the committee indicates that Mr. Penny had told the top officials on the USA Gymnastics board, including then-chairman and 1984 Olympic hero Peter Vidmar, and several key employees about the complaints against Nassar by July 2015.

Mr. Vidmar announced in December 2015 he was stepping down as chairman to serve as a Mormon mission in Australia. He hasn't responded to requests for comment.

USA Gymnastics has long maintained that officials reported concerns about Nassar to law enforcement in 2015 and were told they shouldn't say anything to avoid jeopardizing investigators' efforts.

Lou Anna Simon, the former president of Michigan State University, which employed Nassar as an osteopathic physician, has submitted testimony and is also expected to appear. Scott Blackmun, the former head of the USOC, and Martha Karolyi, who retired as national coordinator for the women's team after the 2016 Rio Games, sent written testimony.

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U.S. NEWS

David Koch to Retire From Politics, Firm

Billionaire businessman, influential Republican stepping aside amid deteriorating health

By JULIE BYKOWICZ

WASHINGTON—Billionaire businessman David Koch, who along with his brother has used his fortune to help reshape Republican politics, is retiring from his family-owned company and all political organizations.

A letter to **Koch Industries** Inc. employees from Chairman and Chief Executive Charles Koch on Tuesday attributed his brother's decision to deteriorating health. The letter cites an undisclosed health issue that put him in the hospital in the summer of 2016.

"We are deeply saddened by this, as we miss David's insightful questions and his many contributions to Koch

Industries," the letter says, according to a copy reviewed by The Wall Street Journal.

David Koch, 78 years old, has long served as vice president of Koch Industries and been active in Republican politics, conservative organizations and philanthropic groups. At the center of the Koch brothers' political influence is their network of like-minded, typically libertarian or conservative, wealthy GOP donors.

The pair's network grew from 12 people at their first conference in 2003 to more than 550 at a retreat this year near Palm Springs, Calif. Each attendee gives at least \$100,000 annually to fund scholarships, startup-company investments, institutions and political and policy groups.

Most policy and political operations are conducted through Americans for Prosperity and Freedom Partners. James Davis, spokesman for Freedom Partners, said in Jan-



TRAVIS HEYING/THE WICHITA EAGLE/ASSOCIATED PRESS

David Koch and his brother Charles helped fuel the tea party.

uary that such groups planned to spend as much as \$400 million in 2017 and 2018 to help elect Republicans and promote policy issues such as free trade and the tax legislation signed into law late last year.

David has contributed greatly to Koch Industries and improving people's lives in

this country," said Steve Lombardo, chief communications officer for Koch Industries.

The company is one of the country's largest private corporations, employing more than 120,000 people across 60 countries, according to its website. It operates refineries and manufactures paper tow-

els, carpets and other products.

The Kochs' activism and campaign spending have long made them political lightning rods. Democrats and their allies have pointed to the Koch brothers in pushing for limits on such spending. In his Democratic National Convention speech in 2016, Sen. Bernie Sanders (I., Vt.) argued that wealthy donors such as the Koch brothers "spend hundreds of millions of dollars buying elections and, in the process, undermine American democracy."

David Koch's political involvement traces back to his stint as a vice-presidential candidate on the 1980 Libertarian Party ticket. After starting the seminar group in 2003, Charles and David Koch became a force in Republican politics. Through contributions to Americans for Prosperity, they helped fuel the tea-party movement during

then-President Barack Obama's first term.

"This is a huge loss for us," said Tim Phillips, long-serving president of Americans for Prosperity.

Koch groups made opposing and then repealing Mr. Obama's health-care legislation their signature issue in recent years.

They have quietly opposed many of President Donald Trump's statements, particularly about immigration, and didn't directly contribute to his 2016 presidential run. On Monday, Koch-backed groups announced a multimillion-dollar campaign to oppose Mr. Trump's tariffs on imports.

David Koch was diagnosed more than two decades ago with prostate cancer and has since "made it his mission to help find a cure for prostate cancer in his lifetime," according to his biography.

—Alexandra Bruell contributed to this article.

McConnell Wants Senators At Work on Issues in August

By KRISTINA PETERSON
AND NATALIE ANDREWS

WASHINGTON—Majority Leader Mitch McConnell canceled much of the Senate's August recess, saying the chamber will remain in session to work on spending bills and confirming nominees.

Tuesday's move is unusual during a midterm-election year, when lawmakers typically spend more time in their home states to campaign.

Mr. McConnell (R., Ky.) blamed Senate Democrats, saying they had delayed confirmation of President Donald Trump's nominees. Senate rules allow nominees to be confirmed with a simple majority, and Republicans control the chamber 51-49. But Mr. McCon-

nell has criticized Democrats for not waiving procedural votes on the nominations, eating up precious floor time.

"Due to the historic obstruction by Senate Democrats of the president's nominees, and the goal of passing appropriations bills prior to the end of the fiscal year, the August recess has been canceled," Mr. McConnell said in a statement. "Senators should expect to remain in session in August to pass legislation, including appropriations bills, and to make additional progress on the president's nominees."

Not all senators were looking forward to staying in Washington during August. "It plays into a false narrative that we haven't done anything, so I disagree with the decision," said Sen. Susan Col-

lins (R., Maine).

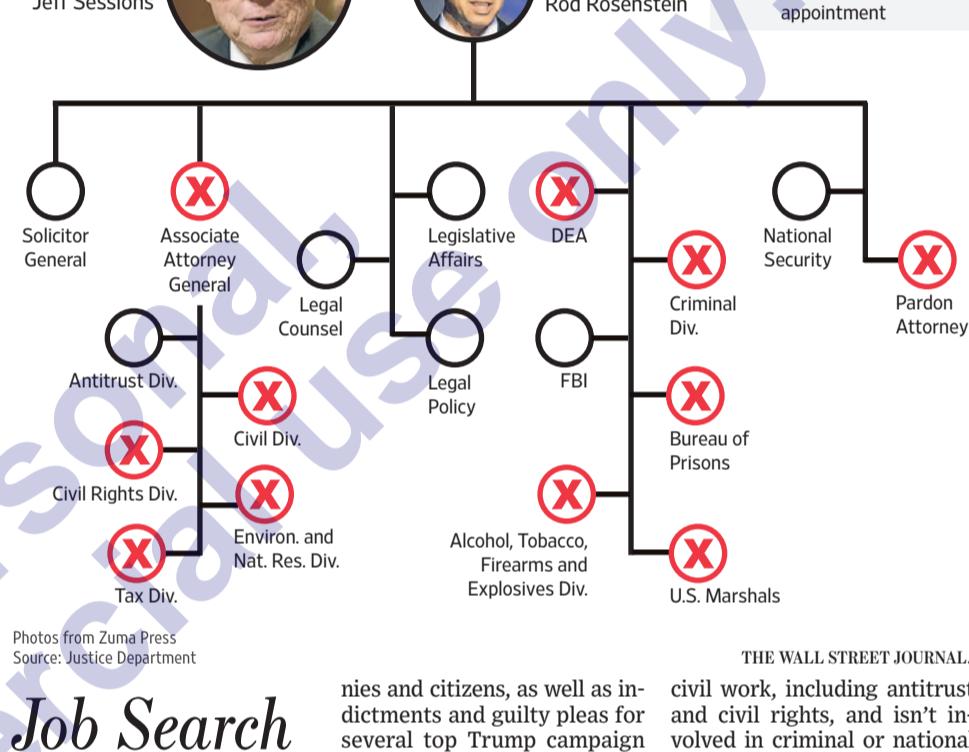
Senators are now expected to go to their home states for the first week of August before returning to Washington for the rest of the month. That may pose political problems in particular for the group of vulnerable Senate Democrats who are up for re-election in states that Mr. Trump won in 2016 and will now have less time to campaign at home.

Democrats said they would use the additional time in Washington to press Republicans to pass legislation lowering the cost of health-care premiums.

Senate Minority Leader Chuck Schumer (D., N.Y.) argued Democrats would benefit politically from the extra time they will devote to health care, a core issue for many voters.

Lacking Leaders

The Justice Department is operating without Senate-confirmed leaders over many of its important divisions. Officials say that has kept the department from fully implementing its agenda.



THE WALL STREET JOURNAL.

Job Search At Justice Is on Hold

Continued from Page One
the delays have strained resources and limited the agency's ability to fully enact and implement new policies.

The Justice Department declined to comment. The White House didn't respond to a request to comment.

The associate attorney general position could be particularly important in the context of the Russia probe.

If Mr. Rosenstein were to depart—he also has been criticized by the president—the associate would potentially oversee Mr. Mueller. If the No. 3 position remains unfilled, that task would likely fall to Solicitor General Noel Francisco, whose usual job is arguing before the Supreme Court.

Some Justice Department nominees have been awaiting Senate confirmation for months. The heads of the criminal and civil-rights division were named a year ago but haven't been scheduled for a Senate vote, an unusual delay when the White House and Senate are controlled by the same party.

One factor in the slow pace is lawmakers' concerns related to Mr. Mueller's investigation, with Democrats pressing nominees about how they would handle the probe should they become involved in it and some Republicans making other demands of the department before committing to a vote.

The situation at the Justice Department is emblematic of the administration's broader struggle to see nominees confirmed.

Senate Majority Leader Mitch McConnell (R., Ky.)

on Tuesday canceled the August recess, in part to "make additional progress on the president's nominees."

Anyone nominated as associate attorney general would likely face the same protracted confirmation process, with a Senate hearing dominated by questions about the Russia probe, which has returned indictments of Russian compa-

nies and citizens, as well as indictments and guilty pleas for several top Trump campaign advisers on charges including tax and bank fraud and lying to law enforcement.

Officials have informally approached at least three potential candidates for the post, including attorneys Helgi Walker and Kate Todd, who said they wouldn't be interested in taking on the job right now, according to the people familiar with the matter. Both declined to comment.

The Justice Department declined to comment. The White House didn't respond to a request to comment.

The associate attorney general post has been filled by an acting official, Jesse Panuccio, since February, when Rachel Brand left to take a top legal job at Walmart Inc.

Although skilled, acting officials may be reluctant to set long-term priorities, and they "may not be able to bring to bear the same weight and full legitimacy to the making of difficult decisions as can a Senate-confirmed official," said Peter Keisler, who served as acting attorney general under Mr. Bush. "That's not ideal for either the department as an institution or the country," Mr. Keisler added.

The associate attorney general oversees the department's

civil work, including antitrust and civil rights, and isn't involved in criminal or national security matters. But the post is third in line at the department, so that person would become acting attorney general if the top two officials were unavailable.

Whoever takes on the associate's job would do so at a time of intense political pressure on the department from Mr. Trump and his allies.

Mr. Trump remains angered by Mr. Sessions' decision to recuse himself more than a year later, and has never been able to put it behind him and forgive his attorney general, people close to the White House said, though they said it was unlikely for now that Mr. Trump would take any action to remove him.

The president also expressed frustration on Tuesday with the pace of a Justice Department inspector general report on the handling of a 2016 probe into Hillary Clinton's email use, which is nearing release. Former FBI Director James Comey had overseen that probe. Mr. Trump fired Mr. Comey last year, a move that led directly to Mr. Mueller's appointment.

"What is taking so long with the Inspector General's Report on Crooked Hillary and Slippery James Comey," Mr. Trump tweeted. "Numerous delays. Hope Report is not being changed and made weaker! There are so many horrible things to tell, the public has the right to know. Transparency!"

—Rebecca Ballhaus and Peter Nicholas contributed to this article.

Trump, Accuser To Be Deposed

A New York judge on Tuesday ordered President Donald Trump and a woman claiming he made unwanted sexual advances to be deposed by the end of January in a defamation lawsuit that the president's lawyers say shouldn't be heard while he is in office.

Justice Jennifer Schechter, who weeks earlier ruled that the case shouldn't have to be delayed to accommodate a sitting president, set a schedule

for depositions in a case brought by Summer Zervos, a former contestant on "The Apprentice."

Ms. Zervos has said Mr. Trump groped and kissed her without consent about a decade ago. After Mr. Trump suggested on Twitter, at campaign rallies and during presidential debates that her story was a "hoax" ginned up for attention, Ms. Zervos sued, claiming he had "debased and denigrated" her with false statements. The president has said her lawsuit has no merit and has denied the sexual-misconduct accusations.

—Jacob Gershman

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Paul Fredrick

U.S. NEWS

GOP Gets Backing For Votes On Border

BY NATALIE ANDREWS

WASHINGTON — Republicans edged closer to forcing a series of immigration votes, as some Democratic lawmakers who held out over policy and political concerns signed on to the effort.

On Tuesday, two Democratic holdouts, Texas Reps. Filemon Vela and Vicente Gonzalez, announced they would sign, leaving three signatures needed to force a vote using a procedural tool called a discharge petition to circumvent House GOP leaders and compel votes on four immigration measures on the House floor.

In all, 23 House Republicans and 192 Democrats—all but Texas Rep. Henry Cuellar—have signed on to the bipartisan immigration push. The petition would set up votes on four proposals, some of which contain border-security funding. Under the procedural maneuver, the plan with the most votes over 218 would pass.

Some Democrats are worrying they may be handing vulnerable Republicans a win ahead of the midterm election.

"I think that right now they are getting all of the benefits of acting like they're doing something on immigration reform and helping DACA without actually putting a bill forward for a vote," said Rep. Jimmy Gomez (D., Calif.).

The centrist Republicans pushing for the votes are among those who face the most competitive races in November and who hold seats Democrats have called must-wins in the effort to win back control of the House. Leading the cause are Republicans in districts that Democratic presidential nominee Hillary Clinton won in 2016, such as Reps. Jeff Denham (R., Calif.) and Will Hurd (R., Texas).

Eight States Hold Primary Elections



AT THE POLLS: Voters cast their ballots in Dubuque, Iowa, Tuesday, Iowa and seven other states, including most notably California, held primaries, a major step in setting the stage for the battle over control of Congress in the midterm elections in November.

California's primaries on Tuesday—a system that allows the top two vote getters to advance, no matter their party—could leave Democrats without a candidate in some House races in November. Other states offer multiple opportunities for Democrats to pick up GOP House seats.

State	GOP-held seats				
	1st	5th	6th	7th	17th
Pa.	1st	5th	6th	7th	17th
N.J.	2nd	3rd	7th	11th	
Va.	2nd	5th	7th	10th	
Fla.	18th	26th	27th		
Ill.	6th	12th	14th		
N.Y.	11th	19th	22nd		
Texas	7th	23rd	32nd		
Iowa	1st	3rd			
Kan.	2nd	3rd			
Mich.	8th	11th			
Minn.	2nd	3rd			
N.C.	9th	13th			
Ohio	1st	12th			
Wash.	5th	8th			

Note: Only states with multiple competitive districts shown. Ten other states have one competitive district. California has five Republican seats listed as toss ups before Tuesday's primary.

Source: Cook Political Report

Incumbent in Alabama Forced Into Runoff

BY REID J. EPSTEIN

WASHINGTON—Alabama

Republicans punished GOP Rep. Martha Roby for her disavowal of President Donald Trump during the 2016 campaign, forcing the four-term incumbent into a primary runoff to retain her seat.

Alabama was one of several states to hold primaries on Tuesday. While the outcome there showed promise for a GOP insurgent candidate, Iowa Democrats chose a mainstream standard-bearer to run in a congressional district in Des Moines, rejecting a Bernie Sanders acolyte who was running there.

The Associated Press declared Ms. Roby will face a July runoff with former Rep. Bobby Bright, who emerged from four Republican challengers

ers who each campaigned attacking Ms. Roby for being disloyal to the president.

Mr. Bright had represented the southeast Alabama district as a Democrat before losing to Ms. Roby in 2010.

In his TV ads, he called himself "a true supporter of President Trump" and replayed two-year-old footage of Ms. Roby calling for Mr. Trump to drop out of the 2016 presidential campaign after video emerged of the former reality-show star bragging about groping and kissing women without their consent.

"Donald Trump's behavior makes him unacceptable as a candidate for president, and I won't vote for him," she said then.

Ms. Roby won re-election in 2016 with just 49% of the vote in a district Mr. Trump carried

with 65% support. A Tea Party-aligned write-in candidate received 11% of the vote.

During this year's campaign, Ms. Roby touted her "working relationship" with the Trump administration.

Rep. Martha Roby during the campaign touted her relationship with the administration.

Both candidates could have steep challenges in the runoff.

Ms. Roby will have to persuade a portion of the Republicans who rejected her in Tuesday's primary to change their minds about her candidacy.

Meanwhile, Mr. Bright will

have to defend his own past endorsements of President Barack Obama and his vote to make Nancy Pelosi House speaker in 2009 before he switched parties.

The Cook Political Report rates the district "safe Republican." Democrats nominated Tabitha Isner, a minister.

Elsewhere, in a closely watched House primary in Iowa, Pete D'Alessandro, who had the full-throated support of Mr. Sanders, placed a distant third.

Mr. D'Alessandro becomes the latest Sanders-backed Democratic primary candidate to lose to candidates favored by the party's establishment. Just one of five House candidates endorsed by Mr. Sanders has prevailed in competitive primaries this year.

Mr. D'Alessandro lost to

Cindy Axne, a small-business owner and former state government official, who had support from the abortion-rights group Emily's List. Ms. Axne defeated both Mr. D'Alessandro and Eddie Mauro, an insurance executive.

In New Jersey, Democratic Sen. Robert Menendez turned back a surprisingly stiff challenge from Lisa McCormick, a weekly newspaper publisher whose campaign was so threadbare it didn't submit fundraising data to the Federal Election Commission.

In 2015, Mr. Menendez was indicted on federal corruption charges. The case ended in a mistrial due to a deadlocked jury and prosecutors earlier this year declined to try it again. Mr. Menendez insisted he was innocent throughout the ordeal.

Openings Exceed Jobless

Continued from Page One
others who feel they are working below their skill level.

The labor market is forcing employers to rethink their approach to hiring, said Terri Greeno, owner of an Express Employment Professionals office in Crystal Lake, Ill. She is asking clients if they are being realistic in their demands for workers with clean criminal histories and higher levels of education.

"Is it a health and safety issue? If not, you have to ask if those demands are really related to the outcome on the job," Ms. Greeno said. "When the unemployment rate is this low, you're really competing for workers who already have jobs."

Her staffing firm is taking extra steps to fill light industrial and office jobs, reaching out to 45,000 people it has placed in positions in the past 15 years and asking if friends or family would be willing to take on work.

"This is a very tight labor market," said Adam Kamins, a senior economist at Moody's Analytics. "Most everyone who wants a job has one."

For workers, that is good news. On the other hand, a tighter labor market presents several challenges to businesses and the overall economy. If they can't find work-

ers to meet the demand for their products or services, they can't expand and help the economy grow. They may instead opt to close their restaurant early or not run a third shift at their factory.

Businesses may need to pay more to attract workers, as some already are. That raises costs and will cut profit margins if higher prices can't be passed on to customers. If prices are raised, that stokes stronger inflation, which already has been accelerating in recent months.

Federal Reserve policy makers are watching closely. Emergence of worker shortages and stronger inflation could signal the economy is overheating,

The labor market is forcing employers to rethink their approach to hiring.

raising the need to lift interest rates more aggressively than the slow, moderate path they have signaled.

For now, the strong job market is opening up possibilities for those who have struggled in recent years. Jeremy Mincey, 26 years old, had bounced between temporary jobs since dropping out of college seven years ago, working at factories, fast-food restaurants and even as a shopping mall Easter Bunny. He would often go months between paychecks.

Earlier this year, he landed a temporary job as a saw oper-

ator at Williams Metals and Welding Alloys in Birmingham, Ala. Last month, the company asked him to take a full-time position with health benefits and retirement savings.

"I feel like I broke the cycle," he said.

There are, however, still an elevated number of Americans who are stuck in part-time jobs and would prefer full-time work. And others are employed but not in the jobs they want.

Those include John Matous, a 38-year-old who works at a McDonald's in Mason City, Iowa. He is an Army veteran with an associate degree in medical administration from a local community college. He would like to work at doctor's office but so far has been turned down.

"I just need a chance to prove myself," he said.

Meanwhile, the share of Americans who are working or seeking work has generally declined for almost two decades. That gives employers fewer potential workers to draw from, but also suggests there remain hundreds of thousands of people who could be drawn back into the labor force.

They may be waiting for better wages. Hourly pay for nonsupervisors rose 2.8% in May from a year earlier, the best annual gain since mid-2009. But the last time unemployment was this low, wages for those workers rose 3.9% from a year earlier.

The largest number of April job openings, 1.3 million, were in the broad business-services sector, which includes everything from accountants and software developers to temporary staffers and clerical workers.

There were also ample job openings in some of the lowest-paying fields, such as 844,000 hotel and food-service jobs in April and 735,000 unfilled retail positions.

To attract workers, the Saladworks restaurant chain has raised its starting wages about 5%. It also has relaxed standards on tattoos and piercings, allowed employees to wear jeans and bandanas and become more flexible about schedules. "If you tell someone they can't have Friday off for prom, they'll quit," Chief Executive Patrick Sugrue said. "They know they can find another job on Monday."



SPENCER PLATT/GETTY IMAGES

The U.S. unemployment rate fell in May to a seasonally adjusted 3.8%, its lowest level since April 2000.



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WORLD NEWS

Nicaragua Political Crisis Turns Violent

Confrontation with Ortega chills economic activity and clouds prospects for peace

By JUAN MONTES
AND JOSÉ DE CÓRDOBA

MANAGUA, Nicaragua—A surge of violence has snuffed out economic activity and dimmed prospects to peacefully resolve a political crisis here that began as a protest against tax increases and turned into a revolt against Nicaragua's longtime leader Daniel Ortega.

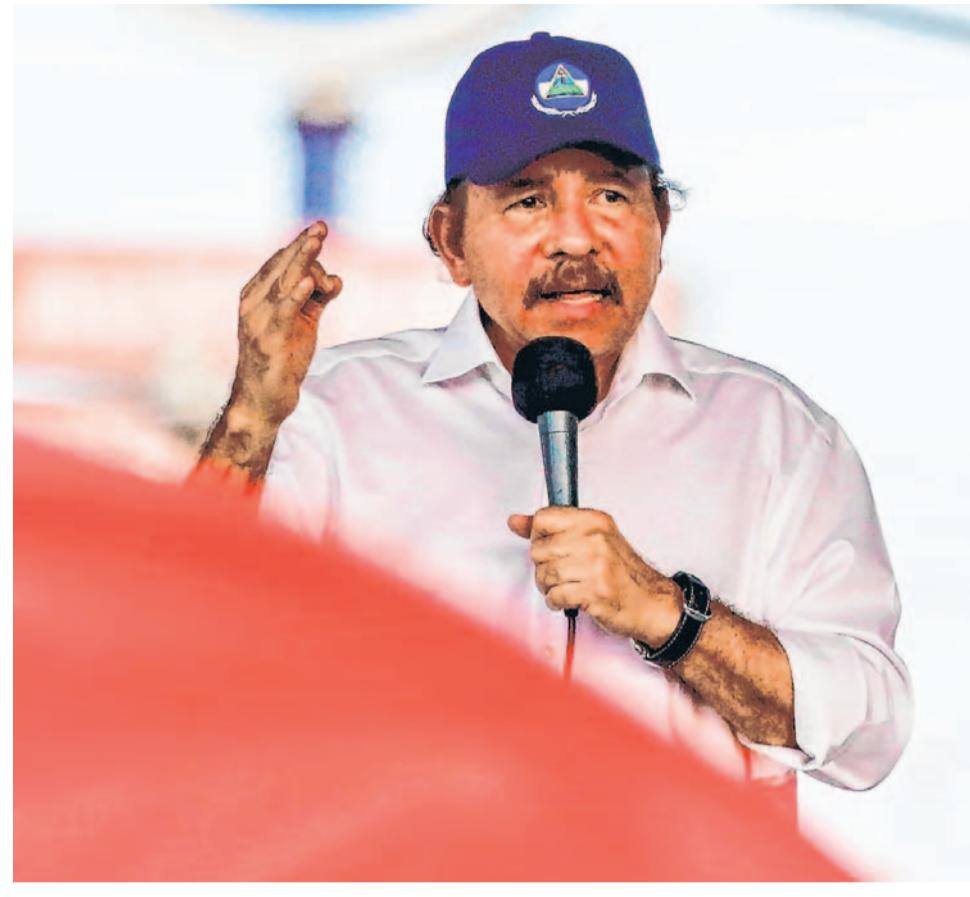
Since mid-April, more than 100 people have been killed in confrontations with police during mass protests and what human-rights groups say are paramilitary gangs aligned with Mr. Ortega's government.

Among them were 15 people killed at a peaceful Mother's Day protest march last month in Managua and 11 people by paramilitary groups and police in the predominantly indigenous city of Masaya this past weekend, including a 15-year-old protester who witnesses say was executed by a policewoman.

On Tuesday, violence flared in the quaint colonial city of Granada, home to hundreds of American retirees.

"We are going through very dark days," said Humberto Belli, a former education minister. "The people are out in the street demanding that Ortega leave, but he has shown an unexpected ability to kill. We see more blood every day—three, four, five people killed on a daily basis. This has no end."

The Organization of American States on Tuesday approved a mildly worded resolution calling for an immediate end of the violence and asking all parties to participate in peaceful dialogue. The resolution, co-sponsored by the U.S. and Nicaragua, was much weaker than declarations



President Daniel Ortega, left, spoke at a rally on April 30. Above, mourners gathered Sunday at the funeral of a 15-year-old who was allegedly shot by a police officer during an antigovernment protest.

made Monday by Secretary of State Mike Pompeo, who accused Nicaraguan police and armed pro-government groups of killing dozens of protesters.

It was a wishy-washy resolution, Nicaragua demands more urgent attention from the OAS than it's gotten," said Michael Shifter, president of the Inter-American Dialogue, a Washington-based think tank.

Nicaragua's government denies links to paramilitary groups and says the unrest is the result of an opposition plot to overthrow it. Police haven't addressed the alleged police shooting of the teen.

Nicaragua "is committed to stability amidst this wave of criminal violence generated by certain groups of the opposition which conspire from the darkness...to terrorize families," Luis Alvarado, Nicaragua's represen-

tative to the OAS, said Monday.

Mr. Ortega, a former guerrilla leader who played a central role in the overthrow of the Somoza family dictatorship in 1979, was re-elected by a landslide in 2016 after 16 years out of power. He ran largely unopposed after maneuvering to ban any real contenders.

Until the recent spate of violence, Nicaragua had enjoyed far lower levels of violent crime than its Central American neighbors El Salvador and Honduras. Mr. Ortega also had been able to deliver high economic growth and apparent political stability. Most Nicaraguans appeared content or resigned to the quid pro quo—until now.

But many Nicaraguans say they are fed up with Mr. Ortega and his wife, the unpopular Vice President Rosario Murillo, who they say have

usurped democratic institutions and snuffed out political opposition. Government plans to confiscate large tracts of land to build a commercial waterway to rival the Panama Canal have cost the Ortegas rural support.

"Managua and the country are no longer calm. Ortega has to go now," said Claudia Guillén, a 19-year-old university student.

The country's capital of Managua, a sprawling city of modest malls, street vendors and office towers mixed with open pastures, is now largely deserted. Shops are closed and vandalized. Few people venture out at night. Walls are covered with graffiti calling Mr. Ortega a murderer. A group of police officers stand guard by a monument to the late Venezuelan leader Hugo

Chávez, erected by Mr. Ortega, after protesters tried to knock it down during recent demonstrations.

Throughout Nicaragua, barricades have sprung up, blocking roads and snarling traffic, and making the key Pan American highway that links many of the country's cities impassable. Tourism has hit hard, hotel managers say, with occupancies at major hotels plunging and some international airlines paring back flights.

"Economic activity has plummeted. People fear leaving their homes," said Pamela Vanega, a waitress at a restaurant in one of Managua's largest malls.

Analysts say the surge in violence has set back any hope of a peaceful resolution. A dialogue between Mr. Ortega's government and the opposition, sponsored by the influential Catholic Church, has been shelved. Nicaragua's business class, which until recently worked closely with Mr. Ortega, is demanding new elections.

"My sense is that the situation will continue to deteriorate and the government will continue its repression," said Eric Farnsworth, who heads the Washington office of think tank Council of the Americas.

One possibility, Mr. Farnsworth said: a civil insurrection in Masaya and other provincial

cities in a historical echo of the Sandinista revolution that overthrew the late dictator Anastasio Somoza.

Mr. Ortega has hunkered down, perhaps taking a page from Venezuela's beleaguered President Nicolás Maduro, who has survived an economic meltdown, deadly street protests and world condemnation. Few believe Mr. Ortega and Ms. Murillo will step down or agree to hold early elections.

Last month, in a tense confrontation with angry students at the opening of the now-suspended peace dialogue, Mr. Ortega recalled Nicaragua's history of 20th-century civil wars that left 50,000 dead. He warned students to put an end to the "irrational" and "diabolical violence that has exploded in our country." Mr. Ortega said his government held no political prisoners and that there are no protesters unaccounted for.

"That's because you killed them all," shouted one student.

One large question mark hanging over the regime's survival: can Mr. Ortega depend on the Nicaraguan army to defend him if called upon?

"The army is key," said Frank Mora, head of Latin American Studies at Florida International University. "It's not likely to repress if ordered to do so."

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WORLD NEWS

Senators Wary of U.S. Shift on Pyongyang

Members question whether North Korea is serious about giving up nuclear weapons

By JESSICA DONATI

WASHINGTON—U.S. senators cautioned the Trump administration about the risk of moving too quickly to ease pressure on North Korea ahead of a planned summit next week between President Donald Trump and leader Kim Jong Un.

Both Republicans and Democrats at a Senate hearing questioned whether Mr. Kim was serious about giving up his nuclear weapons, or simply initiating a process to buy

time.

"North Korea has not taken any concrete or verifiable steps," said Sen. Cory Gardner (R., Colo.), chairman of the Senate Foreign Relations Subcommittee on East Asia, the Pacific and International Cybersecurity Policy.

The White House last week said that it was holding off a fresh round of sanctions against North Korea to focus on preserving the summit between the two leaders on June 12 in Singapore.

Shortly afterward, Mr. Trump also scaled back his language and expectations, promising Friday to drop talk of "maximum pressure" on Pyongyang.

At the State Department, spokeswoman Heather Nauert

said Tuesday that U.S. and international sanctions remain in place and there have been no changes in U.S. policy.

"We remain committed to the complete verifiable, irreversible, denuclearization of the Korean Peninsula," Ms. Nauert said. "If you want to call that a hawkish thing or a dovish thing, fine, so be it, but our policy remains the same."

The comments came as the administration makes preparations for the approaching summit.

On Thursday, Japanese Prime Minister Shinzo Abe will visit the White House, where he is expected to urge continued pressure against North Korea.

Mr. Gardner questioned

witnesses—two former U.S. officials—on whether pressure already had eased on the North Koreans.

Joseph Yun, the former top U.S. diplomat for North Korea who retired earlier this year, said that Pyongyang already had halted weapons tests and appeared to have dismantled one facility.

"I don't think you can have serious engagement as well as maximum pressure," Mr. Yun told the subcommittee. "When your adversary takes a step, it is also up to you to take a step."

Former Bush administration negotiator Victor Cha told the panel it appeared that Mr. Kim had already started to benefit.

"I am concerned," Mr. Cha said, citing satellite imagery

that he said showed increased preparations in South Korea for more trade and aid.

"There are things that are already starting to be put in motion that are being presented as rewards to North Korea for the steps they've already taken."

Senators from both parties also voiced concerns about suspicions that Chinese enforcement of strict U.N. sanctions targeting North Korea's economy already had begun to slide, reversing months of tighter pressure by Beijing.

China has said that it has maintained enforcement of sanctions against North Korea. U.S. officials have said that while China is enforcing sanctions, it could do more.

North Korea's economy re-

lies heavily on China for critical imports such as oil. Chinese flag carrier Air China Ltd. said on Tuesday it was resuming flights to North Korea's capital, the latest indication of improving ties between the two countries after tensions over Pyongyang's nuclear ambitions.

Sen. Ed Markey (D., Mass.) said the U.S. needed to make clear that it was prepared to counteract any easing by China.

"While the Trump administration has said it has imposed max pressure, the truth is we haven't yet reached that level," he said. "North Korea must understand that even if China eases the pressure, we in Congress are ready to step in to tighten the screws."

Republican Resistance in Congress to Tariffs Grows

By SIOBHAN HUGHES
AND KRISTINA PETERSON

WASHINGTON—Republicans are ratcheting up their opposition to restrictive new tariffs that President Donald Trump advanced based on national security, with GOP lawmakers threatening legislation to rein in the White House.

Sens. Bob Corker (R., Tenn.) and Pat Toomey (R., Pa.) are pushing to attach to a must-pass defense authorization bill a measure to limit Mr. Trump's power to use the 1962 Trade Expansion Act to impose tariffs based on national security concerns.

The move on tariffs comes as the Republican president also faces headwinds from the GOP-controlled Congress on the administration's effort to cut nearly \$15 billion from the federal budget through a package of spending rescissions.

On trade, Republicans find themselves at an inflection point now that the administration has gone ahead with tariffs of 25% on steel and 10% on aluminum from U.S. allies, including Canada, Mexico and the European Union. The U.S. is also threatening additional tariffs on imported cars and parts.

"I would hate to see this great, booming economy, as a result of the policies of this administration, be squandered by a trade war," said Senate Majority Whip John Cornyn (R., Texas). "There's quite a bit of resistance to the tariffs, based not on the merits so much, as the fact that this is an unguided missile and the retaliation can occur in sectors that



President Donald Trump and U.S. Sen. Bob Corker, right, arriving in Tennessee earlier this year.

are vulnerable."

Enacting legislation to tie Mr. Trump's hands isn't the preferred option for Republicans, who have relied mostly on trying to persuade the president to step back from his most ambitious plans. But a temporary truce between the White House and Senate Republicans ended late last month when the White House allowed a series of tariff extensions to expire.

"When you can just name anything a national security issue, you undermine the whole trade-agreement process," said Mr. Corker, adding he didn't see how a new tariff on vehicle and auto-parts imports, for instance, would qualify as countering a national security threat. "That has been greatly abused and that's the reason I'm offering this legislation."

Mr. Corker's measure would require the president to submit

to Congress any proposal to adjust such import restrictions as tariffs or quotas in the interest of national security under Section 232 of the law, a person familiar with the matter said. The proposal would qualify for expedited consideration in Congress and the legislation would apply to restrictions imposed within the past two years and to all similar actions going forward, the person said.

White House officials didn't respond to a request to comment on the measure.

Republicans also suggest that, at a minimum, they need to conduct oversight of the administration's use of its national security authorities to impose import restrictions.

"We ought to go back and analyze the rationale behind national security being a reason for tariffs," said Sen. Chuck Grassley (R., Iowa).

Senate Majority Leader Mitch McConnell (R., Ky.) declined Tuesday to say whether he would permit a vote on the measure as an amendment to the defense legislation. The defense-authorization bill is expected to land on the Senate floor as early as Wednesday.

Mr. Corker pitched his proposal on Tuesday at a closed-door Senate Republican lunch, portraying the measure as narrowly tailored, lawmakers said.

China Offers U.S. Trade Deal

Continued from Page One

briefed on the talks said. That proviso could make the deal a non-starter in Washington, where the White House has said it plans to move ahead with the tariffs shortly after June 15 as a way to pressure China to make more sweeping changes in its economy.

The U.S. wants Beijing to stop putting pressure on U.S. companies to transfer technology to their Chinese partners and halt what the U.S. considers unfair subsidies and other aid to Chinese businesses that compete internationally for advanced technology.

Mr. Ross briefed Mr. Trump on the results of his weekend trade mission on Monday, and was discussing details of his trip with other U.S. trade officials, according to people familiar with the negotiations.

U.S. officials are skeptical of the Chinese offer for several reasons, said people involved with the talks. They argue that Chinese energy purchases would largely divert sales the U.S. would have made to other nations and so would have no overall impact on the U.S. trade deficit. They also aren't sure that the U.S. could ramp up agriculture production that quickly.

The White House said early last week that it would go ahead with the levies and other sanctions to restrict China's access to U.S. technology and punish Beijing for what the U.S. says are unfair trade practices.



Commerce Secretary Wilbur Ross in Beijing in November. Mr. Ross led talks in Beijing on Sunday.

Getting There

Beijing offered to purchase nearly \$70 billion in additional U.S. exports, which falls short of U.S. goals of reducing its trade deficit with China by \$200 billion.



Source: U.S. Census Bureau (trade in goods)

boost its imports of those goods, the people said.

The Chinese team also promised to get state-owned companies to buy more U.S. natural gas, though it could take some time for American suppliers to ramp up production. By potentially boosting Chinese imports of U.S. coal, Beijing is targeting states like Pennsylvania and West Virginia that are a key to the U.S. midterm elections, the people said.

But the offers didn't include a signed deal. "Nothing has firmed up yet," one of the people said, referring to the Chinese offers. "It would require additional rounds of discussions between the two sides."

In a tweet Monday, President Trump wrote: "Farmers have not been doing well for 15 years. Mexico, Canada, China and others have treated them unfairly. By the time I finish trade talks, that will change."

EAST AFRICA

Ethiopia Accepts Eritrea Peace Terms

Ethiopia said it fully accepts terms of a 2000 peace agreement with neighboring Eritrea in a step toward calming deadly tensions with its decadeslong rival.

The development came on a day of dramatic reforms, including an announcement that the nation will open up parts of state-owned enterprises in sectors such as energy, aviation and telecoms to private investment and others, such as railways and hotels, to full privatization.

Hours earlier, Ethiopia lifted a state of emergency in what a major reform initiated by new Prime Minister Abiy Ahmed, who has promised change after more than two years of antigovernment protests demanding greater freedoms.

But it was the prospect of peace with Eritrea that came as the biggest surprise. An agreement signed in 2000 ended a two-year border war that claimed tens of thousands of lives, but differences remained between the two countries. Ethiopia in particular had refused to accept the deal's handing of key locations, including Badme, to Eritrea and continues to control that town.

Ethiopia's ruling party now accepts that agreement without conditions and calls on Eritrea's government to do the same, the state-affiliated Fana Broadcasting Corporate reported.

—Associated Press

UNITED KINGDOM

Services Sector Picked Up in May

Activity in the U.K.'s dominant services sector picked up in May, adding to recent indica-

tions the U.K. economy is rebounding from a weak start to the year.

The economy slowed sharply in the first quarter, prompting the Bank of England to forgo a rise in its key interest rate at the May meeting.

However, officials signaled that they still expect to tighten policy if that slowdown proves to be short-lived, as they believe it will.

A survey of service providers carried out by data firm IHS Markit and the Chartered Institute of Procurement and Supply suggests some recovery is under way. Their measure of activity rose to 54.0 in May from 52.8 in April, its highest for three months. A reading above 50 indicates an expansion.

A similar survey of manufacturers released Friday also pointed to a May pickup.

—Paul Hannon



GRIEF: The coffins of seven victims of Guatemala's Fuego volcano were carried to a funeral. Officials said 75 bodies were recovered and 192 people are missing after the eruption.

WORLD NEWS

Gay Couples Win In Europe Ruling

BY VALENTINA POP

BRUSSELS—The European Union's top court issued a landmark ruling that same-sex partners have the right to live in any country in the bloc, even those that don't recognize gay marriage. The judgment is likely to deepen the discord between Brussels and socially conservative governments in Central and Eastern Europe.

The EU's law on freedom of movement allows EU citizens—and their spouses—to live freely anywhere in the bloc. In its highly anticipated decision, the court found that the term spouse is "gender-neutral and may therefore cover the same-sex spouse of an EU citizen."

The case was brought by Romanian citizen Adrian Coman, who married a U.S. national in Belgium, in 2010. Romania declined to grant Mr. Coman's husband, Claibourn Robert Hamilton, residence on the grounds that the country doesn't recognize same-sex marriage.

"We can now look any Romanian and EU civil servant in the eye and have the certainty that our family relationship is as valuable and as relevant irrespective of the EU country we live in," Mr. Coman said after Tuesday's ruling. "Today, human dignity prevailed."

In the EU, marriage laws are enacted at the national level. Of the EU's 28 countries, 22 allow

gay marriage, civil partnerships or both. While the court said EU governments remain free to decide whether to allow same-sex marriage or not, it said residence decisions shouldn't be stricter toward gay couples than heterosexual couples.

The Romanian government didn't immediately comment on the ruling.

The case has turned into a broader battle over the balance of powers between the EU and its national governments, putting the court—already a lightning rod for euroskeptic politicians—at the center of another fight over how much power the bloc's members must concede.

Decisions forcing Central and Eastern European countries to accept more refugees and allowing wealthier nations to cap welfare benefits for citizens from poorer EU nations have added to public resentment against the EU in Hungary, Poland and their neighbors.

At a court hearing in Luxembourg last year, the socially conservative governments of Hungary, Poland and Latvia argued in favor of Romanian authorities that the definition of marriage isn't an EU matter.

The Romanian national agency responsible for antidiscrimination laws, the Netherlands and the EU's executive body argued in favor of the couple.



Claibourn Robert Hamilton, left, with his husband, Adrian Coman.

Euro-Leery Italy Loses Faith in EU

BY GIOVANNI LEGORANO AND ERIC SYLVERS

ROME—Italy's new government is laying the groundwork to challenge Europe's financial orthodoxy and immigration rules, setting out a euroskeptic policy agenda in a country where public frustration with the European Union has supplanted once-broad support.

In his inaugural speech to Parliament on Tuesday, Prime Minister Giuseppe Conte said his government would push for a change of the rules underpinning the eurozone to spur growth and cut the country's massive debt, which he said austerity policies helped worsen.

"A new wind" is blowing in Italy, said Mr. Conte, who heads a government supported by the maverick 5 Star Movement and the hard-right League, which have come out strongly against the eurozone's limits on public spending.

"If populism is listening to the needs of the people, we accept" such a label, he said.

The government on Tuesday won a confidence vote in the Italian Senate, the first of two parliamentary votes of confidence that will fully empower it. The second, in the lower house where the government has a majority, is slated for Wednesday.

The speech sent yields on Italian debt higher and the country's benchmark stock index lower, a week after global markets were rocked by investor concern over politics in Italy.

In his speech, Mr. Conte stuck to the coalition agreement the two parties struck. That agreement called for bold policy to turn around Italy's economy—one of the most troubled in Europe—and confront a migration crisis that has brought 750,000 people to its shores since 2011.

The two crises have badly eroded support for the EU in a country that was historically one of its biggest boosters. In 2010, three out of four Italians had a positive view of Europe.

Many Italians blame the EU



Premier Giuseppe Conte, center, and other Italian officials debated before Tuesday's confidence vote.

Governing Parties Slam Europe Over Migrant Crisis

Both of Italy's governing parties—the maverick 5 Star Movement and the hard-right League—have been harshly critical of Europe's handling of the migrant crisis.

Prime Minister Giuseppe Conte pledged to push for a review of European rules on im-

igration, including the introduction of "compulsory and automatic" allocation of migrants from Italy to the rest of Europe.

In recent days, Matteo Salvini, the head of the League, has thundered against immigration, accusing Tunisia of sending "convicts" to Italy's shores. He has promised to deport hundreds of thousands of illegal immigrants.

"Either Europe gives us a hand to secure our country, or we will choose another way," he wrote on Twitter on Monday.

for unpopular moves taken to shore up the country's finances and gradually reduce its massive debt, including an increase in the retirement age, cuts to the mostly free healthcare system and a reduction in public services.

"We have to go to Brussels, slam our fists on the table, claim our rights and renegotiate the [EU] treaties," said Giuseppe Dodaro, a 26-year-old medical student from the southern Calabria region who voted for 5 Star.

Most businesses don't want Italy to leave the euro because of the chaos and uncertainty the move would bring and be-

cause any benefits would be short-lived. But many agree with plans by the new government to loosen the rules governing the currency to allow more government spending.

"The [euro] parameters are constricting Italy's growth," said Armando De Nigris, whose 130-year-old family-owned balsamic-vinegar business had revenue of about €80 million (\$93 million) last year.

EU treaties require member countries to keep their budget deficits below 3% of gross domestic product or face disciplinary proceedings. EU authorities have shown flexibility toward countries that are mak-

ing an effort but struggling with weak economies. But the bloc insists all members do their best to follow the rules.

Mr. Conte said the government plans to implement "revolutionary measures" that will reboot the Italian economy, including cutting corporate and individual taxes to as low as 15% and enacting huge welfare spending to support Italy's legion of unemployed and poor.

The large deficits that would likely result from such a program could violate EU deficit rules. Opposition leaders on Tuesday derided the plans as "propaganda" that Italy's strapped public finances can't afford. "How do you do it?" asked Franco Mirabelli, a center-left senator. "With what resources?"

Italian 10-year government bond yields rose to 2.773% on Tuesday from 2.537% on Monday, snapping a four-session streak of declines, while its two-year notes yielded 0.982%, up from 0.694%. Yields move inversely to prices.

Italy's main stock benchmark, the FTSE MIB index, fell 1.2%, while the FTSE Italia All-Share Banks index fell 3.4%.

—Riva Gold contributed to this article.

+

WSJ TALK / EXPERIENCE / OFFER / GETAWAY

BAD BLOOD

In Their Words: 'Bad Blood'

Join the Wall Street Journal's two-time Pulitzer Prize-winning investigative reporter John Carreyrou and award-winning Investigations Editor Michael Siconolfi for an in-depth discussion of Carreyrou's reporting on the rise and shocking collapse of Theranos. Get insight into his acclaimed new book, "Bad Blood: Secrets and Lies in a Silicon Valley Startup," which chronicles his exposure of what's been called the biggest corporate scandal since Enron.

WHEN: JUNE 21
WHERE: NEW YORK

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IN DEPTH

Facebook Struck Data Deals in China

Tech partners include Huawei, considered a possible tool for spying by U.S. officials

BY DEEPA SEETHARAMAN

Facebook Inc. said Tuesday that it struck data partnerships with at least four Chinese electronics firms, including **Huawei Technologies Co.**, a telecommunications-equipment maker that U.S. officials view as a potential tool for state-sponsored spying.

The four partnerships are among the roughly 60 that Facebook struck with device manufacturers starting in 2007 so they could re-create the Facebook service on their devices, a Facebook spokes-

woman said. As of Tuesday, more than half of those partnerships have been wound down, the spokeswoman added.

The social-media company said it plans to wind down its data-sharing partnership with Huawei by the end of the week. It isn't clear when Facebook will end partnerships with the three other companies: **Lenovo Group Ltd.**, the world's largest personal-computer maker; Oppo Electronics Corp., a smartphone maker; and Chinese electronics conglomerate **TCL**.

Facebook officials defended the decision to work with Huawei and said that no data belonging to Facebook users was saved on Huawei servers. Facebook had a manager and an engineer review the apps

before they were deployed to ensure the data wasn't saved on company servers, the Facebook spokeswoman said.

"Huawei is the third-largest mobile manufacturer globally and its devices are used by people all around the world, including in the United States," Francisco Varela, vice president of mobile partnerships, said in a statement. "Facebook along with many other U.S. tech companies have worked with them and other Chinese manufacturers to integrate their services onto these phones."

The New York Times earlier reported on Facebook's device partnerships with companies like **Apple Inc.**, **Amazon.com Inc.** and **Microsoft Corp.** After the Times article, several lawmakers said they felt they had

been misled by Chief Executive Mark Zuckerberg, who testified in April that Facebook restricted data access to outsiders in 2015.

"Facebook's integrations with Huawei, Lenovo, OPPO and TCL were controlled from the get go—and we approved the Facebook experiences these companies built," Mr. Varela said. "Given the interest from Congress, we wanted to make clear that all the information from these integrations with Huawei was stored on the device, not on Huawei's servers."

The company is dealing with the fallout related to Cambridge Analytica, a research firm that had ties to President Donald Trump's 2016 campaign and improperly obtained the data of 87 million

Facebook users. The crisis sparked questions about Facebook's lax oversight of its platform, an investigation by the Federal Trade Commission and two congressional appearances by Mr. Zuckerberg last month.

Facebook argues that the device partnerships are different from the data extended to third parties like academics and mobile apps. Facebook negotiated each device deal differently.

Still, lawmakers have raised several concerns about Facebook's partnership with Huawei, the subject of a 2012 report by U.S. congressional investigators who said the company could be exploited to spy or harm the U.S. telecommunications network. Huawei makes telecom equipment and

smartphones.

"The news that Facebook provided privileged access to Facebook's API to Chinese device makers like Huawei and TCL raises legitimate concerns, and I look forward to learning more about how Facebook ensured that information about their users was not sent to Chinese servers," Sen. Mark Warner said in a statement Tuesday, referring to the website's application programming interface, or set of software-building tools.

It isn't clear why Facebook continued to maintain a relationship with Huawei despite the U.S. government's concerns. When asked, the Facebook spokeswoman said the company hasn't seen nor does it suspect any misuse of Facebook user data.

models, another person familiar with her thinking said.

Ms. Sandberg, 48, and Mr. Zuckerberg, 34, frequently brought up their purchase of the photo-streaming app Instagram as a way to persuade Messrs. Koum and Acton to allow advertising into WhatsApp. Facebook in 2012 purchased Instagram, and the app's founders initially tried their own advertising platform rather than Facebook's. When Instagram fell short of its revenue targets, Facebook pushed the founders to adopt its targeted advertising model, and the transition was relatively seamless, according to current and former employees. Today, analysts estimate that Instagram is a key driver of Facebook's revenue, and its founders, Kevin Systrom and Mike Krieger, remain with the company. The men didn't respond to requests for comment.

Other high-profile acquisitions such as developer platform Parse, ad tech platform LiveRail and virtual-reality company Oculus VR have fallen short of expectations, people familiar with those deals say.

The Facebook executives appeared to grow frustrated by the WhatsApp duo's reasons to delay plans that would help monetize the service. Mr. Zuckerberg wanted WhatsApp executives to add more "special features" to the app.

Mr. Zuckerberg and Ms. Sandberg also wanted Messrs. Koum and Acton to loosen their stance on encryption to allow more "business flexibility," according to one person familiar with the matter. One idea was to create a special channel between companies and users to deal with issues such as customer-service requests, people familiar with the matter said.

WhatsApp's roughly 200 employees at the time remained mostly segregated from the rest of Facebook. Some of the employees were turned off by Facebook's campus, a bustling collection of restaurants, ice cream shops and services built to mirror Disneyland.

Some Facebook staffers considered the WhatsApp unit a mystery and sometimes poked fun at it. After WhatsApp employees put up posters asking passersby to "please keep noise to a minimum," some Facebook employees mocked them with chants of "Welcome to WhatsApp—Shut up!" according to people familiar with the matter.

Some employees even took issue with WhatsApp's desks, which were a holdover from the Mountain View location and larger than the standard desks in the Facebook offices. WhatsApp also negotiated for nicer bathrooms, with doors that reach the floor. WhatsApp conference rooms were off-limits to other Facebook employees.

"These little ticky-tacky things add up in a company that prides itself on egalitarianism," said one Facebook employee.

In response to the pressure from above to make money, Messrs. Koum and Acton proposed several ideas to bring in more revenue. One, known as "re-engagement messaging," would let advertisers contact only users who had already been their customers. Last year, WhatsApp said it would charge companies for some future features that connect them with customers over the app.

None of the proposals were as lucrative as Facebook's ad-based model. "Well, that doesn't scale," Ms. Sandberg told the WhatsApp executives of their proposals, according to a person familiar with the matter.

Ms. Sandberg wanted WhatsApp to pursue advertising alongside other revenue

A Messy WhatsApp Breakup

Continued from Page One
the WhatsApp founders to be more flexible on those issues and move faster on other plans to generate revenue, the people say.

Once, after Mr. Koum said he "didn't have enough people" to implement a project, Mr. Zuckerberg dismissed him with, "I have all the people you need," according to one person familiar with the conversation.

WhatsApp was an incongruous fit within Facebook. Messrs. Acton and Koum are true believers on privacy issues and have shown disdain for the potential commercial applications of the service.

Facebook, on the other hand, has built a sprawling, lucrative advertising business that shows ads to users based on data gathered about their activities. Mr. Zuckerberg and Ms. Sandberg have touted how an advertising-supported product makes it free for consumers and helps bridge the digital divide.

When Facebook bought WhatsApp, it never publicly addressed how the divergent philosophies would coexist. But Mr. Zuckerberg told stock analysts that he and Mr. Koum agreed that advertising wasn't the right way to make money from messaging apps. Mr. Zuckerberg also said he promised the co-founders the autonomy to build their own products. The sale to Facebook made the app founders both multibillionaires.

Over time, each side grew frustrated with the other, according to people in both camps. Mr. Koum announced April 30 he would leave, and Mr. Acton resigned last September.

The WhatsApp co-founders

The exit caps a long dispute about how to wring more revenue out of WhatsApp.

didn't confront Mr. Zuckerberg at their departures about their disagreements, but had concluded they were fighting a losing battle and wanted to preserve their relationship with the Facebook executive, people familiar with the matter said. One person described the environment as "very passive-aggressive."

Small cultural disagreements between the two staffs also popped up, on issues such as noise around the office and the size of WhatsApp's desks and bathrooms.

The discord broke into public view in a March tweet by Mr. Acton. During the height of the Cambridge Analytica controversy, in which the research firm was accused of misusing Facebook user data to aid the Trump campaign, Mr. Acton posted that he planned to delete his Facebook account.

Within Facebook, some executives were surprised to see Mr. Acton publicly bash the company, according to people familiar with the matter. When Mr. Acton later visited Facebook's headquarters, David Marcus, an executive who ran Facebook's other chat app, Messenger, confronted his former colleague. "That was low



WhatsApp's Brian Acton and Jan Koum, and Facebook's Mark Zuckerberg and Sheryl Sandberg.

Big Bet

Facebook paid more for WhatsApp, which has more users than its Messenger product, than any other deal.

Facebook's five largest deals*

WhatsApp (2014)

\$21.94 billion

Oculus VR (2014)

\$2.30 billion

Instagram (2012)

\$736 million

Microsoft (2012)

\$550 million

Onavo (2013)

\$120 million

*price at close of deal †approximately 615 AOL patents and patent applications ‡Across four main markets

Note: iMessage, Google Hangouts and Signal don't disclose number of users.

Sources: Dealogic (deals); the companies (active users)

World-wide monthly active users for popular messaging apps

WhatsApp

1.5 billion

Facebook Messenger

1.3 billion

WeChat

1.0 billion

Telegram

200 million

Line†

165 million

"around the goal of knowing as little about you as possible."

With Mr. Zuckerberg and Ms. Sandberg pushing to integrate it into the larger company, WhatsApp moved its offices in January 2017 from Mountain View, Calif., to Facebook's Menlo Park headquarters. Facebook tried to make it welcoming, decorating the Building 10 office in WhatsApp's green color scheme.

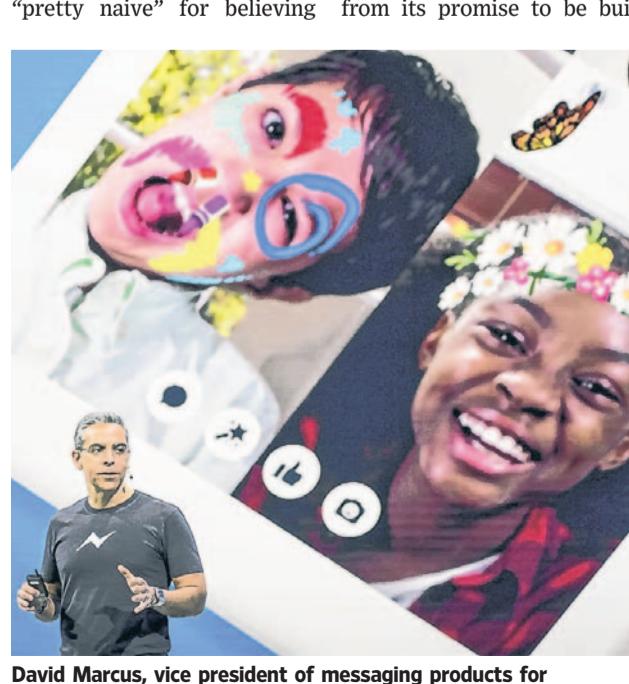
WhatsApp's roughly 200 employees at the time remained mostly segregated from the rest of Facebook. Some of the employees were turned off by Facebook's campus, a bustling collection of restaurants, ice cream shops and services built to mirror Disneyland.

Some Facebook staffers considered the WhatsApp unit a mystery and sometimes poked fun at it. After WhatsApp employees put up posters asking passersby to "please keep noise to a minimum," some Facebook employees mocked them with chants of "Welcome to WhatsApp—Shut up!" according to people familiar with the matter.

Facebook's hands-off stance changed around 2016. Facebook told investors it would stop increasing the number of ads in Facebook's news feed, resulting in slower ad-revenue growth.

This put pressure on Facebook's other properties—including WhatsApp—to make money.

That August, WhatsApp announced it would start sharing phone numbers and other user data with Facebook, straying from its promise to be built



David Marcus, vice president of messaging products for Facebook, spoke on May 1.

GREATER NEW YORK

Elite Schools Plan Tied to Mayoral Control

Cuomo says de Blasio proposal to scrap entry test should be part of larger debate

BY JOSEPH DE AVILA
AND LESLIE BRODY

Mayor Bill de Blasio's proposal to scrap the admission test for New York City's eight specialized high schools will be part of state lawmakers' debates on education policy next year, including whether to renew mayoral control of city schools, Gov. Andrew Cuomo said Tuesday.

Mayoral control expires in summer 2019 unless extended

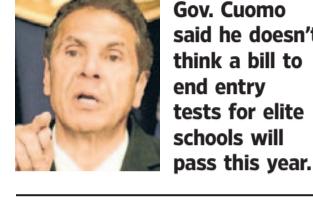
by state lawmakers.

Mr. de Blasio is pushing a bill sponsored by Assemblyman Charles Barron, a Brooklyn Democrat, that aims to better integrate the specialized high schools. It would end the admissions test and instead select top students using a combination of middle-school courses and annual statewide exam results.

The governor, a frequent critic of Mr. de Blasio, said he doubts the bill will pass before the legislature's session ends this month and that lawmakers will take up the matter next year.

"It's a difficult political conversation," Mr. Cuomo said. "It will become part of a much

larger conversation" next year on education policy, including fair funding and charter



Gov. Cuomo
said he doesn't think a bill to end entry tests for elite schools will pass this year.

schools.

Mr. Cuomo, a Democrat, didn't tip his hand on his stance on the proposal, which would eliminate the test that determines entrance to Stuyvesant High School, Bronx High School of Science and six other schools

widely seen as jewels of the New York City public-schools system.

"The single test does raise issues, obviously," Mr. Cuomo said. But he added, "It's not a slam dunk either way."

Mr. de Blasio said the admissions bill should be debated separately from mayoral control.

"They're two issues with their own merits," the mayor said Tuesday. On Sunday, he said he is optimistic that Democrats will regain control of the state Senate in November elections, which he expects will boost support for the admissions overhaul.

Alumni groups, parents and others have attacked the pro-

posal, saying the admission test is the most objective method for determining merit and eliminating it would threaten the schools' excellence. But many parents and integration advocates applaud the idea, saying a single test can't capture students' full potential, and it has been an unfair barrier to black and Latino teenagers.

The eight specialized high schools enroll 15,540 students: Half are low-income, while 62% are Asian, 24% are white, 6% are Latino, and 4% are black, according to city data.

Advocates for Asians have said the mayor's proposal is discriminatory and that it would reduce access for hardworking, high-achieving Asian students.

New York City Schools Chancellor Richard Carranza said in a radio interview on WNYC Tuesday that "we're not trying to penalize anybody." He said the proposal "should be very good news" for poor immigrants and others, because families wouldn't have to spend thousands of dollars on test preparation.

In a separate step, the mayor announced over the weekend that starting in fall 2019, 20% of seats in each specialized high school will be offered to low-income students who just miss the test-score cutoff. State law allows some students to get in that way through a program called "Discovery," which gives them extra tutoring.



Tacocina, a taco stand from Danny Meyer, will open at Domino Park in Williamsburg on Sunday. Above left, its beef and salsa negra taco.

KELLYANN PETRY FOR THE WALL STREET JOURNAL (2)

It's Taco Time For Danny Meyer

BY CHARLES PASSY

Over the years, New York City restaurateur Danny Meyer has showcased all manner of cuisines, from contemporary American to rustic Italian. But Mr. Meyer, 60 years old, has yet to fully embrace Mexican food—and, more specifically, the taco.

That will change Sunday when Mr. Meyer's **Union Square Hospitality Group** opens Tacocina, at Domino Park, a 6-acre waterfront green space in Brooklyn's Williamsburg neighborhood that is also set to open that day.

This latest foray brings to mind another of Mr. Meyer's efforts: Shake Shack, the fast-casual burger spot that Mr. Meyer launched in Madison Square Park in 2004. Shake Shack has since grown into a global chain, with annual revenue that tops \$350 million. In

the past year, the chain opened locations from Troy, Mich., to Tokyo.

Mr. Meyer played down any similarity between Shake Shack and Tacocina, which is billed by Union Square Hospitality Group officials as a year-round taco stand with outdoor seating for about 110.

"I think there's one Shake Shack and it doesn't come along more than once in a lifetime," Mr. Meyer said.

At the same time, Mr. Meyer said his interest in creating a restaurant at Domino Park stemmed from his love of parks, particularly for their role in shaping communities.

He added that he considered doing a seafood shack at Domino Park to play off its waterfront location. But he opted instead for tacos, recognizing that, much like burgers and pizza, it is a food that has become an indispensable part

of the American table. "It is not a trend," he said.

The challenge for Mr. Meyer is that he may be somewhat late to the taco game in New York, where chefs have embraced the Mexican staple in recent years and opened all sorts of taco establishments at both the high and low end of the dining spectrum.

The closest Mr. Meyer has come to anything Mexican-related previously is a concession that Union Square Hospitality Group runs as part of its culinary operations at Citi Field.

Mr. Meyer said his ap-

proach for Tacocina focuses on authenticity—his chef, Barbara Garcia, was raised in Mexico—rather than on putting global fusion-style tweaks on the classic dish.

"We really wanted to begin in Mexico," he said of the idea, though he noted that many ingredients are being sourced in the New York City area.

Union Square Hospitality Group officials declined to discuss any financial details for Tacocina, including the startup costs. Officials with Two Trees Management, the real-estate company behind the \$50 million Domino Park and the resi-

dential and commercial development connected to it, said Union Square Hospitality Group has a 10-year lease on the Tacocina space, but didn't specify the financial terms.

Tacocina's opening comes at a busy time for the company, which is also set to debut a high-end dining spot, Manhattan, in the Financial District this summer.

Arlene Spiegel, a New York-based restaurant consultant, is bullish on Mr. Meyer's chances with Tacocina, noting that Union Square Hospitality Group has a strong record in developing new concepts and

partnering with developers. "They make good deals," said Ms. Spiegel, who hasn't done consulting work for Mr. Meyer.

"If these tacos start to resonate, why wouldn't he look to expand?" she said.

Veteran food writer Allen Salkin says New York doesn't need another taco establishment at this point. He would rather Mr. Meyer apply his skills to a different culinary challenge.

"Danny is one of the great restaurateurs. I'd like to see him advance the conversation, not be in the rear flank of it," he said.

Zephyr Teachout Launches Bid for State Attorney General

BY LARA KORTE

Democrat Zephyr Teachout officially opened her campaign for New York state attorney general on Tuesday, standing in the shadow of Trump Tower while emphasizing her mission to force President Donald Trump to divest himself from his businesses.

"We must litigate more aggressively," Ms. Teachout said to a small crowd on the sidewalk near the high-rise. "The beating heart of Trump's corruption is here in our state."

Ms. Teachout, 46 years old, was one of the leading attorneys on a 2017 lawsuit, ultimately dismissed, brought against Mr. Trump by the non-profit group Citizens for Responsibility and Ethics in Washington. The suit challenged the president's busi-



Congressman Joins A Crowded Race

U.S. Rep. Sean Patrick Maloney plans to formally declare his candidacy for New York attorney general on Wednesday.

Mr. Maloney, a Democrat who represents portions of the Hudson Valley, said in an interview Tuesday evening that his government experience would allow him to successfully defend New York against what he called "hostile federal policies."

"This job is the most important job right now in New

York politics," he said. "This job is about being the cop on the beat, and that means going after crooks in Albany, crooks in the corporate suite and crooks in the White House."

If elected, Mr. Maloney would be the first openly gay attorney general in New York history.

Mr. Maloney has served in the U.S. House of Representatives since 2013. This year he is also up for re-election in his congressional district.

Mr. Maloney, who has worked as a lawyer, lives with his husband and three children in Cold Spring, N.Y.

—Corinne Ramey

ness holdings and claimed he was in violation of the Constitution's emoluments clause, which prohibits government

officials from receiving gifts, payments, offices or titles from foreign states without approval from Congress.

Throughout his campaign and presidency, Mr. Trump has maintained he has no conflicting business interests. The

White House didn't respond to requests for comment Tuesday.

Former Attorney General Eric Schneiderman, a Democrat who resigned last month amid allegations of physical abuse, took more than 100 legal actions against the Trump administration during his tenure, including challenges to its travel ban, its repeal of the Clean Power Plan and changes to the Deferred Action for Childhood Arrivals program, or DACA.

If elected, Ms. Teachout said she would sue Mr. Trump for violating anticorruption laws.

"I'll be blunt: New York can do far more to protect our Constitution and our laws," she said, "because Trump will not be deterred by op-eds and we cannot become complacent about 2018 or 2020 elections."

Ms. Teachout joins a num-

ber of candidates running for attorney general. Democratic contenders so far include Leecia Eve, a former aide to Hillary Clinton and Gov. Andrew Cuomo, and New York City Public Advocate Letitia James, who won the state party's endorsement.

Republicans include Manny Alicantro, a Wall Street lawyer and supporter of Mr. Trump, and Rockland County Attorney Thomas Humpach.

Attorney General Barbara Underwood, a Democrat who was appointed to replace Mr. Schneiderman, said she wouldn't run.

Ms. Teachout, an associate law professor at Fordham University, ran in the Democratic primary for governor in 2014, losing to Mr. Cuomo. In 2016, she ran for a House seat but ultimately lost to Republican John Faso.

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GREATER NEW YORK

Riding Off Into the Sun



JULIE JACOBSON/ASSOCIATED PRESS

PRACTICE: A thoroughbred got a workout in the fog Tuesday at Belmont Park on Long Island. On Saturday, the racetrack will host the 150th running of the Belmont Stakes, where a colt named Justify will attempt to become the 13th winner of the Triple Crown.

State Senate Urged to Pass Gun Bill

BY JOSEPH DE AVILA

New York Gov. Andrew Cuomo, flanked by school union officials and a student who survived the mass shooting in Parkland, Fla., called out state Senate Republicans on Tuesday for blocking a bill that allows courts to temporarily take guns from people deemed dangerous.

The proposal—known as a red-flag law—would allow law-enforcement officials, family members and school officials to ask a judge to order the removal of an individual's firearms if the person is considered a threat to themselves or others. The Democratic-con-

trolled state Assembly passed a version of the bill in March. It has stalled in the Republican-controlled Senate.

"I want voters to have a choice this election season," said Mr. Cuomo, a Democrat, at a news conference. "If the Republicans refuse to pass it, people have a right to know they refused to pass it."

A spokesman for Senate Republicans didn't immediately return a request for comment. Connecticut in 1999 became the first state to pass such a law, following a shooting at that state's lottery headquarters in which a gunman killed four people. Since February's mass shooting at Marjory

Stoneman Douglas High School in Parkland that killed 17 students and adults, lawmakers around the country have weighed passing similar bills.

People close to the accused Parkland shooter called authorities several times before the attack to voice worries about his erratic behavior and fixation on guns. Florida Gov. Rick Scott, a Republican, signed red-flag legislation into law in March.

Alayah Eastmond, a student at Marjory Stoneman Douglas High School who survived the attack, urged Congress during the news conference to take similar action.

"It's time for our leaders in Washington to follow New York's lead," Ms. Eastmond said.

The New York State Rifle & Pistol Association, which represents gun owners, opposes the legislation and has said such a law would infringe on the due-process rights of gun owners.

Randi Weingarten, president of the American Federation of Teachers, said these types of laws could help teachers save lives. "This is the kind of tool that we need as part of a multifaceted approach to address America's gun violence epidemic," Ms. Weingarten said at the news conference.

GREATER NEW YORK WATCH

CONNECTICUT

Mother Gets Prison For Starving Teen

A mother who withheld food from her autistic teenage son until he died weighing just 84 pounds was sentenced Tuesday to 11 years in prison.

Katiria Tirado, 34 years old, of Hartford, pleaded guilty in March to manslaughter under the Alford doctrine, meaning she doesn't agree with all the state's evidence but acknowledges there is enough for a conviction.

Her son, Matthew, 17 years old, died in February 2017. He was 5 feet, 9 inches tall, weighed 84 pounds, according to authorities. His mother screwed cabinets shut and locked the refrigerator, police said. An investigation by the state child advocate found Matthew had to dig through the trash for food and drank oils and condiments.

Ms. Tirado's attorney said his client is remorseful.

—Associated Press

NEW JERSEY

Loaded Gun Found In Child's Backpack

Authorities say a 9-year-old student brought a loaded gun to a New Jersey elementary school.

Lakewood police said the .22-caliber handgun was found in the student's backpack around 9 a.m. Tuesday at Oak Street School. Authorities say another student told security about the gun. It wasn't immediately clear how the student obtained the gun or why the child brought it to school.

—Associated Press

CORRECTIONS & AMPLIFICATIONS

The last name of Dan Falt, a project manager for the U.S. Army Corps of Engineers, New York District, was misspelled as Falk in an article Tuesday about closures this summer at New York's Rockaway Beach.

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

METRO MONEY | By Anne Kadet

Ex-Banker Gives Up Perks To Run School



Lots of executives dream of it. A smaller number talk about it. But in 2016

Chad Cooper did it. He ditched his 16-year investment banking career to head a nonprofit. The goal: personal fulfillment, community engagement and a low-pressure lifestyle with more time for his wife and two young sons.

His new gig as executive director of the 121-year-old Brooklyn Conservatory of Music certainly satisfied the first two goals, Mr. Cooper says. But the vision of shorter hours and less stress?

"That has kind of been shattered," he says.

Last week, Mr. Cooper, who is 44 years old, gave a tour of the creaky, five-story mansion where the conservatory is based in the Park Slope neighborhood of Brooklyn. With its dark wood paneling and stained glass, it's a good deal more charming than his former office at 60 Wall St., where he served as a managing director at Deutsche Bank. But what a headache the beautiful building is to maintain.

"You don't have to worry, as a banker, whether the elevator is going to break down," Mr. Cooper says.

The pay? He gave up a handsome banker's salary, plus bonuses, to serve as the executive director for two years without pay. In the fall, he will start getting paid—likely high five-figures.

And the hours? Longer than ever. His weekends and evenings are packed with board meetings, parent meetings, fundraisers and attending performances.

"It's like running a startup," he says. "A 121-year-old startup."

While the conservatory is best known for its pricey private lessons, it uses the resulting income to help fund a larger mission: Music instruction and music-therapy programs at more than 70 public schools and community centers across all of New York City's five boroughs.

Mr. Cooper is responsible for the livelihood of 185 employees and the music education of 6,000 students, who range in age from infants to people in their 90s. The pressure keeps him up at night. The stakes are tangible and immediate, "versus a handful of basis points on pricing a bond," he says.

Mr. Cooper was serving on the conservatory's board of directors when, in the summer of 2016, he took the executive director job, hoping to stabilize the struggling school's shaky finances.

His wife, Claire Ellis, who works full time for a gifts manufacturer, was all for it.

"He was excited to have a more balanced lifestyle where he'd be more present for the family," she says. "Now he jokes with me: 'You got sold a bill of goods!'"

They do spend more time together, she says. But it's often at the conservatory, where their sons take lessons and the entire family attends performances.

When the couple's long-standing Saturday evening date night started revolving

around conservatory events, they reached a compromise: A one-hour limit on Saturday evenings at the school.

Mr. Cooper's new subterranean office often doubles as a storage space for tubas and a stand-up bass. Gone is the executive assistant. "We don't have car service here," he notes. "We don't fly business class."

But Mr. Cooper can't complain. Everyone at the school works hard, he says, and no one makes much money.

The perks, meanwhile, are priceless. His commute is an eight-block walk. And he feels like part of the community. "Before I started this job, even though I lived in the neighborhood for years, I didn't feel any real connection to Park Slope or Brooklyn," he says.

He's also pleased with the conservatory's progress. Inexpensive upgrades like a paint job made a big difference in



The conservatory offers pricey private lessons and funds programs at some public schools.

The job has shattered his goals of a low-pressure lifestyle and more family time.

the school's feel. A switch from a fancy annual gala to a series of small fundraising events boosted revenue and broadened its support base from 285 donors to more than 600, according to conservatory documents. The Conservatory's income statement swung from a \$163,000 loss on a \$3 million annual budget to a \$303,000 surplus, the records show.

Then there's the fun stuff: A new teen bluegrass ensemble. A community "Hamilton" singalong. An open house featuring flash mobs of Suzuki students performing on the stairwell.

Russ Soper, who serves on the conservatory's board and works on Wall Street as an IT executive, says that even though Mr. Cooper is putting in longer hours, he's clearly enjoying the job. "Seeing him do it has been an inspiration," he says.

Asked what someone contemplating a similar move should consider, Mr. Cooper gives a windy answer about conducting due diligence and assessing one's strengths. Then he stops short.

"I guess I'd say, just do it," he blurts. "Do it. And come talk to me. Here's my number!"

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CLAUDIO PARADETTO FOR THE WALL STREET JOURNAL (2)

OUT TODAY

alexa

FREE INSIDE THE NEW YORK POST

JIMMY FALLON
MAKES FATHERHOOD FUNNY AGAIN

3NYP101

LIFE & ARTS



A weaver, above, turns hand-dyed indigo yarn into denim fabric for Momotaro in Kurashiki, a city in western Japan. The city's Kojima district, left, was once a hub for manufacturing school uniforms, judo wear and canvas sails.

SHIRO FUKADA FOR THE WALL STREET JOURNAL

BY SURYATAPA BHATTACHARYA

KURASHIKI, Japan
CARTER DEVRIES, a 51-year-old who works in sales and marketing in Louisville, Ky., is a self-described jeans aficionado who researches brands on Instagram. But it's not an American label he covets. It's a high-end, niche Japanese one touting labor-intensive craftsmanship and individual details—and a price tag of up to \$2,000. "I would really like to own a pair of Momotaros," he says, dropping the name of the cult Japanese line.

The quintessential American fashion item is getting reimaged by a small group of Japanese brands. Made on old Japanese looms and using old-fashioned indigo-dyeing techniques, Japanese denim is rougher than its American counterpart, with sharper fade and crease lines. To the uninitiated, jeans from labels such as Momotaro, Kapital and Warehouse might look like \$25 pairs at Target, but devotees note details like invisible rivets hand-stitched inside the fabric or vintage-looking uneven yarn.

In the U.S., Japanese denim has achieved cult status among denim snobs, with high-priced pairs selling at the likes of Barneys New York and Neiman Marcus. But even Gap notes that it "now consistently offers Japanese selvedge within its denim assortment," and mass-market Japanese brand Uniqlo touts its own version of the denim, "created using vintage looms," for under \$100.

"If someone wants the best denim, they will be led to Japanese denim," said Kiya Babzani, co-owner of five North American shops called Self Edge that sell Japanese denim. Demand is so hot that next year the company plans to open a sixth boutique.

A typical pair of hand-stitched jeans from Momotaro costs \$300, but the price can go as high as \$2,000 for a pair in which the fabric is made on a hand-operated shuttle loom that produces less than a yard a day. Momotaro sells its products at a handful of its

FASHION

Japan Reinvents the Bluejean, for \$2,000

The quintessential American fashion item is reimaged in Japan



Momotaro Jeans's Tatsushi Tabuchi emphasizes the line's craftsmanship.



own shops in Japan as well as small boutiques in U.S. cities such as New York, Chicago, Seattle and Los Angeles.

Denim has followed a well-trod path in Japan, in which manufacturers initially copy foreign products—from Neapolitan pizza to preppy Ivy League-style clothing—and then transform them into something more uniquely Japanese. Early Japanese denim brands from the 1960s and '70s, with names like Big John and Betty Smith, were known for reproducing American denim. Now, a newer

What Goes Into Momotaro's \$2,000 Jeans

■ **The dye job:** The dyeing process is done by hand using natural indigo dye on the yarn. Momotaro uses a proprietary process that takes up to three days to get the color just right. You pick your color.

■ **The fabric:** The denim fabric made from Zimbabwean cotton is handwoven on a wooden loom, producing a smooth and softer pair than most selvedge denim. The labor-intensive process yields less than a yard a day (or eight hours to produce one meter). The needlework is done by hand. From start to finish, a pair of these jeans can take up to three months to make.

■ **The details:** You can customize it down to the color of the leather deerskin patch on the back. You can pick other specifications too, like the metal on the rivets—silver or copper.



On the right, a pair of Momotaro jeans that retail for \$2,000.

You can ask for the inside back of the jeans to be lined with silk.

■ **The fit:** They are made to measure, with a tailor and weaver on site to help you decide how you'd like your jeans to form around you as you wear them over time.

crop is taking a more artisanal tack, touting the kind of craftsmanship that might go into a piece of Japanese lacquer ware or pottery—with price to match.

"American tradition made better? Many people have said that to us. We're not thinking about making something American," says Tatsushi Tabuchi, general manager of Momotaro Jeans.

Many of these denim makers cluster in the western Japanese city of Kurashiki, whose Kojima district was once a hub for manufacturing school uniforms, judo wear and can-

sails. Denim-makers there have used the old looms to make jeans with a rougher weave.

The marketing has a modern flair, though: Each label has its own fixation ready-made for Instagram. At Kapital, it's the tattoo-inspired embroidery and patchwork look; at Warehouse, it's using uneven yarn to reproduce a vintage style of denim fabric. Mr. Devries, the Kentuckian, says Instagram photos fueled his interest. "I was aware of Japanese denim but getting dialed into the specific brands, the cuts, the fits, that's

something that Instagram has really helped with," Mr. Devries says. He owns several pairs of Japanese denim; the priciest is worth \$350.

At Momotaro, much of the thought goes into the way the jeans fade. The company doesn't pre-fade jeans but says it fine-tunes the dyeing so that over time, the fade lines reflect the lifestyle of the wearer. "We basically recommend you wear it every day," said Mr. Tabuchi. He himself has worn the same pair, from a line in development, for the past six months.

Fans obsess about creating the perfect crease and fade lines, with some waiting months to wash their jeans. Momotaro recommends waiting three to six months to wash its jeans, depending on the type, as washing earlier could cause the indigo to fade from the wash instead of more naturally through wear and tear.

Mike Falkner, an American who lives in Japan and owns Japanese denim, says many of his pairs have never touched water. "Each pair of jeans is a different painting," he says. He usually puts off washing his jeans "until my wife starts to complain about it."

Another signature of the Momotaro jeans: invisible rivets. Those are the metal studs that hold together pieces of fabric and are easy to see on a traditional pair of Levi's. Momotaro's craftsmen hand-stitch them inside the fabric so they can't be seen, a method that, by their reckoning, makes the pocket more durable. A final flourish is the color of the thread on the seam inside the leg bottom: pink for momo, the Japanese word for the fruit peach.

That thread caught the eye of Richard Lin, a 31-year-old from Northern Virginia who co-owns the Withered Fig, an online denim store. He appreciates the attention to detail in Japanese denim, such as belt loops where extra fabric is used to raise the loop. "It's just one example of what most people will never pay attention to or care about but that's what sets Japanese denim apart," said Mr. Lin.

—Chieko Tsuneoka contributed to this article.

CULTURAL COMMENTARY

BEFORE YOU CLAP, DUCK



The cast of 'SpongeBob SquarePants: The Broadway Musical' on opening night

BY JOANNE KAUFMAN

THE ANNUAL celebration of excellence on Broadway, the Tony Awards ceremony, will be broadcast Sunday night at 8 on CBS. Trophies and kisses will be handed out in some two-dozen categories, including outstanding lead and feature performances, scenic and costume design, choreography and score, play and musical.

Unfortunately, denizens of the Great White Way are so busy handicapping the nominees and debating the merits of this or that actor, this or that director they've utterly failed to take note of a serious omission in the list of contenders. They're focusing on best show when, really, considering the Broadway season that just ended, theater geeks ought to be thinking in terms of best throw.

Consider the following: Cannons positioned at the front and the back of the house at the Palace Theater blast a confetti payload in the last moments of "SpongeBob

SquarePants: The Broadway Musical," a Tony nominee for best musical. As if that weren't enough, cast members fling beach balls into the audience during the show's curtain call. Beach balls also get heaved at the close of the Jimmy Buffett musical "Escape to Margaritaville."

Meanwhile, despite the abundance of sunshine and the thaw at the end of "Frozen," snowflakes, um, rain down on departing patrons. And the biographical jukebox show "Summer: The Donna Summer Musical" ends with small gold paper discs wafting down from on high. I'm just imagining a preshow announcement borrowed from an airline: The 7 o'clock performance will be delayed for 20 minutes while our maintenance crews finish cleaning the front of the orchestra section.

The strewing of this litter may fall under the heading of "value added." It's a list that includes the post-show gab sessions known as "talk-backs," but also such laugheries as the cucumber sandwiches and small cakes offered to

Please turn to page A12

LIFE & ARTS

MY RIDE | By A.J. Baime

A Historic Hot Rod Still Ready to Cruise



Twanna Rogers, 75, from Palos Verdes Estates, Calif., and co-owner of the Thermal Club, on her 1932 Ford three-window coupe hot rod, as told to A.J. Baime.

When I was growing up, I remember seeing hot rods in movies. I loved those cars. I was the oldest of eight kids and my mother did not drive. My father needed help driving, so by 13, I was already driving our Pontiac station wagon.

Last year, I was at a party at the house of a man who had a collection of cars. There were Porsches and Ferraris, and in the corner of his garage, under a spotlight, he had this 1932 Ford hot rod. I must have circled the car for an hour. I swear it

was talking to me. It said, "Twanna, take me home."

I asked the owner if he would sell it and it took three days for him to get back to me. As soon as he said yes, the money was in his bank account.

What is a hot rod? People have debated that question for years, but basically, it is a car built out for speed. And it has to be loud. Decades ago, the 1932 Ford like mine became a favorite car for hot rodders. [The Beach Boys famously eulogized the 1932 Ford hot rod with their

song "Little Deuce Coupe," the deuce standing for the two in 1932.]

My car has a 350-cubic-inch, high-performance Chevrolet V-8 capable of 385 horsepower and a five-speed manual transmission. It is not the easiest car to drive, as there is no power steering. But it is very comfortable. The interior is built so it feels like new Mercedes-quality. When you get in, you feel like you're wearing this car. It is classy, but it does have attitude, the way it rumbles.

At the Thermal Club, a

Twanna Rogers stands with her 1932 Ford hot rod. Ms. Rogers co-owns the Thermal Club —where these pictures were taken—a racing club in Thermal, Calif.



motor racing club that I co-own with my husband, Tim Rogers, there are all kinds of fast cars. But this one stands out. It is not a track car. It is for cruising. I often have my Labradoodle, Jas-

per, in it with me.

When I pull up, people turn their heads. I get thumbs up everywhere. People are surprised to see a woman driving this car. I can see it in their faces.

My husband and I have many cars. But this one, for me, is extra special. I call it Twanna's Baby.

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

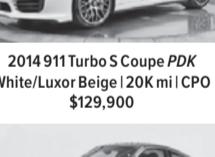
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Theater marquee for Jimmy Buffett's 'Escape to Margaritaville'

DAVID WALTER BANKS FOR THE WALL STREET JOURNAL

Confetti Rains On Broadway

Continued from page A11
departing audiences by the performers during the 2010 Broadway run of "Brief Encounter," the musicalized rethinking of the 1945 movie of the same name; the champagne-style bubbles released into the theater during the finale of the flat 2015 revival of "Gigi"; and, last season, the pierogies presented to patrons in the high-price seats during "Natasha, Pierre & the Great Comet of 1812."

Or perhaps it fills a need for those people who want to be part of a show. If they've yet to experience their 15 minutes of fame, they can have 15 seconds of somehow feeling connected to the doings on stage even if it means getting beamed with a beach ball.

It may also be a way both for producers to justify the high ticket prices and for audiences to rationalize them. Cannons shooting confetti! Talk about bang for the buck.

There was a time, not so very long ago, when contented audiences at a musical left the theater humming the songs. Now they leave brushing off their sleeves, not—apologies to Cole Porter—brushing up their Shakespeare. "You come out on the street

and find some confetti in your hair or purse and it's a reminder of the night you had," said Kyle Jarrow, the Tony-nominated librettist of "SpongeBob."

That makes sense when you're talking about a New Year's Eve party, but a Broadway show? Still, when you come right down to it, the beach balls and bits of colored paper seem to be about one thing and one thing only: theater for non-theatergoers—the children (and their parents) who would probably rather be at home watching the animated version of "Frozen" for the 100th (or 1,000th) time than the Broadway adaptation; Parrot-heads who don't require a storyline with their Jimmy Buffett tunes; fans of the Queen of Disco who prefer their hot stuff straight up.

"We're living in a time when everyone has a library of every movie and TV show ever made at home," Mr. Jarrow said. "To get people out to the theater you need to get them involved and to make the show feel like a party."

Put that way, the possibilities seem endless. But why limit the party to musicals? The creative teams behind future productions might consider flinging bottles of hand soap at "Macbeth," sweaty undershirts at "A Streetcar Named Desire," and Bibles at "Inherit the Wind."

The winner for best throw this particular Broadway season? Let's just call it a toss-up.

Ms. Kaufman writes about culture for the Journal.

WALTER McBRIE/WIREIMAGE/GETTY IMAGES

LIFE & ARTS

FASHION

The Catsuit Aims for the Mainstream



BY PIA CATTON

SERENA WILLIAMS stunned the tennis world with her full-length, black catsuit at the French Open. Are women ready to slip into something that tight and turn heads at the local gym?

Skintight suits aren't flooding country-club courts yet. But Ms. Williams chose the suit for reasons that mere mortals can relate to. As she told reporters, it helps prevent blood clots, a recurring problem especially since she gave birth in September. She also said it makes her feel like a superhero, adding a postpartum morale boost that she shared in an Instagram note saluting new moms. (A pectoral muscle injury forced her to withdraw from the tournament on Monday.)

Her example has the athleisure apparel world wondering if women are ready to embrace a shape-hugging, body-conscious approach to everyday clothing. Until recently such clothing was mostly reserved for the realm of fashion, where Bella Hadid might turn heads with high-couture catsuits.

The bodysuit still has a little time until it becomes a staple in the average consumer's wardrobe. But its influence has started to

materialize," says Cassandra Jones, senior vice president of Macy's for fashion. "There are several options from athletic brands. Also, we're seeing jumpsuits becoming tailored and fitted...an update to the wide-legged and floaty jumpsuit silhouette that dominated the last several years."

Bodysuits are already common in some fitness circles.

Olympic athletes in events like sprinting, bobsledding and speed-skating use bodysuits designed for aerodynamic efficiency. Amateurs who enjoy workouts based on circus skills, such as aerial fitness or trapeze, also use bodysuits frequently. Inverted poses can send a shirt away from the body, exposing the skin to possible burns or abrasions against ropes, bars or poles.

At the aerial fitness studio Air, which has 10 locations, a mix of conditioning, Pilates and ballet takes place on silly "hammocks" hung from the ceiling. Bodysuits are popular within retail boutiques of the Los Angeles and Chicago locations, says founder and president Shama Patel.

Ms. Patel asked Air franchise owners in 2017 what they thought about introducing Air-branded bodysuits. The answer was no. "Just a little too fashion-forward,"

LIFE & ARTS

FASHION

The Catsuit Aims for the Mainstream



Ms. Patel says, "Now it's a different conversation."

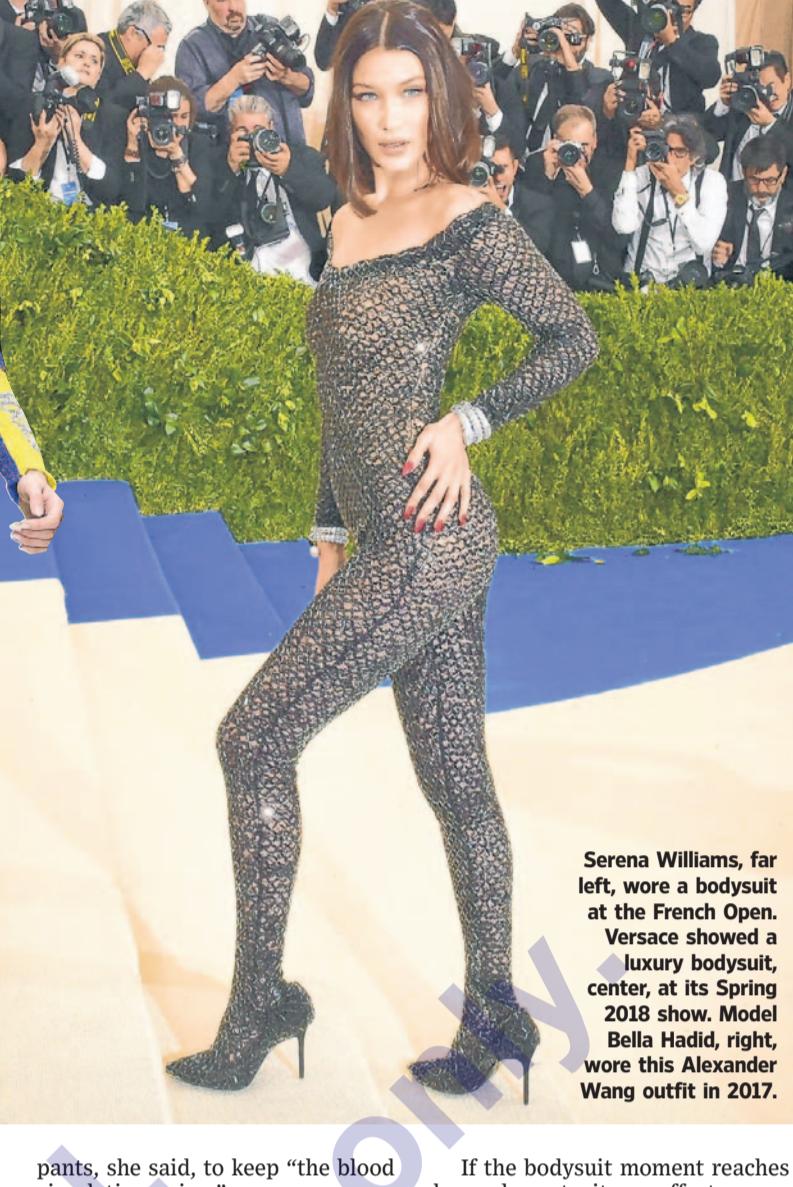
She's moving forward with the line. While Ms. Williams's use of a suit helps, Ms. Patel says a bigger factor is that more Air members have advanced to faster, more complicated classes, making the need more apparent.

At New York City's Circus Warehouse, co-founder Suzi Winton says trapeze pros and hobbyists, including men, use full-length bodysuits. But on this scene body-suits go by their traditional name, unitards, because they combine leotards and tights in one.

When performers in the vertical gymnastics act known as the Chinese pole hoist themselves like flags against a tall metal pole, shirts can go flying or get twisted, exposing the skin to the pole.

Ms. Williams had other concerns as she returned to tennis.

After her pregnancy, she suffered a pulmonary embolism, a condition in which a blood clot blocks an artery in the lungs. To help prevent blood clots in the legs, she started playing tennis in



FROM LEFT: REUTERS; GETTY IMAGES (2)

Serena Williams, far left, wore a bodysuit at the French Open. Versace showed a luxury bodysuit, center, at its Spring 2018 show. Model Bella Hadid, right, wore this Alexander Wang outfit in 2017.

pants, she said, to keep "the blood circulation going."

Tight leggings are increasingly popular for tennis, says Dana Mason, a buyer at Mason's Tennis NYC, a Manhattan retail shop, because people say they feel faster.

But the full-body look? "Usually when Serena wears an outfit, we get requests for it right away," Ms. Mason said. As of Monday evening, she said she hadn't gotten a single Serena-related call.

Designers initially conceived Ms. Williams's suit, which took two years from idea to debut, as a postmatch recovery aid, according to Nike materials. Speeding up the recovery process with compression garments is common for endurance athletes, says triathlete Gina Baski, co-founder of TriFit Club & Studios in Santa Monica, Calif.

"Although I am not convinced they help with performance, they do help with recovery," Ms. Baski says. "If they help with recovery, they will help with later performance."

Sales of bodysuits aren't yet tracked as a category by the Sports & Fitness Industry Association, a trade group, a spokeswoman says. Dick's Sporting Goods, the national retailer, doesn't sell them, according to a spokeswoman.

If the bodysuit moment reaches beyond sports, it can affect consumers at every level. Versace, Dolce & Gabbana and other luxury brands included skintight jump-suits on the Spring 2018 runways. But such looks are often intended for limited distribution.

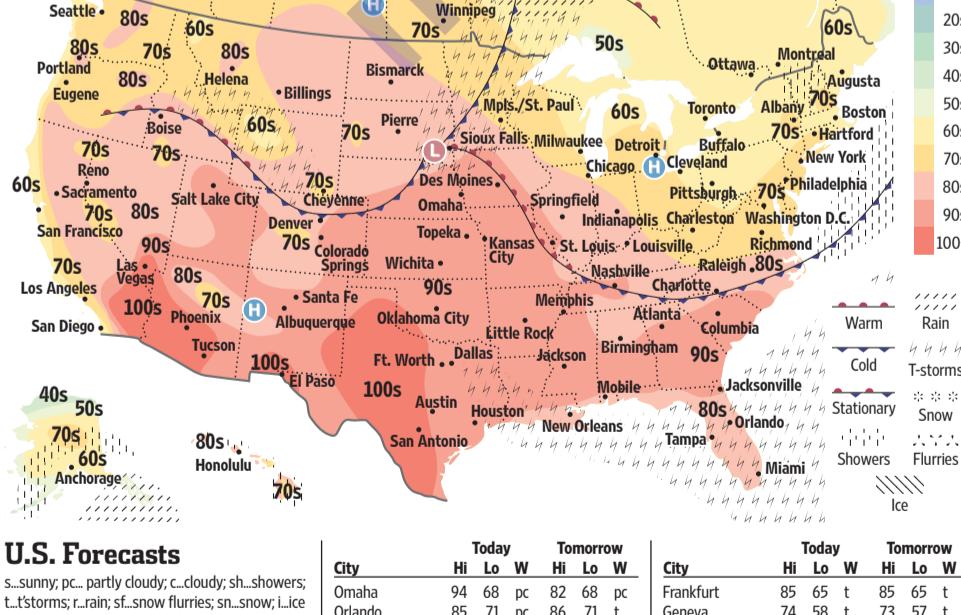
New York couture designer Zang Toi was surprised by requests for silk-jersey bodysuits after showing his Spring 2014 collection. "I really thought it would just be for the runway," he says, noting that the one-piece silhouette can be slimming.

For Fall 2018, he created a one-piece suit in jacquard, a stiff fabric that doesn't mold to the body. "A catsuit is not forgiving," he says. "It shows every ounce of muscle."

For some consumers, that's the point, says Raymond Phillips, store manager of FootGear NYC, a sneaker shop in New York's Harlem neighborhood.

Adidas makes a bodysuit the store has had success with, he says. If the brand's signature stripes don't fall in a plumb line along the body, so much the better. "The lines may not be straight, but they will accentuate those curves," Mr. Phillips says. "People want that notoriety. 'Yeah, I've been working on my body.'"

Weather



U.S. Forecasts

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

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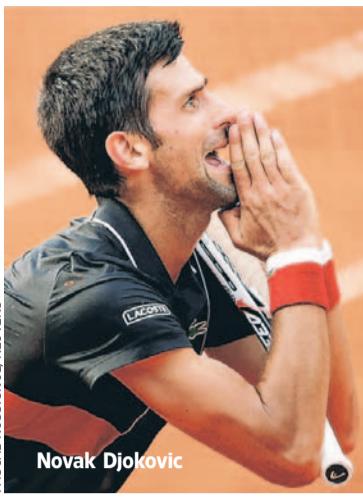
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SPORTS



TENNIS

GRASS SEASON IN DOUBT FOR DJOKOVIC

BY TOM PERROTTA

PARIS—For the first week of the French Open, Novak Djokovic looked like he was getting closer to the kind of player he used to be, a man who wins Grand Slam titles in bunches. But after his defeat in a French Open quarterfinal on Tuesday, Djokovic was disengaged—and unclear about where and when he would play next.

Djokovic lost to Marco Cecchinato, a 25-year-old who had never won a match in the main draw of a Grand Slam event before this tournament. Cecchinato was found guilty of match-fixing in 2016 but his suspension was overturned by the Italian Olympic Committee. The 72nd-ranked player beat Djokovic in a 3-hour, 26-minute match that ended in tiebreak, 6-3, 7-6(4), 1-6, 7-6(11). Djokovic saved three match points but could not bring the match to the fifth set.

Asked about the upcoming grass season and Wimbledon, Djokovic said he might not be a part of it.

"I don't know if I'm going to play on grass," he said. "I don't know what I'm going to do. I just came from the court. Sorry, guys, I can't give you that answer. I can't give you any answer."

Djokovic was back with his former coach, Marián Vajda, who said Djokovic was not at his best at Roland Garros, but improving.

"He's maybe 80% of his potential, but he's working constantly, continuously for two months already," Vajda said.

Djokovic said he struggled with an injury—at one point he had his shoulder and neck massaged—but felt better as the match progressed. He led Cecchinato 5-2 in the fourth set, but lost the lead. In the final tiebreak, Djokovic had a set point three times, but could not deliver. Cecchinato won on his fourth match point by hitting a backhand winner down the line as Djokovic tried to serve and volley.

"It was the best moment of my life," Cecchinato said.

NFL | By Jason Gay

NEVER MIND THE EAGLES: TRUMP SHOULD BE ALL CAPS

Another day, another episode in the life of President Donald Trump, Unofficial Commissioner of the NFL.

But before we dive into it, could I have a brief aside to address the president?

Mr. President: Hi, Jason here. Yes, the idiot at the Journal. Not sure you're getting this advice in the Oval Office, but: there is one and only one sports story that matters right now in Washington, D.C.—and that is the NHL Capitals, who are one win away from taking their first Stanley Cup in franchise history.

I know you love to jump on football, it seems like great fun to torment the league, but keep your eye on the puck. DO NOT MESS WITH THE CAPS MOMENTUM, MR. PRESIDENT!

OK, back to Trump vs. the NFL, Part 4,000...

This week's drama involves the Philadelphia Eagles, the Super Bowl champs who found themselves abruptly disinited from a White House visit on Tuesday.

Apparently, President Trump—fresh from victory over the NFL last week in getting the league to adopt a stand-for-the-anthem policy—wasn't thrilled to hear a lot of Eagles weren't planning to show for Tuesday's ceremony.

The President must have imagined himself carrying a tray full of green-frosting Eagles cupcakes—and only a handful of takers—and pulled the plug.

Why LeBron Trusts His Teammates

On his youth team, every player got an MVP trophy. It's a lesson that the Cavs star hasn't forgotten.

BY BEN COHEN

Cleveland

IN HIS FIRST season ever playing organized basketball, LeBron James went undefeated and won a championship. He was even crowned the most valuable player of his team. But so were Willie McGee, Frankie Walker Jr. and one young girl named Lavette Wilborn.

The Summit Lake Hornets, a team for kids between the ages of 8 and 10 years old who belonged to the same community center, won the Akron Recreation Bureau's youth league back in 1993. Their championship merited a brief article in the local newspaper, which misspelled a certain 9-year-old player's name as LaBron James, and they were feted after the season with a team banquet.

But what happened that night is something that James has never forgotten: Every player on the team went home with his (or her) own MVP trophy.

It didn't matter that James was the best player on the Summit Lake Hornets by the end of the season. His coaches would've stuffed pizza in his face if he'd complained that sharing the honor was unfair.

"That's still fair," said Hornets coach Frank Walker Sr. "He still got MVP."

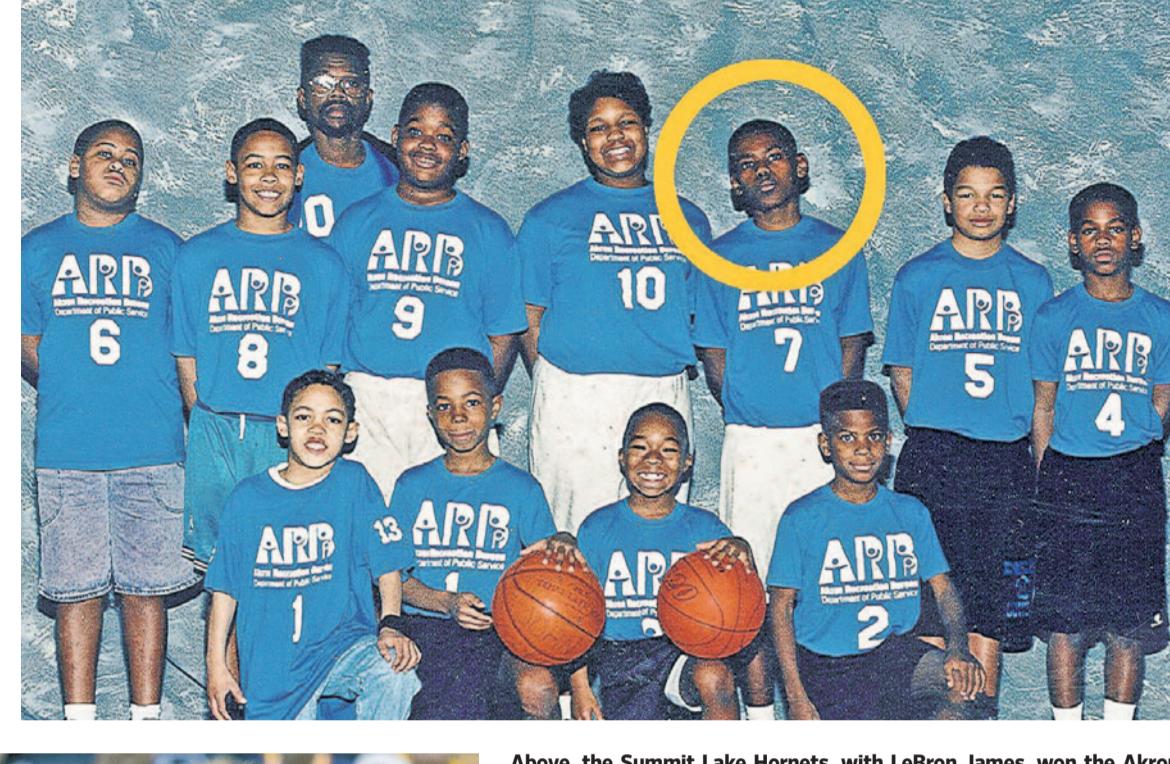
The decision to reward the entire team with MVP trophies had a profound effect on James early in his development as the greatest basketball player on earth. He couldn't have known at the time how unusual it was.

James didn't have any experience to suggest otherwise. That's simply the way he believed that basketball was supposed to be played.

"Right then I knew that this is a team game," James said last month. "It's not about one individual and how much one individual can do in order to win championships. In order to win, you have to have a full team."

The Cleveland Cavaliers are technically a full team. They have uniforms and everything. And yet they're down 2-0 to the Golden State Warriors in the NBA Finals because James is right: it isn't about one individual. What he's doing right now may be the most extraordinary run in the history of the NBA playoffs, but not even LeBron James can win a championship by himself.

But if there is one takeaway from the 25 years that James has been playing basketball, it's that



Above, the Summit Lake Hornets, with LeBron James, won the Akron Recreation Bureau's youth league in 1993. Left, James in action during Game 2 of the NBA Finals on Sunday.



he is going to keep relying on the other Cavs. To understand why, it helps to study the most influential team of his career: the Summit Lake Hornets.

"It's just been instilled in me since I was 9 years old, when I first started playing, of what it means to be in a situation where your teammates rely on you," James said.

The fundamentals of basketball were drilled into James as soon as he joined the Summit Lake Community Center's pee-wee team. He learned to play all five positions many years before he made positions meaningless, and his coaches wouldn't allow him to use his right hand for left-handed layups, especially because he was ambidextrous enough that he writes with his left hand. But what most impressed John Reed, the head coach of the Summit Lake Hornets, was his precocious star player's intuitive passing ability.

"At 9 years old," Reed said, "he knew how to pass to 7-year-olds without knocking them down."

James couldn't play every minute of every game back then. It was against the rules. The Akron Recreation Bureau prohibited teams with at least 10 players from playing anyone for more than two quarters. The Hornets had 11 players, and James had to spend a full half on the bench.

The other difference between the Hornets and Cavaliers was that one of his teams was able to survive the minutes when LeBron couldn't play. That's because one of his teams also had Lavette.

"They were 1 and 1A," said Walker Jr.

"We both was about equal," she said. "We both was good at what we did."

Lavette Wilborn, the only girl in the league, was the LeBron James of a team with LeBron James. She was bigger and so much better than the boys that she was anointed the most valuable player of the league's regular season. "He didn't particularly care too much for that," Reed said.

By the end of the season, though, the Hornets were LeBron's team. The championship game went to sudden-death overtime—and the score was tied at 30. James had been responsible for almost every basket, scoring 17

points and assisting on five more field goals, even though he'd only played two quarters.

But something remarkable happened in that sudden-death overtime. James didn't take the game-winning shot. Instead the ball went to Brandon Weems, who is now Cleveland's director of scouting. James won his first title because of his teammate.

James deserved the MVP trophy. But at the team banquet not long afterward, Reed and Walker Sr. decided it was only right to give every player an MVP trophy. The reasoning of his coaches was beyond James's comprehension.

"He felt it wasn't right," Walker Sr. said. "He didn't understand it at the time because he was too young to understand. But I knew what I was doing."

The lesson stuck with James for the rest of his life.

While it was lost in the mayhem that ensued, the series of unfortunate events otherwise known as Game 1 of these NBA Finals only happened because of a similar decision by James. With five seconds left in the fourth quarter, he spotted George Hill underneath the basket and passed to him. Before everything went terribly wrong, James had to do something right. He chose not to take the last shot of the game because there was a better shot available.

It's what he's been trained to do since the moment he started playing this sport: LeBron James trusted his teammate.

leased an anodyne statement thanking their fans and not mentioning a word about the White House disinvite or Mr. Trump.

This could make the President look bad.

What are the Eagles saying about my No-Eagles-Allowed party? They're saying nothing, Mr. President.

What? Hand me my Twitter machine.

I've heard the argument against these White House ceremonies—that dust-ups like this one, and the President's missed connection with the Golden State Warriors, underline the absurdity and political hazards of the tradition.

But these things weren't such big chores before. Players attended, players did not. Michael Jordan skipped one. So did Larry Bird.

([The President] knows where to find me," said Bird.) Tom Brady has missed ceremonies with President Trump and President Obama. Stanley Cup winning goalie Tim Thomas bailed on a Bruins visit with Obama because he felt the federal government was "out of control." Manny Ramirez missed a ceremony with the Red Sox, prompting George W. Bush to quip: "I guess his grandmother died again."

Which is a pretty funny line.

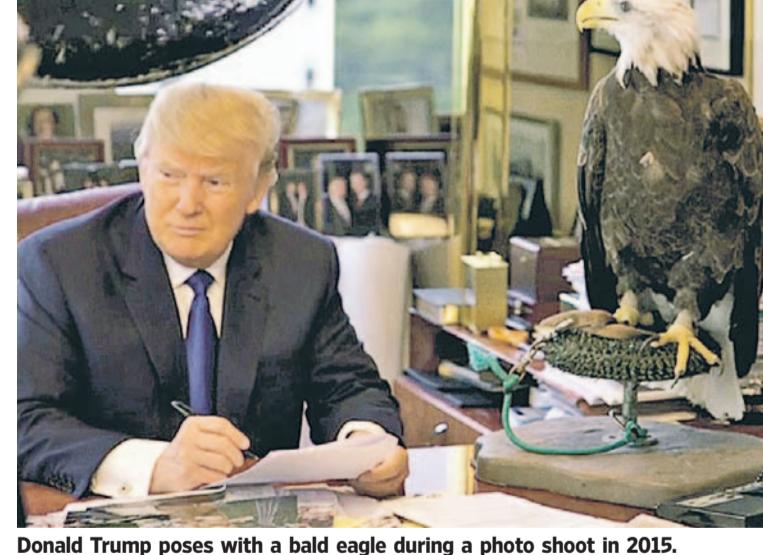
The point is, the show goes on. The President (whoever it is) is supposed to make a few bad jokes and hold up a shirt with his name on it. It's harmless photo-op, basically.

Now it's become this heavy, humorless political...football. The White House is turning a sports ceremony into a showdown over patriotism.

It's silly, unproductive, and best to ignore. There are bigger issues.

Like the biggest sports story in Washington, D.C., right now:

CAPS! CAPS! CAPS! ONE MORE TO GO!



Donald Trump poses with a bald eagle during a photo shoot in 2015.

IME MAGAZINE HANDOUT/REUTERS

reductivist, passionate and people on both sides are dug in. If NFL ownership thought the President would lay off them once they made their anthem rule, they were foolish.

For the White House, this is great fun. Why give it up now?

And this is why I'd recommend this move for the Philadelphia Eagles: Ignore it.

Let it go. Do not make the same mistake that so many of the President's targets make. Don't engage. Don't tweet. Go to the movies. Go get ice cream. Read John Carreyrou of the WSJ's *Theranos* best seller, "Bad Blood." Remove the oxygen, allow the fiasco to evaporate. Take a high road.

It'll drive the unofficial NFL commish crazy.

I think by now we all know that President Trump lives for the fight. Conflict is his fuel. A battle allows him to dictate terms, stretch the drama, poke his opponents. He wants his enemies to

jump into the Octagon.

I'm sure the Eagles who wanted to go to the White House are bummed. The players who planned to skip it are likely chagrined to see their choice painted as anti-American.

Or maybe they expected it.

Again, here's how many Eagles knelt for the anthem during last year's Super Bowl season, or sat it out in the locker room: zero.

Nobody.

"People on the team [have] plenty of different views," tweeted the Eagles receiver Torrey Smith, whose father served more than two decades in the Army. "The men and women that wanted to go should've been able to go. It's a cowardly act to cancel the celebration because the majority of the people don't want to see you. To make it about the anthem is foolish."

All fair points! But I still say: ignore it.

So far, the Eagles are flying low. On Monday night, the team re-

OPINION

Starbucks Chief Won't Stay Hot

**BUSINESS WORLD**
By Holman W. Jenkins, Jr.

the New York Times.

The man who turned a Seattle coffee chain into an institution of global ubiquity has been "frequently mentioned" as a Democratic Party candidate, adds this frequent mentioner.

Treading the path of many business people who enjoy hearing themselves referred to as presidential timber, Mr. Schultz's way ahead is clear: spend the next umpteen months trying to extend the boomlet that obliging scribes started this week.

However unlikely his elevation to the White House, there will be an extra murmur in every crowd as gawkers jostle and say there goes a potential president. Decades from now, in his golden years, Mr. Schultz can revere himself not as a man who sold overpriced coffee, but one who his contemporaries said should be leader of the nation, dammit.

All this will be an excellent substitute for actually running, and a great deal more satisfying.

In Mr. Schultz's case, fundamental to being mentioned is his ability to write himself a big check. If he needed others

to finance his campaign, he would not be mentioned. Cynics might even suspect the boomlet is fluffed by pollsters and consultants hoping to get into his pockets.

What else qualifies him when so many CEOs who privately consider themselves presidential material are not mentioned? The answer is a handful of occasions in which he inserted himself into a passing public controversy, most notably Washington state's 2012 gay-marriage referendum.

He was widely credited for telling a shareholder to sell his stock if he disagreed with the company's stance, but that's not what he said. He said the shareholder should sell his stock if the shareholder could find another investment that returned 38% in a year, pretty much as if to say there was no downside to the business from the company's politicking.

Don't take this as a criticism. Politicians strive to get a reputation for being brave without being brave. Virtually all of Seattle's major businesses, from Amazon and Microsoft to Nordstrom and Nike, backed the gay-marriage measure. President Obama, single-mindedly focused on his own re-election, decided it was safe to endorse gay marriage.

As Forbes magazine noted at the time, "A Washington Post poll this week found that support for gay marriage among Americans has shot up to 58% in favor and 36%

against, a complete turnaround in less than 10 years. Schultz's stand isn't nearly as daring as it would have been a few years back."

His other two other quasi-political occasions—after Newtown, requesting that customers not openly display guns in his stores; and a recent racial incident in Philadelphia—were forced on him by others using Starbucks as a stage for their own political statements.

Like his coffee, the Howard Schultz political boomlet is best consumed fresh.

Since announcing his retirement, Mr. Schultz mostly just noted that the country is divided (it always is). He seemed to imply that the way forward is for everyone to agree with the progressive agenda. Then he went on TV Tuesday and questioned the affordability of single-payer health care and entitlements generally. By the time you read this, the boomlet may be over.

The most galumphing canard is that Donald Trump paves the way for all who succeed in business suddenly to succeed in presidential politics.

Mr. Trump did not rise because of his business success in any traditional sense, but for a host of reasons related to his made-for-TV persona,

his knack for identifying the real feelings of a big chunk of the electorate, and the fact that Democrats nominated Hillary Clinton, plus one more thing:

We've wrestled with the idea that Mr. Trump has changed the norms of U.S. politics. He clearly has, but how? Politicians uttering idiocy, lies and demagoguery is nothing new. Mrs. Clinton's disingenuousness about why she lost is every bit as dishonest as Mr. Trump's disingenuousness about his inaugural crowds. President Obama's reliance on straw-man arguments to humiliate any who disagree (we begin to learn) was annoying even to those inside his administration.

Mr. Obama illustrates the point: So much political speech is about displaying power and dominance, not persuasion—showing you have the mettle to prevail. The Trump difference has been his willingness to go places and use language others won't. Our guess also is that readherence to the conventional limits (meager as they are) will be strongly required of whoever comes next.

Mr. Schultz is clearly not without political talents. Like many business types with political stars in their eyes, he really dreams of being elevated by acclamation because of his innate good intentions. To his credit, he perhaps lacks the stomach to do what's really necessary to win in presidential politics.

BOOKSHELF | By David J. Meltzer

Trekking The Ice Age

Atlas of a Lost World

By Craig Childs
(Pantheon, 269 pages, \$28.95)

Sometime during the last Ice Age, the first people came to America. They trekked across a land bridge then linking Siberia and Alaska and, without realizing it, entered what was truly a New World. Some ultimately turned back; others lingered in Alaska. Still others headed south and must have soon realized, seeing no smoke on the horizon or freshly speared animals, that they were alone on a vast landscape that became increasingly unfamiliar the further they went.

Archaeologists and their fellow travelers—principally geneticists these days—seek to understand who these first Americans were, where they originated, when they arrived, and especially how they so successfully traversed the great physical and ecological range from Alaska to Patagonia, all in the blink of a geological eye. These scientists fuss over subtle differences in the manufacture of stone projectile points, debate whether scratches on mammoth bones were made by nature or a hunter's knife, and peer into complex genomic

sequences to link ancient and modern peoples across space and time. It's easy to get lost in the details.

"Atlas of a Lost World" by Craig Childs, a nature writer and wilderness adventurer, aims to be a guide through that scholarly thicket. But more than that, it is also a tale of his journeys into the wild to retrace the steps of the first Americans, so that it might give us a glimpse of what their journey may have been like tens of thousands of years ago. As an archaeologist who works on this time period,

I admire his attempt to convey the lived experience of these past people—my kind does too little of that. Yet I also see that his limited archaeological expertise leads him into pitfalls about what that experience entailed.

But first the adventures: The book opens with Mr. Childs on an island in the Bering Sea, a one-time high point on the land bridge that is now drowned by 160 feet of water, and ends with him at the Burning Man festival in Nevada's Black Rock Desert, the dry floor of an Ice Age lake. In between, we learn of archaeological sites and finds from Siberia to South America, meet friends and family, and join his travels in remembrances of past times. Mr. Childs hikes onto the Harding Icefield, on the Alaskan coast, though I was perplexed as to why Ice Age hunter-gatherers would have done so—there's no food there; goes sea kayaking down the Pacific Coast, which may have been the original route in the Americas; and paddles through gator-infested Florida swampland. These vignettes are for me the pleasure of the book. They convey a love of the land, a yearning for what has been lost, and are by turns interesting, funny, warm, insightful and occasionally just a little silly, like the re-enactment of a mammoth hunt across the dunes of New Mexico's White Sands National Monument, in which Mr. Childs has the starring role as the prey (spoiler alert: the mammoth dies).

An adventurer follows in the footsteps of the earliest people to come to the Americas—from Alaska to Patagonia to the Florida swampland.

Mr. Childs knows, of course, that he can delve into an Ice Age mind only so far. Even so, and though one can scarcely prove it, I'll bet he's right when he says that the first Alaskans would have watched birds flying south and wondered where they were going; or that our love for climbing a hill for the panorama comes from ingrained memory, "the earliest form of cartography, a sense of location." That would certainly explain the litter of artifacts of all ages that I often see on high spots in remote regions. Other claims aren't as illuminating. He so often repeats his worry that colonizers would have been eaten by the big carnivores that roamed this landscape that one can't help wondering if he's projecting his own fears or just stoking the plot for dramatic effect. These are hunter-gatherers who scarcely paused in their colonization of the Americas. Moreover, we have evidence that they could be highly successful predators, and none that they were prey.

Mr. Childs views the record of their colonization through different lenses. There are the archaeological sites that have survived the millennia. These can be highly fragmentary, rendering their meaning subject to dispute, as he recognizes. Still, he often can't resist putting his thumb on the scale, including endorsing a purported 130,000-year-old site that clocks in at more than 100,000 years older than any other site in the Americas and whose legitimacy teeters on battered stones and fractured mastodon bones. Mr. Childs sees those breaks as "hard to mistake for anything but human." To most archaeologists they look nature-made. And then there's DNA evidence of the colonizers' population history, which can be challenging to interpret if you don't know the rules and can't spot the foul. When Mr. Childs asks an archaeologist about genetic evidence that disproves the archaeologist's pet theory that the Americas were originally populated by Europeans and not ancestral Native Americans, the reply comes back, "Bull—," followed by a smirk. The genetic evidence is anything but, yet Mr. Childs cannot call the bluff.

"Atlas of a Lost World" trips over many such matters. Postglacial sea-level rise, even at its most rapid 14,500 years ago, was not so fast that the sea would have seemed as if it were "closing like a noose" or would even been noticed on the scale of a human lifetime. Projectile points fashioned by Clovis people some 12,800 years ago were not the "nuclear" weaponry of a "stupendous killing force"; some were knives, others were used to harvest plants. And the dopamine receptor D4 is linked to novelty seeking, but its apparent occurrence in higher frequencies in populations ever-distant from Alaska is not proof that "people needed that much more [D4] umph to reach that far south." After all, D4 is also linked to marital infidelity: Do we conclude that South America was peopled by cheating spouses fleeing their exes?

Such errors inevitably undermine the book's scientific credibility. But read "Atlas of a Lost World" for what it is, not what it isn't. It's a clever, smartly written and altogether enthusiastic effort to breathe feeling and life into the human processes behind all those ancient sites, artifacts and busted animal bones. The past is a country to which one cannot return, but "Atlas of a Lost World" at least helps you imagine what you might be missing.

Mr. Meltzer, a professor of archaeology at Southern Methodist University, is the author of "First Peoples in a New World: Colonizing Ice Age America."

Pardon Me, Said the President to Himself

By Richard A. Epstein

President Trump shocked the nation Monday by announcing via Twitter: "I have the absolute right to PARDON myself." Many of his liberal critics deny he holds this power. But their disdain has led to faulty constitutional analysis. I share the view that any decision by Mr. Trump to pardon himself would spur a political disaster of, well, Trumpian proportions. But that is precisely the point. The powerful check public opinion places on the president reduces the need to conjure a prohibition of self-pardons from the text of the Constitution.

Article II, Section 2 says the president "shall have Power to grant Reprieves and Pardons for Offenses against the United States, except in cases of impeachment." This power is not subject to any textual limitation. Indeed, the pardon power was created as a unilateral check on the power of the legal

system to inflict punishment. Unlike appointments and treaties, pardons never require Senate consent.

Skeptics sometimes argue the pardon power is constrained by Article II, Section 3, which instructs that the president "shall take care that the laws be faithfully executed." The claim is that the "take care" clause prevents a presidential self-pardon because "it's inherently in his own self-interest." A variation of this argument holds that a self-pardon would violate the president's fiduciary duty to serve the interests of the people over himself. And a third variation, urged by the Justice Department in 1974, on the eve of Richard Nixon's resignation,

rejects the self-pardon by invoking the principle that "no one may be a judge in his own case."

These arguments misconstrue the scope and limits of executive power. The president does far more than execute laws. He has the power to make appointments and negotiate treaties; neither involves executing law. Nor does the exercise of the pardon power, whether done faithfully or not. Similarly, the president is not acting as a judge when he pardons another person. How does he suddenly become a judge when pardoning himself?

A requirement that the president must never use his vast powers for his own interests would make every presidential action legally dubious, as some form of self-interest is always among every executive's motives. The same problem undercuts the absurd notion that the president must act as a fiduciary when

exercising the pardon power. Placing the president under a traditionally defined fiduciary duty would purport to constrain the pardon power in every case, by demanding that the president act with reasonable care and disinterested motives.

The desire to target Mr. Trump doesn't justify outlandish legal interpretations. Nor does it allow Mr. Trump to be impeached for exercising his pardon power, unless his pardon constituted treason, bribery, or other "high Crimes and Misdemeanors." In the end, Congress is prosecutor and judge of any impeachment. But remember that an abuse of the impeachment power would pose a far greater risk to our constitutional order than any misuse of the pardon power.

Mr. Epstein is a law professor at New York University, a senior fellow at the Hoover Institution and a senior lecturer at the University of Chicago.

OPINION

REVIEW & OUTLOOK

Rick Perry's Obama Imitation

One Trump Administration achievement has been liberating U.S. energy producers of all kinds from federal shackles. Companies have responded with jobs and investment, but all of a sudden the Administration wants to do a Barack Obama imitation and play energy favorites.

The National Security Council on Friday reviewed a 41-page internal memo, leaked to Bloomberg News, suggesting that President Trump invoke emergency authority to require grid operators to buy nuclear and coal power. But there's no emergency, and the political intervention will do more harm than good.

* * *

The supposed problem is that the U.S. is producing an abundance of cheap natural gas thanks to the shale fracking revolution. As a result, national electric wholesale prices for natural gas have plunged by half since 2008, even more in shale-rich areas like Ohio and Pennsylvania. Meanwhile, government subsidies such as the 30% federal investment tax credit have boosted solar and wind production while driving down the wholesale cost. Many nuclear and coal plants unable to compete with renewables and natural gas may have to shut down over the next few years.

Energy Secretary Rick Perry directed the Federal Energy Regulatory Commission (FERC) last September to consider if power plants that store at least 90 days of fuel on site should receive additional compensation. According to DOE, natural gas is prone to supply disruptions and the country needs a stored fuel supply to ensure the lights stay on during extreme weather or cyber-attacks.

FERC in January unanimously rejected Mr. Perry's proposal, noting that it was already improving grid reliability and cybersecurity. The commission initiated a rule-making to consider if additional actions are warranted. It also launched an investigation into whether grid operators were fairly compensating "fast-start resources" that can respond "quickly to unforeseen system needs."

But coal and nuclear power producers have lobbied Mr. Perry to short-circuit the FERC review. Ohio-based utility FirstEnergy's power generation business filed for bankruptcy in April, which could result in the closure of several coal and nuclear plants. The White House is also worried about layoffs in states like West Virginia, Pennsylvania and Ohio before the midterm election.

Thus, the rescue plan—er, regulatory bailout.

Now Hiring—Everywhere

When does the lack of workers begin to limit economic growth? No one knows the answer, but it's a question

the Trump Administration should consider as evidence grows of a tight labor market. The latest data arrived Tuesday with the Labor Department's monthly job openings report through the end of April. The survey showed nearly 6.7 million job openings, up about 65,000 jobs from March and the highest number since the government started tracking this data in late 2000.

The figure has now exceeded six million for most of the last year, and the number of job openings now exceeds the number of Americans looking for work in the monthly employment re-

According to the Trump memo, Section 202 of the 1920 Federal Power Act lets the Energy Secretary mandate the delivery or generation of electricity during an emergency. It also suggests that the President could use his authority under the 1950 Defense Production Act to "construct or maintain energy facilities" to protect national defense.

None of this is necessary. Energy companies are already working with regulators to fortify their cyber firewalls. PJM, which manages wholesale power markets across 13 states in the mid-Atlantic and Midwest, says "there is no immediate threat to system reliability" and the region currently has a 25% energy capacity surplus. The Energy Information Administration projects that coal-fired electric generation will "stay relatively flat" over several decades despite plant retirements since "utilization of the remaining coal fleet" will increase." In other words, the same amount of coal will be burned from fewer plants.

The Trump memo cites a March warning from the New England transmission organization that "retirements of coal-fired, oil-fired and nuclear generators" will have a "significant impact on reliability." But the New Hampshire Supreme Court last month issued a ruling that will ease the way for a major gas pipeline expansion. FERC could also overrule New York Gov. Andrew Cuomo's legally dubious decision barring the Constitution Pipeline that would transport more shale gas to New England.

Mandating that grid operators buy more expensive coal and nuclear power would raise consumer prices and could reduce natural gas production that has been a boon to many states. And note to Mr. Trump: Energy is one of the biggest costs for steel and aluminum manufacturers. The government rescue for coal and nuclear is as politically abusive as Mr. Obama's lawless policy to punish fossil fuels.

A better way to make coal and nuclear more competitive is to keep chipping away at renewable subsidies and cutting regulation. Meantime, the Trump Administration's deregulation and an uptick in exports are helping to revive the coal industry. Employment in coal mining increased by 2.5% last year compared to 1.8% growth for all private jobs. Metallurgical coal exports increased by a third last year thanks in part to growing steel production.

As Governor of Texas, Mr. Perry often visited our offices to explain why the U.S. government shouldn't pick energy winners and losers. He's still right even if he has moved to Washington.

The tight labor market may soon become an obstacle to growth.

port. Openings have increased over the last year in nearly every industry tracked by Labor, notably in manufacturing for durable goods and professional services.

The manufacturing openings may increase further as businesses expand their capital spending as the benefits from tax reform spread, but eventually CEOs will have to reconsider investments if they can't find enough workers. Some will raise wages, but that is limited by the ability to raise prices.

Another response will be to invest overseas where there are more workers to hire. If President Trump really wants businesses to stay in America, he's going to have to reconsider his hostility to immigration.

The GOP's Welfare to Work Pitch

The low U.S. labor force participation rate has several causes, but a major one is the disincentive to work created by government programs. The Republican Party's growth wing has spent years developing ideas for addressing these incentives not to work and rise up the economic ladder, and the results are starting to show.

Last month to almost no attention the House Ways and Means Committee moved a bill from Chairman Kevin Brady that would update the Temporary Assistance for Needy Families program, known as TANF. This program is the result of the Newt Gingrich-Bill Clinton 1996 welfare reform.

The American Enterprise Institute's Robert Doar noted recently that TANF on the whole is a success. The program has declined as a share of 1996 spending while Medicaid and food stamps have exploded. One big reason is because TANF is a block grant to states, unlike the Medicaid racket that allows states to draw down more federal dollars for every new enrollee. The program even survived attempts at sabotage by the Obama Administration like expanding waivers for work requirements.

The current system requires states to engage 50% of families in work activities. But that means states can write off some of the tougher cases. And gimmicks like a "caseload reduction credit" allow states to buy down the 50% rate to a much lower benchmark or even 0% of families. Mr. Brady's bill would require that 100% of recipients engage in work or training as a precondition of receiving benefits.

More broadly, the bill moves from a measure of participation in work to new metrics that will try to tilt at questions such as: Did this recipient

get and keep a job? Health and Human Services will manage a dashboard that grades states. States have flexibility on setting goals and targets, which can dilute accountability but is an improvement over the status quo.

Some changes aren't about the folks receiving benefits but the people who run the programs. State benefit offices are too often places to pick up a check and little else. The plan would toughen up case-management practices, which is essential for helping folks, say, making a career transition.

The bill also says that states must direct the funding toward families below 200% of the poverty line. Governors and state legislators have shuffled money around into other priorities that aren't aimed at low-income individuals, and TANF funding has become a popular pot for state lawmakers to raid in a pinch.

Attacks from Democrats will not be nuanced—or accurate. Mr. Brady's bill maintains current levels of funding. It isn't "slashing" or "gutting" or other descriptions that are sure to appear in the coming weeks. For now the bill looks like a long shot in the Senate thanks to flight risks like Susan Collins of Maine, but welfare reform is popular. The House is also moving as part of the farm bill on work requirements for food stamps, which are a much larger share of spending on income transfers.

The timing is right for these reforms amid a 3.8% jobless rate and worker shortages across the country. Paying people to make it easy not to work—and thus languish for a lifetime in poverty—is not compassionate. It's destructive of human dignity and leads to more inequality. Republicans are right that welfare reform will assist American upward mobility, and they should take the case to the public.

Some good ideas for getting Americans back in the labor force.

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LETTERS TO THE EDITOR**Accommodating the Disabled in Higher Ed**

As professionals with extensive experience working with students with disabilities, we were dismayed by "Colleges Give the Disabled More Leeway" (U.S. News, May 25). People with disabilities face many needless barriers to employment because of ill-informed ideas about their capabilities or the nature of accommodations. Few would suggest that it is unfair to provide a person in a wheelchair with a ramp while those who are able use stairs. While some believe that "fair" means "same," fairness better refers to "equitable" opportunity, which may well be different for people with varying needs. Accommodations don't reduce or change learning objectives; they provide supports to students who need them, to the degree needed, to enable them to achieve rigorous outcomes alongside their peers.

According to the National Center for Education Statistics (NCES), students with disabilities made up 13% of the K-12 school-aged population from 2011-16. Similarly, the most recent estimates available, also from NCES, indicate that higher-education students with disabilities make up between 11% and 12% of the student body nationwide.

The fact that the percentage of students with disabilities who attend college is growing more representative of the population may reflect effective programs in K-12, greater career opportunities for individuals with disabilities and/or

greater acceptance of disability in higher education.

Meanwhile, students must provide documentation of specific diagnoses to campus officials who are trained to make determinations about whether those students require reasonable accommodations. The process is far more involved and nuanced than a student's obtaining a doctor's note that then binds the school to provide accommodations, as the article suggests.

ANGIE BRUNK MLS, M.A.
St. Joseph, Mo.
ERIC J. MOORE, PH.D.
Knoxville, Tenn.

When these disabled students apply for a job after college or to graduate or medical school to continue their studies, are there going to be different metrics used to rate these students among their peers?

DON WAGSTAFF
Oro Valley, Ariz.

I can appreciate the need for some college students to require extra test time, especially for reading. However, how is a request for "low-distraction environments" going to help them when their first job has them working in an open-plan office? How often is "I need extra time" (relative to my co-workers) acted on in a positive way in a business environment?

PAUL HALE
Doylestown, Pa.

Pueblo Capture: A Failure of Senior Officers

overboard in the shallow sea.

The consequences of the capture of the machines and cryptographic keys were very serious. The North Koreans passed the haul to their Russian sponsors, whose various military spy and cipher organs could read U.S. strategic and tactical communications for years afterwards. About one million classified messages were decrypted by the USSR.

Although Cmdr. Lloyd Bucher and his crew had no useful defensive weapons or equipment destruction capability, they did the best they could while under massive attack.

The real culprits, at the highest levels of the Navy and NSA, were never held responsible. I hope the lessons of the Pueblo incident are taught to today's classes in the Navy and at the NSA.

JON PAUL, MSEE, ARCSI
Paris

Evergreen State's Bias Finally Exacts a Price

While accurately recounting the protest-mob politics that have put the college in a tailspin ("Rough Social Justice at Evergreen State" op-ed, May 23), Jillian Kay Melchior might also address the deeper issue at the root of the failed experiment that is the Evergreen State College: a complete lack of accountability at every level. Students aren't accountable because there are no grades, no ma-

Current TV Did Very Well And Sold for \$500 Million

Regarding Holman Jenkins's "Netflix Invests in Obama's Celebrity" (Business World, May 26): As Current TV's former CEO and co-founder (together with Al Gore), we were in fact unable to get television carriage for the first few years of our endeavor—and certainly didn't obtain it by playing in the "political rent-seeking" game. We eventually obtained distribution only by buying another TV network, News World International, for which we paid \$70 million to the French company that previously owned it. Only one of Current TV's carriage agreements had a minimum viewership requirement, and Current TV's audience exceeded that minimum the entire time that we owned the network.

The Al Jazeera litigation ended with 100% of the funds in the disputed escrow account being distributed to Current TV's former shareholders and 0% paid to Al Jazeera. Current TV was the youngest network ever to win an Emmy Award, and it won two Emmys and the prestigious Peabody Award in the years that we owned the network. We sold the network for \$500 million—twice the amount paid for the Washington Post.

Our story was one of going around a closed, oligopolistic industry, innovating new consumer-friendly formats, creating value that didn't exist before and realizing that value for all stakeholders. That's usually a story the Journal likes to celebrate.

JOEL HYATT
Atherton, Calif.

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Pepper ... And Salt

THE WALL STREET JOURNAL



"Sorry I'm late. My Uber driver turned out to be the Google maps guy."

OPINION

Is Trump Following a Grand Mideast Strategy?

By Daniel J. Arbess

What if President Trump's foreign policy isn't as impulsive as it may seem? Put aside Korea and trade and consider the Middle East. Mr. Trump's disregard of orthodoxy could turn out to be exactly what's needed to sequence a comprehensive strategy for stabilizing the region—and to stanch the flow of Islamist terror to Europe and the U.S.

The first step has been to forge a working consensus among Israel and its Arab neighbors, aligned to contain Iran and frustrate its dreams of a Shiite crescent through Iraq, Syria and Lebanon to the Mediterranean. Mr. Trump visited Saudi Arabia on his first foreign trip, in May 2017, and has cultivated the new crown prince, Mohammed bin Salman, a putative reformer of Wahhabism.

His approach to Israel, Arab allies and Iran makes it look that way. Syria will pose a major challenge.

He has collaborated with the United Arab Emirates and Egypt's Abdel Fattah Al Sisi, another advocate for reform of Islam, and respected the Hashemite Kingdom of Jordan, while calling out Qatar for its support of Hamas in Gaza. While none of these nations—except Israel—exemplify American ideals of liberty and the rule of law, they share an interest in fighting Islamist terror and ultimately enlisting U.S. support for better governance and economic opportunities for their young populations.

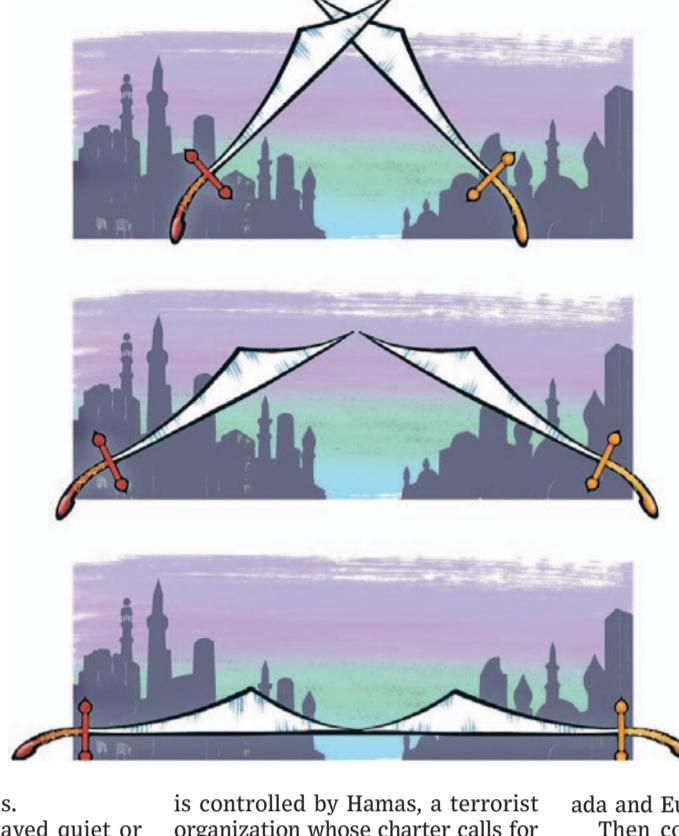
The new alliance faces three main challenges: containing Iran's imperial ambitions and support for terrorist groups such as Hezbollah; stabilizing Syria to finish off Islamic State and foreclose the next iteration of caliphate-seeking terror; while also ending Bashar Assad's devastation of Syrian Sunnis.

and resolving the Israeli-Palestinian conflict. The last has become a low priority in the Arab world, but its resolution would liberate Israel to assume a deserved mantle of regional leadership.

The president was still right to start with the Palestinian file, while consolidating the alliance and working toward consensus goals and strategies for the other two challenges. His recognition of Jerusalem as Israel's capital codified a truth that must be accepted before Israel and the Palestinians can move forward together. The December announcement was brilliantly timed to confirm, validate and stress-test the new regional alliances.

All the partners stayed quiet or offered pro forma objections, thereby passing the test—except the Palestinians. This was an opportunity for them to express disappointment and to resume negotiations for their own state, with its capital also in Jerusalem. Instead, President Mahmoud Abbas cursed President Trump: "Yekhebe Beitak": "May your house come to ruin." Then, as the embassy was moving last month, Hamas incited border riots in Gaza that killed scores of Palestinians.

There's nobody home right now to engage in peace negotiations on behalf of the Palestinians. On the West Bank they are led by the affable but unreliable Mr. Abbas, who is 82 and in the 14th year of his four-year term, continues to propagate base anti-Semitism. He is routinely bullied by subordinates—I've seen it privately in person—and is trying to govern from a hospital bed. He has no apparent viable successor. Gaza



is controlled by Hamas, a terrorist organization whose charter calls for the destruction of Israel.

Ordinary Palestinians are desperate for the peace that would integrate them into Israel's economic miracle, but their illegitimate leadership is worsening their people's misery to curry sympathy from native Westerners. Still, Mr. Trump deserves credit for crystallizing the regional alignment that lays a foundation for progress once someone emerges with legitimacy to speak for the Palestinians.

Next, the president delivered on his promise to withdraw from the Iran nuclear deal, the Joint Comprehensive Plan of Action, a move that repudiated his predecessor's supposed crowning foreign-policy achievement, defied Washington's foreign-policy establishment, and frustrated America's European allies. The JCPOA might have delayed Iran's nuclear program, but it didn't even pretend to eliminate it. Withdrawing from the deal could

be a very good decision—provided it's eventually replaced with a real nonproliferation regime and an arrangement that contains Iran and its proxies' terror and mischief in the region.

Secretary of State Mike Pompeo's May 21 Iran strategy speech articulated the challenge well, but making it happen will require exceptionally smart diplomacy. North Atlantic Treaty Organization allies need to be brought on board lest Iran drive a wedge between them and the U.S.—which could otherwise yield even more serious mutually destructive retaliatory trade wars than seem likely now with China, Mexico, Canada and Europe.

Then comes the ultimate prize, stabilizing Syria by stopping Mr. Assad's domestic bloodletting, containing the spread of Sunni extremism, and ideally opening the door for Syrian migrants to return home.

The Trump administration is still behind the curve here. Besides launching airstrikes to punish Mr. Assad's grotesque and illegal chemical drops on his own people, the president has talked about pulling out of Syria "soon," which would widen the vacuum Vladimir Putin's Russia is aggressively filling—and for good reason: Syria is the door that must be closed to block Islamist radicalism from reaching Russia from the Middle East.

A serious approach to stopping the spread of Islamist terror, which should be the highest priority in the region for U.S. homeland security, necessitates that the U.S. stay engaged and develop a real Syria strategy. This could be a huge accomplishment, with the

not-incidental bonus of getting the failed "reset" with Russia back on track. Cold War talk is the rage in Washington these days, and Mr. Putin's thuggish behavior doesn't help. But Russia, the U.S. and Israel have critical common interests in redressing the spread of Islamism much closer to Russia than America. So far, Israel is alone in cultivating the Russians, with the U.S. out of the picture as Mr. Putin earns credit for constructively rolling back Iranian influence on Israel's northern border.

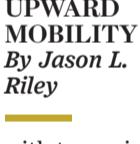
Russia has little affinity for the Iranian ayatollahs, especially with their competing nuclear and energy ambitions—imagine an oil-rich Cuba with nukes. Mr. Putin is in bed with Mr. Assad and Iran for lack of a better alternative. Recep Tayyip Erdogan's Islamist-leaning Turkey can't be trusted to help insulate Russia, and the U.S. and Europe are understandably hostile to Mr. Putin's moves in Ukraine and Syria.

Yet Russia needs American partnership, and it's clearly in everyone's interest to collaborate toward an alternative to Mr. Assad and Iran for shoring up Syria. The U.S. will certainly have a better chance of restraining Mr. Putin's misbehavior at home and abroad if it seizes the initiative to stabilize the Middle East with Russia and Israel. This should be high on the agenda for the next Trump-Putin meeting.

Successfully dealing with Russia and Middle Eastern and European allies could produce a long-overdue realignment of international alliances set in the 20th century's bipolar rivalry of economic systems, to address rogue nations like Iran and the decentralized, multipolar threats of nonstate terrorists afflicting East and West. Given the initial chaos around the administration's other international negotiations, this may be a lot to expect. After decades of Middle East failure, though, bold disruption seems exactly what is necessary. Last century's "experts" have had their turn.

Mr. Arbess is CEO of Xerion Investments and co-founder of No Labels.

The Airport Control Tower Is No Place for Racial Redress



UPWARD MOBILITY
By Jason L. Riley

In 2013 he graduated with two aviation-related bachelor's degrees from Arizona State University, one of the dozens of schools with which the Federal Aviation Administration has partnerships to vet candidates for its air-traffic-control training program.

Graduates of these Collegiate Training Initiative schools then must pass the Air Traffic Selection and Training exam, or AT-SAT. This eight-hour test is designed to assess numeric ability, tolerance for high-intensity work, capacity for solving problems, and so forth. The goal is to determine their likelihood of completing the requisite training to become an air-traffic controller. Training a controller is expensive—on average it costs more than \$400,000—and the CTI system has proved an accurate predictor of what's got what it takes.

Mr. Brigida completed the college program, aced the AT-SAT and received a strong recommendation from an academic adviser. He was then placed on a list with other prospective controllers, who would be sent to Oklahoma City for the mandated 15 weeks of training. Five years later, Mr. Brigida still is not working as an air-traffic controller. What happened is the Obama administration.

In 2013 the Obama FAA changed

the process for hiring controllers and then applied the new policy retroactively. No longer would the FAA give hiring preference to applicants with degrees from CTI schools or military experience, as it had in the past. In order to foster "diversity" in control towers, the agency would move away from merit-based hiring and toward more subjective measures. To attract a higher percentage of candidates from racial and ethnic minorities, a "biographical questionnaire," or BQ, was added to the screening process. Applicants were asked about their upbringing, family hardship and the like. Those who didn't score well enough on the BQ were deemed ineligible, regardless of how well they had performed on tests measuring cognitive skills.

What's worse, Mr. Brigida and some 2,600 others already on the FAA referral list were notified that their AT-SAT results would be tossed and that they would need to

reapply. Mr. Brigida did so but was told that he had failed the BQ and was no longer eligible to become an air-traffic controller.

"The most shocking thing to me is that nobody in that room when this change was decided—not the secretary of transportation, not the

The Obama FAA grounded qualified candidates in the name of justice. Why isn't Trump moving to reverse?

head of the FAA—raised his hand and said that we're talking about airline safety here," said William Perry Pendley of the Mountain States Legal Foundation, a public-interest law firm that is representing Mr. Brigida and other plaintiffs in a discrimination lawsuit against the federal government. "We're not

talking about somebody driving a truck. We're talking about somebody guiding an aircraft into snowbound Chicago."

Equally shocking is the revelation that the Trump administration is fighting in court to preserve the Obama-era policy. Like its predecessor, this administration is ignoring the fact that thousands of people like Mr. Brigida dedicated years of their lives to getting the proper schooling—in some cases incurring significant debt—only to see the rules changed in the middle of the game. Moreover, the changes weren't to streamline the process or improve safety but rather to achieve what the government decided (for now) is the "right" racial mix.

The Trump administration should be returning to a sensible system that prioritizes objective measures of competence. After all, being a controller means making life-or-death decisions on a regular basis. Instead, the administration has

opted to preserve a policy that in practice amounts to thinly disguised discrimination in the service of boosting the number of minority air-traffic controllers.

The Trump administration didn't respond to my questions about the case, but the proper course of action is clear: Settle with Mr. Brigida and the thousands of other eminently qualified plaintiffs. Allow them to embark on careers as air-traffic controllers. And then reverse the wrongheaded and potentially dangerous hiring procedures implemented by an Obama administration obsessed with racial balance.

Mr. Pendley believes that his clients are victims of blatant racial discrimination and that the FAA's current hiring practices won't withstand scrutiny by the courts. If you care more about your plane landing safely than about the racial makeup of folks manning the airport control tower, you should hope his lawsuit succeeds.

When RFK Died, John Glenn Faced His Toughest Duty

By Bob Greene

When Robert F. Kennedy, a day after being shot in a Los Angeles hotel kitchen, died in the early hours of June 6, 1968, his wife, Ethel, was by his side. Most of their 10 children—she was pregnant with an 11th—were back at the family home in McLean, Va., waiting for their parents to return.

A woman who lived nearby and who was a friend of the family had come to the house to help watch over them. The children knew their father had been badly wounded, but

were hoping against hope that he would somehow recover and come home to them.

It was 1:44 a.m. in California when Kennedy was pronounced dead. On the East Coast, it was 4:44 a.m. The children were asleep.

Who was going to tell them the worst news they could ever hear? Their mom couldn't do it; this wasn't something to say over a long-distance telephone line. But if they awoke in Virginia and turned on the television set to watch cartoons, they would be greeted instead by coverage of their father's death.

To whom do you turn? Who do you ask to take on such a dreadful, heartbreaking duty? Who would have the gentleness and the strength?

Ethel Kennedy and Bobby's brother Ted, who was also at the hospital, knew that there was one such person.

And so the call from California was made, and John Glenn, in the darkness before a June dawn, steeled himself to look those children in the eye and tell them, one at a time, what had to be told.

Which is what he did. As the children stirred to wakefulness, Glenn sat on the edge of their beds and said there was something he needed to talk with them about.

They all knew him. When Glenn, as one of the original Mercury astronauts, was preparing to become the first American to orbit the Earth, he met President John F. Kennedy.

After President Kennedy was assassinated in 1963, Glenn maintained friendships with the rest of the family. He was in California on the night Robert Kennedy was shot, as were many of the children. In the hours afterward, some of the older ones went to their father's bedside. But Glenn and his wife, Annie, had accompanied the younger children back to Virginia aboard a plane sent by Vice President Hubert Humphrey, so they wouldn't have to wait for word in the Los Angeles hospital.

Because of all the well-known public acts of heroism in Glenn's life—his two trips into space, his valor as a Marine combat pilot in two wars, the 12 times that his fighter planes were hit by enemy antiaircraft fire—what he did that Virginia morning didn't make it into most of his obituaries in 2016. And Glenn himself, not wanting to violate the privacy of those boys and girls, chose not to elaborate on it.

In his memoir, all he wrote was: "It was one of the hardest things I've ever had to do."

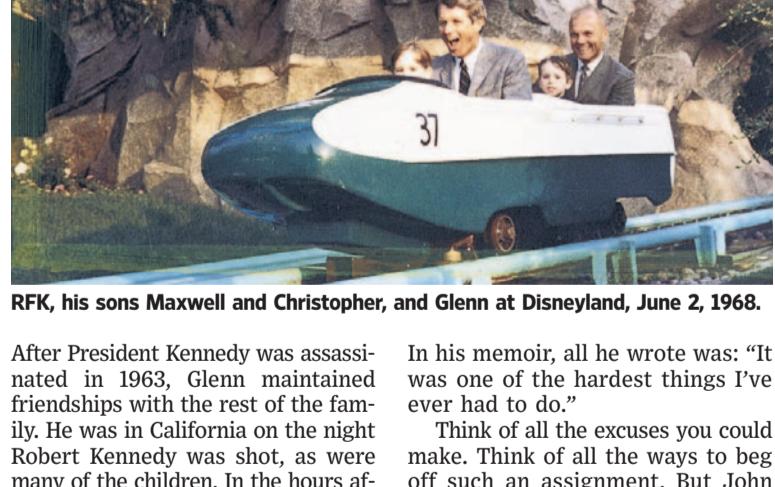
Think of all the excuses you could make. Think of all the ways to beg off such an assignment. But John Glenn never begged off anything in his life.

One recent evening I asked Robert F. Kennedy Jr. why he thought it was Glenn to whom his family would turn at that terrible moment 50 years ago. He said the answer was uncomplicated:

"John Glenn had great courage, both physical and moral. But what many people don't know is what a compassionate and tender man he was."

"My father had many friends. This was more than that. He considered John Glenn to be his brother."

Mr. Greene's books include "And You Know You Should Be Glad: A True Story of Lifelong Friendship."



RFK, his sons Maxwell and Christopher, and Glenn at Disneyland, June 2, 1968.

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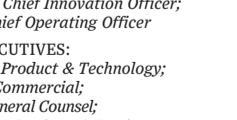
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WORLD NEWS

U.S., Turkey Reach Deal on Syrian Town

Controls on Manbij are aimed at keeping Kurds in the fight against Islamic State

BY MICHAEL R. GORDON

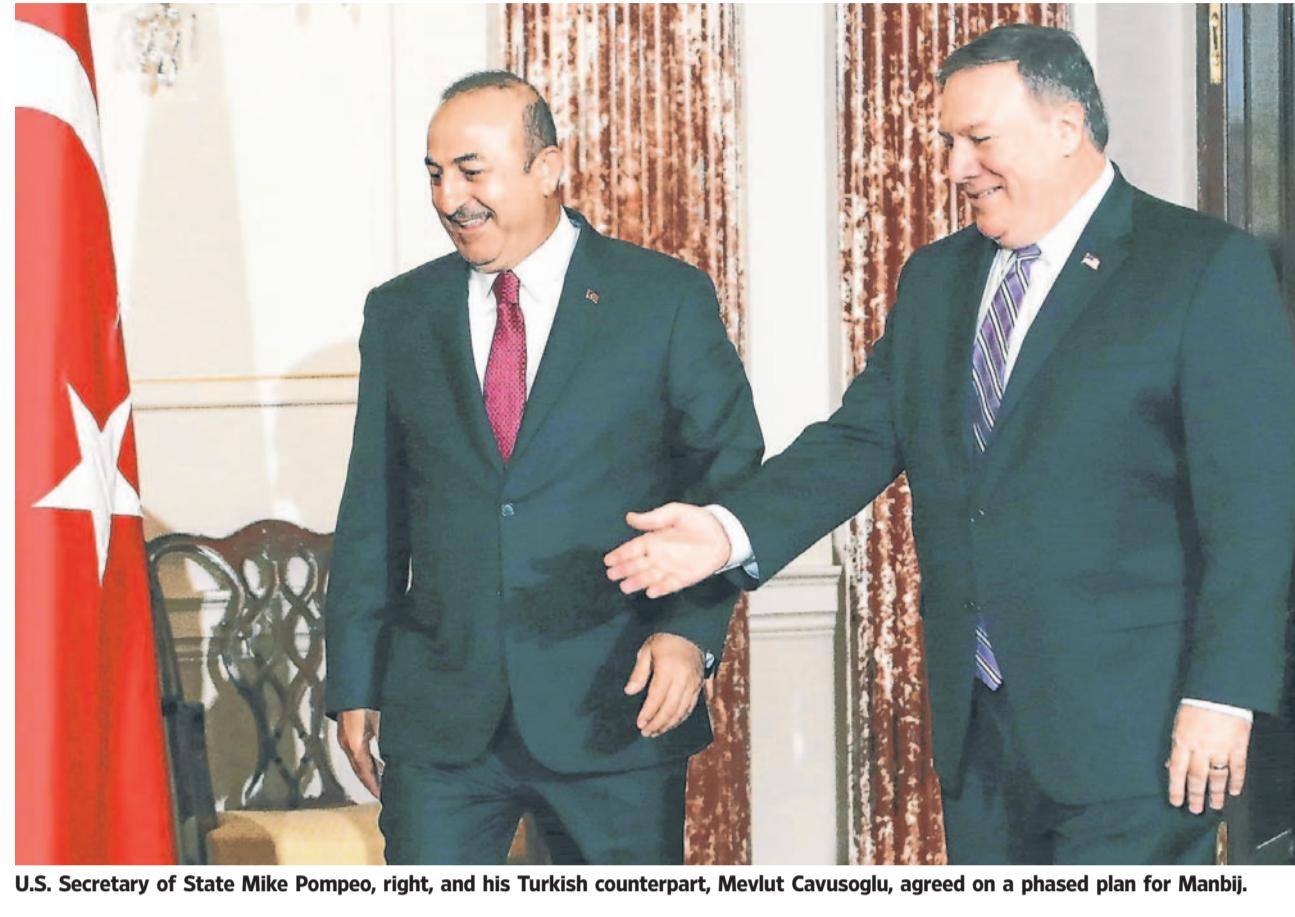
The U.S. and Turkey reached a strategically vital accord over a northern Syrian town, U.S. State Department officials said Tuesday, defusing a potential military flashpoint between the two North Atlantic Treaty Organization allies.

The town, Manbij, has been a point of contention between Turkey and Syrian Kurds, each of which has forces with competing missions in the area.

For the U.S., the deal eases fears that Turkish troops will enter the town and enables the Syrian Kurdish forces Washington has been backing to focus on fighting Islamic State instead of worrying about fresh attacks by Turkey's military.

For Turkey, the agreement provides assurances that the Kurdish forces they oppose will withdraw from the town and move east of the Euphrates River. The town is administered by local officials who are acceptable to all sides.

"This will be an ongoing process and the implementation will be quite critical," said a senior State Department of-



U.S. Secretary of State Mike Pompeo, right, and his Turkish counterpart, Mevlut Cavusoglu, agreed on a phased plan for Manbij.

ficial, who noted that the understanding would be carried out in phases. "It will be difficult, but we have a broad framework."

The agreement, which they called a road map, was reached Monday between Sec-

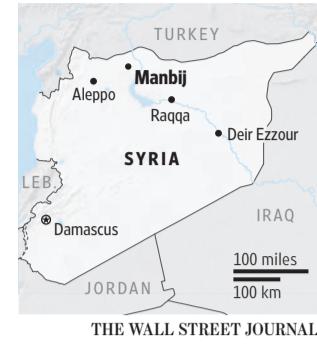
retary of State Mike Pompeo and his Turkish counterpart, Mevlut Cavusoglu, and is intended to address a festering problem that has undermined the U.S. campaign against the Islamic State extremist group.

Turkey and the U.S. have

been at odds over Washington's decision to arm and train the Syrian Kurds, known as the YPG militia, who have been battling Islamic State militants.

U.S. military officials say the Syrian Kurds, who are part

of a broader umbrella group known as the Syrian Democratic Forces, are crucial allies in the fight against Islamic State. But Turkish President Recep Tayyip Erdogan insists the Syrian Kurds are terrorists who are linked to Kurdish sep-



arartists in Turkey.

U.S. forces will continue to patrol a demarcation line in Manbij, State Department officials said, who added that the plan calls for the Turkish military to patrol that line as well.

Security within the town will be maintained by a Manbij military council under the deal. Russian and Syrian government forces are to remain south of the town.

The YPG had long denied having a presence in Manbij. State Department officials said the organization has had a limited presence there.

In a statement on Tuesday, the militia acknowledged it had retained a number of so-called military advisers at the request of the Manbij Military Council.

The YPG said the reason for the withdrawal of the advisers was that the Manbij Military Council, after two years of training, had become self-reliant.

Europeans Note Snags In Saving Agreement

Senior European officials conceded in a letter to the Trump administration that their efforts to save the Iranian nuclear accord by maintaining major trade and investment with Tehran are buckling in the face of planned U.S. sanctions.

By William Horobin in Paris and Laurence Norman in Brussels

European countries have vowed to keep commerce with Iran flowing in order to persuade Tehran to remain in the accord and restrict its nuclear activity.

However, in a letter to Secretary of State Mike Pompeo and Treasury Secretary Steven Mnuchin on Monday, the finance and foreign ministers of France, Germany, the U.K. and European Union said the Trump administration's plan to enforce so-called secondary sanctions—laws allowing Washington to penalize foreign companies for doing business with third countries—is undercutting their push to preserve Iranian trade.

The letter amounts to a stark admission by European officials that there is little the EU can do to ensure businesses to remain in Iran.

U.S. Companies Wind Down Business in Iran

BY ASA FITCH AND IAN TALLEY

Dozens of major American companies are preparing to pull out of Iran as the Trump administration closes a narrow legal window that has allowed firms to operate there without violating U.S. sanctions.

The companies using the exemption include big conglomerates like Honeywell International Inc., Dover Corp. and General Electric Co. and insurers like Chubb Ltd., many of which sought to profit from growth in the Iranian energy industry. Some of the companies have already booked millions of dollars in revenue from their Iranian business, underscoring the high commercial stakes of the Trump administration's decision to revive economy-crippling sanctions against Iran.

In all, at least 17 U.S.-listed companies did business with Iran using foreign subsidiaries after the Iran nuclear deal went into effect in January 2016. Their total Iran-linked revenues since then amounted to more than \$175 million, according to an analysis of Securities and Exchange Commission filings. Many more privately held companies may also have done business in Iran through subsidiaries but aren't subject to SEC disclosure rules.

Now some of those companies are hastening to shut down their foreign subsidiaries' activity with Iran to avoid crushing U.S. sanctions expected to begin taking effect



Dover sold parts for pumps used in Iran's energy infrastructure.

in November.

President Donald Trump's move in May to exit from the nuclear deal spells the end of the Obama administration's so-called General License H, which allowed U.S. companies with foreign subsidiaries to trade, finance, insure and invest in Iran. The exemption afforded by the license was part of the carrot-and-stick approach the administration of President Barack Obama used to extract concessions from Iran, using the promise of economic rejuvenation through U.S. investment, though only indirectly through foreign subsidiaries.

Mr. Trump and his supporters saw the Iran deal as inadequate because it failed to address Iran's military presence in the Middle East and its development of ballistic missiles capable of reaching U.S. allies

like Israel. Like the other sanction exemptions the administration is revoking, yanking License H is designed to isolate Iran politically, financially and economically, U.S. officials say.

"These sanctions will further cut the Iranian regime off

License H allowed U.S. firms with foreign subsidiaries to operate in Iran.

from abusing the global financial system," said Sigal Mandelker, Treasury's undersecretary for terrorism and financial intelligence.

The U.S. Treasury says U.S.-based firms operating under that license have until Nov. 5

Doomed Commerce

Among listed U.S. firms doing business with Iran through international subsidiaries, these are some that have drawn in the most revenue from the country.

Iran-linked revenues, 2016 through first quarter 2018



*Includes subsidiary Baker Hughes's \$17 million of revenues

Source: WSJ analysis of SEC filings

THE WALL STREET JOURNAL.

to wind down their operations or risk penalties—the same time frame for new bans against other dealings with Iran's economy except for some specially licensed trade in medical and food goods.

The withdrawal has drawn a fiery response from Iran, which has vowed to quickly scale up its nuclear program if European leaders can't work out an agreement to continue the deal without the U.S.

Illinois-based Dover, a manufacturing conglomerate, said the revocation of License H would end its business in Iran. Dover had been selling spare parts for pumps used in Iran's energy infrastructure and was set to earn more than \$16 million in revenue from contracts signed there since the beginning of 2017, according to regulatory filings.

The Wall Street Journal reported last week that GE is pulling back from its foreign subsidiaries' work in Iran. The company had revenue of about \$24.8 million on sales of

valves and spare parts for Iran's energy industry, among other contracts, according to regulatory filings.

"We are adapting our activities in Iran as necessary to conform with recent changes in U.S. law," a GE spokeswoman told the Journal last week.

Honeywell has booked around \$115 million of revenues from Iran through its non-U.S. subsidiaries since the beginning of 2016, largely in the past year, according to regulatory filings. Unless Honeywell is able to fulfill \$100 million in current contracts by early November, it could lose future potential revenue, given that the firm indicated in its SEC disclosures that those contracts aren't completed.

U.S.-based Honeywell spokeswoman Victoria Streitfeld said the company and its non-U.S. subsidiaries "operate within the parameters of all applicable U.S. and international regulations and will continue to do so."

concerts.

Yet the arrest waves attest to the tension between social freedom and political repression in the "new" Saudi Arabia, which many Saudis see as a step backward regarding the limits of what the government tolerates.

Of the 17 rights activists known to have been rounded up last month, nine remain in jail after having confessed—according to a statement released Sunday by Saudi Arabia's public prosecutor's office—to crimes that include cooperating with and financing "hostile elements abroad." Allies of the detainees expressed doubt that the prisoners would have confessed willingly to what they say are bogus charges.

"The situation in Saudi Arabia has never been this bad. We were struggling, there were risks, but it wasn't like it is now," said Yahya Assiri, a Saudi opposition activist who has been based in London since 2013. "Now you have to be completely pro-government. Even being silent isn't

enough."

Saudi government representatives didn't respond to a request to comment Monday on the recent waves of arrests.

People familiar with the government's thinking say the country's leaders wanted to send the message that nobody—not even rights activists broadly aligned with the government's reform agenda—can get away with twisting its arm by making their demands public.

"Mohammed bin Salman is creating an opposition that he didn't have—and that he didn't need," said Jamal Khashoggi, a Saudi journalist and commentator who now lives in Washington after leaving the kingdom last summer amid worries he would be arrested or banned from traveling. "Every time I hear about an arrest or a friend being travel-banned, I am grateful I am here."

Another Saudi writer, first detained by police two years ago, says he still doesn't know why he is in jail as he hasn't seen any charges.

BY MARGHERITA STANCATI AND SUMMER SAID

Dozens of high-profile Saudis are locked up in jail, many of them denounced as traitors. Hundreds, possibly more, are barred from leaving the kingdom. And others have quietly left their homeland with no plans to return, creating the rudiments of an overseas Saudi dissident community.

Saudi Arabia's de facto ruler, Crown Prince Mohammed bin Salman, has gone further than any of his predecessors to relax the kingdom's strict social rules. But he is also overseeing one of the most ruthless crackdowns on dissenters that Saudi Arabia has experienced in decades.

After high-profile autumn roundups of what the government said were dissident clerics and corrupt businessmen, the latest wave of arrests, in May, have focused in part on women and men who pushed for the right of women to drive, even though the Saudi government is set to begin



Mohammed bin Salman is relaxing social rules at his own pace.

recognizing that right on June 24.

The message behind the crackdown, which has come despite scant evidence of public dissent, is that the crown prince alone intends to dictate the pace and scope of change in Saudi Arabia, critics say.

"We were hoping for a more balanced society, more rights," says a Saudi rights activist who has come under government pressure.

"Instead what has happened is more repression, just with a different ideology."

Government supporters see the development differently. "The country is going through tremendous disruptive change and it has a wide spectrum of political opinion—from religious conservatives to Western liberals," said Ali Shihabi, who is close to the Saudi government and executive director of the Arabia Foundation, a Washington-based think tank.

"If you want to effect change, which is long overdue, there is no way you can bring all those constituencies together," he added. "So you

need an authoritarian approach—and that means you are going to limit freedoms for a while."

Since his father, King Salman, assumed the throne in early 2015, Prince Mohammed has sought to shift the king-

dom's economy away from oil and to end the dominance of religious conservatism. That push has entailed making the country more attractive to foreign investors and advocating social reforms such as opening cinemas and hosting music

concerts.

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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Government leaves way open for Comcast or Fox to acquire British broadcaster

BY STU WOO AND BEN DUMMETT

LONDON—The U.K. government blessed a bid by **Comcast** Corp. for British broadcaster **Sky** PLC and gave a tentative green light to a rival offer by **21st Century Fox** Inc., setting up the endgame in a broader standoff between Comcast and **Walt Disney** Co. over Fox assets.

Rupert Murdoch's Fox, which already owns 39% of Sky, launched a \$16 billion bid for the remaining shares in 2016, but British regulators have put it under extensive review. Meantime, Mr. Murdoch agreed in December to sell major Fox assets, including the Sky stake, to Disney for \$52 billion.

On the other side is Comcast, which in February launched its own bid for Sky, offering \$30 billion and raising the possibility of a bidding war for the U.K. asset. Comcast's offer of £12.50 (\$16.64) a share compares with Fox's £10.75. Comcast then said in

May it was preparing a cash bid for the wider collection of Fox assets that Disney had already agreed to buy in its all-stock offer.

U.K. Culture Secretary Matt Hancock said Tuesday the government had no objections to Comcast's bid for Sky. He also said blocking a Fox-Sky deal was "not my preferred approach" and that he was "optimistic" the government could agree to the details of a spinoff of Sky's news division, a remedy Fox had proposed to win approval.

Investors—including American hedge fund **Elliott Management** Corp., which has built a 3% stake in Sky—have bet a bidding war would ensue if U.K. regulators didn't get in the way. Sky shares have been trading well above both suitors' bids. On Tuesday, they ended modestly higher at £13.54, about a pound above Comcast's bid.

The battle for Sky is just one front in the larger contest between Comcast and Disney over the wider collection of Fox assets both covet. But it has taken on outsized strategic importance, in part because of all the possible outcomes. After Tuesday's decision by the U.K. government, here are the most likely:

■ Comcast wins Sky by simply outbidding Fox or by winning out over Disney for the wider collection of Fox assets. In the latter scenario, Disney could still end up owning Sky News.

■ Disney ends up with Sky and Sky News, if it completes its deal with Fox.

■ If neither Comcast nor Disney consummates a deal with Fox, Fox could end up as Sky's 100% owner, though it would have had to shed Sky News along the way.

■ It is also possible that nothing changes in the end, and Fox holds on to its current

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OPEC's New Worry Is China's Oil Stores

BY BENOIT FAUCON AND SARAH MCFARLANE

Having drained one glut, OPEC and its allies have found a new, brimming oil hoard to worry about: China's crude reserves.

China's state- and commercial-owned oil stores will help the Organization of the Petroleum Exporting Countries and other major producers determine whether to continue their supply cuts or open the taps wider again, say some officials from the group.

Those cuts sent oil prices surging as inventories fell, and Russia and Saudi Arabia now want to boost production.

But some signatories to the 2016 pact to cut supplies say that China's huge and opaque store of oil needs to be taken into account after being ignored for years, according to OPEC officials.

Excess Chinese oil could feed into any resurgent glut and push prices down, they worry. The most recent data suggest that U.S. production may be on the rise again.

"We used to focus on [industrialized-nations] stocks. But now we are looking at China, too," said a non-Persian Gulf official at OPEC who declined to be named.

OPEC now estimates commercial oil stocks in the Organization for Economic Cooperation and Development, a group of mainly Western countries, are now 20 million barrels below their five-year average, according to a person familiar with the matter.

But Chinese stocks are going in the opposite direction, analysts estimate, as Beijing shores up its reserves as a buffer against oil shocks and domestic refiners scoop up crude to maintain their "use it or lose it" import quotas.

China doesn't release data on the size of its oil reserves in the way that the U.S. and other countries do. But analysts

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Apple Moves Onto Facebook's Turf While Distancing Itself on Privacy



IN YOUR FACE: At its developers conference this week, Apple heralded features for the iPhone that collectively bear the hallmarks of a social-media business. It also took the occasion to show how it aims to limit the way Facebook and other apps track and collect user data across Apple devices. B4

HEARD ON THE STREET | By Aaron Back

Food Makers Meet With Little Appetite

Food shoppers and investors looking at the packaged food aisles of big grocery stores have reached the same conclusion: There is nothing to buy.

The classic consumer food companies—makers of cereals, snacks, soups and condiments—are no longer the staples of pantries or portfolios. Shares of some are down by one-third or more over the past year as strategies to boost sales fail, and consumers embrace fresh food and new brands.

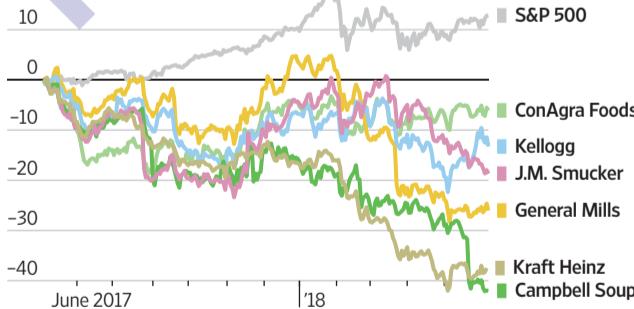
Supermarkets are feeling the same pressure. Last year, unit volume of the packaged products sold in the middle aisles fell by 1.7%, according to research firm Nielsen. The only places where there was unit sales growth of groceries were in the outer aisles: fresh meat, produce, and bakery, according to Nielsen.

That is of little consolation to investors, who can't easily profit from raising grass-fed beef or growing kale. Comparable sales for 10 big, publicly traded food companies have been flat or declined in three of the past four years, according to analysts at Credit Suisse.

Four broad trends are coming together in the industry: Consumers are shifting toward fresh produce and meat and away from packaged foods heavy on carbohydrates and sugar; digital advertising and e-commerce are allowing small brands to

Bad Taste

Share-price and index performance



effectively reach big audiences; rising sales of prepared foods and meal kits are giving packaged brands added competition; and a group of aggressive new competitors in supermarkets, most notably **Amazon.com** Inc. but also European disruptors **Aldi** and **Lidl**, are pressuring margins across the industry.

To boost margins, retailers including **Kroger** Co. and **Wal-mart** Inc. are investing more in private-label goods. In the year through March, sales of private-label packaged foods and household items rose 4.6%, while sales of branded goods climbed just 0.6%, according to Nielsen. Analysts believe this trend has a long way to go: In markets like the U.K., private-label penetration is more than twice as high as in the U.S. This boosts supermarket profit-

ability, but it puts added pressure on the branded packaged-food companies.

Some of these shifts have been going on for years, but they have intensified recently and taken together constitute a significant threat to food producers and sellers. The next threat is e-commerce. Sales of dry packaged goods are already moving online. Companies such as Walmart and Amazon are trying to figure out how to deliver fresh groceries profitably. Kroger has teamed up with the leader in online grocery delivery, a U.K. company called Ocado.

In the coming days, Heard on the Street will highlight strategies that have worked and those that have failed and point out some potential winners and losers. We will expose hidden risks lurking inside some big companies.

To understand the challenges and opportunities in

food, consider a classic staple like boxed macaroni and cheese. **Kraft Heinz** Co. dominated mac and cheese for decades. Then came an organic competitor, Annie's. The upstart was in just 20% of U.S. grocery stores until it was bought by **General Mills** Inc. in 2014. Now it is in around 80% of stores and sales have doubled, according to General Mills.

But both these brands face rising competition from much-improved store brands, as well as boutique brands.

Subscribers to Amazon's Prime Pantry service can now order boxes of mac and cheese made by Whole Foods' 365 brand for 99 cents a box, or \$1.69 for an organic version. That compares with \$1.59 for a plain box of Kraft or \$2.19 for a box of Annie's on Amazon.

Comparable sales at Kraft Heinz have shrunk in six of the past nine quarters. General Mills has just attempted to repeat its successful Annie's deal by spending \$8 billion for premium pet-food brand Blue Buffalo Pet Products.

There is hope for packaged-food companies. Deal making can work when the acquired brands fit well into the buyer's capabilities and strengths. Even more promising, companies like **Conagra Brands** Inc. have successfully revitalized some old brands in frozen foods, which is seeing surprising growth.

Even the pickiest shopper can find something to like in the food industry.

State Promises Thrift In Selling Its Bonds

BY HEATHER GILLERS

Connecticut is making a new promise to bondholders in exchange for \$500 million: self-discipline.

The cash-strapped U.S. state is preparing to issue new debt that requires Connecticut to limit its spending, cap future borrowing and funnel excess revenues into a reserve fund. The \$500 million bond issue priced Tuesday and will be delivered to investors June 20.

It is a rare step in the world of municipal debt. No other state has attached such fiscal austerity measures to an outstanding bond issue, according to analysts at S&P Global Ratings. The restrictions will stay in place for the next five years.

The unusual offer has the po-

tential to lower borrowing costs for Connecticut in the near term and enforce fiscal discipline following a bitter state budget battle in 2017. The covenants helped win enough support to end the stalemate.

But the restrictions could also hamstring the state in the event of a future crisis. The only way to suspend certain covenants is with a three-fifths vote of the legislature and a declaration of fiscal emergency from the governor. The current governor, Daniel Malloy, is scheduled to leave office in January.

Connecticut's idea reinforces the predicament facing many U.S. states as they struggle to pay for core services like education and infrastructure at a time of soaring costs for debt, retire-

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BUSINESS NEWS

Wage Suits Win Big Bank Payouts

BY LAUREN WEBER

Banks and insurance companies paid out some of the largest settlements in the past decade in lawsuits alleging inadequate worker compensation, according to a new report Tuesday.

Financial-services companies occupy half the spots on a list of the 12 employers that paid the most in legal disputes over pay for workers since 2000, said Good Jobs First, an organization that tracks legal violations at large companies.

Lawsuits accusing companies of wage discrepancies are often filed by workers who say managers expected them to do

job tasks after they clocked out or failed to pay employees on the occasions they worked during rest and meal breaks. Workers also file cases alleging they worked extra hours but were shortchanged overtime pay or were misclassified as exempt from overtime.

Walmart Inc. topped the list, with \$1.12 billion in settlements and fines, in part because of a \$352 million settlement in 2008. That payment consolidated more than 60 separate lawsuits alleging various violations, such as failing to pay for required rest and meal breaks. In 2016, the retailer paid another \$242 million to settle similar claims. Walmart confirmed the settlements to The Wall Street Journal.

Bank of America spent \$73 million to settle claims in 2013 from some retail-branch and call-center employees who alleged that the bank didn't pay people for overtime and other work performed off the clock. **JPMorgan Chase & Co.** paid \$42 million in 2011 to settle an overtime case brought by underwriters and credit analysts. Earlier this year, **Wells Fargo** & Co. agreed to pay \$27.5 million to thousands of its California tellers and service managers who said they weren't paid for overtime hours and for working during meal breaks.

In all three cases, the banks settled the claims without admitting wrongdoing.

Last month, Wells Fargo was ordered by a federal judge to pay \$97.3 million to mortgage consultants and bankers who accused the bank of not fully compensating them. That California lawsuit isn't included in the figures from Good Jobs First because the bank is appealing both the judgment and the amount of the damages. Wells Fargo's compensation structure "complies with California's wage and hour laws, including pay for all break periods," the bank said in a statement.

"Zurich Insurance is the parent of State Farm. Note: Data includes only final, nonconfidential settlements and penalties for companies and their subsidiaries based on current relationships."

Settling Up

Large employers accused of shorting their workers' paychecks have paid billions of dollars in settlements and fines since 2000. Half of the top 12 payers are financial-services firms.

Settlements and fines, in billions

Walmart	\$1.12
FedEx	0.50
Bank of America	0.38
Wells Fargo	0.21
JPMorgan Chase	0.16
State Farm Insurance	0.14
AT&T	0.14
UPS	0.14
ABM Industries	0.13
Tenet Healthcare	0.13
Zurich Insurance	0.13
Allstate	0.12

Sources: Good Jobs First; Walmart
THE WALL STREET JOURNAL.



Total Chief Executive Patrick Pouyanne, left, greeted Novatek chief Leonid Mikhelson in St. Petersburg last month at a signing ceremony for a \$2.6 billion deal between the energy companies. At rear are France's Emmanuel Macron and Russia's Vladimir Putin.

Oil Giant Total Pursues Risky Bets

French energy firm, undaunted by setback in Iran, doubles down on Russia with gas deal

BY SARAH KENT AND BOUDET FAUCON

French oil giant **Total SA** has long had an appetite for politically risky deals. Now, it is tapping resources in Russia and other tricky spots across the globe to become one of the world's biggest natural-gas suppliers.

Total last month doubled down on Russia by buying a 10% stake in Russian gas producer PAO **Novatek**'s \$26 billion Arctic liquefied-natural-gas project. That company has been under U.S. sanctions since 2014 that were imposed in response to Russia's annexation of Crimea.

Rising tensions between Moscow and several Western governments didn't stop Total Chief Executive Patrick Pouyanne from signing the estimated \$2.6 billion deal in front of Russian President Vladimir Putin in St. Petersburg last month.

Total also made a bold bid to

raise its profile in Iran, agreeing in 2016 to join a \$5 billion project to develop a massive gas field in the country after the U.S. and five other world powers lifted sanctions in return for Tehran agreeing to curb its nuclear ambitions.

The risk in Iran became apparent after the Trump administration reimposed sanctions on the country last month. Mr. Pouyanne said his company would likely have to abandon the Iran deal as a result, but that the Russian project would help offset the lost opportunity.

To be sure, Total has also taken steps to balance its risk by developing projects in places such as the North Sea and the U.S. And the company says all its dealings are lawful and sanctions-compliant.

"I am not a politician, I am the head of a commercial company," Mr. Pouyanne said in Russia last month. "Our goal is to build bridges between countries by developing projects and you know, by the way, we continue to be bold."

Total isn't alone in pursuing resources in risky countries. **Exxon Mobil Corp.**, **Royal Dutch Shell PLC** and **BP PLC** all have significant projects in

Russia. BP owns a 20% stake in state-backed PAO **Rosneft**. Shell signed a preliminary agreement to explore opportunities in Iran and is involved in building a controversial pipeline from Russia to Germany.

But Total, the biggest non-state-owned European oil and gas producer after Shell and BP, stands out for aggressively chasing politically and legally challenging deals.

Total spent \$450 million in March to acquire assets in conflict-ridden Libya.

Last year, the French company started producing from new projects in the Republic of Congo and Myanmar, two other tumultuous spots.

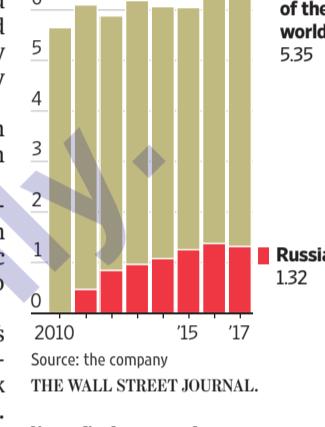
Total's Russia bet comes with restrictions. The U.S. government has barred Novatek from taking on long-term U.S. dollar debt under the 2014 sanctions, leaving Chinese banks to step in to fill the void on another Arctic project Total and Novatek completed last year. Total holds a 19% stake in the Russian company, which said it saw no reason for the restrictions.

Total is now betting especially on gas projects. The company expects global appetite for

Energized

Total's daily gas output from Russia has been rising and is poised for further growth.

7 billion cubic feet per day



liquefied natural gas to grow 5% a year between 2015 and 2025. By contrast, oil consumption is expected to rise only by an average 1% annually over the next five years, according to the International Energy Agency.

Since oil prices plummeted in 2014, Total has pursued acquisitions to bolster growth.

—Anatoly Kurmanov contributed to this article.

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Apple Fires Shots Across Facebook's Bow

New iPhone tool aims to limit data collection, while other features are social-media-like

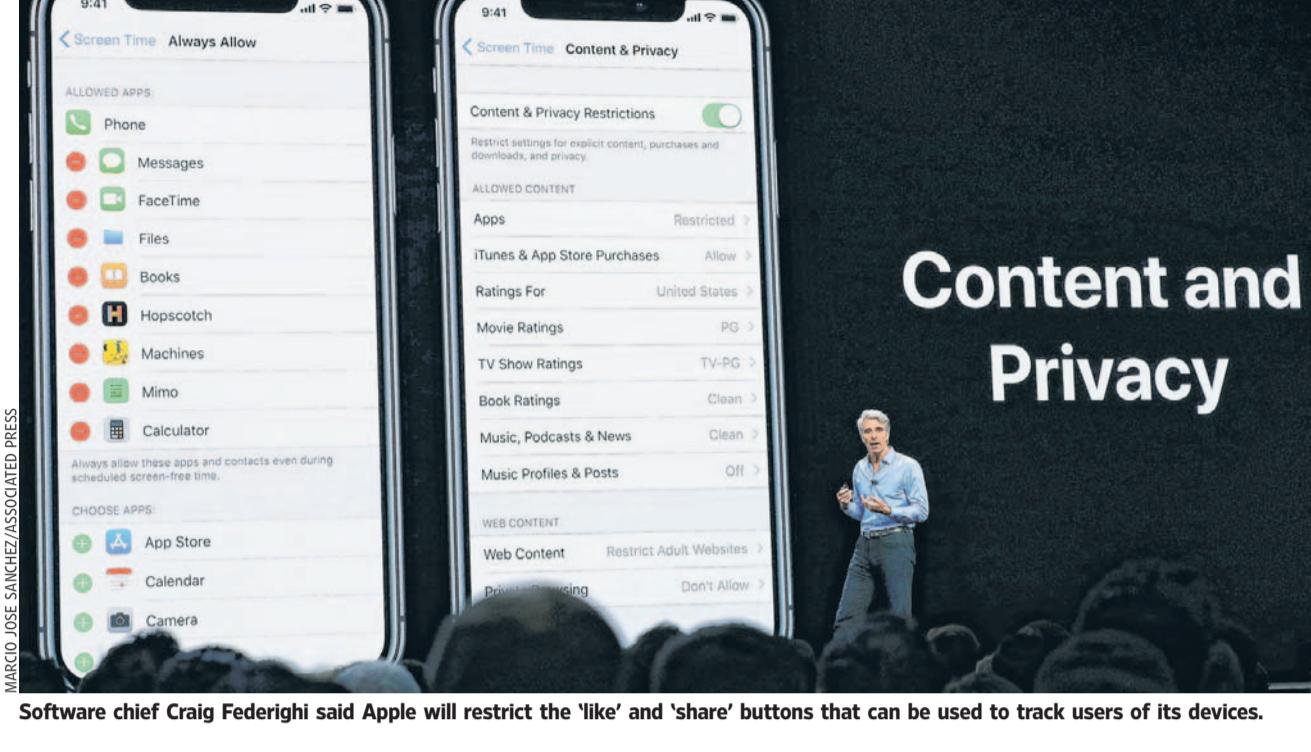
BY TRIPP MICKLE

Apple Inc. this week took more jabs at **Facebook Inc.** over its privacy practices. But this time the iPhone maker went one step further, signaling it plans to encroach on the social-media company's turf.

As it touted its newest operating software for the mobile devices on Monday, Apple heralded features that collectively bear the hallmarks of a social-media business. There are forthcoming tools to make it easier to share photos with friends, a group video-chat service for up to 32 people and the capability to play augmented-reality games among friends.

At the same time, Apple introduced new privacy tools in its Safari browser that will limit the personal data that apps like Facebook can collect. The target was clear: Several images in Apple's presentation or marketing material used Facebook or its app Instagram as examples of what to limit.

The combination of social media and privacy offerings amounted to "shots across the bow" at Facebook, said Daniel Ives, head of technology research for research firm GBH Insights. As iPhone growth



Software chief Craig Federighi said Apple will restrict the 'like' and 'share' buttons that can be used to track users of its devices.

slows, he said, Apple is clearly looking to make the device more attractive with software features that wed people to it. "Facebook should have one eye open."

A Facebook spokesman declined to comment.

Facebook has been embroiled in a privacy controversy for months related to how outside developers obtained and potentially mishandled user data. In response, Facebook has more tightly re-

stricted the data that outside apps can access and has suspended at least 200 apps it suspects of having misused user data shared on or through Facebook, and it is reviewing thousands more apps. Apple, meanwhile, has seized on the privacy scandal by contrasting its business, which derives two-thirds of sales from the iPhone, with Facebook's ad-based model that sells marketers detailed profiles of users.

Apple added to the public

heat in March when Chief Executive Tim Cook told MSNBC that his company would never be in the same situation as Facebook. "We care about the user experience, and we're not going to traffic in your personal life," Mr. Cook said. "I think it's an invasion of privacy."

Facebook Chief Executive Mark Zuckerberg called those comments "extremely glib."

Behind Apple's barbs is an

expanding digital-ad business that aims to distribute advertising across various apps. Apple reaped nearly \$1 billion in revenue last year by selling promotional ads for search terms in its App Store, The Wall Street Journal has reported.

Apple's efforts to protect consumers' privacy mean its ad business collects far less data on users than peers, analysts say. Now it is seeking to limit the way Facebook and other apps track and collect that

data across Apple devices.

"We've all seen these 'like' buttons and 'share' buttons," Apple's software chief, Craig Federighi, told the audience at its annual developers' conference in San Jose, Calif., on Monday. "Well it turns out, these can be used to track you, whether you click on them or not. And so this year, we are shutting that down."

As Mr. Federighi demonstrated the software, a blown-up image in back of him displayed the web-browser prompt, "Do you want to allow 'facebook.com' to use cookies and website data while browsing" a website?

Apple's new social features reflect how the iPhone maker is indirectly elbowing into an arena long dominated by a tech peer. A new tool in Apple's Photo app will automatically suggest which photos to share with whom, say, after a dinner with friends. The friends will then be encouraged to share the photos back with iPhone users. Mr. Federighi said the process, which relies on machine learning, is "private" because it uses end-to-end encryption.

"Apple has been nibbling at the social angle for a while and haven't had a ton of obvious progress, but now they have a window because an avenue has been opened around privacy," said Gene Munster, managing partner with research-focused venture-capital firm Loup Ventures.

Instagram Maps Plans For Long-Form Videos

BY BENJAMIN MULLIN

Instagram, which allows users to post photos and brief glimpses of their lives through short videos, is getting ready to go long.

The **Facebook Inc.**-owned photo- and video-sharing app is preparing to launch a new feature that will include long-form video, according to people familiar with the matter. The feature, which could allow videos of up to an hour in length, will focus on vertical video, or video that is taller than it is wide, one of the people said. Until now, Instagram hasn't allowed users to post any videos longer than one minute.

The plans are tentative and subject to change, the people said.

In recent weeks, Instagram has had conversations with

content creators and publishers about producing long-form video for the platform, a person familiar with the matter said. The feature, if it launches, will do so within the Instagram app, another person said.

The **Facebook Inc.**-owned photo- and video-sharing app is preparing to launch a new feature that will include long-form video, according to people familiar with the matter. The feature, which could allow videos of up to an hour in length, will focus on vertical video, or video that is taller than it is wide, one of the people said. Until now, Instagram hasn't allowed users to post any videos longer than one minute.

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TECHNOLOGY

Siri Still Needs a Great Deal of Assistance

By JOANNA STERN

 Siri processes 10 billion requests a month, Apple said at its software developers conference Monday. The company didn't reveal the breakdown, but I'm fairly confident in my math here:

- ◆ Five billion requests to set an alarm;
- ◆ Three billion requests for the same thing, because Siri didn't understand it the first time;
- ◆ Two billion not-actual-requests, triggered by somebody saying, "Seriously."

Sure, the formerly cutting-edge virtual assistant has become the butt of many a tech joke, but Apple's Siri problem is only getting bigger. As Amazon and Google develop artificial-intelligence assistants that can do tasks small (set multiple cooking timers) and large (hold con-

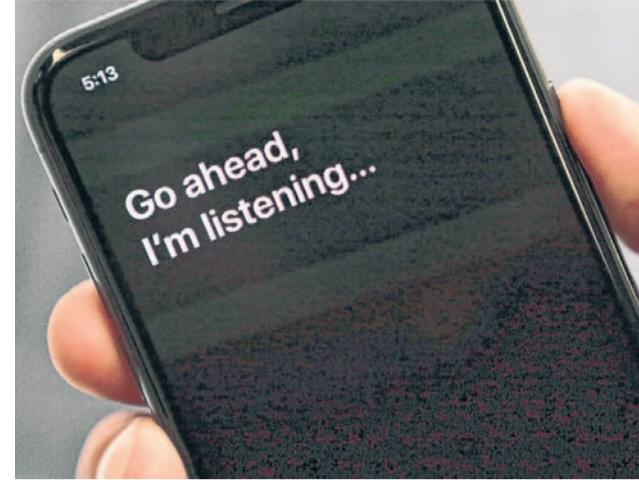
versations with you and others), Siri has been stuck saying, "Here's what I found on the Web for that."

The problem crystallized with the HomePod: Apple's Siri-powered smart speaker just isn't particularly smart. At Apple's biggest software event of the year Monday, just four months after HomePod's release, the speaker was mentioned only once.

Apple does have some new ideas about what Siri should do for us when iOS 12 is launched for iPhones and iPads in the fall: We'll be able to program strings of tasks. A single custom phrase will, say, shut off the lights, turn down the thermostat and launch a podcast.

But it feels like a marketing fake-out. The updates don't address the personal assistant's biggest shortcomings.

Siri's general knowledge repository often lags behind



Coming updates don't address all the virtual assistant's problems.

Google's and Amazon's.

Apple addresses this somewhat in iOS 12 by expanding Siri's knowledge about celebrities, food and, uh, motor sports. Apple had no immediate comment; in the past, it has said it is improving Siri all the time.

One of the things I love

about speaking to gadgets is that with a few words I can accomplish things that otherwise take many taps and swipes. Siri is good at certain basics, such as setting an alarm or firing off a quick text. But while Alexa and Google Assistant don't break a sweat setting multiple

cooking timers or controlling other music services, Siri still can't do those things.

While Apple improved voice recognition on the HomePod and Apple Watch, Siri still has a harder time understanding me than Alexa or Google do. I don't repeat myself with those others nearly as much as I have to with Siri.

Now, Siri is responsible for even more nonvoice skills. In iOS 12, when the phone suggests turning off certain notifications you don't use, Apple says it's Siri making that decision. And it's allegedly Siri who will suggest calling your colleague if you're running late for a meeting. Attributing these features to Siri is clever, but it also feels like a marketing dodge.

Using Siri outside Apple's walled garden has become one of the biggest frustrations. Ask Siri for directions and it will launch Apple

Maps—no options for Google Maps or Waze.

iOS 12's new Shortcuts app is an attempt to allow Siri to climb Apple's fence. The app lets you create your own custom "Hey, Siri" phrase that will pull specific information from apps—even a series of apps.

Of course, for that to happen, the developers of all those apps have to do back-end work to make their apps Siri-controllable. And then I'd have to customize the shortcut in the app. It's a lot to ask of users.

In a year of significant user-privacy violations and too many reasons to distrust many of the tech giants, Apple Chief Executive Tim Cook's message at Monday's keynote was meaningful and believable. "The customer is at the center of everything we do," he said. Too bad Siri is still way out in left field.

SoftBank Lets Chinese Investors in on Chip Designer

By MAYUMI NEGISHI

TOKYO—SoftBank Group Corp. agreed to sell a majority stake in the China operations of U.K. chip designer Arm Holdings to a China-led group of investors, aligning itself with Beijing's goal of reducing its dependence on Western technology.

SoftBank said Tuesday it would cede 51% of the Chinese business for \$775 million, while retaining the remainder. The buyers are led by **Hopu Investment Management Co.**, which is backed by sovereign-wealth fund China Investment Corp. and Beijing-owned Silk Road Fund.

SoftBank, a leading technology investor that controls Sprint Corp. in the U.S., paid \$32 billion in 2016 to acquire Arm Holdings. The U.K. firm's

chip-design technology, which it licenses to semiconductor makers, is in nearly all smartphones sold globally.

The China deal, which follows more than a year of negotiations, comes amid simmering tensions between the U.S. and China over semiconductor technology. Operations at ZTE Corp., whose smartphones incorporate Arm's technology, have been largely shut down after U.S. government penalties blocked the Chinese telecommunications company from buying American chips and software.

China was the world's largest semiconductor market last year, worth \$132 billion, according to the World Semiconductor Trade Statistics, and the lion's share of sales went to chip makers in South Korea, Japan, Taiwan and the U.S., in-

cluding Intel Corp. and Qualcomm Inc. In response, China has been accelerating development of its own chip industry.

"China wants to have an indigenous and controllable local supply base," Arm Holdings Executive Vice President Rene Haas said in an interview. "Doing a joint venture of this nature would best position us to be able to capitalize on that growth."

RODRIGO REYES MARIN/ZUMA PRESS

China accounted for roughly one-fifth of Arm Holdings' \$1.83 billion in revenue for its latest fiscal year, with local sales expected to grow further under China's "Made in China 2025" strategy to develop self-driving vehicles, smart appliances and other next-generation technology. Arm Holdings has the right to technology developed by the Chinese joint venture, Mr. Haas said.

SoftBank is led by Masayoshi Son, rear, who engineered the acquisition of Arm Holdings in 2016.

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INTERNATIONAL PROPERTY REPORT

Central & Eastern Europe



PORTO MONTENEGRO

An investment group turned a rundown naval site into a development named Porto Montenegro, which includes a marina for superyachts in addition to a luxury village with shops, restaurants and a hotel.

Montenegro Policies Stoke Resort Business

By ISOBEL LEE

Just 12 years after declaring its independence, Montenegro is gaining traction in its ambitious goal of becoming one of the dominant players in the Balkans luxury-resort business.

The tiny country's first celebrity-endorsed golf course—designed by Gary Player—is scheduled to launch next month as part of Luštica Bay, Montenegro's biggest resort development. That same day, Luštica Bay's developer, Egyptian firm **Orascom Development Holding**, is planning to open the resort's first five-star hotel, the Chedi Luštica Bay, with prices for its 111 rooms and suites starting at €400 (around \$468) a night.

The projects will join the dozens of hotels that have opened since 2006 in Montenegro as part of government plans to increase hotel beds in coastal areas—where the vast majority of tourism takes place—some 194% to 100,000 by 2020. Several major resorts are under construction and partly operative, with another half dozen on the drawing board.

Foreign investors who showed up early are cashing in. In 2007, for example, an investment group including Peter Munk, the Canadian founder of mining company Barrick Gold Corp., paid \$26 million for a 99-year lease on a rundown, government-owned naval site on the Bay of Kotor. Other members of the group included Russian metals tycoon Oleg Deripaska and banking-family scions Nathaniel and Jacob Rothschild.

The group turned the development named Porto Montenegro into a marina for superyachts and a luxury village, complete with shops, restaurants, an international boarding school and a five-star hotel managed by Taiwanese company Regent. The entire resort was acquired in 2016 by the Investment Corporation of Dubai, the principal investment arm of the Dubai government, for an undisclosed sum.

Porto Montenegro's 290 apartments have sold out. "Prices have risen from around €4,000 per square meter to around €7,500 per square meter over the period of the development," said John Stephens, sales manager of Porto Montenegro.

and banking-family scions Nathaniel and Jacob Rothschild.

The growth of Montenegro's resort industry is a case study in how governments can stoke foreign investment with business-friendly policies. Montenegro, a candidate to join the European Union, has adopted the euro as its sole legal tender, facilitating investments and helping to control inflation in recent years. Its foreign-trade law offers significant tax exemptions to overseas investors that open local companies.

"The government of Montenegro has made developers and investors feel appreciated," said Ahmet Erentok, chairman of **Azmont Holdings**, which is developing Portonovi, an €830 million resort that started delivering its first apartments last year and will welcome su-

perachts this summer.

Other countries that were part of the former Yugoslavia have tried to cash in on their natural charms, but budget-friendly beach destination Croatia, for example, has lacked Montenegro's laser focus on elite tourism and the yachting community. "That's where it's believed Montenegro can surpass Croatia in terms of the quality of its accommodation and tourism infrastructure, as well as the traveler experience," said Joe Stather, associate director at CBRE.

Some critics, including United Nations culture and heritage organization Unesco, have warned that excessive development could spoil the natural beauty drawing tourists. The agency threatened to strip Ko-

tor's listing last year, citing damage by real-estate construction, uncontrolled tourism and docking of large cruise ships.

Montenegro's tourism revenue was €846.4 million last year, or around 22% of gross domestic product, according to the World Travel and Tourism Council. It is expected to exceed €900 million this year, making it one of Europe's fastest-growing destinations.

Only 43% of hotel rooms were occupied on average in 2017, according to CBRE data, although occupancy rates have climbed from 29.3% in 2007. Revenue per average room was also unimpressive last year at \$36.70, after creeping up from a low of \$24.93 in 2010. High-end resorts command triple figures.



Developers have targeted the Wola area to build office space as Warsaw's central business district has become more congested.

Warsaw Proves a Lure for Big Firms

By SHEFALI ANAND

A new business center is blooming in Warsaw's Wola district, an area best known until now for the site of a massacre during the city's uprising in World War II.

Major multinational firms **JPMorgan Chase & Co.**, **Citigroup Inc.**, **Goldman Sachs Group Inc.**, and **Credit Suisse Group AG** have leased big blocks of office space in the former manufacturing district in recent years. Other tenants include professional services firms **Deloitte**, **Marsh & McLennan Cos.**, payments firm **Mastercard Inc.** and France's **BNP Paribas Securities Services**.

In the next three years, about 4.5 million square feet of new office space will be delivered in this area, roughly half of total new supply coming up in Warsaw, according to **CBRE Group Inc.**, a real-estate services firm. "The expansion of the city center might in the future lead to treating [this] region as the center of Warsaw," said Mikolaj Sznaider, a director at CBRE in Poland.

The building frenzy reflects high demand for offices com-

ing from international companies for information-technology, back-office and other operations for global clients.

Poland has long been a favorite for these operations, thanks to its relatively lower labor costs compared with Western Europe, availability of skilled talent and membership in the European Union. Until recently, most of the large shared services operations were set up mainly in small Polish cities, such as Krakow and Wroclaw, which are even cheaper.

"Recently, Warsaw has become a very strong player in this," said Arkadiusz Rudzki, managing director of the Poland office unit of **Skanska AB**, a Sweden-based construction company.

One reason for Warsaw's recent popularity, said Mr. Rudzki, is that banks and financial companies are looking for alternatives to diversify their operations away from London, following the U.K.'s vote to leave the European Union. "They're saying, where can we move where the operation is still within this time zone and within three

hours by flight" from London, he said.

Warsaw also comes up as a favorable alternative to attract specialized staff from other countries. "Companies are moving their employees from London, Frankfurt, Madrid and they are offering them a much higher quality of life," Mr. Rudzki said.

Developers have targeted Wola in recent years to build modern office space as Warsaw's central business district has become more congested and demand for office space has increased.

Historically a manufacturing hub, Wola in the Warsaw Uprising of 1944 was the site of a massacre of more than 40,000 Poles by German troops.

After the war, the area slowly returned to its manufacturing roots. In the late 1990s, some developers started buying land in Wola to build homes.

Later the area was discovered by office developers. In the five years ended in 2017, about 2.4 million square feet of office space was delivered in Wola, more than twice the amount developed in the pre-

vious five years.

Most of the new construction is centered within a 1-square-mile area around Rondo Daszyńskiego, a roundabout where a new metro line opened recently, providing more commuter access. More residential buildings are also being built in Wola, providing an option for office workers to live close by.

Both domestic and foreign developers are cashing in on the new demand. Skanska has two large projects under construction in Wola—the Generation Park complex and Spark buildings—with more than 1.6 million square feet of office space.

Last year, one of the buildings in the Generation Park complex was completed and Citigroup's Citi Service Center Poland moved in to occupy about 200,000 square feet—54,000 square feet more than Citigroup had planned to lease a few months earlier.

Other Skanska tenants include a unit of Credit Suisse Group and multinational law firm **DLA Piper**. Skanska said rents in its offices have gone up by 10% to 15% in the past five years.

Foreigners Swoop In For Commercial Deals

By SHEFALI ANAND

Foreign investors are scooping up commercial property in Central and Eastern Europe despite the rise of nationalist governments in the region, highlighting the appeal of investing in economies that are among the fastest expanding in Europe.

International investors purchased €12 billion (\$14 billion) of commercial real estate in the region in 2017, according to data firm Real Capital Analytics Inc. This was the highest level of cross-border investment into the region in a decade.

An additional €3 billion has been invested by international investors this year as of May 30, Real Capital said. These figures include countries such as Poland, Hungary, Czech Republic and Romania, but exclude Russia.

Foreign investors include funds managed by U.S. investment managers **Invesco Ltd.** and **Oaktree Capital Management LP**, and South African real-estate investment trust **Redefine Properties Ltd.**

Recent big deals include the purchase of a 28-property retail portfolio for more than \$1 billion by an entity backed by U.S. investment managers **Pacific Investment Management Co.** and **Oaktree Capital**.

In April, a fund managed by **Madison International Realty LLC**, a New York-based real-estate investment manager with \$3.6 billion in assets, bought a 50% stake in Warsaw Spire, an office tower in that city, for an undisclosed

price. The healthy deal activity underscores the region's allure to investors. The economy in Poland, which attracts a lion's share of foreign investment, is expected to expand by 4.1% this year, compared with 2.3% for Western Europe, according to the International Monetary Fund.

"There's no question that there is some uncertainty and turbulence over the very conservative government that has been elected and some of the propaganda and policies that they are talking about," said Ronald Dickerman, founder and president of Madison International. "It was a major consideration and risk factor when we made our investment, but we thought the opportunity far outweighed the risks."

The rise in nationalism in parts of Central and Eastern Europe are rooted partly in rising anti-immigrant sentiment but have broadened into other policies. Poland's Law and Justice party, which came to power in 2015, faces international criticism that it is trying to control the country's judiciary and media, among other institutions.

In Hungary, Prime Minister Viktor Orbán, who was re-elected for a third term in April, has implemented policies and taxes that some say target independent media companies or industries dominated by foreign firms.

The region has enjoyed strong growth most years since it emerged from domination by the former Soviet Union at the end of the 1980s. Many of the countries are in the European Union, although some countries, including Poland and Hungary, haven't adopted the euro.

Economic growth has been fueled in the region by the presence of global businesses attracted by its skilled talent available at lower wages compared with Western Europe.

Last year, **Daimler AG** started construction of a plant in southwest Poland that will make engines for its Mercedes-Benz cars. On Friday, **Umicore SA**, a \$14 billion materials firm, said it would set up a plant in Poland to make cathode materials for the European auto market.

Ramping Up

Foreign investment into Central and Eastern European real estate



Note: Excludes Russia; €12.3 billion=\$14.4 billion
Source: Real Capital Analytics

THE WALL STREET JOURNAL.

BUSINESS WATCH

JETBLUE AIRWAYS

Rules for Animals Restricted Further

JetBlue Airways Corp. is the latest airline to tighten rules for passengers flying with emotional-support animals.

Beginning July 1, only dogs, cats and miniature horses will be qualified to fly as emotional-support animals under JetBlue's new rules, and passengers will have to notify the airline of their plans at least 48 hours in advance.

In addition to a form from a medical professional, JetBlue will require passengers to certify that their animal will behave and provide documentation from a veterinarian that the animal is fit to fly. The rules are similar to requirements by other carriers and are consistent with guidelines from the Transportation Department.

—Alison Sider

NEWELL BRANDS

MLB Makes Play for Ball Maker Rawlings

Rawlings, a more-than-century-old company that produces the official ball and helmet of Major League Baseball, will be

changing hands in a \$395 million deal that adds the professional league as a key investor.

Under the terms of the deal announced Tuesday, consumer-goods conglomerate **Newell Brands** Inc. is selling the St. Louis sporting-goods maker to **Seidler Equity Partners**, a California-based private investment firm, and MLB.

"This is a really power-house combination," said Mike Thompson, executive vice president of marketing for Rawlings.

The deal gives MLB a chance to provide "even more input and direction on the production" of the league's official ball, said Chris Marinak, MLB's executive vice president for strategy, technology and innovation.

For Newell, which gained Rawlings as part of its acquisition of Jarden Corp. in 2016, the move is part of a plan to trim its operations after years of bulking them up.

—Maria Armenta

NINE WEST HOLDINGS

Creditors Seek Scrutiny of Debt

Nine West Holdings Inc.'s creditors want to put the shoe retailer's debt deals—transac-



A Rawlings display in New York. Owner Newell is selling as part of an effort to trim its operations.

TESLA

Musk Is Optimistic On Model 3 Output

Tesla Inc. will "quite likely" meet its goal of making 5,000 Model 3 cars in a single week by the end of the month, Chief Executive Elon Musk told investors Tuesday.

The Silicon Valley electric-car maker has demonstrated the ability to make 500 Model 3s a day, or 3,500 a week, already, he said. The company is pushing to meet the critical 5,000-a-week rate after twice delaying the deadline.

"This was, I have to tell you, the most excruciating, hellish several months I've maybe ever had," Mr. Musk said at Tesla's annual shareholder meeting near the company's Palo Alto, Calif., headquarters. "But I think we're getting there."

Meeting the goal of 5,000 Model 3s a week by the end of June is crucial to generating enough cash to sustain operations without having to raise more capital. Tesla has faced increasing financial pressure after struggling to ramp up production of the Model 3 that began assembly last July.

—Tim Higgins

Mutual Funds

Data provided by LIPPER

Fund	Net NAV	YTD Chg %	Ret %	Fund	Net NAV	YTD Chg %	Ret %	Fund	Net NAV	YTD Chg %	Ret %	Fund	Net NAV	YTD Chg %	Ret %	Fund	Net NAV	YTD Chg %	Ret %	Fund	Net NAV	YTD Chg %	Ret %				
American Century Inv	48.64	+0.17	12.0	Baird Funds	23.72	+0.06	4.3	US CoreEq1	14.20	-0.01	-0.1	US CoreEq2	22.29	+0.06	3.6	US CoreEq3	15.15	+0.01	2.2	US Small	38.24	+0.25	6.6	US Small	16.20	+0.01	-0.1
American Funds Cl A	10.87	-0.01	1.0	BlackRock Funds A	19.63	-0.01	-0.4	US SmCapV	40.63	+0.29	7.8	US TgdVal	26.29	+0.18	7.2	US TgdVal	17.90	+0.02	1.8	US TgdVal	20.63	+0.17	1.8	US TgdVal	11.23	+0.01	-2.0
AMCPlA p	43.33	+0.07	9.0	BlackRock Funds Inst	19.63	-0.01	-0.4	US TgdVal	26.29	+0.18	7.2	US TgdVal	17.90	+0.02	1.8	US TgdVal	20.63	+0.17	1.8	US TgdVal	11.23	+0.01	-2.0				
AMUTIA p	40.87	-0.05	0.6	BlackRock Funds Inst	19.63	-0.01	-0.4	US TgdVal	26.29	+0.18	7.2	US TgdVal	17.90	+0.02	1.8	US TgdVal	20.63	+0.17	1.8	US TgdVal	11.23	+0.01	-2.0				
BalaP p	27.29	+0.01	0.9	BondA p	1.97	-0.01	-1.9	BondA p	1.97	-0.01	-1.9	BondA p	1.97	-0.01	-1.9	BondA p	1.97	-0.01	-1.9	BondA p	1.97	-0.01	-1.9				
BondA p	27.53	+0.01	0.9	BondA p	1.97	-0.01	-1.9	BondA p	1.97	-0.01	-1.9	BondA p	1.97	-0.01	-1.9	BondA p	1.97	-0.01	-1.9	BondA p	1.97	-0.01	-1.9				
CapBla p	60.81	-0.09	-2.4	GblAlloc	19.76	-0.01	-0.3	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
CapWGrA	52.39	-0.01	2.9	GblAlloc	19.76	-0.01	-0.3	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
Eupaca p	57.16	+0.10	1.7	Bridge Builder Trust	13.51	-0.06	-2.5	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
Fdmva p	63.81	+0.03	2.8	CoreBond	NA	...	NA	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
Gwtha p	54.14	+0.09	0.7	Del Invest Instl	9.03	-0.01	-0.7	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
Hl TrA p	10.15	+0.00	0.4	Dimensional Fds	21.97	-0.05	2.8	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
ICAA p	41.14	-0.02	2.2	Dimensional Fds	21.97	-0.05	2.8	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
IncoA p	23.08	+0.02	-0.5	Edgewood Growth Institu	10.87	+0.01	-0.6	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
N PerA p	45.93	+0.11	6.4	Edgewood Growth Institu	10.87	+0.01	-0.6	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4	Balanc	104.90	-0.00	-0.4	Balanc	99.54	+0.00	13.4				
NECoA p	49.83	+0.14	11.7	EmMktCorEq	22.73	-0.13	-2.1	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6				
NwWrlA d	67.91	+0.07	1.5	IntCoreEq	14.56	-0.01	0.1	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6				
SmpCa p	59.53	+0.33	6.7	IntVal	20.21	-0.07	-1.2	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6				
TxExA p	12.82	-0.05	0.5	IntSmCo	21.47	+0.01	0.1	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6				
WshA p	46.55	-0.01	2.4	IntSmCo	22.52	-0.05	-2.0	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6	Edgewood Growth Institu	10.87	+0.01	-0.6				

changing hands in a \$395 million deal that adds the professional league as a key investor.

Under the terms of the deal announced Tuesday, consumer-goods conglomerate **Newell Brands** Inc. is selling the St. Louis sporting-goods maker to **Seidler Equity Partners**, a California-based private investment firm, and MLB.

"This is a really power-house combination," said Mike Thompson, executive vice president of marketing for Rawlings.

The deal gives MLB a chance to provide "even more input and direction on the production" of the league's official ball, said Chris Marinak, MLB's executive vice president for strategy, technology and innovation.

For Newell, which gained Rawlings as part of its acquisition of Jarden Corp. in 2016, the move is part of a plan to trim its operations after years of bulking them up.

—Maria Armenta

NINE WEST HOLDINGS

Creditors Seek Scrutiny of Debt

Nine West Holdings Inc.'s creditors want to put the shoe retailer's debt deals—transac-

tions related to a private-equity firm's leveraged buyout of the company—under the microscope.

The committee representing the retailer's unsecured creditors believes there could be "a number of potential estate claims" stemming from the 2014 leveraged buyout and other transactions between the company and its private-equity backer, **Sycamore Partners**, court papers show.

Nine West sought chapter 11 protection in April as it grappled with a \$1.5 billion debt load, much of which was left over from the 2014 buyout.

Nine West said in court papers it has plans to meet with the creditors on Tuesday to fur-

ther discuss the investigation.

Sycamore Partners said it would cooperate with the creditors' investigation, but it noted the debt markets' enthusiasm to take part in the Nine West leveraged buyout, which "oversubscribed for a total of \$345 million of term loans."

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract					Open interest
	Open	High	Low	Settle	Chg	Open interest
Copper-High (CME) -25,000 lbs.; \$ per lb.						
June	3.1375	3.2040	3.1375	3.1910	0.0645	1,901
July	3.1380	3.2500	3.1235	3.1985	0.0640	123,902
Gold (CMX) -100 troy oz.; \$ per troy oz.						
June	1292.10	1299.80	1289.90	1297.50	4.40	6,937
Aug	1296.40	1304.80	1293.50	1302.20	4.90	325,594
Oct	1302.60	1310.60	1299.90	1308.30	4.90	11,644
Dec	1308.80	1317.00	1306.10	1314.50	4.90	79,589
Feb'19	1314.00	1321.20	1313.90	1320.90	4.90	12,249
Dec	1349.50	1355.10	1349.50	1354.10	4.70	4,704
Palladium (NYM) -50 troy oz.; \$ per troy oz.						
June	986.80	998.10	986.80	998.70	-1.80	100
Sept	990.30	994.70	972.40	985.70	-8.60	21,844
Dec	978.30	983.20	970.00	980.50	-9.70	547
Platinum (NYM) -50 troy oz.; \$ per troy oz.						
July	902.40	904.60	892.70	901.30	-2.20	69,659
Oct	907.30	909.00	897.70	905.90	-2.50	12,370
Silver (CMX) -5,000 troy oz.; \$ per troy oz.						
June	16.355	16.495	16.355	16.491	0.112	41
July	16.440	16.550	16.370	16.543	0.112	135,337
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl.						
July	64.96	65.57	64.22	65.52	0.77	448,471
Aug	64.90	65.49	64.15	65.46	0.78	283,969
Sept	64.74	65.26	63.94	65.25	0.75	221,269
Oct	64.52	64.98	63.72	64.95	0.69	182,954
Dec	64.15	64.52	63.38	64.47	0.56	285,216
Dec'19	60.90	61.07	60.35	60.93	0.27	183,464
NY Harbor Asphalt (NYD) -42,000 gal.; \$ per gal.						
July	2.1531	2.1593	2.1164	2.1416	-0.0109	124,324
Aug	2.1576	2.1626	2.1203	2.1456	-0.0102	63,179
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.						
July	2.1256	2.1323	2.0842	2.1062	-0.0162	164,809
Aug	2.1136	2.1215	2.0737	2.0975	-0.0141	76,303
Natural Gas (NYM) -10,000 MMBtu.; \$ per MMBtu.						
July	2.922	2.931	2.874	2.890	-0.040	301,873
Aug	2.937	2.945	2.889	2.907	-0.036	111,702
Sept	2.919	2.928	2.875	2.892	-0.033	172,302
Oct	2.928	2.934	2.882	2.900	-0.032	156,605
Jan'19	3.153	3.160	3.115	3.131	-0.028	113,371
March	3.013	3.020	2.980	2.994	-0.024	106,323

Agriculture Futures

	Contract					Open interest
	Open	High	Low	Settle	Chg	Open interest
Corn (CBT) -5,000 bu.; cents per bu.						
July	380.75	385.25	380.00	383.75	3.00	719,201
Dec	401.25	405.50	400.25	404.00	2.75	553,287
Sugar-Domestic (ICE-US) -112,000 lbs.; cents per lb.						

Bonds | WSJ.com/bonds

Tracking Bond Benchmarks

Return on investment and spreads over Treasuries and/or yields paid to investors compared with 52-week highs and lows for different types of bonds

Total return close	YTD total return (%)	Index	Yield (%)		
			Latest	Low	High
Broad Market Bloomberg Barclays					
1906.33	-2.0	U.S. Aggregate	3.310	2.380	3.430
U.S. Corporate Indexes Bloomberg Barclays					
2708.60	-3.2	U.S. Corporate	3.970	3.030	4.070
2575.64	-1.7	Intermediate	3.660	2.530	3.760
3683.93	-6.4	Long term	4.640	3.990	4.750
555.20	-2.3	Double-A-rated	3.400	2.470	3.500
698.40	-3.1	Triple-B-rated	4.270	3.340	4.370
High Yield Bonds Merrill Lynch					
417.78	0.04	High Yield Constrained	6.313	5.373	6.417
431.11	2.6	Triple-C-rated	9.907	9.607	11.091
2858.60	-0.1	High Yield 100	5.979	4.948	6.319
376.60	-0.6	Global High Yield Constrained	5.955	4.934	6.001
304.54	-0.6	Europe High Yield Constrained	3.226	1.897	3.387
U.S. Agency Bloomberg Barclays					
1624.72	-0.8	U.S. Agency	2.770	1.690	2.870
1456.89	-0.4	10-20 years	2.670	1.510	2.760
3280.04	-3.2	20-plus years	3.360	2.730	3.550
2406.22	-2.3	Yankee	3.680	2.610	3.740

*Constrained indexes limit individual issuer concentrations to 2%; the High Yield 100 are the 100 largest bonds

†In local currency \$ Euro-zone bonds

**EMBI Global Index

Sources: Merrill Lynch; Bloomberg Barclays; J.P. Morgan

Global Government Bonds: Mapping Yields

Yields and spreads over or under U.S. Treasuries on benchmark two-year and 10-year government bonds in selected other countries; arrows indicate whether the yield rose (▲) or fell (▼) in the latest session

Country/	Maturity, in years	Latest(▲)-2	-1	0	1	2	3	Previous	Yield (%)				
									Month ago	Yearago	Spread Under/Over U.S. Treasury, in basis points	Prey	Year ago
Global Government J.P. Morgan'													
541.10	-0.5								1.610	1.300			
755.42	0.1								2.220	1.570			
370.60	0.03								2.228	1.950			
716.60	0.9								2.830	2.600			
512.36	1.0								3.440	3.200			
290.19	0.5								3.880	3.500			
565.71	0.9								4.350	4.000			
932.64	0.2								4.960	4.600			
772.29	-4.4								5.620	5.270			

Source: Tullett Prebon

U.S. prime rate is the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks, and is effective March 22, 2018. Other prime rates aren't directly comparable; lending practices vary widely by location. Discount rate

MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

24799.98 ▼13.71, or 0.06%
High, low, open and close for each trading day of the past three months.

Current divisor 0.14523396877348



Bars measure the point change from session's open

Mar. Apr. May

*Weekly P/E data based on as-reported earnings from Birnvi Associates Inc.

S&P 500 Index

2748.80 ▲1.93, or 0.07%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.09 24.08

P/E estimate * 17.15 19.01

Dividend yield 1.91 1.95

All-time high 2872.87, 01/26/18



Nasdaq Composite Index

7637.86 ▲31.40, or 0.41%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 25.07 26.65

P/E estimate * 20.85 21.42

Dividend yield 0.97 1.09

All-time high: 7637.86, 06/05/18



Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
Dow Jones										
Industrial Average	24838.78	24710.82	24799.98	-13.71	-0.06	26616.71	21136.23	17.3	0.3	11.6
Transportation Avg	10836.17	10685.96	10769.97	-44.07	-0.41	11373.38	9021.12	16.1	1.5	8.2
Utility Average	680.75	672.43	674.46	-4.99	-0.73	774.47	647.90	-7.4	-6.8	6.2
Total Stock Market	28664.99	28529.81	28632.90	40.02	0.14	29630.47	24958.26	13.9	3.5	9.3
Barron's 400	750.25	745.50	750.22	3.15	0.42	757.37	629.56	16.6	5.5	9.3
Nasdaq Stock Market										
Nasdaq Composite	7644.48	7602.38	7637.86	31.40	0.41	7637.86	6089.46	21.7	10.6	14.6
Nasdaq 100	7179.82	7137.13	7166.75	23.18	0.32	7166.75	5596.96	22.4	12.0	17.0
S&P										
500 Index	2752.61	2739.51	2748.80	1.93	0.07	2872.87	2409.75	13.2	2.8	9.5
MidCap 400	1975.19	1964.66	1974.34	6.14	0.31	1995.23	1691.67	13.7	3.9	9.0
SmallCap 600	1033.43	1023.33	1033.24	8.16	0.80	1033.24	817.25	22.3	10.4	12.7
Other Indexes										
Russell 2000	1664.69	1652.76	1664.63	11.25	0.68	1664.63	1356.90	19.3	8.4	9.7
NYSE Composite	12677.95	12623.42	12658.70	-15.21	-0.12	13637.02	11667.73	8.5	-1.2	4.9
Value Line	574.05	570.96	573.99	2.90	0.51	589.69	503.24	10.2	2.1	4.0
NYSE Arca Biotech	4803.36	4737.66	4770.07	-5.63	-0.12	4939.86	3642.11	30.8	13.0	4.9
NYSE Arca Pharma	531.67	527.33	528.47	-1.45	-0.27	593.12	514.66	0.5	-3.0	-3.2
KBW Bank	107.71	106.77	107.43	-0.51	-0.47	116.52	89.11	20.6	0.7	11.5
PHLX® Gold/Silver	83.53	82.19	83.05	0.87	1.06	93.26	76.42	-5.0	-2.6	7.0
PHLX® Oil Service	155.93	153.14	155.08	1.02	0.66	170.18	117.79	10.7	3.7	-9.8
PHLX® Semiconductor	1432.26	1420.09	1428.51	5.83	0.41	1445.90	1020.51	28.7	14.0	25.3
Cboe Volatility	13.34	12.30	12.40	-0.34	-2.67	37.32	9.14	18.7	12.3	-4.4

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	High	Low
SPDR S&P 500	SPY	6,827.5	275.41	0.31	0.11	275.59	274.30
Hewlett Packard Ent	HPE	5,591.0	16.06	...	unch.	16.06	15.96
Kinder Morgan	KMI	4,845.6	16.84	...	unch.	16.90	16.84
Snap	SNAP	3,237.5	13.07	0.14	1.08	13.08	12.77
AXA Equitable Holdings	EQH	2,903.5	21.49	0.01	0.05	21.65	21.48
Jacobs Engineering	JEC	2,684.1	66.40	...	unch.	67.60	65.97
General Electric	GE	2,310.3	13.82	0.02	0.14	13.82	13.75
Comcast Cl A	CMCSA	2,279.6	31.11	0.03	0.10	31.16	31.08

Percentage gainers...

Vascular Biogenics	VBLT	514.6	3.00	0.85	39.53	3.20	2.15
HUYA ADR	HUYA	145.1	31.80	2.08	7.00	31.80	29.12
Edison Intl	EIX	57.2	63.63	3.03	5.00	63.63	60.60
Exelon	EXC	153.3	41.89	1.46	3.61	41.89	40.43
Acacia Communications	ACIA	153.9	34.45	1.11	3.33	34.82	33.27

...And losers

Fastenal Co	FAST	170.8	49.54	-4.72	-8.69	54.26	49.54
Ambarella	AMBA	951.5	45.19	-4.20	-8.50	50.88	44.31
Credit Suisse Group ADR CS	CS	51.8	14.15	-1.18	-7.70	15.33	14.15
Immunogen	IMGN	254.9	10.90	-0.57	-4.97	11.47	10.90
Ollie's Bargain Outlet	OLLI	191.0	71.60	-3.71	-4.92	76.30	70.65

Trading Diary

Volume, Advancers, Decliners
NYSE NYSE Amer.

Total volume*	874,629,244	9,140,415
Adv. volume*	444,769,556	4,687,761
Decl. volume*	413,392,854	4,142,428
Issues traded	3	

BIGGEST 1,000 STOCKS

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (Formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq (ISE). The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, June 5, 2018

Net

Stock Sym Close Chg

A B C

Stock Sym Close Chg

Stock Sym Close Ch

BANKING & FINANCE

Australia Charges 3 Banks

ANZ and underwriters Deutsche Bank and Citigroup acted as a cartel, regulator says

BY ROBB M. STEWART

MELBOURNE, Australia—Australia's antitrust regulator took the unusual step of criminally charging one of the country's biggest banks and two underwriters of a 2015 fundraising round for the bank. It alleges cartel conduct.

Charges related to trading in **Australia & New Zealand Banking Group** Ltd. shares by the underwriters were filed Tuesday by Australia's government prosecutions agency against ANZ, **Citigroup** Inc. and **Deutsche Bank** AG, as well as several current and former senior executives of all three.

ANZ and each of the individuals named are alleged to have been knowingly involved in some or all of the conduct, according to the Australian Competition and Consumer Commission, which has been investigating the matter for more than two years.

Each of the banks disputes the allegations and said they plan to defend themselves and their employees.

In 2015, ANZ surprised investors with plans to raise 3 billion Australian dollars (US\$2.29 billion) to meet regulatory demands. The bulk was raised through an institutional share placement underwritten by Citi, Deutsche Bank and the local arm of **JPMorgan Chase & Co.** The placement was completed that August when about 80.8 million shares were issued.

The competition commission hasn't detailed its allega-

tions, and on Tuesday said it wouldn't comment further as the matter is now before the court. The case is listed to be heard by a Sydney court on July 3.

Investigations by the regulator more commonly lead to civil action rather than criminal charges, which are usually harder to prove.

Companies regularly put together syndicates to underwrite large capital raisings, and Citi said the practice hasn't previously been considered by an Australian court or addressed in published regulatory guidance. It denied any wrongdoing and said that if the regulator believes there are matters to address, they "should be clarified by law or regulation or consultation."

The regulator alleges the underwriters reached an understanding on the disposal of

outstanding shares in the placement, amounting to less than 1% of the total, Citi said. It noted that ANZ shares are bought and sold freely by thousands of investors every day, including during the period in question.

Last week, ANZ said it believes it acted within the law, and is cooperating with an investigation by the corporate regulator into whether it should have said in an August 2015 statement that the underwriters had bought about 0.9% of the shares issued. Reached Tuesday, the bank referred to that earlier statement.

Deutsche Bank said it and the two former executives who were charged acted responsibly and in the interests of clients.

◆ Heard: Australian banks face a reckoning. B14



The charges from the country's antitrust regulator relate to a 2015 fundraising by Australia & New Zealand Banking Group.

BRENDON THORNE/BLOOMBERG NEWS

Fund Reports Get Email Treatment

BY DAVE MICHAELS

WASHINGTON—You know those printed mutual-fund reports you meant to read but wound up tossing into the recycling bin? There won't be too many more of them.

Regulators on Monday approved a longstanding request from the mutual-fund industry, which has pressed for email, rather than snail mail, to be the default method for disseminating shareholder reports.

The Securities and Exchange Commission approved a rule that will allow funds, beginning in 2021, to post the documents on websites and tell shareholders how to access them electronically.

The commission's action, which passed on a 4-1 vote, was the culmination of a yearslong battle over the semiannual reports, which often run over 100 pages and include fee and performance charts as well as innumerable tables listing all of the securities owned by the fund. The nation's paper industry lobbied hard against the rule when it was first proposed in 2015.

The American Forest & Paper Association and the Envelope Manufacturers Association lobbied to maintain the print-first approach, and they rallied retirees and consumer groups to their side. The SEC received hundreds of form letters that said email distribution would hurt elderly investors as well as people in rural parts of the country where internet access is slow and expensive.

That caused the SEC to delay final action on the paper proposal in 2016. Now under new leadership appointed by the Trump administration, the SEC decided to allow mailings to be culled.

To soothe concerns that they are moving too quickly to squelch paper, regulators put off the electronic-first ap-

proach for a few years, and even then, funds must mail a notice to shareholders that tells them a new report is available and provides a phone number to call to request a hard copy.

The SEC's two Democratic commissioners said they were concerned that even minor barriers to accessing fund reports—such as having to request them online or by phone—could prompt some shareholders to neglect the important disclosures.

"The commission today reverses the default rule for delivery of information to investors, a choice contrary to everything we know about how individual investors actually behave," said Robert Jackson Jr., who cast the sole "no" vote against the rule.

The U.S.'s mutual-fund trade group estimates shareholders are the winners from the change: The move will save \$2 billion in printing and mail costs over 10 years, the Investment Company Institute said in 2016, costs that are passed on to shareholders and detract from investment returns.

In a survey of 400 investors conducted for the SEC in 2011, about one-third of respondents said they preferred paper copies of their mutual-fund reports. An additional 17% of those surveyed said they would like a "print summary" of the report's most important parts.

The SEC also said Tuesday that it would seek public comment on whether to change an esoteric fee system that compensates brokers and vendors for sending mutual-fund reports to shareholders.

The system hands brokers and vendors such as **Broadridge Financial Solutions** Inc. more money for sending reports electronically.

The companies get an additional 10-cent fee for each shareholder report that is sent digitally.



BRIAN FLAHERTY FOR THE WALL STREET JOURNAL
The company operates a popular app that people use to store, trade and transfer bitcoin. It is the largest cryptocurrency exchange.

Coinbase to Expand Into Japan

BY STEVEN RUSSOLILLO

Coinbase Inc., the operator of the largest U.S. cryptocurrency exchange, is setting up shop in Japan, where much of the world's bitcoin trading takes place.

The San Francisco-based company named Nao Kitazawa, a former Morgan Stanley banker turned fintech executive, as its new Japan chief executive. Coinbase said it is working with Japanese regulators to ensure it complies with local laws. It didn't offer a time frame for when it expects to commence.

Coinbase, which was founded in 2012 and runs the largest U.S. digital-currency exchange by volume, said it currently operates in 32 countries including Singapore. Yet it has lacked a significant presence in Asia, one of the driving forces behind bitcoin's surge last year.

"As a regulated, compliant crypto company in the U.S., we will focus on building that same level [of] trust with new customers in Japan," Dan Romero, vice president and general manager of Coinbase, wrote on the company's blog. He said the expansion was part of Coinbase's efforts "to accelerate the global adoption of cryptocurrency."

Japan has long been a hotbed for cryptocurrency trading. Rules that took effect in Japan last year established bitcoin as a legitimate payment method and helped the digital currency flourish in the country. About two-thirds of bitcoin trading is yen-denominated, according to data provider Coinhills.

Japanese regulators have tightened their grip on the market in recent months, after cryptocurrency exchange Coincheck Inc. in January lost more than \$500 million in cus-

tomer funds. Regulators have since suspended operations at some exchanges.

Exchange operators have had mixed success in Japan. In April, San Francisco-based cryptocurrency exchange Kraken said it was ending its

trading services for Japanese residents.

Also in April, internet brokerage Monex Group Inc. said it was buying Coincheck for \$34 million and aimed to fully restore its operations. Messaging-app operator Line Corp. is one of several companies waiting on regulatory approval to

open a cryptocurrency exchange.

Coinbase operates a popular app that people use for storing, trading and transferring bitcoin and collects fees when customers buy or sell the cryptocurrency. At one point in December, Coinbase was the most-downloaded free app in Apple Inc.'s App Store. The company has been trying to branch out beyond its core base of U.S. individual investors and last month unveiled plans for new services aimed at hedge funds and other big investors, such as brokering large-scale cryptocurrency trades.

The price of bitcoin traded at \$7,628.88 late Tuesday, according to research site CoinDesk. It has lost more than half of its value since peaking near \$20,000 in December. Still, it is significantly higher from early 2017, when it started the year below \$1,000.



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MARKETS

Treasurys Edge Up In Placid Session

BY AKANE OTANI

U.S. government-bond prices inched higher in a quiet day of trading.

The yield on the 10-year Treasury note settled at 2.917% Tuesday, compared with 2.939% the day before.

CREDIT MARKETS Yields, which fall as bond prices rise, initially paled

overnight declines after data showed activity across U.S. service industries accelerated more than expected in May.

The Institute for Supply Management said Tuesday that its nonmanufacturing index, which tracks a wide range of U.S. industries such as health care, finance and construction, rose to 58.6 in May, above the 57.6 that economists surveyed by The Wall Street Journal had expected.

Readings above 50 indicate expansion.

Strong economic data tends to weaken demand for Treasurys, which investors are drawn to when they are feeling uncertain about the outlook for growth.

"Overall a very robust read that has led Treasury yields higher," wrote Aaron Kohli, rates strategist at BMO Capital Markets, in a note.

Bond yields then drifted lower in afternoon trading, with analysts attributing the lull in action to a dearth of economic data on the calendar.

Technology Stocks Take the Lead

By DAVID HODARI
AND ALLISON PRANG

Technology stocks continued climbing, pushing the Nasdaq Composite to a second consecutive record close.

The technology sector of the S&P 500

TUESDAY'S MARKETS also ended the session at an all-time high, rising 0.4%,

and has climbed 6.6% over the past month. That marks a shift after investors fled the sector in March amid fears of increased regulatory scrutiny as Facebook faced questions over its sharing of users' information.

Now, tech stocks are looking more attractive, investors say, even as tighter trade policies have dented investors' confidence in the global growth story that drove stocks to records last year. Many investors believe tech companies can reliably increase earnings, even if the global economy slows.

The tech-heavy Nasdaq Composite—which also closed at a record Monday—rose 31.40 points, or 0.4%, to 7637.86. The Dow Jones Industrial Average and the S&P 500 waffled between small gains and losses for most of the session, before ending the day little changed.

"Tech is a stand-alone sector where it feels like there's a structural growth story, and we'll continue to see earnings growth," said Nick Peters, portfolio manager at Fidelity International. "Valuations do look pretty full...and tech aside, it's difficult to see where the market will beat expectations."

In a fresh sign of the tech sector's ascendancy, Twitter is slated to replace Monsanto in the S&P 500 before Thursday's opening bell. Twitter shares

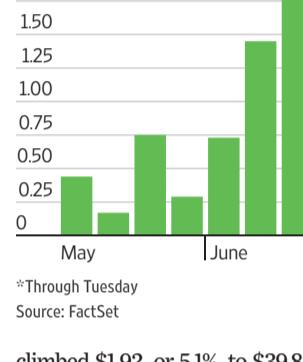


Twitter is slated to replace Monsanto in the S&P 500 before Thursday's opening bell

\$800 Billion and Climbing

Amazon.com closed at a record for the seventh straight session and 38th time in 2018. Tuesday's jump comes a day after the e-commerce retailer's market value topped \$800 billion for the first time.

Amazon's gains in share price for the past seven sessions



*Through Tuesday

Source: FactSet

climbed \$1.92, or 5.1%, to \$39.80, their highest level since 2015.

Shares of Apple, Amazon.com and Microsoft again closed at all-time highs.

The Dow industrials fell 13.71 points, or less than 0.1%,

Number of record closes for Amazon shares in recent years



THE WALL STREET JOURNAL

to 2.917% from 2.939% Monday. Lower yields tend to hurt banks' lending profitability.

Shares of utility companies and consumer-staples firms in the S&P 500 fell 0.7% and 0.5%, respectively.

U.S. stocks started the week on a positive note Monday, boosted by last week's solid jobs data, which outweighed continuing trade friction between the U.S. and some of its neighbors and largest partners. The jobs report played into market expectations that the Federal Reserve would raise interest rates at its meeting next week. Data from CME Group showed investors betting on a 93.9% probability of a rate increase.

Erik Davidson, chief investment officer at Wells Fargo Private Bank, said there is a "gravitational pull" for the market to rise and that he expects the S&P 500 to increase 5% or 6% more in 2018. At the same time, he indicated that it is good when investors re-

spond to news like the political uncertainty in Italy. "We still are yet to have any sense of euphoria in the markets," he said. "That's a positive."

Mr. Davidson also said now would be a good time for investors to look at their portfolios, noting they might be too exposed to U.S. stocks or small-cap companies, given the Russell 2000's recent outperformance. Investors don't have enough exposure to markets outside the U.S., and "it's possible that they're sitting on too much cash still," he said.

The dollar's recent sharp rally, which began in mid-April and was spurred by tepid economic data and political turbulence outside the U.S., has slowed in recent weeks. Higher energy prices helped eurozone inflation data last month hit the European Central Bank's target for the first time in a year.

The dollar's rally "looks complete to us, hence we recommend selling the [dollar] across the board," Morgan Stanley foreign-exchange strategists said in a note. Since the euro is "the anti-dollar," it may regain strength against the greenback, they added.

Elsewhere, the Euro Stoxx 600 fell 0.3%. Early Wednesday, Japan's Nikkei was up less than 0.1%, Hong Kong's Hang Seng Index was up 0.5% and South Korea's Kospi was up 0.3%.

AUCTION RESULTS

Here are the results of Tuesday's Treasury auction. 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	\$106,520,029,100
Accepted bids	\$35,000,079,100
"noncompetitively"	\$798,164,500
"foreign noncompetitively"	\$0
Auction price (rate)	99.861556
Coupon equivalent	(1.780%)
Bids at clearing yield accepted	1.807%
Cusip number	38.65%
The bills, dated June 7, 2018, mature on July 5, 2018.	912796PN3

OPEC Frets Over China Oil Stores

Continued from page B1
lysts use a variety of methods, including satellite technology, to try to track how much oil is there.

China's inventories, including the country's strategic reserve and commercial stocks, have risen by 130 million to 930 million barrels in the past year, according to oil-data company Ursa Space Systems Inc. of Ithaca, N.Y.

That increase would erase more than one-third of the 340 million barrels of surplus oil stock that OPEC cuts took out of inventories in OECD countries.

China's stores are only increasing, according to the International Energy Agency, which estimates Chinese inventories by comparing the amount of crude processed in refineries and imports. In its latest monthly report, the Paris-based energy watchdog estimates Chinese crude-oil stocks rose by 13.7 million barrels in March from the previous month and continued increasing in April.

As far back as October, OPEC officials were saying that it needed to look more closely at the increasing size of China's reserves.

"This additional crude requirement has become a notable addition to world oil crude demand," a report from an October gathering at the group's Vienna headquarters said.

Oil-storage owners normally shed excess stockpile when prices rise to make a profit. But in China, inventory movements follow government policies more than markets.

"They will buy even at \$100 a barrel because it's government policy," one OPEC official said.

Those reserves are now particularly pertinent as OPEC and its allies consider whether to produce more oil. At a technical discussion last month, Russia, Saudi Arabia and others discussed the inclusion of China and other non-OECD stocks to assess whether the market was in surplus or not, according to an OPEC official. This new metric would help decide whether the coalition should stay the course on production cuts when it next meets at the end of the month, he said.

Oil producers must try to gauge China's intent. If China



China's oil inventories are increasing, according to the International Energy Agency, but solid estimates are hard to come by.

Crude's Rise Snaps 3-Day Losing Streak

Oil erased its early losses and closed higher Tuesday, with some traders expecting a bullish U.S. inventory report Wednesday that could halt a recent price slide.

Light, sweet crude for July delivery added 77 cents, or 1.2%, to \$65.52 a barrel on the New York Mercantile Exchange, ending a three-session losing streak after closing at its lowest level in nearly two months on Monday. Brent crude, the global benchmark, added 9 cents, or 0.1%, to \$75.38 a barrel.

Prices have fallen from recent multiyear highs about two weeks ago, with Russia and Saudi Arabia hammering out the terms of a deal to jointly increase oil production leading up to the next Organization of the Petroleum Exporting Countries meeting on June 22. OPEC and other large producers have alleviated a global supply glut with production curbs that have propped up prices following a 2016 agreement.

However, some analysts say they think rising demand will be enough to offset any possible supply increases and prevent prices from sliding. Investors were looking ahead to the U.S. Energy Information Administration's weekly inventory report Wednesday for the latest figures on U.S. production and consumption. The EIA's reported inventories of "total stocks" of crude oil and fuels have risen bearishly for two straight weeks to their highest level since early March as infrastructure bottlenecks trapping shale oil depressed U.S. prices.

Still, some analysts said a more bullish report could at least temporarily boost oil, with U.S. prices down 9.2% in the past two weeks.

doesn't sell the oil on the open market or use it, the stored oil wouldn't affect global supplies or prices.

OPEC "must be very cautious" before rushing into a production increase, said Antoine Rostand, president of Paris-based oil-data company Kayros. Ignoring the Chinese

market or use it, the stored oil wouldn't affect global supplies or prices.

Still, OPEC and outside analysts say it is hard to measure Chinese inventories.

"It's not like in Western countries...nobody knows the exact number" in Chinese reserves, another official with the group said.

The IEA has also admitted that it does "not have enough

"We've fallen a long way in a short amount of time, so we could be ripe for a snapback rally if the report is bullish," said John Kilduff, founding partner at Again Capital.

Estimates from 11 analysts and traders surveyed by The Wall Street Journal showed U.S. oil inventories are expected to have decreased by 1.9 million barrels, on average, during the week ended June 1.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 2-million-barrel decrease in crude supplies, according to a market participant.

Some analysts said Brent crude lagging behind the U.S. price gain Tuesday—a departure from a recent trend—was a sign that market participants were still focused on the prospect of higher global supply.

—Amrit Ramkumar and Neanda Salvaterra

visibility neither of strategic reserves fill, nor of commercial inventories."

That uncertainty has created an industry for data companies looking to measure Chinese reserves. Many analyze satellite images to determine levels.

Orbital Insight Inc., a Mountain View, Calif., data

company that tracks global oil storage, checks the shadows of floating roof tanks in China to determine how much they are filled.

Such tanks are storage facilities whose roof floats on the surface of the stored liquid. In 2016, it combed the country's satellite images for previously unknown storage facilities.

"We scanned the whole country of China and found about 1,500 more tanks than were cataloged in industry databases," said James Crawford, the company's founder and chief executive.

In financial markets, analysts last year wildly underestimated gains on the S&P 500. Gold hasn't followed the script of the almost yearly predictions for higher prices. This year's oil rally caught forecasters by surprise.

But the IMF paper goes a step further, arguing that forecasts could take an actual economic toll.

MARKETS

Sky-High Lumber Adds to Housing Costs

BY RYAN DEZEMBER

The good news for home builders and house hunters is that lumber prices have dropped since hitting a record high in mid-May. The bad news: Wood prices are still up 67% over the past year, adding thousands of dollars to the cost of each new house.

The historic run-up in lumber prices—attributable to a trade dispute with Canada, wildfires and limited rail capacity—comes as U.S. home builders are already struggling to meet demand amid shortages in buildable lots and labor.

Lumber futures at the Chicago Mercantile Exchange closed at \$588.80 per 1,000 board feet on Tuesday, down 7.9% from the record high of \$639 reached May 17 but still sky high in a market in which prices have only occasionally eclipsed \$400 over the past three decades.

Traders and analysts say cash prices in Alberta, Canada, are even higher, above \$650. Meanwhile, plywood prices are up 43% over the past year, according to price-tracking publication Random Lengths.

"We've never seen anything like this," said Deb Maples, risk-management consultant at futures brokerage INTL FCS-Tone Financial Inc. "It's been unprecedented."

For a generation setting off to start families in the suburbs, pricier construction materials are another hurdle to homeownership, on top of rising borrowing costs and competition from institutional investors who are gobbling up homes to rent out in some of the hottest markets around the country.

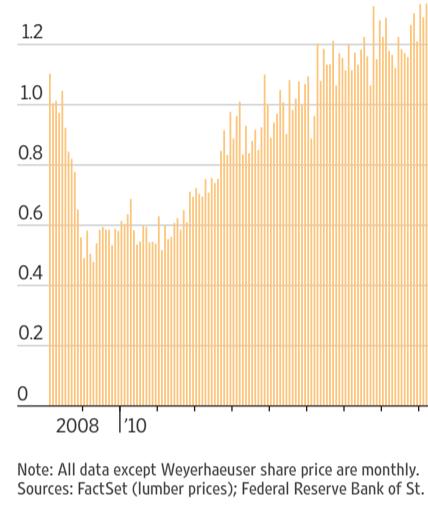
Lately, there have been signs that the housing market is slowing as prices push beyond the reach of some buyers. Housing starts, purchases of newly built single-family homes and residential building permits, a sign of how much construction is in the pipeline, each

\$600 per 1,000 board feet

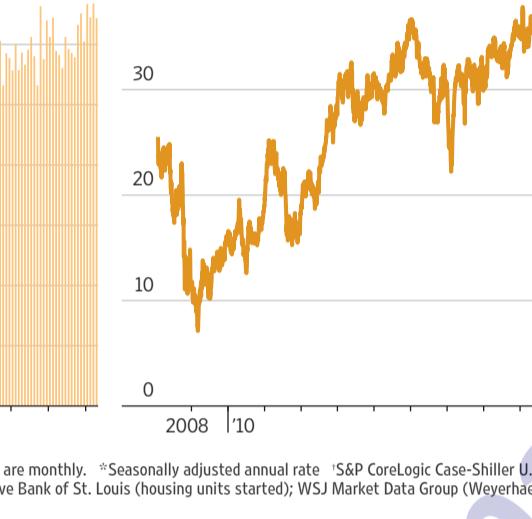
Lumber prices have soared to all-time highs—an increasing burden for U.S. home builders and buyers.



New privately owned housing units started*



Timber company Weyerhaeuser's share price



Index of U.S. home prices†



Note: All data except Weyerhaeuser share price are monthly. *Seasonally adjusted annual rate. †S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index. Sources: FactSet (lumber prices); Federal Reserve Bank of St. Louis (housing units started); WSJ Market Data Group (Weyerhaeuser); S&P Global (index).

declined in April, according to the Commerce Department.

Surging softwood prices aren't entirely responsible, of course, but they offer a glimpse of how the Trump administration's protectionist trade stance might ripple through

the economy as tariffs are imposed on other raw materials, such as steel and aluminum.

The U.S. housing recovery had already sent lumber prices surging last summer, when forest fires tore through western Canada, where loggers

harvest about one-third of the lumber consumed in the U.S. The blazes worsened shortages following wood-boring beetle infestations that wiped out millions of acres of North American timber.

Then, later in the year, the

U.S. levied tariffs on Canadian lumber of around 20%. Without enough domestic lumber to meet demand, buyers have mostly had to pay up.

"Lumber shipments from Canada to the U.S. are higher than ever, but the price of lum-

ber went up in excess of the duty," Jean-Jacques Ruest, interim chief executive of Canadian National Railway Co., told investors at a conference last week. "So what they did is create an inflation, and there was no impact in the trade because housing starts are strong."

So far, builders and retailers say they have been able to pass on higher costs to customers, but have expressed concern that they won't be able to do so much longer before sales volumes are affected. **Meritage Homes** Corp. CEO Steven Hilton told investors recently that higher lumber prices have this year added about \$3,000 on average to the cost of each house it builds. At **Home Depot** Inc., wood-product prices are up about 30% year over year.

"We don't see that abating at all," said Ted Decker, the retailer's executive vice president for merchandising. "Certainly don't want it to go a whole lot higher, but for right now we've been able to pass on and not see degradation in units."

Surging prices have propelled share prices of loggers with big U.S. forests. Shares of **CatchMark Timber Trust** Inc., **Rayonier** Inc. and **Potlach-Deltic** Corp. have each risen more than 11% over the past year. Shares of **Weyerhaeuser** Co., which says it is the largest private owner of timberland in North America with 12.4 million acres, closed at \$38.22 on Tuesday, the highest price in the 118-year-old Seattle company's history.

Weyerhaeuser CEO Doyle Simons said higher-priced Canadian wood is lifting demand for the company's U.S. timber as are rising interest rates that are pushing prospective home buyers off the fence. "For every \$10 improvement in lumber prices, that's \$45 million straight to our bottom line on an annual basis," he said Tuesday at an investor conference in New York.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

A Reason Jobs Are Tough to Fill

Having a job opening to fill is one thing. Convincing someone to fill it is quite another.

The economy hit a new milestone in April, the Labor Department reported Tuesday. For the first time since record-keeping began in 2000, there were more job openings than there were unemployed people to fill them. It is the result of the steady job gains that have sent the unemployment rate down to 3.8% last month.

The big surprise is that with all of those openings, people aren't changing jobs as much as you would expect.

Alongside the job-opening data it reported Tuesday, the Labor Department also released figures on job openings and what it calls job separations, which include job quitters, people who got laid off and people who retired. That data can be used to gauge how much movement between jobs, or

Churn Notice

Hires and job separations as a share of nonfarm employment



Source: Labor Department

And many workers may still have lingering fears, sown during the recession, about leaving the security of an existing job for a new one.

The good news is that more people are quitting their jobs—the quits rate, or quits as a share of total employment is at its highest level since 2001. But fewer people are leaving their jobs for other reasons, pushing the churn rate lower.

For companies, the low churn rate has been both good and bad. The good part is that it makes it easier to retain the employees, which helps keep labor costs lower.

That mainly benefits companies that aren't aiming to grow. The bad part, which mostly affects companies looking to expand their workforce, is that it can be hard to hire people without offering them strong incentives to do so. And those incentives usually involve higher pay.

—Justin Lahart

OVERHEARD

The new chairman of the International Air Transport Association, **Akbar Al Baker**, caused audible gasps at the aviation body's annual meeting when he described one requirement of his job as boss of **Qatar Airways**.

"Of course it has to be led by a man, because it is a very challenging position," he said.

Mr. Baker's views on women in the airline industry shouldn't be a surprise.

Last year he called U.S. flight attendants "grandmothers."

Mr. Baker attempted to tamp down the latest furor by highlighting the number of women at his company.

But if Qatar Airways is anything like U.S. airlines, then the only category where women are a majority is flight attendants.

In the U.S., just 6.4% of commercial pilots are women, a number that matches precisely the percentage of women on IATA's own board.

Silicon Valley's Favorite Payments Firm Adyen Cashes In

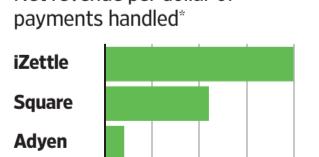
Payments are already a hot sector. Tie a payments story in with digital stars like **Netflix**, **Spotify** and **Uber** and there is the promise of new-economy gold.

This promise underlies the pitch of **Adyen**, an 11-year-old Dutch group that launched its initial public offering Tuesday and hopes to be valued at up to €7.1 billion (\$8.3 billion). It is relatively small, but can thank these fashionable Silicon Valley companies for rapid growth.

What might dull this story's shine is Adyen's over-reliance on a handful of customers that could leave it relatively easily. European markets haven't valued all payments companies

Handling Charge

Net revenue per dollar of payments handled*



*All data from 2017 except for iZettle, which is 2018 forecast.

spectacularly. A Danish startup, Nets, was listed in 2016 but taken private a year later after the shares struggled.

Adyen's IPO will follow a lot of other deal activity. Another European firm, **iZettle**, was bought last month by **PayPal** for \$2.2

billion. WorldPay of the U.K. was the subject of a \$10 billion takeover by **Vantiv** of the U.S. in the summer of 2017, less than two years after it listed. There has been a string of other mergers and private-equity deals.

Adyen has the same core business as WorldPay: handling payments on behalf of retailers and other businesses, whether online or in store. Adyen's advantage is that it has been built for a world where merchants don't want to have to care how or where customers pay them.

Bigger, traditional payments companies have to re-engineer multiple existing systems to make that work. Adyen has a single system that does this more cheaply and can add extra payment

volumes anywhere in the world at a vanishingly small marginal cost.

But its growth story may be overly reliant on some big trendy names. Ten clients account for one-third of Adyen's net revenues, according to its prospectus.

Beyond the three mentioned, these include **Facebook**, **Etsy** and **Tory Burch**.

The listing won't raise funds for Adyen. Instead, existing shareholders, including the management team and investors such as **Temasek**, the Singaporean sovereign fund, and **General Atlantic**, the private capital firm, are hoping to cash in up to €950 million.

Adyen was valued at €2 billion when **Iconiq Capital**, a firm that runs money for

well-known Silicon Valley executives, bought a stake in late 2015, according to PitchBook data. Since then, Adyen's revenues have more than doubled.

Even at the low end of its targeted price range, a €6.5 billion valuation would equate to more than 65 times 2017 earnings before interest, taxes, depreciation and amortization. That sounds punchy, but **Square**, the U.S.-listed digital payments firm, trades for nearly 180 times last year's Ebitda. And iZettle is losing money.

Payments are hot—maybe too hot. But as long as Adyen can keep its rapidly growing clients, its shares will likely stay on trend.

—Paul J. Davies

The scrutiny is likely to push banks to tighten the lax lending standards that have helped make Australia's housing market ever more expensive. Median home prices in Sydney have risen to around 9.1 times annual household incomes, up from 6.7 times in 2012, according to CoreLogic.

The scrutiny is likely to push banks to tighten the lax lending standards that have helped make Australia's housing market ever more expensive. Median home prices in Sydney have risen to around 9.1 times annual household incomes, up from 6.7 times in 2012, according to CoreLogic.

It is a bad time for a lending pullback, though: Australia's housing market has started to slow. Regulators are cracking down on popular interest-only mortgages, which, if they were converted into ordinary mortgages would boost borrowers' monthly payments by up to 50%, UBS estimates.

A souring property market would be a major drag on banks' profitability and their lofty valuations. As Australia's regulators increase their scrutiny of the country's banks, investors should reassess their health, too.

—Jacky Wong