

# THE WALL STREET JOURNAL.

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WSJ.com

★★★★ \$4.00

DJIA 24461.70 ▼ 196.10 0.8%

NASDAQ 7712.95 ▼ 0.9%

STOXX 600 380.85 ▼ 0.9%

10-YR. TREAS. ▲ 8/32, yield 2.899%

OIL \$65.54 ▼ \$0.17

GOLD \$1,267.20 ▼ \$4.00

EURO \$1.1604

YEN 109.97

## What's News

### Business & Finance

**S**tates have the authority to make online retailers collect sales taxes, the Supreme Court ruled, a milestone marking e-commerce's treatment as a mature player in the marketplace. A1

◆ The high court rejected the SEC's process for appointing administrative-law judges to oversee cases. A2

◆ Intel's CEO quit over violating company policy by having a consensual relationship with a co-worker. A1

◆ The Fed's stress test found that the largest U.S. banks were healthy enough to survive a severe slump. B1

◆ Deutsche Bank is breaking up its corporate-strategy team and the group's chief is leaving that role. B3

◆ Oil companies have slashed capital spending, a move that could lead to a long-term supply crunch. B1

◆ Global auto stocks were pummeled after Daimler issued a profit warning that it blamed on trade tensions. B1

◆ The Dow dropped 196.10 points to 24461.70, its eighth straight decline, hurt by U.S.-China trade friction. B11

◆ ABC is moving forward with a "Roseanne" spinoff, but without Roseanne Barr. B1

◆ AT&T unveiled a "skinny" TV service in an effort to recapture cord-cutters. B3

◆ Teamsters negotiators said they have tentatively agreed to a new five-year contract with UPS. B3

◆ The FAA has expanded its jet-safety reviews to include front engine covers after a fatal Southwest accident. B5

### World-Wide

◆ U.S. immigration policy sowed confusion, leaving law-enforcement and social-service agencies uncertain about how to deal with thousands of children. A1

◆ GOP leaders delayed a vote on an immigration bill designed to be a compromise between party moderates and conservatives. A4

◆ Lasers have targeted pilots of U.S. military aircraft in the area of the East China Sea more than 20 times in recent months. A1

◆ The House narrowly passed a GOP-written farm bill that imposes new work requirements on food-stamp recipients. A2

◆ The White House proposed a sweeping government revamping that would shrink federal agencies. A5

◆ Netanyahu's wife was charged with fraud for allegedly spending taxpayer money on costly meals. A6

◆ Eurozone nations agreed on the final elements of a plan to get Greece out of its bailout program. A8

◆ Insurers are increasing their footprints in Affordable Care Act marketplaces next year despite uncertainty. A3

◆ Bolton will travel to Russia this month to discuss a possible summit between Trump and Putin. A8

◆ California utility PG&E plans to take a \$2.5 billion charge related to last October's deadly wildfires. A3

◆ Died: Charles Krauthammer, 68, Pulitzer-winning conservative columnist. A3

**CONTENTS** Opinion..... A13-15  
Business News... B35 Sports..... A12  
Crossword..... A11 Streetwise..... B1  
Head on Street. B12 Technology..... B4  
Life & Arts.... A10-11 U.S. News..... A2-5  
Mansion..... M1-10 Weather..... A11  
Markets..... B11-12 World News..... A6-8

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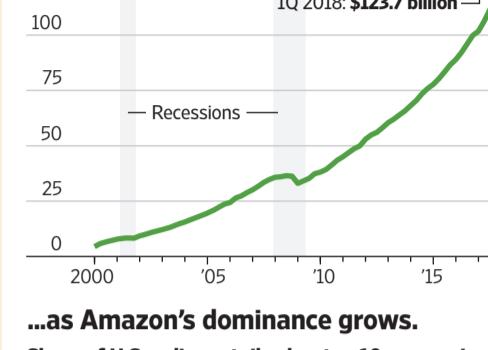
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## Court Gives Governments Key to Online Bounty

### Internet sales have exploded...

Sales in the first quarter grew by about 16% from a year earlier, but contribute only about 9.5% of total sales.

### E-commerce retail sales



### ...as Amazon's dominance grows.

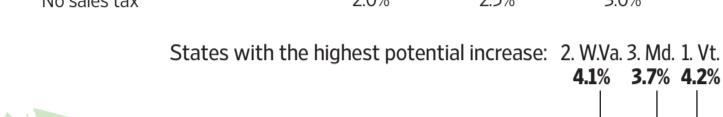
#### Share of U.S. online retail sales, top 10 companies

Amazon	43.5%
eBay	6.8
Walmart	3.6
Apple	3.6
Home Depot	1.5
Best Buy	1.4
Macy's	1.2
Wayfair	0.9
Costco	0.9
QVC	0.7

### Some states could benefit more than others

States in the east and central U.S. stand to see an outsize impact on their budgets from the change compared with other areas.

### Potential additional tax revenue from online sales as a percentage of state and local sales taxes



States with the highest potential increase: 2. W.Va. 3. Md. 1. Vt.

4.1% 3.7% 4.2%

Maine Wash. Mont. N.D. Minn. Wis. Mich. N.Y. Pa. N.H. Mass. R.I. Conn. N.J. Del. Md. D.C.

Ore. Idaho S.D. Neb. Iowa Ohio Ky. N.C. S.C. Va. Fla. Nev. Utah Colo. Ark. Miss. La. Okla. Tenn. N.M. Texas

Alaska Hawaii

Note: Additional tax revenue based on low end of estimated range.

Share of online sales is for 2017 and excludes nonpublicly-traded companies.

Sources: U.S. Census Bureau (sales); eMarketer (companies); GAO (states) THE WALL STREET JOURNAL.

## Migrant Policy Brings Confusion

Changing, competing and contradictory explanations of the Trump administration's immigration policy spread confusion from Washington, D.C., to the Mexican border, leaving front-line law-enforcement and social-service agencies unsure of what will happen to thousands of children.

By Alicia A. Caldwell in Tornillo, Texas, and Louise Radnofsky in Washington

Congress put off until next week a decision on an immigration bill designed to be a compromise between centrist and conservative Republicans.

Meanwhile, the federal government wrestled with the prospect of rapidly running out of space, money or both to detain immigrants—especially as family units.

Those factors create an immediate tension with the administration's prosecution policy. If the administration stops prosecuting all adults for illegal border entry, it could maintain its detention capacity for longer. But paring back prosecutions would amount to a significant retreat in the eyes of many, including the president himself.

The Pentagon confirmed Thursday that it had received a request from the U.S. Department of Health and Human Services to turn to page A4

◆ House Republicans delay immigration vote..... A4  
◆ Flurry of contracts awarded to care for migrants..... A4

## States Can Tax Web Sales

### Supreme Court ruling closes loophole that boosted internet sellers for decades

States have the authority to make online retailers collect sales taxes, the Supreme Court ruled Thursday, a milestone marking e-commerce's treatment as a mature player in the marketplace no longer defined by trips to the corner store or the shopping mall.

By a 5-to-4 vote, the court closed a loophole that helped fuel the early growth of internet sales, overruling a half-century of its own precedents that forbid states from requiring merchants to collect sales tax unless those sellers maintain a "physical presence" within the state's borders.

The ruling likely will spell the end of an era in which consumers could avoid taxes by purchasing goods online instead of from local merchants.

Justice Anthony Kennedy,

By Jess Bravin and Brent Kendall in Washington, and Laura Stevens in San Francisco

who suggested years ago that the pre-Amazon.com precedent should be updated for the digital age, wrote for a majority that defied conventional ideological lines. Liberal Justice Ruth Bader Ginsburg joined his opinion, along with conservative Justices Clarence Thomas,

Samuel Alito and Neil Gorsuch. Justice Kennedy said the "physical presence" rule, always doubtful, had become untenable. He cited studies suggesting that the court's own "artificial, anachronistic rule" now costs states up to \$33.9 billion annually in uncollected sales taxes, sapping resources

Please turn to page A2

◆ Court rejects SEC judge appointment process..... A2  
◆ State sales-tax officials wield new authority..... A2

## U.S. Pilots Menaced by Lasers Near China Coast

By GORDON LUBOLD AND JEREMY PAGE

WASHINGTON—Lasers have targeted pilots of American military aircraft operating over the western Pacific Ocean more than 20 times in recent months, U.S. officials say, following a series of similar incidents in which Pentagon officials said Chinese personnel used lasers against U.S. pilots in East Africa.

Officials said all of the incidents occurred in and around the East China Sea, typically where the Chinese military or other Chinese civilians operate.

The laser signals directed at American aircraft appeared to be coming from fishing boats operating in the area and from shore, multiple officials said.

Please turn to page A7

## Saudi Women to Hit the Road



STEERING COMMITTEE: Saudi Arabia's ban on women driving ends Sunday. Still, many women in the kingdom, fearing harassment, say the opposition of conservative men remains an obstacle to getting behind the wheel. Above, aspiring drivers attended a preparatory event in Riyadh on Thursday. A6

## Intel CEO Resigns Over Relationship

BY JAY GREENE AND VANESSA FUHRMANS

Intel Corp. said Chief Executive Brian Krzanich resigned for violating company policy by having a relationship with a co-worker, one of the most prominent CEOs to lose a job in an era of greater scrutiny over workplace behavior.

Intel learned of Mr. Krzanich's relationship in the past week from an employee who raised concerns, according to people familiar with the matter. The company said an investigation by internal and external counsel into what it called "a past consensual relationship" confirmed a violation of its nonfraternization policy, which was put into place in 2011 and applies to all managers.

The company, which said the investigation is continuing,

accepted Mr. Krzanich's resignation Wednesday. Mr. Krzanich, who was CEO since 2013, couldn't be reached for comment.

Robert Swan, the company's chief financial officer, was named interim CEO.

Decades ago, board members were more likely to look the other way on office romances and other personal matters, but the CEO role today is more high-profile than ever, limiting the room for transgressions, said executive recruiters and corporate-governance experts.

The rise of the #MeToo movement has companies hewing closely to policies on sexual harassment and consensual relationships, especially for business.

Please turn to page A8

◆ Heard on the Street: Future is now for a new Intel chief... B12

## Rocky Relations Divide Comcast, Fox

Cable titan labors to woo Rupert Murdoch away from Disney in epic bidding war

By SHALINI RAMACHANDRAN AND KEACH HAGEY

At one point last fall, Comcast Corp. Chief Executive Brian Roberts and other top executives at the cable giant thought they were near the deal of a lifetime to buy Rupert Murdoch's entertainment assets.

Then everything went quiet. Mr. Murdoch's 21st Century Fox postponed phone calls and didn't share promised data on its business, people familiar with the talks said. There were days of silence when Comcast expected heavy negotiations.

Weeks later, Mr. Murdoch announced a deal with rival Walt Disney Co. for \$52.4 billion, nearly \$12 billion less than the Comcast offer.

## Canada Takes Aim at U.S. Jam, Hankies

Ottawa's tariff targets perplex some companies

By KRIS MAHER

When Michael Slaughter heard Canada may slap 10% tariffs on playing cards, including those made by his Kentucky company, he thought it might be a joke.

"Really, Canada?" Mr. Slaughter, president of the United States Playing Card Co., recalls telling a Canadian friend. "Is that the best that you can do?"

Oh, but there's so much more. Canada says it may also hit U.S. licorice, handkerchiefs, whiskey, lawn mowers, strawberry jam.

Canada is showing just how unhappy it is about tariffs. Please turn to page A9

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## U.S. NEWS

# House Narrowly Passes Farm Bill

BY JESSE NEWMAN  
AND HEATHER HADDON

**WASHINGTON**—The House narrowly passed a Republican-written bill that reauthorizes farm programs while also imposing controversial new work requirements on food-stamp recipients, acting on legislation that is important to a critical GOP constituency before the midterm elections.

The bill passed Thursday on a 213-211 vote. The Senate is expected to vote next week on its own version of the bill, which funds crop insurance and payments to farmers when commodity prices or revenues drop below set levels. The measure, estimated to cost \$867 billion over a decade, also funds programs to help low-income people afford basic nutritional needs.

The bill's work requirements reflect a drive by House Republicans to overhaul the country's welfare system. On Thursday, House Speaker Paul Ryan (R., Wis.) touted the provision as a way to "close the skills gap and get more people into the workforce and onto the ladder of opportunity." It is likely to get stripped out in the Senate, where members have statewide constituencies and are more likely to represent populations who depend on the supplement-



over the North American Free Trade Agreement, which has been a boon to many U.S. farmers.

Since the House defeated a Republican-written farm bill in May, trade disputes have intensified. Mexico has imposed tariffs on major U.S. exports like cheese, pork and apples. China, the largest buyer of U.S. soybeans, says it will levy duties next month on goods including soybeans, chicken and seafood. Canada and the European Union are planning tariffs on other U.S. food and farm products.

That raises the stakes for the farm bill. Trade threats have sent commodity prices tumbling, with prices for soybeans down 14% so far in June, to levels not seen in more than two years. Corn has dropped 9% and wheat is down 6%.

The bill draws critics from across the political spectrum. Some conservative groups say its programs allow wealthy farmers and landowners to collect government subsidies.

Nutrition advocates oppose the new work requirements included in the House bill and were lining up behind a Senate alternative, which doesn't expand work requirements to qualify for food stamps.

—*Siobhan Hughes*  
contributed to this article.

**The bill is important to the Farm Belt, which is gripped by trade concerns. Above, wheat in Kansas.**

tal nutritional program.

Top Republican leaders have been driving to pass the farm bill well before the Sept. 30 expiration date of current programs, at which point funding would have lapsed for dozens of smaller programs, including assistance to new farmers.

Congress typically waits until the last minute to pass the legislation, but Senate Majority Leader Mitch McConnell (R., Ky.) said this year that Republicans "are obviously stronger in rural and small town America than we are in the big cities and the coast, so for us not to produce a farm bill would be a negative."

The bill's passage is important to the Farm Belt, which is gripped by anxiety over escalating trade tensions between

the U.S. and key foreign buyers of American agricultural products. In response to U.S. tariffs on imports of Chinese steel and aluminum, Beijing in April imposed duties on a range of U.S. goods including pork and fruit. That sparked alarm among farmers already navigating the steepest downturn in the agricultural economy in decades, as well as uncertainty

# State Sales-Tax Officials Forge New Authority

BY RICHARD RUBIN

**WASHINGTON**—State tax officials began preparing to use the new sales-tax collection power the Supreme Court handed them on Thursday.

Some states could move within weeks to require sales-tax collection by out-of-state retailers under existing laws, getting an expanded revenue stream in place before the holiday shopping season. Others may need to wait until 2019 for their legislatures to act.

For states, the court's ruling in *South Dakota v. Wayfair* ends a decadeslong lobbying and legal fight and begins a new round of regulations, legislation and enforcement. The case also provides some guidance to states by offering South Dakota's law as a model.

States could collect an additional \$8 billion to \$13 billion annually in sales taxes, which is a 2% to 4% increase, according to a study by the Government Accountability Office. First, states will still need to get businesses to register under their systems and release rules and technical guidance.

"Just because you can now constitutionally ask someone



physical presence standard, according to MultiState Associates, a consulting firm that tracks state tax policies. North Dakota mirrored the South Dakota law and wrote its version to start as soon as the Supreme Court overturned its 1992 precedent.

On Thursday, North Dakota's law took effect and the state published a set of frequently asked questions about its implementation. The state is trying to collect revenue as soon as possible while also assisting retailers with compliance, said Ryan Rauschenberger, the state tax commissioner.

"We have been for months preparing for this day," he said. "We want companies to comply as soon as possible, do the best they can with the resources they have and start collecting and remitting the tax."

In his majority opinion, Justice Anthony Kennedy ruled that in the internet age, physical presence isn't necessary for states to show that businesses have a substantial nexus for taxation. Without establishing a new constitutional test for state sales-tax laws, Justice Kennedy pointed

to several features of South Dakota's law that "appear designed to prevent discrimination against or undue burdens upon interstate commerce."

Those include an exception for small sellers, those with less than \$100,000 in sales or fewer than 200 transactions into South Dakota. The state's law also isn't retroactive. And South Dakota is part of a 23-state agreement to streamline sales tax definitions and compliance.

"There's a lot of things that we do that make it easy for any business, large or small...to be in compliance," said State Sen. Deb Peters, a Republican and chief author of South Dakota's law. "If your state wants to do it, you should do what we do."

States will move quickly, and Congress should step in to create uniform rules, said Andrew Moylan, executive vice president of the National Taxpayers Union Foundation, a small-government group in Washington.

"This is going to unleash a form of chaos in state tax, and we'll have to work to manage the fallout of that for many, many years," he said.

—*Richard Rubin*  
contributed to this article.

# States Can Now Tax Web Sales

**Continued from Page One**  
for essential public services while distorting the marketplace by advantaging remote sellers over those anchored in the community.

Because the court's rulings freed out-of-state sellers from collecting sales taxes, the duty to pay them has fallen on consumers themselves. Few people have known of that obligation, and fewer still have complied: 96% of such taxes go uncollected, according to a California tax board estimate cited by the court.

More than 40 states, territories and the District of Columbia and the District of Columbia that rely on sales taxes had urged overturning the 1967 case that established the physical presence rule and a 1992 decision that affirmed it.

Groups representing conventional stores including Walmart Inc. and Target Corp. backed them. South Dakota brought the suit, seeking to require out-of-state companies Wayfair Inc., Overstock.com Inc. and Newegg Inc. to collect sales tax on transactions with the state's residents. Antitax groups and retail platforms including eBay Inc. and Etsy Inc. supported the defendants.

While the justices rarely disturb their own precedents, the court no longer could stand behind an erroneous decision that "limited states'

ability to seek long-term prosperity and has prevented market participants from competing on an even playing field," Justice Kennedy wrote.

Even the four dissenters, led by Chief Justice John Roberts, agreed that the "physical presence" rule was wrong. But with so much of the economy having grown under its influence, they said the court should leave well enough alone.

Congress, under its constitutional power to regulate interstate commerce, could at any time have altered the court's rules, which effectively serve as a default in the face of legislative inaction. Torn between opposing commercial interests and fearful of the blame for effectively increasing costs for consumers, Congress hasn't found the will—or consensus—to do so.

Some online retailers, such as Amazon.com Inc., already collect state sales tax on products they sell directly. Others don't—and, to Justice Kennedy's chagrin, brag about it.

Wayfair's advertising not only presents "an image of beautiful, peaceful homes," but "also says that 'one of the best things about buying through Wayfair is that we do not have to charge sales tax,'" Justice Kennedy wrote, calling the pitch, which has since disappeared from the Boston-based retailer's website, "a subtle effort to assist in tax evasion."

Nevertheless, the decision suggested states may face some limits on their collection powers. Justice Kennedy favorably noted provisions of the South Dakota law exempting small retailers and forgoing any effort

to collect taxes retroactively on prior sales. The state imposes collection duties only on remote sellers that do more than \$100,000 in business or at least 200 transactions a year within South Dakota.

"Many states will pick up on those details and incorporate

**Some online retailers already collect state sales tax on products they sell directly.**

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## U.S. NEWS

# Health Insurers Are Set to Expand Reach

Offerings expected to widen under Affordable Care Act despite uncertainty over law

By ANNA WILDE MATHEWS

After years of pullbacks, insurers are increasing their footprints in the Affordable Care Act marketplaces next year despite uncertainty, including the latest court challenge to the health law.

**Centene Corp.** and **Molina Healthcare Inc.** said they are making regulatory filings to newly join or re-enter ACA exchanges in states including North Carolina, Wisconsin and Utah. Smaller operators have made filings signaling they

will likely come into markets where they didn't offer ACA marketplace products this year, including **Bright Health Inc.** in Tennessee; **Virginia Premier** in the Richmond, Va., area; and **Presbyterian Health Plan** in New Mexico.

In the latest move, **Oscar Insurance Corp.** said it would enter exchanges for the first time in Florida, Arizona and Michigan next year, as well as going into new markets in Ohio, Tennessee and Texas, states where it already sells ACA plans. Including the new entries, Oscar will sell coverage in 14 markets across nine states in 2019.

The expansions reflect that many insurers' ACA business has moved into the black after years of rate increases that have helped premiums catch up

to costs, said Cynthia Cox, a director at the Kaiser Family Foundation. The Kaiser foundation found in an earlier analysis that insurers' financial performance on plans sold to consumers improved sharply last year, achieving the best results since the ACA's major market changes went into effect in 2014. "They're feeling more confident in their ability to be profitable in this market," Ms. Cox said.

Mario Schlosser, chief executive of Oscar, said the startup insurer's loss narrowed last year and the first quarter of 2018 was the first profitable quarter. The results "have been improving because the market is stabilizing," as well as changes Oscar itself has made, he said, and the insurer is already weighing expansions for 2020.

Still, insurers said they are braced for continued uncertainty in the ACA business. In 2019, enforcement of the health law's requirement for people to have health insurance will end, while the Trump administration is opening the door to alternative types of coverage that insurers say could pull healthy enrollees out of ACA plans. Several states are also again challenging the ACA in a court case, and the Trump administration has asked the court to strike down key elements of the law.

"We're not going into this with blinders on," said Linda Hines, chief executive of Virginia Premier, which is owned by health system **VCU Health** and hasn't previously sold ACA plans. "We're not going in saying, 'we're going to make X

percent margin.'

In recent years, there had been a steady decrease in the number of insurers in many ACA markets, with the average number per state dropping to 3.5 this year from 4.3 in 2017 and six in 2015, according to the Kaiser foundation. Large national insurers **Aetna Inc.**, **Humana Inc.** and **UnitedHealthcare Inc.**, a unit of **UnitedHealth Group Inc.**, pulled back sharply, while **Anthem Inc.** withdrew from many regions.

For 2019, there is so far no sign of further exits, though most states haven't yet made filings public. In a survey of insurers, consulting firm Oliver Wyman, a unit of **Marsh & McLennan**, found none that planned to shrink ACA-plan geography. Among 29 insurers that answered a question about 2019

ACA offerings, 21% said they were expanding and the rest weren't changing their footprint.

"Absolutely, the tide is turning," said Tom Loach, director of carrier relations at eHealth Inc.

**Anthem**, which sells Blue plans, has filed to offer exchange products in Maine if the state is able to implement a re-insurance program, after withdrawing from the marketplace for 2018; Anthem said it would "continue to work with the state through the regulatory process."

Molina said it will ultimately "evaluate our participation on a market-by-market basis." Presbyterian Health Plan, which is owned by Presbyterian Health-care Services, said it is "evaluating re-entering" the New Mexico exchange and will make a final decision around mid-July.

# Utility's Wildfire Charge Signals Problems to Come

By ERIN AILWORTH  
AND SARA RANDAZZO

The parent of California's largest investor-owned utility plans to take a \$2.5 billion charge related to a spate of deadly wildfires that swept the northern part of the state in October.

The charge, which **PG&E Corp.** said will be included in its second-quarter financial results, is the first signal of the extent of damages utilities may face from increasingly devastating California fires. PG&E has been pushing state lawmakers to reform liability regulations that could leave it on the hook for billions of dollars in damages. The rules threaten the financial viability of utilities in the state, company officials have warned.

The hits related to the fires have been piling up for PG&E, which has seen its stock drop by 40% since the start of the October fires and recently cut its dividend. The utility's credit rating has been downgraded by ratings firms, including S&P Global Ratings.

The ratings firm this week called the risk of wildfire-related liabilities a "growing concern" that could push PG&E and other investor-owned utilities in California below investment grade.

State fire investigators have pointed to PG&E's equipment as the cause of 16 fires so far, and are expected to release their findings on other October blazes in the coming weeks.

PG&E said Thursday that it expects to incur losses from at least 14 of the fires already investigated, and warned its liabilities could grow as investigators release more findings.

The biggest sticking point for the company is a rule under which it could be held liable for fires sparked by its



Wildfires spread quickly across Northern California in October, causing extensive damage. Above, the remains of a Napa home destroyed by a blaze that month.

equipment even if the company adhered to all laws governing the management and safety of that equipment.

PG&E Chief Executive Geisha Williams has been outspoken about the need for reform over the past several months. During a call with investors Thursday, she characterized the rule—known as inverse condemnation—as "bad public policy" that "threatens the financial health of all of the California investor-owned utilities."

Inverse condemnation, a provision in California's con-

sitution, allows compensation for property damage caused by government entities or state actors.

To date, investigators with the California Department of Forestry and Fire Protection, or Cal Fire, have concluded that PG&E poles and power lines, most of which were hit by trees and branches, were responsible for igniting 16 blazes. In 11 of those fires, investigators found evidence that PG&E may have violated state law. Those cases—which include the Atlas fire in Napa that killed six—have been re-

ferred to the relevant county district attorneys.

Several of those district attorneys say they are coordinating with other local prosecutors and the California Attorney General's Office, but haven't determined if they will pursue charges.

PG&E also faces more than 300 civil lawsuits brought by individuals, municipalities and insurance companies to recoup money for fire-related damage and deaths.

PG&E has argued it shouldn't be pegged with liability under inverse condem-

nation in those suits because, unlike a government entity, it can't absorb the costs through tax increases.

The issue came to a head, in large part, because of a decision last year by the California Public Utilities Commission that San Diego Gas & Electric can't pass on to ratepayers an estimated \$379 million in costs related to deadly wildfires in 2007. The commission based that decision on a finding that the utility didn't reasonably manage and operate its equipment.

That precedent worries PG&E and others. Gabe Grossberg, director of S&P Global's North America regulated utility team, said it could hurt PG&E's ability to access capital markets and raise debt, and ultimately could cost ratepayers more.

San Francisco Superior Court Judge Curtis Karnow, who is overseeing all of the civil cases, ruled in May against PG&E's position that investor-owned utilities shouldn't be subject to inverse condemnation, saying it is "flatly contradicted" by a prior court case.

# Conservative Voice Had Wide Influence

By LUKAS I. ALPERT

Charles Krauthammer, the Pulitzer Prize-winning conservative columnist whose critiques made him an influential voice in Washington for decades, died Thursday. He was 68 years old.

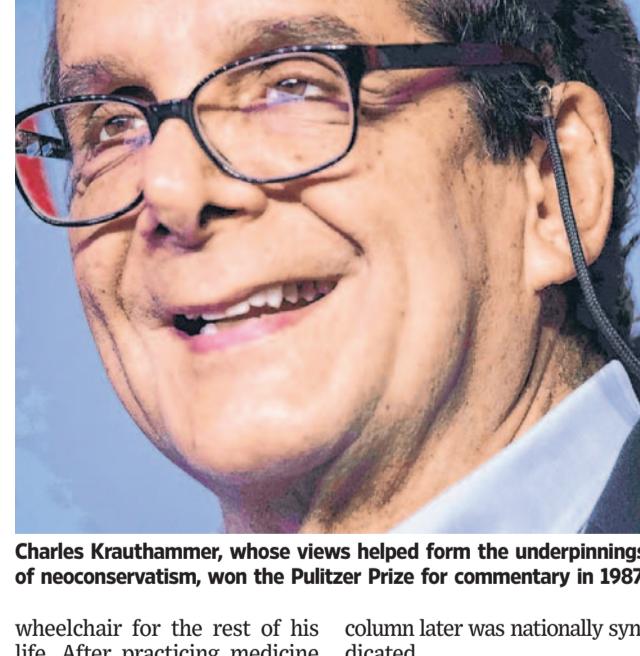
Mr. Krauthammer had said earlier this month that he was battling an aggressive form of cancer and his doctors

told him he had weeks to live.

"I believe that the pursuit of truth and right ideas through honest debate and rigorous argument is a noble undertaking," he wrote in his farewell note to readers. "I am grateful to have played a small role in the conversations that have helped guide this extraordinary nation's destiny."

Mr. Krauthammer was best known for his writings on foreign policy. In the 1980s, he was credited with coining the phrase "the Reagan Doctrine" to describe President Ronald Reagan's strategy for countering Soviet influence. After the Sept. 11, 2001, attack, he argued forcefully in support of the invasion of Iraq and his views helped form the ideological underpinnings of neoconservatism.

A Harvard-educated psychiatrist, Mr. Krauthammer was paralyzed below the neck in a freak diving accident in his 20s while in medical school. He used a



Charles Krauthammer, whose views helped form the underpinnings of neoconservatism, won the Pulitzer Prize for commentary in 1987.

wheelchair for the rest of his life. After practicing medicine for a few years, he moved to Washington to direct planning in psychiatric research during the Carter administration and became a speech writer for Vice President Walter Mondale.

Mr. Krauthammer then began contributing articles and political commentary to the New Republic, where he would eventually become a full-time writer and editor. In 1984, he won a National Magazine Award and began writing a regular column for the Washington Post. The

column later was nationally syndicated.

"This is a hugely sad day for me, and I know in that I'm no different than so many Post readers," said Fred Hiatt, the Post's editorial page editor. "For decades, Charles has written a column of unparalleled principle and integrity, not to mention humor and intellectual virtuosity. There will be no replacing him."

In 1987, Mr. Krauthammer was awarded the Pulitzer Prize for commentary. In 2006, the Financial Times dubbed him the

most influential commentator in the U.S. In 2009, Politico said Mr. Krauthammer had emerged as a "central conservative voice" against the newly elected Obama administration and served as a coherent, sophisticated and implacable critic of the new president."

In the 1990s, he became a panelist on the PBS news program "Inside Washington" and was later a regular contributor to Fox News Channel's "Special Report with Bret Baier." Fox News-parent 21st Century Fox and The Wall Street Journal-parent News Corp share common ownership.

While his positions often stood on the conservative side of the debate—he was a proponent of a hawkish foreign policy and a defender of Israel—Mr. Krauthammer's views weren't always doctrinaire and sometimes cut across the political divide.

He wrote regularly about medical ethics and was a supporter of embryonic stem-cell research. He also opposed the death penalty and had argued in defense of abortion rights. In 2016, he opposed the candidacy of Donald Trump.

But he was perhaps best known for his positions on foreign policy. In the 1980s, Mr. Krauthammer was credited with coining the phrase "the Reagan Doctrine" to describe President Ronald Reagan's strategy for countering Soviet influence around the world.

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## U.S. NEWS

# House Delays Immigration Vote

By NATALIE ANDREWS  
AND SIOBHAN HUGHES

WASHINGTON—Republican leaders delayed a vote on an immigration bill designed to be a compromise between GOP moderates and conservatives, and it remained uncertain on Thursday whether enough lawmakers could be brought on board to get the bill across the finish line.

With the vote pushed back until next week, House Republicans huddled behind closed doors to address members' concerns. Notably, some conservatives complained that the compromise omitted a requirement that employers use the E-Verify system to check workers' immigration status, a policy backed by conservatives, while others lawmakers wanted reassurances on how the legislation addressed young immigrants brought to the country illegally as children, often called Dreamers.

GOP leaders argued the compromise bill meets President Donald Trump's long-standing demands for an immigration overhaul, and he has said he supports the bill. A provision in the compromise bill would also end the prac-



Jenquel, who recently entered the U.S. with her family, at a Catholic charity center in McAllen, Texas.

as planned on Thursday, and as expected was defeated, with 231 opposed and 193 in favor. But rather than go ahead with the second vote on Thursday afternoon, leaders postponed it by a day. Later, leadership said the vote would be put off until next week.

The compromise bill would appropriate \$23.4 billion for border security, including a wall and physical barriers along the southern border, and provide six years of renewable legal status to Dreamers. It would also end the diversity-visa lottery program and cut the family-based visa program.

Republicans must pass the bill on their own. No Democrats are expected to support the bill. Minority Leader Nancy Pelosi (D., Calif.) rejected labeling the more moderate bill a "compromise," saying its provisions on Dreamers and on the "zero tolerance" policy of charging adult illegal immigrants were too harsh for her party to accept.

The House legislation would face an uncertain fate in the 100-member Senate, where it would need 60 votes to pass, and all 49 members of the Democratic caucus are currently opposed to the bill.

# Contracts To Care for Migrants On the Rise

By ZUSHA ELINSON  
AND IAN LOVETT

The U.S. government awarded a flurry of contracts and grants to private companies and nonprofits to help run facilities for migrant children around the country in the months before the Trump administration began its "zero-tolerance" policy that resulted in the separation of families at the Mexican border.

**Southwest Key Programs** Inc., a Texas nonprofit, was awarded hundreds of millions of dollars in government grants this year to house migrant children, and currently operates a facility at a former Walmart store in Brownsville, Texas, that is housing nearly 1,500 boys, including dozens separated from their families.

In Florida, the government gave **Comprehensive Health Services** Inc. \$22 million in February to help operate a 500-bed shelter, and then in May, extended the contract by \$8 million to make it a 1,000-bed shelter, according to government procurement data.

The government also sought a much smaller company for "facility management services" for the same shelter, awarding \$2.3 million to Murrieta, Calif.-based **American Canyon Solutions** Inc., on May 23, according to government data.

The federal government, through the Department of Health and Human Services, has a total of about 100 shelters in 17 states, said Kenneth Wolfe, a spokesman for the agency.

More than 11,700 children are living in the shelters, including some of the more than 2,300 who were separated from their families, officials said Wednesday. The others are children who came across the border without their families.

The expansion has meant more government funding for private companies and nonprofits that have seen rising revenue from sheltering and caring for migrant children in recent years.

The influx of children separated from their parents has

**The federal government has a total of about 100 shelters in 17 states.**

also brought scrutiny for the organizations, which for years have operated shelters for unaccompanied migrant children with little public oversight.

U.S. senators have shown up at their facilities this month, demanding to inspect the conditions children are being held in. And immigration advocates say they are worried about the quality of care for children in the shelters. At the converted 250,000-square-foot Walmart in Brownsville, nearly 1,500 boys, ages 10 to 17, are housed in open-roofed dorm rooms, with five boys sleeping in rooms intended for four. The federal government says the children are receiving good care from professionals.

The government's spending on nonprofits and private companies that run shelters started rising five years ago during the Obama administration. Southwest Key Programs, for example, has been awarded more than \$1 billion in the past four years, according to government data.

In May, it signed a lease to open a new shelter for migrant children in Houston. On Wednesday, the landlord at the proposed facility, 419 Hope Partners LLC, said it doesn't want to house children separated from their parents and that it had been told the facility would be used for children who arrive in the U.S. unaccompanied.

In a television interview with KTRK-TV in Houston, Southwest Keys Chief Executive Juan Sanchez said the nonprofit is doing its best to care for the children. "If we don't take care of them, who's going to take care of them?" he said. "They're going to wind up in a detention center, a real detention center, and other facilities that are not adequate for children."

## Shift in Policy Sows Confusion

Continued from Page One

vices to provide up to 20,000 temporary beds for unaccompanied immigrant children at Defense Department installations.

But HHS, which is responsible for the care of unaccompanied minors, couldn't immediately answer emailed questions Thursday about what they had been directed to do by the president, or what they were specifically doing as a result. Instead, it referred to a statement it issued Wednesday night that said it was awaiting "further guidance."

The Defense Department is also sending 21 military attorneys to the border to prosecute immigration cases, a move a group of senators opposed in a letter to Defense Secretary Jim Mattis on Thursday.

President Donald Trump had directed his administration on Wednesday to try to detain asylum-seeking families together, a reversal after weeks in which he insisted he had no choice but to separate children and adults who had been apprehended.

The order had also raised questions about how quickly the government could find facilities to house families together—or how it would affect the more than 2,300 children already separated from adults who had been apprehended.

Instructions to reunite children separated from adults under the policy are likely to take weeks to draft and carry out, an administration official said.

Such an effort would likely require HHS and the Department of Homeland Security to match and screen adults with whom the children arrived at the border—and avoid entrusting children to adults deemed unsuitable.

Mr. Trump said Thursday he had directed federal agencies to "work together to keep illegal immigrant families together during the immigration process and to reunite these previously separated groups."

First lady Melania Trump also spoke of keeping families together in a surprise visit to the southern border.

Mrs. Trump drew attention after photos of her boarding a plane in a military-style jacket with the phrase "I really don't care, do u?" on the back appeared online. The president tweeted that the phrase referred to the "Fake News Media."

Officials had been told earlier Thursday to prosecute only one adult traveling with children if two were present, and to prioritize prosecution of male adults, a federal law-enforcement official said, with exceptions for adults who had a criminal history. The official said Thursday afternoon that policy was changing again.

In federal court in McAllen, Texas, 17 parents were removed from the morning docket of recent border crossers being charged with a misdemeanor for entering the U.S. illegally,

## Breaking Down the Numbers

—By Kathryn Tam and Alicia A. Caldwell

**1 Border arrests**

Arrests along the Mexico border are currently at lows last seen in the early 1970s. But since Oct. 1, crossings have increased 17%, compared with this time last year, to about 279,000 people, according to U.S. government data obtained by The Wall Street Journal.

would do if the House efforts to pass broad legislation fail, Mr. Ryan said: "We will cross that bridge if we get to it."

The delay marked an anti-climax to a rush of activity in the House. Mr. Ryan had promised two votes on immigration—one on a conservative bill, and one on the more-centrist compromise bill—in a

deal to head off an insurrection among centrists. The push for action became even more urgent amid growing nationwide concerns over children separated from their parents at the border by the Trump administration, and calls from Mr. Trump for Congress to act.

The first bill went to a vote

**2 Where are they coming from?**

Immigrants arrested after crossing the Mexico border are mostly coming from Central America.

**Unaccompanied children\* apprehended at the Mexico border for the top four countries of origin**

100,000

50,000

0 FY2013 '15 '18 (Through May)

El Salvador  
Guatemala  
Honduras  
Mexico

**4 How old are the children?**

There is no breakdown of ages for those held in child migrants shelters, but looking at the number of unaccompanied children during the 2017 fiscal year, about one in five were 12 or under, according to the Office of Refugee Resettlement.

**5 What is the legal process?**

Most of the migrants hoping to stay in the country must wait for their day in immigration court. As of the end of March, the number of cases for all people waiting for a decision reached 700,000, according to the Justice Department. In Houston, cases take an average of 1,751 days—or nearly five years—before their hearing is scheduled to occur.

**Pending immigration court cases for all ages**

800,000 Through March

600,000

400,000

200,000 0 '08 '10 '15 '18

**Projected total wait time until hearings scheduled by court location, in average days**

■ Already waited ■ More until hearing

Leland Federal Building (Houston)  
San Antonio  
Chicago  
Imperial, Calif.  
Houston  
Denver  
Arlington, Va.  
Omaha, Neb.  
Atlanta  
Cleveland

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## U.S. NEWS

# Firms Get Chance For a Tax Break On Pension Plans

BY RICHARD RUBIN  
AND VIPAL MONGA

**C**ompanies with underfunded pensions have a rare opportunity to score a tax break in the coming months.

Pension contributions made through mid-September can be deducted from income on tax returns being filed for 2017—when the U.S. corporate tax rate was still 35%. That means a company that contributes \$100 million to its pension plan now can save \$35 million in taxes, while a company contributing the same amount after the deadline would save just \$21 million, based on the new 21% corporate tax rate.

With the deadline less than three months away, corporations are preparing to top off their pension plans to take advantage of the beneficial tax treatment. This one-time incentive is helping corporations close a pension-funding gap that topped \$680 billion for S&P 1500 companies after the financial crisis, according to the consulting firm Mercer.

"There will be a bit of a race to get in underneath the wire," said Michael Moran, pension strategist for Goldman Sachs Asset Management. "We're seeing a lot of contributions pulled forward."

Shipping company **United Parcel Service Inc.**, construction equipment-maker **Deere & Co.** and defense company **L**ockheed Martin Corp., among others, have made or announced contributions worth billions of dollars to their defined-benefit pension plans ahead of the cutoff date, citing the tax law among their reasons.

**B**oile Cascade Co., an Idaho-based lumber and building-materials company, said in earlier corporate filings it would contribute \$2 million to its plans this year. The company is now considering contributing between \$10 million

and \$20 million because of the tax benefit, said Wayne Rancourt, the company's finance chief.

"If we put \$10 million into the plan, we'd deduct \$3.5 million we'd otherwise pay in cash taxes," said Mr. Rancourt. "We may as well do it before the cutoff."

**K**ellogg Co. is weighing an additional pension contribution of between \$200 million and \$300 million, and **Nor-throp Grumman Corp.** said it was making a \$250 million contribution.

Kellogg spokeswoman Kris Charles said the tax law didn't prompt the decision to consider a pension contribution but that the law did "encourage us to accelerate any such decision" to get the 2017 deduction. Northrop Grumman declined to comment.

Federal law allows companies to deduct contributions to defined-benefit pension plans from taxable income, lowering their tax bills. Companies must also keep pension plans well-funded—meaning they hold enough assets to pay most, if not all, future benefits—with some flexibility around timing.

Companies in the Russell 3000 index with defined-benefit plans could make more than \$90 billion in contributions this year, ahead of the mid-September cutoff, according to an estimate from Chris Senyek, an accounting and tax policy analyst with New York-based Wolfe Research. That is more than the \$81 billion they contributed last year, itself a 30% jump from 2016.

Companies with defined-benefit plans in the S&P 500 carried obligations of \$2.023 trillion as of June 12, but the value of the assets in the plans totaled only \$1.811 trillion, leaving the plans 90% funded, according to consulting firm Aon PLC.

—Tatyana Shumsky contributed to this article.

## In Texas, a Tanker Truck Is Brought Low on the High Five



**DALLAS STUCK EXCHANGE:** A tanker overturned Thursday atop an elevated exchange in North Dallas known as the High Five, causing major traffic delays. Dallas Fire-Rescue spokesman Jason Evans said the truck carrying a resin used to produce plastic hit a ramp wall.

LOUIS DELUCA/THE DALLAS MORNING NEWS/ASSOCIATED PRESS

# Trump Urges Agency Reorganization

BY MICHELLE HACKMAN

**W**HATINGTON—The White House proposed a sweeping government reorganization Thursday that would sharpen the focus on workforce training, consolidate government-assistance programs and shrink federal agencies.

The plan, which would require approval from Congress, prompted immediate rebukes from Democrats and tentative responses from Republicans. It is unlikely Congress would move to enact far-reaching and much-debated changes as the November midterm elections approach, congressional aides said.

Still, the plan was an oppor-

tunity for the administration to make its case for a longtime conservative goal. It is the product of a monthslong review—led by Mick Mulvaney, director of the White House Office of Management and Budget—looking for ways to shrink the government's footprint.

"We are still dealing with a government from the early 20th century," Mr. Mulvaney said.

At the plan's center is a full merger of the Education and Labor Departments into a new Department of Education and the Workforce, a nod toward the administration's goal of refocusing education programs to incorporate more direct job training.

The plan would consolidate

the government's higher-education programs, including student aid, with workforce-development programs. Most other operations of the two departments would remain separate, but under one roof, including a division focused on K-12 education and another that combines multiple Labor Department entities, including the Occupation Safety and Health Administration and Wage and Hour Division, into a single enforcement agency.

The administration also proposed packaging social programs across the federal government, such as the Supplemental Nutrition Assistance Program, or food stamps,

into a new Department of Health and Public Welfare, which would replace the Department of Health and Human Services.

"The government runs over 90 assistance programs for low-income people, and they are split across the entire government with very little integration between them," said Robert Rector, a senior research fellow at the Heritage Foundation, a conservative group.

Rep. Bobby Scott of Virginia, the top Democrat on the House committee that oversees the Education and Labor departments, criticized the proposal as an attempt to "cut investments in our future."

## U.S. WATCH

## COURTS

### Judge Rules Against Bureau's Structure

A federal judge in New York ruled Thursday that the structure of the Consumer Financial Protection Bureau is unconstitutional, diverging from an appeals-court decision in January that affirmed its composition.

The judge, dealing a blow to advocates of a strong and independent CFPB, removed the bureau as a plaintiff in a case involving an alleged scheme to defraud 9/11 first responders with illnesses and football players with brain injuries out of their financial pay-outs.

The case was brought by the

CFPB and the New York attorney general's office against New Jersey lender RD Legal Funding LLC and its owner, which provided costly advances on settlement payouts from victims' compensation funds.

"[B]ecause the CFPB's structure is unconstitutional, it lacks the authority to bring claims under the [Consumer Financial Protection Act] and is hereby terminated as a party to this action," Judge Loretta Preska wrote in her decision.

The judge denied the defendants' motion to dismiss the case, saying the New York attorney general had the authority to bring the claims. A CFPB spokesman declined to comment.

—Yuka Hayashi

## ENVIRONMENT

### Study Finds Higher Methane Emissions

The country's natural-gas boom is putting much higher rates of the potent greenhouse gas methane into the atmosphere than government estimates suggest, a challenge for efforts to slow global warming, according to an analysis published Thursday in the journal Science.

Methane leaks are a crucial element of the country's gas boom because raw emissions can cancel out gains made by lowering carbon emissions created by burning other fuels. The new report suggests using more gas does have major benefits at limiting climate

change over 100 years, but may not help in the short term.

That is because leaks and unplanned plumes vented from storage tanks and processing plants are likely larger than previously realized. They appear big enough to make a shift from coal to gas effectively meaningless over a 20-year time span, the study found.

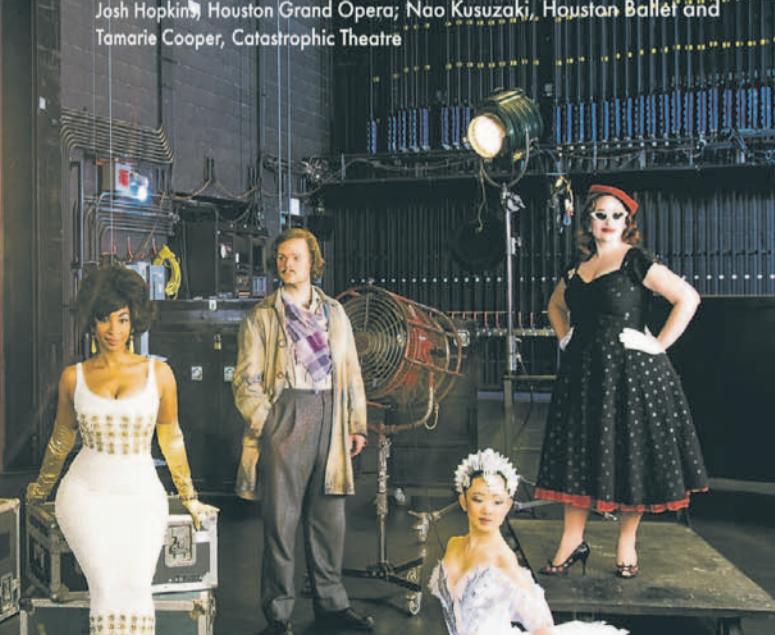
The assessment estimates the U.S. energy industry is leaking about 2.3% of all the gas it produces directly into the atmosphere, meaning that enough greenhouse gasses are coming from the gas industry to equal roughly the 20-year climate impact from all the coal-fired power plants running nationwide in 2015.

—Timothy Puko



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L to R: Joel Orr and Mason, Bobbinocirin Puppet Theatre; Todd Waite, Alley Theatre; Frank Huang, Houston Symphony; Constance Washington, Ensemble Theatre; Josh Hopkins, Houston Grand Opera; Nao Kusuzaki, Houston Ballet and Tamarie Cooper, Catastrophic Theatre



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## WORLD NEWS

# Netanyahu's Wife Is Charged With Fraud

Israeli prosecutors allege first lady spent taxpayer money on expensive cuisine

BY DOV LIEBER  
AND FELICIA SCHWARTZ

JERUSALEM—Israeli Prime Minister Benjamin Netanyahu's wife was charged with fraud for allegedly spending tens of thousands of dollars of taxpayer money on meals from expensive restaurants.

Thursday's indictment against Sara Netanyahu comes as the prime minister faces multiple investigations, including two in which police have recommended charges, that have posed a challenge to his leadership. Prosecutors haven't filed charges against Mr. Netanyahu.

He has retained his standing among large swaths of the electorate and with his right-wing coalition. But the indictment presents Mr. Netanyahu with a serious domestic distraction as he tries to quell a protest movement in the Gaza Strip and assert Israel as a military force against Iran's advances in Syria.

He also will need to maintain his political strength at home as he prepares for a Trump administration plan for



Israeli Prime Minister Benjamin Netanyahu, with his wife Sara, faces multiple investigations that have posed a challenge to his leadership.

peace with the Palestinians.

Ms. Netanyahu's luxurious tastes have come under scrutiny in the Israeli press in recent years as former housekeepers have testified against her in a series of cases over

the past decade.

According to Thursday's charges, Ms. Netanyahu violated rules by allegedly expensing more than 350,000 shekels (\$96,635) of catered meals to the family's official residence

between 2010 and 2013, despite the fact that they were already employing a private chef at government expense.

The meals, which were as costly as \$7,000 each, included catering for parties from Jeru-

salem's finest eateries, such as Little Italy and the Leonardo Hotel.

Ezra Saidoff, a former deputy director-general of the prime minister's office, was also charged for fraud and breach of

AHMED SULTAN/FEAR/SHUTTERSTOCK

trust in the indictment.

Yehoshua Reznik, Mr. Saidoff's lawyer, denied his client had broken any laws and said there wasn't a real chef at the residence at the time described in the indictment.

The prime minister's office declined to comment, but Ms. Netanyahu's legal team harshly criticized the charges.

"The indictment is unfounded and delusional," her lawyer said. "This is the first time in Israel and in the world that the wife of a leader is prosecuted over food."

Experts and former officials said the charges could spell trouble for Ms. Netanyahu, but not necessarily for her husband.

"This is a case in which the attorney general and the state prosecutor think they can find her guilty beyond any reasonable doubt," said Uri Corb, who until a few months ago was a senior manager in the Jerusalem District Court's prosecution office.

In 1977, then-Prime Minister Yitzhak Rabin resigned after his wife Leah appeared close to being indicted because she had an American bank account, which was then against the law for Israelis. This almost certainly won't be the case for Mr. Netanyahu, who isn't obligated to resign if he is indicted.

# Saudi Women, Cleared to Drive, Still Face Roadblocks

BY MARGHERITA STANCATI  
AND DONNA ABDULAZIZ

not respectful. It's not like abroad," says Ms. Hakami.

The decision to allow women to drive in Saudi Arabia is part of a broader program of social change spearheaded by Crown Prince Mohammed bin Salman and aimed at opening up the kingdom and diversifying its oil-dependent economy. Encouraging more women to join the workforce is an important part of the plan—and making it easier for them to get to work is a prime reason the government decided to lift the ban.

For decades, the kingdom's roads have been reserved for men only, and clerics repeatedly branded driving as immoral for women, saying it allowed them freedom to behave sinfully.

That mind-set is beginning to change, but the social stigma attached to women driving will take some time to fade.

Many men have vented their opposition to the decision to lift the ban using a Twitter hashtag that translates to "you will never drive."

"I don't want to drive because young Saudi men are



A woman practiced driving in a simulator in Riyadh on Thursday.

After the ban's planned lifting was announced in September, a man was arrested for posting a video online in which he threatened to set fire to women and their cars if they dare to drive.

Many women have responded defiantly. "I will drive," one said on Twitter, posting a picture of her Saudi driving school textbook.

Even some men who say they are in favor of women

driving admit they don't want their own female relatives to get behind the wheel.

A Jeddah-based businessman who goes by the name of Abu Mohammed said he would only allow his wife and daughters to drive in case of emergency. He predicted "total chaos" on Saudi roads after the ban is lifted and said he planned to travel abroad to avoid what he believes will be a traffic mess.

"There will be so many accidents," he said, repeating a familiar theme among Saudi men that new women drivers will make mistakes. "They'll end up pressing the gas instead of the brakes. Accidents are inevitable. They are going from the kitchen to the street for the first time."

Many Saudi women have welcomed the freedom to drive. Tens of thousands of women have signed up for driving courses, and many already obtained their Saudi driving licenses. They will soon be able to work as taxi drivers, with ride-hailing apps like Uber eager to recruit Saudi women.

But the fear of harassment is holding some of them back. A survey carried out in March by the Saudi National Center for Public Opinion Polls showed that 61% of women polled wanted to drive. Of those who didn't want to drive, 41% said it was because they feared traffic accidents and 27% because they were scared

of being harassed by men.

Those fears prompted the government to issue a new law taking effect this month to stop harassment. Those found guilty—even of online harassment—face a fine of 100,000 riyals (\$26,700) or up to two years in prison. Repeat offenders and perpetrators who are in position of authority over the victims could face even higher penalties.

But many women worry that isn't enough and want to wait to see whether the law will serve as an effective deterrent.

"Many girls, myself included, won't feel completely safe until we see the actual effect of the law," said Sarah Ibrahim, 23, a saleswoman in Jeddah. "It's like cellphones: There is a law prohibiting the use of mobile phones while driving, but people do it all the time."

She still wants to learn to drive. "We can't continue to be the only country in the world where women can't drive," Ms. Ibrahim said.

# Why Russia's Middle East Gamble Has a Slim Payoff

**MIDDLE EAST CROSSROADS**  
By Yaroslav Trofimov



OMAR HAJ KADOUR/AGENCE FRANCE PRESSE/GETTY IMAGES

The scene of a double explosion in Idlib, Syria, a nation where Russia is backing the Assad government.

Syrian regime of President Bashar al-Assad, came only after another historic Moscow ally, Libya's Moammar Gadhafi, was ousted and killed following a NATO military campaign in support of Libyan rebels. Gone with Gadhafi were billions of dollars in contracts awarded to Russian enterprises.

Yet, Russia has managed to nurture relationships with traditional Western allies that were hostile to Moscow in Soviet times, including Turkey, Israel, Saudi Arabia and Egypt. That carries some economic benefits—but provides Moscow with only limited political gains.

"Nobody is pushing America out of the Middle East, it's just pulling out by itself and leaving a vacuum behind," said Alexey Khlebnikov, a fellow at the Russian International Affairs Council, a state-run think tank. "Russia has no real allies in the region, just partners with which it can do business despite political disagreements on many issues. Russia is not an alternative to them, it's just a way to diversify their portfolio of relations."

That diversification is made easier by the fact that President Donald Trump's administration doesn't seem to mind Russia's new prominence in the Middle East.

"For most countries in the

region, ties with Russia represent just an insurance policy—and, because the U.S. is not showing any displeasure over this and isn't trying to kick Russia out, it's now a zero-cost insurance policy," said Robin Mills, CEO of Qamar Energy, a Dubai-based consultancy and advisory firm.

Today's Russia, despite its military abilities and its sophisticated diplomatic and intelligence networks, doesn't really have the means to project power across the region: its midsize economy is roughly the size of Australia's or Spain's.

And, unlike the Soviet Union, which inserted itself

in Middle Eastern conflicts as a way to promote the Communist ideology during the Cold War confrontation, modern Russia has no alternative social and economic model to spread.

"Russia is in new conditions because we don't provide ideological support to some kind of left-wing, communist forces," said Mikhail Bogdanov, Russia's deputy foreign minister who oversees the Middle East and Africa. "That is all in the past. We act based on rational considerations because cooperation must be mutually beneficial....But at the same time, we stand for respecting the sovereignty of those nations."

If anything, regional countries such as Egypt and Turkey are using Russia—and actual or threatened purchases of Russian weapons—as leverage to improve their negotiating position where it still really matters: in Washington.

"Many countries in the Middle East are making limited investments in their relationship with Russia just so that they can use it with their allies such as the U.S., telling them—give us this or that, or we will ask Russia," said Yuri Barmin, a Russian security consultant working in the Middle East. "But Russia is an imaginary alternative. The optical effect here is much larger than the substance. All these countries understand perfectly well how limited Russia's influence really is."

Thomas Grove contributed to this column.

# U.S., Afghans Rid District Of Militants After 3 Weeks

By MICHAEL M. PHILLIPS

U.S. and Afghan special-operations troops pushed Islamic State fighters out of the district the militants had aspired to make the capital of their local territory, the U.S. military said.

During a three-week offensive that just drew to a close, a pincer movement by Afghan commandos and U.S. Special Forces trapped hundreds of Islamic State militants in Gorgoray Valley, in Deh Bala district, 10 miles from the Pakistan border. The military estimates that combined air and ground attacks killed more than 160 fighters from Islamic State-Khorasan, as the local affiliate is known, with no casualties reported among Afghan or American forces.

"Life is getting back to normal," said one Afghan soldier who participated in the battle. "Those who fled the fighting are slowly returning to their houses."

As many as 1,750 people had been displaced by the fighting and sheltered temporarily in schools and tents, said Nuha Al-Saeedi, emergency response coordinator for the Norwegian Refugee Council.

Local officials celebrated the operation's success, but worried that militants would infiltrate back into the district now that Afghan commandos and U.S. Special Forces have left Deh Bala and returned to bases elsewhere in the country.

## WORLD NEWS

# Malaysian Police Reopen an Old Murder Case

BY JAMES HOOKWAY

KUALA LUMPUR, Malaysia—Police said that they are opening a new investigation into the 2006 murder of a Mongolian model by two of former leader Najib Razak's bodyguards, after his rivals made the mystery surrounding her death an element in their successful campaign to defeat him in May elections.

The two security officers abducted 28-year-old Altantuya Shaariibuu in a leafy Kuala Lumpur suburb, forced her into a car and drove her to a jungle clearing several miles away, one of the men told police.

One of the officers then held her down as she pleaded for the life of the unborn child she said she was carrying, according to the police statement; the other officer shot a bullet through her head and fired a second when he saw her arm still twitching. They stripped her and blew apart her body with military-grade C-4 explosives, police said. The crime scene, her father later said, looked like a war zone.

The two men were convicted and sentenced to death in 2009.



Altantuya Shaariibuu, above. At right, Azilah Hadri and Sirul Azhar Umar, in hoods, arriving at the courthouse in Shah Alam, outside Kuala Lumpur, Malaysia, in January 2009. Malaysian Prime Minister Mahathir Mohamad has expressed interest in getting to the bottom of whether anyone ordered Ms. Shaariibuu to be killed.



FROM LEFT: EPA/SHUTTERSTOCK; BAZUKI MUHAMMAD/REUTERS

## WORLD NEWS

# Guyana Dreams of Oil Riches

An Exxon Mobil-led consortium begins offshore drilling after discovering huge find

BY KEJAL VYAS

GEORGETOWN, Guyana—Along the sea wall separating this sleepy capital's moldering wooden houses from the coffee-colored Atlantic, construction workers in hard hats rush to expand ports, build luxury condos and open the country's first Hard Rock Café.

The developments aim to tap the expected wealth from what until recently was unimaginable for this jungle-covered former British colony: oil.

An Exxon Mobil Corp.-led consortium said last week it has begun offshore drilling after recently discovering at least 3.2 billion barrels of light crude in Guyanese waters. Guyana is projected within a decade to pump nearly a barrel of oil per person a day, more per capita than Saudi Arabia. That makes this poor backwater of 800,000 people—mostly descendants of African slaves and indentured laborers from India—a top global energy frontier.

"Each Guyanese is going to be a U.S.-dollar millionaire, or worth that, in a few years," Natural Resources Minister Raphael Trotman said, referring to a national wealth fund the country is developing.

Not everyone is convinced of a bonanza.

Many Guyanese say Exxon's deal disproportionately benefits the company and its minority partners—Hess Corp. and China's Cnooc Ltd.—while leaving little for this country of miners and farmers on horse-drawn carts. Others worry about corruption and Guyana's ability to responsibly handle an oil deposit worth nearly 50-times the nation's gross domestic product.

"Boy, ain't nobody here getting rich when all everyone does is steal," said Eon Samuels, 25, an unemployed construction worker, as he fished from a pier.

Exxon has called Guyana one of its most important and



**Glenroy McKenzie, right, a worker at a Georgetown sugar factory, has high hopes for oil exploration in Guyana. Not everyone shares his enthusiasm. His co-worker at the factory, Somar Gharan, left, fears Guyana could take a Venezuela-like path to economic ruin.**

potentially profitable prospects, among a handful of new developments the company has identified as the best since its merger almost 20 years ago with Mobil Corp. Western oil companies have increasingly turned to Latin America at a time when opportunities have narrowed in other regions such as Russia or Iran due to sanctions or resource nationalism.

Exxon said that Guyana will receive an estimated \$1.6 billion in royalties and revenue in the first five years after oil pumping begins in 2020 and a projected \$7 billion during the life of one of its most promising fields. But the company hasn't finished appraising all the oil that it has found and keeps discovering more, portending what the company said was a larger payout for Guyana down the road. "This emerging industry has the potential to transform the economy of Guyana and positively impact the lives of people for generations to come," a company spokeswoman said.

It isn't uncommon in the oil

## Gusher

Guyana's economy is set to boom once oil begins pumping in 2020. When production reaches full capacity, the country will rival today's biggest producers on a per capita basis.

### GDP, annual change



### Oil production, in barrels a day per million inhabitants, 2016



industry for the first investors to get the best deals because they assume more risk. Exxon didn't discover oil in Guyana until 2015, 16 years after it signed an exploration contract.

But critics said the government should have demanded better terms when Exxon re-

newed the contract in 2016.

"Exxon took advantage of our weak bargaining position and our inexperience, and they were able to extract everything they wanted," said Anand Goolsarran, the country's former auditor general.

The International Monetary Fund, which is advising Guyana, recently recommended that the government halt granting new licenses until it can secure better terms and overhaul its tax structure.

Under its deal, Exxon is permitted to use as much as 75% of annual oil proceeds to recoup exploration and production costs once commercial pumping begins. Guyana gets a 2% royalty of the proceeds plus 50% of the remaining proceeds. That is on par with the world average for "frontier exploration," said IHS Markit analyst Carlos Bellorin.

But the oil companies' local taxes are paid from the country's share of the profits, cutting into Guyana's take. "We will suffer from that contract for the next 75 years," said Christopher Ram, a prominent Guyanese attorney who through a weekly newspaper column and speeches has become a vociferous critic of the oil deal.

"But what do I know? I'm just a third-world bookkeeper," he added, sifting through pages of the deal with Exxon.

## Deal Paves Way To End Bailout

GREECE

Eurozone nations agreed on the final elements of a plan to get Greece out of its eight-year bailout program and make its massive debt more manageable.

The finance ministers of the 19 nations took daylong talks into Friday morning and reached a surprisingly hard-fought compromise.

The ministers needed to finalize a deal between Greece and its international creditors that would allow it to safely emerge from its third and final bailout program on Aug. 20 and face the markets again.

"It took a bit longer than we expected, but ended in a very good way," Greek Finance Minister Euclid Tsakalotos said. "I think it is the end of the Greek crisis...a historic moment."

Eurogroup President Mário Centeno said that under the deal, Greece could delay back repayment on billions in loans by 10 years, giving it a financial breather, while stricter deadlines could have further choked the economy over the next decade. It also got another injection of €15 billion (\$17.4 billion).

Greece had already gotten some €275 billion in financial support from its international creditors over the past eight years.

—Associated Press

NATO

## Chief Warns of U.S. Tough Talk at Summit

NATO's civilian chief said there may be "strong language" over Europe's defense spending from President Donald Trump at a summit next month but he remained convinced of the U.S. leader's commitment to the 29-nation alliance.

Trepidation has heightened among European governments over the meeting in Brussels of heads of state and government from the North Atlantic Treaty Organization since this month's Group of Seven summit dissolved into acrimony between Mr. Trump and other leaders.

But Jens Stoltenberg, who leads the alliance, said moves by NATO to increase combat readiness and steps by European governments to increase defense spending showed the alliance was delivering results—and that Europe and the U.S. were working together to do it.

—Stephen Fidler

# Bolton Plans Russia Trip to Discuss Trump-Putin Summit



National security adviser John Bolton, seen with President Trump in May, will visit Russia next week.

White House national security adviser John Bolton will travel to Russia this month to discuss a possible summit meeting between Presidents Donald Trump and Vladimir Putin, the White House and Kremlin said.

By Vivian Salama  
in Washington and  
Anatoly Kurmanov  
in Moscow

"This trip will indeed happen," Mr. Putin's spokesman Dmitry Peskov was quoted as saying by Russia's state media on Thursday, first announcing Mr. Bolton's planned trip.

NSC spokesman Garrett Marquis confirmed the plans, saying Mr. Bolton in a trip from June 25 to June 27 plans to visit London and Rome, then travel to Moscow to discuss the potential summit.

Mr. Bolton will be one of the highest-ranking Trump administration officials to visit Moscow, after then-Secretary of State Rex Tillerson visited last year.

The Wall Street Journal reported this month that the White House has begun preparations for a potential Trump-Putin summit. Mr. Putin has also been lobbying European leaders to help set a concrete date with the White House.

One possibility for talks is during Mr. Trump's planned trip to Europe in July for a summit of North Atlantic Treaty Organization leaders. Neither U.S. nor Russian officials would confirm whether that timing is under consideration.

Asked about a possible U.S.-Russia summit, Mr. Trump said on Thursday that "we are looking into the possibility" of a meeting with Mr. Putin and

other world leaders.

While the relationship between the U.S. and Russia often has been cast as tense, Mr. Trump has frequently expressed an interest in working with Mr. Putin on a range of international crises, particularly Syria.

Mr. Trump this month suggested Russia should be allowed back into the Group of Seven industrialized nations. Russia was kicked out of the group after its incursion into Crimea in 2014.

However, Mr. Trump's push to work with Mr. Putin has been hindered by the continuing investigation into contacts Trump campaign associates may have had with Russian officials. Mr. Trump has denied any ties to Russia or knowledge of any campaign coordination with Moscow and has cast the investigation as a "witch hunt."

## FROM PAGE ONE

# Intel CEO Exits Over Past Tie

Continued from Page One

ness leaders, said Davia Temin, chief executive of Temin & Co., a Manhattan reputation and crisis-management firm.

"There's a new level of rigor that says if something is on the books, it needs to be upheld and not ignored," she said.

Relationship rules at U.S. companies vary. Some companies ban senior managers from dating anybody further down the chain of hierarchy, while others ask for co-workers to disclose their relationships. Many companies have no employee dating policy at all.

At many major companies, employment contracts for CEOs explicitly prohibit romantic relationships with employees, or give boards wide latitude to fire

a chief for any behavior considered unethical, said Jason Hanold, head of executive-search firm Hanold Associates.

Though such language has been a feature of contracts for decades, boards have become more sensitive to improper behavior—past or present—in the #MeToo era, he said.

"Today it's a well-known expectation that comes with the CEO role," Mr. Hanold said. "To have a relationship with anyone in your organization, you're doing so knowing all of the risks."

Intel prohibits managers from having sexual or romantic relationships with direct or indirect reports, a spokesman said. The policy is a "hard ban" that applies to all managers regardless of seniority and requires employees to raise any concerns immediately, he said.

Intel held a companywide video call from its Santa Clara office at 11 a.m. local time, where Andy Bryant, the company's chairman, and Mr. Swan answered questions, according to an employee who watched the

webcast meeting. During the call, Mr. Swan said he wasn't interested in staying on as the permanent CEO, the employee said.

Executives declined to answer employee questions about the relationship that led to Mr. Krzanich's resignation, saying they wanted to protect the privacy of the Krzanich family and

the person involved, according to the employee.

"The general feeling is one of disappointment," the employee said. Intel goes out of its way "to make sure we understand what the rules are and that we follow them. To have the leader of the company violate these rules is dis-

appointing."

Intel declined to comment on its internal communications related to the resignation.

Mr. Krzanich joins other CEOs who left following allegations of relationships with employees, including Harry Stonecipher, who left as CEO of Boeing Co. in 2005; Steven



Intel said a probe found Brian Krzanich violated company policy.

The sudden exit of Intel Corp. Chief Executive Brian Krzanich for violating company policy is the latest in a string of high-level departures at the chip giant.

Diane Bryant, former head of Intel's data-center group, joined Google's cloud business late last year, while Kirk Skaugen, former head of client computing who was at one point seen as a CEO candidate, left the company in

2016 and is now with Lenovo Group.

Interim CEO Bob Swan said he wasn't interested in staying as the permanent CEO.

Two current Intel executives—Venkata M. Renduchintala, known as Murthy, and Navin Shenoy—are believed to have the inside track among internal candidates to succeed Mr. Krzanich, according to people familiar with the company's leadership.

Mr. Renduchintala, who previously worked at Qualcomm Inc., is Intel's engineering chief, while Mr. Shenoy oversees Intel's high-margin data-center business.

—Tripp Mickle

Heyer, who left Starwood Hotels & Resorts Worldwide Inc. in 2007; and Christopher Kubasik, who was the CEO-in-waiting when he left Lockheed Martin in 2012. Mr. Stonecipher said at the time that he "used poor judgment." Mr. Heyer denied any impropriety. And Mr. Kubasik said he regretted his conduct "did not meet the standards to which I have always held myself."

Mr. Krzanich's resignation marked a sudden turn for the tech giant as it seeks to extend its dominance in personal-computer chips into new frontiers in computing such as advanced automotive technologies and artificial intelligence.

His exit comes at a transformative time for Intel, which under him swallowed its two biggest acquisitions—a \$16.7 billion deal for Altera Corp. in 2015 and \$15.3 billion for Mobileye NV a year later—and fend off rising threats from rivals such as graphics-chip maker Nvidia Corp.

—Yoree Koh contributed to this article.

## IN DEPTH

# Canada Takes Aim At U.S. Jam

Continued from Page One

ident Donald Trump's administration has imposed on its steel and aluminum. New tariffs have also sparked retaliation threats from Mexico, Europe and China.

Canadian Foreign Affairs Minister Chrystia Freeland in a speech this month said her country is retaliating with a "measured, perfectly reciprocal, dollar-for-dollar response."

Canada has released a list of products it may retaliate against when it announces its targets June 30. Among them were obvious items such as steel and meat—and odd-sounding choices that led some who found their products on the list to a singular puzzled reaction.

Among them are possible levies on inflatable boats, sleeping bags, "preparations for perfuming or deodorizing rooms," "hair lacquers" and playing cards.

Mr. Slaughter, whose company is America's largest playing-card maker—with brands such as Bicycle and Maverick—says he doesn't expect any impact on his company in Erlanger, Ky. Exports to Canada, he says, are less than 5% of its business. The tax might be about 30 cents a deck, he says.

"It just felt very arbitrary," he says, "like saying, 'I'm going to pock you in the eye.'"

Some U.S. trade groups and companies are sweating the ramifications of Canadian tariffs. Joe Schuele, a spokesman for the U.S. Meat Export Federation, says some members are worried about something on Canada's hit list: "prepared meals, of bovine." The category could be prepackaged meals that include any cut of beef, Mr. Schuele says. "It's a pretty nar-



row category, but Canada is a pretty significant destination for those products."

Canada says its retaliatory tariffs—25% on steel and 10% on an assortment of food and other items—will take effect the day after it announces its final list.

It chose targets "with a view to mitigating potential impacts on Canadian businesses, families and consumers" where alternative products are available, says Jack Aubry, a spokesman for Canada's finance department.

During trade spats, countries

often include symbolic products for levies, in part to pressure lawmakers. That may explain the jam and whiskey. A lot of jam comes from the home state of Sen. Sherrod Brown of Ohio, a Democrat. A spokeswoman for jam giant J.M. Smucker Co., of Orrville, Ohio, said it is assessing the potential impact of tariffs.

Sen. Brown, who sits on the Senate Finance Committee, says he won't speculate on Canada's motives but that he supports the Trump administration's efforts to defend domestic steel.

Kentucky produces 95% of the world's bourbon, according to the Kentucky Distillers Association. It shipped \$380 million of "whiskies" to Canada last year, according to the Census Bureau, its No. 6 export across the border. It is also home to Republican Senate Majority Leader Mitch McConnell. The Distilled Spirits Council, a trade group, wrote to Commerce Secretary Wilbur Ross this month warning that tariffs by Canada and oth-

ers threaten "to seriously impede the export progress that has benefited our sector."

Daniel Lauzon, a Canadian government spokesman, declines to comment on whether Canada's tariffs are aimed at lawmakers. "But," he says, "you are free to draw your own conclusions." He and the finance department's Mr. Aubry decline to explain the reasoning behind individual items on the list.

Jerry Wigutow puzzles over the sleeping bags. Owner of Wiggy's Inc., he sells high-end sleeping bags made in Grand Junction, Colo. With less than 1% of his sales going to Canada, Mr. Wigutow says he won't bother contacting Congress.

"I think the Canadians, they're grasping for straws when they pick on a rinky-dink company in the overall scheme of things," he says.

Bob Melvin doesn't quite get Canada's penciling in ballpoint pens. "I can't imagine what retribution we would feel here in

the United States by doing that," says Mr. Melvin, president of online retailer Coloradopen.com. Some pens he manufactures through an affiliate sell for \$75 to \$350 each, but he adds, "The amount of product we ship into Canada is really minimal." Few companies make pens in the U.S. today, say Mr. Melvin and Fisher Space Pen Co., a Boulder City, Nev., maker of pens that write in zero gravity. "It is unclear yet what the full impact will be," says Matt Fisher, Fisher's sales vice president.

Frank Marino, a co-owner of My Hanky Inc. said if Canada picks handkerchiefs from its list, it won't blow a hole in his business. The New York company uses American-grown cotton spun in North Carolina.

He sells "a couple percent" of his hankies in Canada and thinks people there will be willing to pay a little more for his product when they realize, "hey, it's more money but it's your face we're talking about."

Comcast will go to match Disney. The pursuit has already weighed on its stock, which has lost more than \$32 billion in value since the Sky proposal.

Fox has indefinitely postponed the shareholder meeting, which had been set for July 10.

Messrs. Roberts and Murdoch have tangled with each other for decades, including over Mr. Murdoch's satellite provider BSkyB and Hulu, a streaming service co-owned by Comcast, Fox, Disney and AT&T.

At the annual media gathering in Sun Valley, Idaho, in 2013, assurances from Mr. Roberts helped influence his co-owners to take Hulu off the sale block. Two top bidders were Comcast rivals, DirecTV and AT&T. Mr. Roberts told Mr. Iger and Fox's then-Chief Operating Officer Chase Carey he would help Hulu become the streaming platform for the cable-TV industry, people familiar with the discussions said. Fox and Disney felt Comcast never followed through, the people said. Comcast executives believe the cable giant made a good-faith effort but the content rights tangled the talks.

In 2015, the Murdochs thought they had a deal with Comcast on a higher rate the cable giant would pay to carry the YES Network. The two sides agreed to extensions over the summer—a sign of good faith from Fox, since it would have less leverage after the baseball season.

At the end of the Yankees season, Comcast informed Fox executives it was going to drop YES Network because of low viewership relative to its price. People close to Comcast said its earlier agreement on a higher rate was tied to its proposed acquisition of Time Warner Cable, which had fallen apart amid regulatory opposition.

James Murdoch made a last-ditch effort to save the deal in a phone call with Mr. Roberts, who told him that it was the cable division's decision and he wouldn't interfere with it, people familiar with the call say. The blackout lasted more than a year. Only after the elder Mr. Murdoch got involved and tied YES's renewal with that of powerhouse Fox News that Fox was able to secure YES's position in January 2017.

"That did some serious reputational damage in Rupert's mind," one executive close to Fox said, referring to Mr. Murdoch's view of Comcast.

Since it acquired NBCUniversal in 2011, Comcast hasn't been shy about its intention to copy the Disney playbook, investing in family animation, theme parks and consumer-products businesses. At a meeting with executives after acquiring DreamWorks Animation SKG Inc. in 2016, Mr. Roberts said he had "Disney envy," according to a person who was present.

Messrs. Roberts and Mr. Iger have taken vastly different approaches to building up their companies. Mr. Roberts has done a series of mammoth deals, including a \$47.5 billion deal to buy AT&T Broadband in 2001 and the \$39.4 billion acquisition of NBCUniversal. He hasn't shied away from competitive bidding situations, even if it means muddying relationships with friends and mentors.

During his tenure as CEO, Mr. Iger has gone for relatively smaller content targets including Pixar Animation Studios, Marvel Entertainment and Lucasfilm.

Over the course of several meetings, the elder Mr. Murdoch was sold on Mr. Iger's vision.

—Ben Fritz and Cara Lombardo contributed to this article.



Brian Roberts, chairman and chief executive officer of Comcast, is vying to buy the entertainment assets of 21st Century Fox.

## The Making of Comcast

The cable giant has done a slew of deals to become a massive owner of cable TV pipes and entertainment assets.

**1963**  
Founded by Ralph Roberts with the purchase of American Cable Systems in Tupelo, Miss.

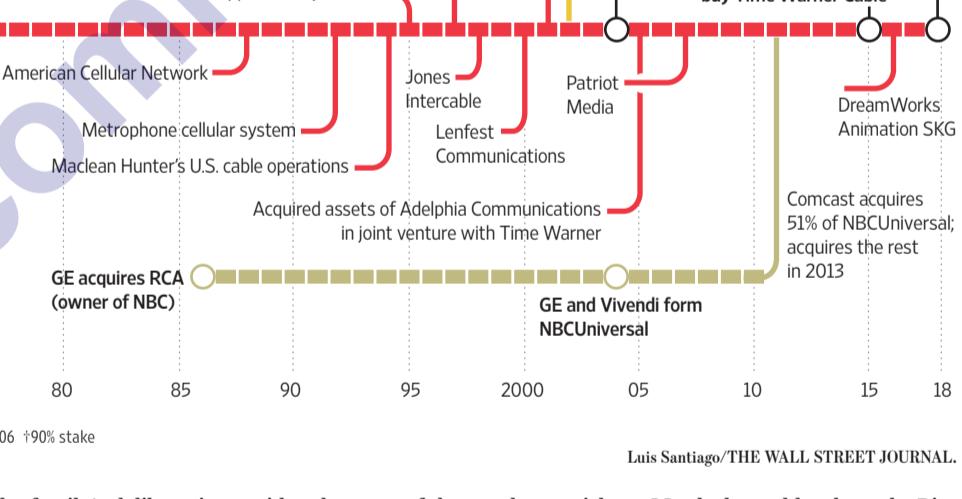
Renamed Comcast

Storecast Corporation of America

GE acquires RCA (owner of NBC)

\*Controlling interest, becomes wholly owned in 2006 ↑90% stake

Sources: the company; staff reports



Lachlan Murdoch, James's older brother and Fox's executive co-chairman, initially resisted selling but came around to the idea and was relatively more open to Comcast than others in the family, the person said. He felt Disney's offer was too low. Lachlan Murdoch met Mr. Roberts in Los Angeles and was impressed, though he shared some of his father's concerns, the person said.

At the November meeting with Rupert Murdoch in Bel-Air, Mr. Roberts and NBCUniversal's Mr. Burke said Comcast's stock has outperformed Disney's, NBC

was beating Disney's ABC in ratings and Universal's theme parks were growing faster than Disney's much-bigger parks.

Mr. Murdoch said he was impressed, leaving Messrs. Roberts and Burke with a good feeling, people familiar with the meeting said.

Comcast put a \$64 billion all-stock offer on the table, in line with what its executives believe was Mr. Murdoch's asking price, people familiar with the talks said. They felt they were closing in on the deal.

Meanwhile, Fox was busy negotiating with Disney after initial talks had fallen apart. On Dec. 7, Mr. Murdoch called Mr. Roberts and said Fox was going in a different direction, according to a Fox securities filing.

Fox said in the filing it rejected the higher Comcast offer

because of the regulatory risks.

The Murdochs and the Fox board were worried that the Justice Department's lawsuit to block AT&T Inc.'s acquisition of Time Warner Inc. indicated the government would oppose a Comcast-Fox tie-up.

The board was concerned Comcast didn't offer a breakup fee in case the deal ran into regulatory hurdles, according to the filing. People in the Comcast camp felt Fox's filing made it appear as if Comcast refused to offer a breakup fee when in fact

Mr. Roberts showed openness to it during negotiations, people familiar with the matter said. Senior Fox executives say its filing, which says Fox asked Comcast multiple times for a breakup fee, is accurate.

Mr. Murdoch also considered that Disney's stock has no controlling shareholder, while the Roberts family controls a one-third voting stake in Comcast, so the Murdochs would be a relatively small voice after a Comcast deal, people familiar with Fox's deliberations say.

To Mr. Roberts, the fact Mr.

Murdoch would rather take Disney's stock over his—with such a larger gap in their offer amounts—was an insult.

Comcast felt it wasn't taken seriously by Fox, people familiar with the talks said.

Mr. Roberts told his deal team to take a breather for the holidays. In January, he told them: We're not giving up, according to people who attended.

Comcast viewed European pay-TV operator Sky PLC as a potential side door into the Fox deal because it was already in play. Fox, which owns 39% of Sky, had run into regulatory hurdles in its effort to buy the rest. After hunkering down in a war room in London, Mr. Roberts surprised Disney and Fox in February with a \$31 billion informal offer for Sky.

Comcast's 50-person deal team began working full-throttle on a possible larger move for the Fox assets Disney was buying. Comcast also entertained discussions with Amazon.com Inc. to see whether carving up the Fox assets could offer a smoother regulatory path, these people said.

On June 12, Comcast executives were glued to their TVs and Twitter, awaiting the judge's decision on the AT&T case. When the court ruled against the Justice Department, "we looked at it and said, this is the absolute best outcome," a person there said.

The question now is how far

## The Murdochs showed a keen interest in Disney from the start.

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believed Mr. Iger had been exploring a presidential run and noted he had sidelined potential successors over the years, while Comcast had a proven management team, people familiar with the meeting say.

Mr. Roberts also told Mr. Murdoch that his son James Murdoch, Fox's chief executive, should be wary of any promises of a job from Mr. Iger, the people familiar with the interaction said. Mr. Iger gave the Murdochs the impression that James could be in line for a senior role at Disney, other people familiar with the talks said.

"Generally speaking, they bang into each other," said cable pioneer and media magnate John Malone, who knows all three men. "There is respect but there is also rivalry."

This account of the shifting battle for control of the 21st Century Fox assets is based on interviews with more than two dozen people close to the negotiations and familiar with the players involved.

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was beating Disney's ABC in ratings and Universal's theme parks were growing faster than Disney's much-bigger parks.

Mr. Murdoch said he was impressed, leaving Messrs. Roberts and Burke with a good feeling, people familiar with the meeting said.

Comcast put a \$64 billion all-stock offer on the table, in line with what its executives believe was Mr. Murdoch's asking price, people familiar with the talks said. They felt they were closing in on the deal.

Meanwhile, Fox was busy negotiating with Disney after initial talks had fallen apart. On Dec. 7, Mr. Murdoch called Mr. Roberts and said Fox was going in a different direction, according to a Fox securities filing.

Fox said in the filing it rejected the higher Comcast offer

# GREATER NEW YORK

## State Struggles Over Migrant Children

Doctors treat young arrivals suffering from trauma, anxiety; 'emotional scars'

BY MELANIE GRAYCE WEST  
AND KATIE HONAN

After traveling thousands of miles to New York from the U.S.-Mexico border, some of the migrant children put in foster care have suffered from anxiety and depression, doctors said.

On Thursday, a picture emerged of the lives of the roughly 700 children who have arrived in the state in recent weeks after being separated from a parent at border crossings. Many are in foster care with limited access to contacting relatives.

At least 12 children—some as young as 5—who were brought to New York City have been treated during the last two months at Bellevue and North Central Bronx hospitals, said Mitchell Katz, chief executive of the city's hospital system.

Most arrived without medical records, and have been treated for asthma, constipation, and signs of trauma and



Debora Berenice Barrios-Vasquez with her 10-year-old son.

### Churches Offer Immigrants Refuge

St. Paul and St. Andrew United Methodist Church on the Upper West Side became the latest in a wave of religious institutions in New York City providing services and shelter to illegal immigrants facing deportation or detention.

The church announced at a news conference Thursday that it is offering physical sanctuary to Debora Berenice Barrios-Vasquez and her 2-year-old son. Ms. Barrios-Vasquez, an immigrant from Guatemala, has been living in New York City for 13 years, and is seeking shelter

from deportation. Her 10-year-old son is staying with family elsewhere in New York.

"I understand now what mothers are feeling that are being separated from their children," Ms. Barrios-Vasquez said. "And it's important that we remember that this is not only happening on the border, but this is also happening in New York and in cities and states across the country."

A large crowd of churchgoers, religious leaders and politicians gathered Thursday to praise Ms. Barrios-Vasquez's bravery and denounce federal immigration policies.

"It is our firm belief here at St. Paul and St. Andrew that God's abundant love and radical wel-

come are simply for all," said the Rev. Lea Matthews. "The U.S. is her home and separating her from her kids, it's inhumane, it's wrong and it is decidedly un-Christian."

Democratic gubernatorial candidate Cynthia Nixon made an appearance, calling for the abolition of U.S. Immigration and Customs Enforcement.

Immigration authorities typically don't enter religious spaces to deport immigrants, according to the New Sanctuary Coalition of NYC, an interfaith network of congregations that support immigrants resisting detention or deportation.

Officials from Immigration and Customs Enforcement didn't return requests for comment.

—Lara Korte

depression, he said.

Daran Kaufman, director of pediatric emergency services at North Central Bronx Hospital, said at a news conference Thursday that her clinicians treated eight children with medical and stress-related medical issues during the last few weeks. "They are sad, despondent, and we are unable to treat the emotional scars they

are presented with," she said.

Bitta Mostofi, the city's commissioner of immigrant affairs, said officials are working to connect service providers and families with lawyers to find ways to have the children speak to a relative. They are concerned that there isn't a pathway to reunite families yet.

Earlier this year, the Trump administration implemented a

"zero-tolerance" immigration policy that resulted in the separation of children and relatives at the U.S.-Mexican border. On Wednesday President Donald Trump signed an executive order directing officials to try to detain asylum-seeking families together.

"Even with this executive order, there's no single thing that speaks to the process in

which there will be reunification of parents with their children," Ms. Mostofi said.

At a Wednesday evening meeting at Cayuga Centers, one of 10 nonprofits in New York state that have contracted with the federal government for the care of the migrant children, prospective foster parents learned more about how minors are arriving

in the state and the care they can receive.

Most children are from Guatemala, El Salvador and Honduras. Foster children aren't allowed to use a foster parent's phone, tablet or computer; the children only may do so at Cayuga Centers, this person said. Cayuga Centers officials didn't respond to multiple requests for comment.

## A Stretch to Celebrate the Start of Summer



GOING TO THE MAT: People turned out for free yoga classes in Times Square on Thursday to welcome the summer solstice and mark International Day of Yoga.

## Leading Witness Testifies in Bid Case

BY CORINNE RAMEY

A former executive who pleaded guilty to helping his firm rig a bidding process for hundreds of thousands of dollars in New York state contracts testified Thursday in the federal trial of his onetime colleague.

Kevin Schuler, a former executive at Buffalo-based developer LPCiminielli Inc., is the government's cooperating witness in the trial known as Buffalo Billion, named after the signature economic-development initiative of Gov. Andrew Cuomo. Federal prosecutors have accused a university president of working with a lobbyist and company executives to rig a state bidding process.

On trial in Manhattan are Alain Kaloyeros, former head of SUNY Polytechnic Institute, a state-funded public university; Steven Aiello and Joseph Gerardi, executives at Syracuse-based COR Development Co.; and Louis Ciminelli, an executive at LPCiminielli.

All four men face charges of wire fraud and wire-fraud conspiracy. Mr. Gerardi also is accused of lying to federal agents.

They have denied wrongdoing and said they weren't involved in rigging bids. Mr. Schuler was charged alongside the other defendants in 2016, and in May, he pleaded guilty to wire fraud and wire-fraud conspiracy.

On Thursday, federal prosecutors used Mr. Schuler's testimony to establish a motive for Dr. Kaloyeros's alleged involvement in the bid-rigging scheme:

That he wanted to curry favor with the governor's office to advance his own career and get more power.

Mr. Cuomo hasn't been accused of wrongdoing. A spokeswoman for the governor noted that Dr. Kaloyeros served under five different governors and was suspended from his position the day the charges were filed.

## NYPD Forms Panel to Review Disciplinary Policies

BY GERALD PORTER JR.

The New York Police Department named a new task force of outside law-enforcement officials to review the department's internal disciplinary policies, which have come under criticism for their ambiguity and secrecy.

The panel will look at how the department disciplines officers, the penalties for officer misconduct and how the discipline fits an officer's behavior, First Deputy Commissioner Benjamin Tucker said Thursday.

"We're giving ourselves yet

another opportunity to think about ways in which we might improve what we're doing in the process," Mr. Tucker said.

Deputy Commissioner of Legal Affairs Lawrence Byrne said the panel will have no restrictions to information that can aid its "top to bottom" review. The panel is expected to start its 120-day review next week, he said.

The panel will be led by Mary Jo White, former chairman of the U.S. Securities and Exchange Commission. Also on the panel are Robert L. Capers, former U.S. attorney for the

Eastern District of New York, and former U.S. District Judge Barbara S. Jones.

The panel will look at the policies with "fresh eyes," Mr. Tucker said, and its findings and recommendations will help the NYPD improve transparency.

For years, the NYPD made disciplinary information of officers public but stopped in 2016, citing a state civil-rights law. Police officials and Mayor Bill de Blasio have said the law shields the personnel records of officers from the public.

The NYPD handles disciplinary matters internally through

its own hearing process. Officials from Civilian Complaint Review Board, an independent agency that investigates civilian complaints against police, serve as the prosecution in many cases.

An NYPD deputy commissioner serves as the judge and will then issue a recommendation for discipline to Police Commissioner James O'Neill. Mr. O'Neill has final say over the punishment of the officer.

The system has been criticized by advocates and legal officials for a lack of transparency and inconsistency in the

punishment given to officers.

Donovan Richards, New York City Council public safety committee chairman, said the NYPD's transparency has been inadequate, sowing mistrust among the public.

"No matter how many complaints are filed at CCRB and how the NYPD says they've handled discipline, the community has never felt that," Mr. Richards said.

He added that the panel is a good step toward holding "bad actors" accountable.

—Zolan Kanno-Youngs contributed to this article.

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## GREATER NEW YORK

# There's Magic in the City Air

The ancient art that asks audiences to believe the unbelievable seems to be all the rage among theatergoers these days

BY CHARLES PASSY

Everyone knows tickets to "Hamilton" or "Springsteen on Broadway" are tough to score. But a magic show?

Joshua Jay's "Six Impossible Things," a 75-minute "interactive magic experience" at Wildrence, an event space on Manhattan's Lower East Side, is sold out for its entire

run through July 28. Of course, part of the reason is that Mr. Jay has limited attendance to just 20 people for each show, with ticket prices starting at \$106.

Various tricks, from card magic to an exercise in bending utensils, are performed in different settings in which the audience sits just feet and sometimes inches away from the 36-year-old Mr. Jay.

In the past year, magic, that ancient art that asks audiences to believe the unbelievable, seems to be all the rage on the New York City stage.

"In & Of Itself," Derek Del-Gaudio's one-man show that combines magic, storytelling and performance art so that the tricks become almost secondary, has been playing to packed crowds at the Daryl Roth Theatre since April 2017. While co-producer Jake Friedman declined to say how much the widely acclaimed show has cost to mount, he said it went into the black months ago.

"In & Of Itself" has set a final closing date of Aug. 19 after numerous extensions.

Another hit: Noah Levine's "Magic After Hours," which has been playing for about three years in Tannen's Magic shop. Like Mr. Jay's show, it is an intimate affair, staged for an audience of 18 when the store is closed. It often is sold out months in advance.

New and returning magic shows also are filling the



## Exhibit Focuses on David Copperfield

The New-York Historical Society on Manhattan's Upper West Side is hosting a "Summer of Magic: Treasures from the David Copperfield Collection" exhibition through Sept. 16.

As the name implies, the show focuses on items the illusionist has gathered over the years, including objects that belonged to the fabled Harry Houdini, such as a pair of handcuffs he used in an escape challenge.

The exhibition also features a re-creation of a magic shop that is intended to evoke the "legendary New York City stores...that inspired and nurtured many magicians."

Complementing the exhibition are a number of family and evening programs, including 90-minute workshops in which aspiring magicians can learn tricks.

CLOCKWISE FROM TOP: JEREMY DANIEL, BENJAMIN PRATT; MATTHEW GILMORE



calendar. "Vitaly: An Evening of Wonders," featuring Canadian-based magician Vitaly Beckman, started running at the Westside Theatre last week. Behind it is veteran Broadway producer Daryl

Roth, who was aware of the crowds coming to her namesake theater for "In & Of Itself" and decided to build a new show around Mr. Beckman, a star on the international magic circuit whose

signature tricks involve removing faces from drivers' licenses and making a paintbrush come to life.

Ms. Roth said the appeal of magic essentially is timeless, and today's audiences are re-

discovering that fact. "People are fascinated by the improbability of things," she said.

Magic especially resonates in an era when questions of truth and accountability are at the fore of our national

discussion, said Penn Jillette, the magician of Penn & Teller fame. "Being reminded that we can be easily fooled seems to be a pretty important thing to think about," said Mr. Jillette.

## GREATER NEW YORK WATCH

### CRIME

#### Three People Killed In Bronx Shooting

Police say two men and a woman, who may have been a bystander, were fatally shot in the Bronx.

The violence erupted around 9:45 a.m. Thursday in the Castle Hill neighborhood. Police believe the shooting stemmed from a large fight in a parking lot.

The two 33-year-old men, Mustafa Tarver and Christopher Alleyne, both of the Bronx, were shot in the head.

The 45-year-old woman, identified as Arileida Jimenez, of the Bronx, was shot in the back.

Police say they are looking for one suspect who ran away from the scene.

—Associated Press

### CUNY

#### Ex-Coach Gets Prison For Embezzling

A former City University of New York Baruch College basketball coach and athletic department official has been sentenced to 20 months in prison for embezzling more than \$700,000 from the school.

Machli Joseph, of Elizabeth, N.J., was sentenced Thursday after pleading guilty in January.

Prosecutors say the 43-year-old embezzled the money between 2010 and 2016 by renting school athletic facilities to

outside parties and keeping the proceeds. They say the funds were spent on personal expenses, including renovations to his home. Mr. Joseph was ordered to forfeit over \$700,000, and to pay the same amount in restitution.

—Associated Press

#### Man Finds Rattler Under Car Hood

An upstate New York man trying to jump-start his car was greeted by an unusual sound coming from his engine—the rattle

of a venomous timber rattlesnake.

The man said the snake slithered across the engine block and curled up on the battery as he opened the hood of the car earlier this month in rural Hancock, on the Pennsylvania border about 115 miles northwest of New York City. State environmental conservation police officers were called out to remove the reptile.

Lt. Nate Ver Hague untangled the snake's tail from the engine as Officer Mark Vencak carefully pulled it from the vehicle. They released it nearby, next to several large boulders.

—Associated Press

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# LIFE & ARTS



TODD CERVERIS (3)

THEATER REVIEW | By Terry Teachout

## A Political Play Without Preaching

The Mint Theater Company keeps its fresh reputation with the first-ever revival of Miles Malleson's 1925 drama

**New York** FORTY-NINE years after his death, Miles Malleson has become the answer to a trivia question. He was one of those funny-faced comic character actors (one of his three wives claimed that he looked "exactly like a hobgoblin") whom everyone remembers but few know by name, the English counterpart of Eugène Pallette or S.Z. Sakall. The list of distinguished films in which he played small but striking parts includes "The Importance of Being Earnest," "Kind Hearts and Coronets" (he was the hangman), "The Man in the White Suit," "Peeping Tom," and Alfred Hitchcock's "Stage Fright" and "The 39 Steps," and he also had a similarly noteworthy stage career, most famously as Polonius to John Gielgud's Hamlet in 1944. In addition, though, Malleson wrote a fair number of plays, some of which were briefly successful but all of which are now forgotten. That's where the Mint Theater Company comes in.

The Mint, a much-admired off-Broadway troupe that specializes in digging up what it calls "worthwhile plays from the past that have been lost or forgotten," is presenting the U.S. premiere—in fact, the first revival anywhere—of Malleson's "Conflict," a 1925 drama about two college friends (Jeremy Beck and Henry Clarke) who run against one another for a seat in the House of Commons and turn out to be in love with the same woman (Jessie



Graeme Malcolm, Jeremy Beck and Henry Clarke, above; Mr. Beck and Jessie Shelton, left; Mr. Malcolm, far left

for itself instead of imposing her own style. What stands out in her production of "Conflict" is its understated delicacy: No voices are raised, no hair is torn, yet the play's powerful emotions come through loud and clear. John McDermott, the set designer, best known for his imaginative work with Bedlam Theatre Company, here gives us a pair of solid-oak Victorian rooms that look real enough to rent.

The invisible hero of "Conflict" is, of course, Jonathan Bank, the Mint's producing artistic director. It's a wonder how he manages to track down so many plays that both deserve and richly repay a second hearing. Mr. Bank is one of a handful of theater artists in America whose name is an absolute guarantee of quality, and "Conflict" is further proof of his perfect taste.

### Conflict

Mint Theater Company, Beckett Theatre, Theatre Row, 410 W. 42nd St., New York (\$65), 212-239-6200, closes July 21

Mr. Teachout, the Journal's drama critic, is the author, most recently, of "Billy and Me." Write to him at [tteachout@wsj.com](mailto:tteachout@wsj.com).

TELEVISION REVIEW | By John Anderson

## BACK FOR ANOTHER SERVING

THIS WEEKEND'S hot, fresh and highly anticipated programming on PBS is six years old! How can this be? Fans of "The Great British Baking Show," who are legion, already know the sordid tale behind the kitchen counters and pastel-colored Kitchen-Aid mixers of the BBC and Channel 4. But before any further crumbs of information are served up, it should be said that this serving of "GBBS" is as good as any of its predecessors. Or, depending on your side of the Atlantic, descendants.

Beginning with a double episode Friday (and one per week through Aug. 17) the fifth U.S. season of "The Great British Baking Show" reunites for American audiences food writer Mary Berry, master baker Paul Hollywood and the comedians Sue Perkins and Mel Giedroyc. What one realizes, without getting very far into the breads, cakes and tarts, is what a per-

fect show it's been. Ms. Berry's authority and, yes, kindness ("perhaps not so pristine," she says of one effort, in what passes for damning judgment) provide an elegant counterweight to Mr. Hollywood's ladish qualities. The Ms. Perkins and Ms. Giedroyc are smartly funny and always supportive of the struggling competitors. (Any sexual innuendo they render always seems too obvious to be offensive, as some British viewers have apparently found it.) The contestants are normal, diverse and inspiring. And highly accomplished, never mind an occasional substitution of salt for sugar, or a baked Alaska pitched into the trash.

Season 5 on PBS was actually Season 3 on the BBC and originally aired in 2012, making it older than any that PBS, or Netflix for that matter, has previously broadcast; a PBS spokeswoman

Please turn to page A11



Sue Perkins, Mary Berry, Paul Hollywood and Mel Giedroyc

LOVE PRODUCTIONS

## LIFE &amp; ARTS

TELEVISION REVIEW | By John Anderson

# Deception On the Stage And Under The Steeple



MATT ALEXANDER/PA WIRE/ZUMA PRESS

**DERREN BROWN** is a mentalist, illusionist, pop philosopher and debunker of scam-artists and mediums. He's also an Englishman, though in his concert movie "Miracle" he takes a whack at two venerable tentpoles of the American cultural circus: stage magic and faith healing. Same thing? He'd say so.

But being a trickster himself, Mr. Brown is never quite as candid as he pretends to be about what he does on stage. Standard magician policy says never explain anything, but Mr. Brown's approach is to explain his bits and then make them work. And they often do: One of the more entertaining sequences in "Miracle" involves Mr. Brown and a volunteer from the London audi-

ence named Arthur, from whose outstretched palms Mr. Brown intends to snatch two 50-pence pieces. In explaining how he's going to do it—Arthur's hands, meanwhile, being poised like a pair of rat traps—he describes the techniques of "manipulation," "conditioning," "compliance" and the "off-beat," each of which works flawlessly as he promptly employs them on poor Arthur. Who's a good sport, it should be said.

What Mr. Brown is saying from the beginning of the show—and the beginning of a line of patter so rapid-fire it's guaranteed to put an audience comfortably off-balance—is that we tell ourselves stories. And those stories direct what we

do, and how we act; even Arthur was telling himself stories, about what Mr. Brown was about to do. Citing the Greek philosopher Epictetus—and who was the last performer on TV to do that?—Mr. Brown says there are things you can control, things you can't, and the stories you tell yourself are often about what you can't. You can't eat glass, you might tell yourself. And yet Mr. Brown has a volunteer do it right on stage, the mic picking up the crunch in her mouth. (The process involves grinding up the glass and eating it with apple. But the point is, it can be done.)

The energetic Mr. Brown straddles two ages of staged entertain-

ment. One is thoroughly modern—without the mics and video-screen closeups, for instance, much of his act would be impossible. The other is decidedly antique: The framing device for the entire program involves the audience answering questions or offering up words that will later be discovered inside sealed envelopes, or on the pages of recent London tabloids—not new stuff exactly, and not likely to entirely wow any generation conditioned by CGI and other computerized sleight-of-hand. But the centerpiece of the show is both impressive and instructive, even if it's built on the flimsiest foundation and seems apt to topple over like an unanchored church steeple.

Derren Brown reveals how many of the tricks he uses in his act are also familiar to faith healers.

After describing some of the faith healing he's actually witnessed, Mr. Brown asks the audience to stand. He floods the theater with light and sound. In his best Elmer Gantry manner, he extols the power of healing that comes from within. He then invites those who have suddenly felt better to approach the stage. Dozens do.

There seems to be a hole in the argument here, or maybe it's just the editing. While Mr. Brown's faith-healer shtick is impassioned, exuberant and maybe even sacrilegious (addressing the divine he says, "We give you the glory, we give you the praise... someone say 'Hallelujah!'"), and the people being cured seem genuine, and genuinely surprised, I wasn't quite sure how they got to the point of belief. Or suspended disbelief. How did they get there? "There are no actors or stooges used in this programme and no research has been carried out on any member of the audience," reads the disclaimer at the outset of "Miracle." The assertion here, in short, is that the mind's powers of persuasion are such that they can improve one's eyesight or suppress back pain. Like James Randi ("The Amazing Randi"), whose efforts at exposing fraud and flimflam were recounted in 2014's "An Honest Liar," Mr. Brown sends the message that there's a sucker born every minute, and you don't want to be one. Still, some of his techniques require a leap of faith.

As it finds its groove, "Miracle" might require a bit of patience on the part of the viewer, but it is ultimately engrossing, provocative and an example of hucksterism eating its tail. If there is something miraculous happening, it involves Mr. Brown's synthesis of Barnum-esque showmanship and actual ideas.

**Derren Brown: Miracle**  
Friday, Netflix

## A Tasty Treat Returns

*Continued from page A10*  
said there are currently no plans to air the newest shows. After the acrimonious breakup between the program's creator, Love Productions, and the BBC, "GBBS" moved to Channel 4 last year. Ms. Berry, Ms. Perkins and Ms. Giedroyc declined to follow. Only Mr. Hollywood stayed, which seems to have surprised no one. There was a sharp if not precipitous drop in the U.K. ratings for the completed eighth season; a ninth is expected later this summer.

Mr. Hollywood's new co-stars are a mixed bag, to judge from what I've managed to scrounge up

on YouTube. Prue Leith, Ms. Berry's replacement, is likable enough, and dignified. Goth comedian Noel Fielding wears too much mascara. His co-presenter, Sandi Toksvig, suggests a school librarian with a previous career in law enforcement.

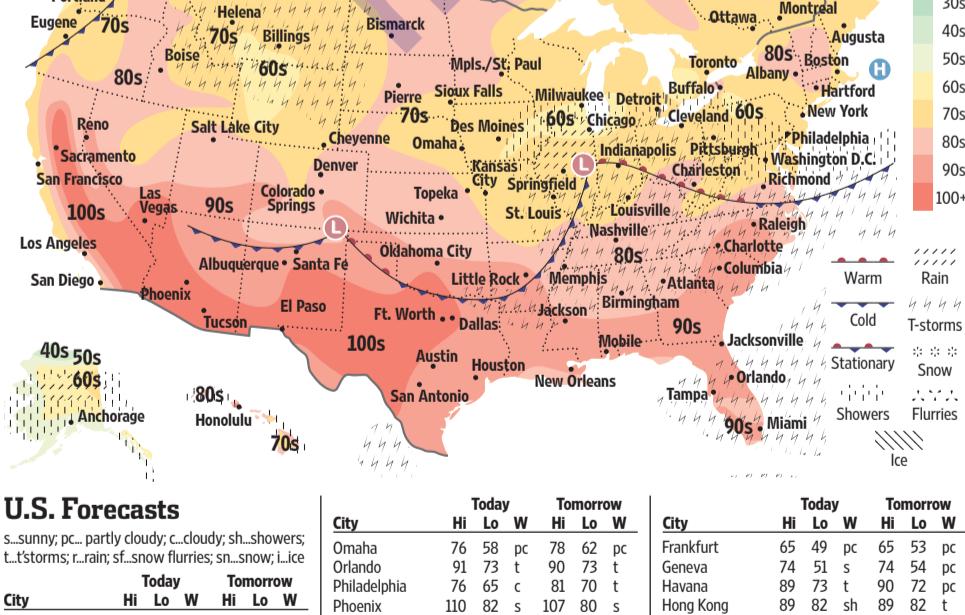
Ah, but for the next eight weeks GBBS devotees on American shores can dwell in a kind of culinary Eden where homemakers, astrophysicists, housing contractors and corrections officers frolic, fret, gambol and compete to prove who can make the best tarte Tatin or plaited loaf. Where the right people are in the right places. Where life is "scrummy." It's enough to make you overfeed your sourdough starter.

**The Great British Baking Show, season 5**  
Friday, 9 and 10 p.m., PBS



Paul Hollywood and Mary Berry (above center) with contestants from the show (above and left)

## Weather



## U.S. Forecasts

s=sunny; pc=partly cloudy; c=cloudy; sh=showers; sn=snow; l=ice;

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

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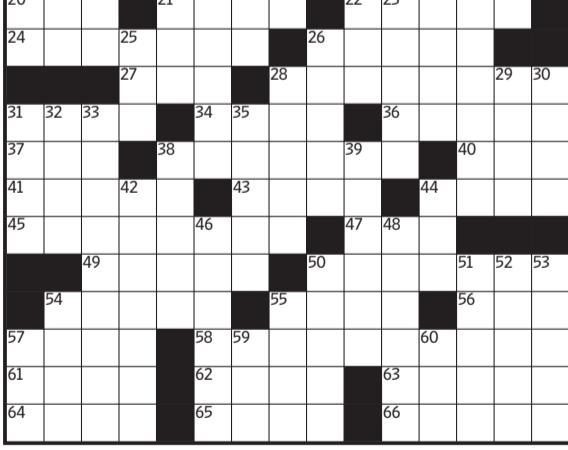
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## The WSJ Daily Crossword | Edited by Mike Shenk



## CREATURE FEATURE | By Matt Gaffney

The answer to this week's contest crossword is a well-known movie of the 1990s.

## Across

- 1 Far from fitting
- 6 Scary groups
- 10 Without much thought
- 14 Publishing power player Sonny
- 15 The Wasatch Front is there
- 16 "That's correct"
- 17 Trendy lotion ingredient
- 19 Nonstarters?
- 20 Pitchers want it low
- 21 Dated preposition
- 22 Employment
- 24 Trees after which Elvis's birthplace was named
- 26 Capital of Nigeria
- 27 Carpet cleaner, briefly
- 28 Cousin of the English horn
- 31 Org. for servers
- 34 Analogous
- 36 Audibly excited
- 37 Vast amount
- 38 A well-known movie of the 1990s...but not the contest answer
- 40 Gentleman

62 "Argo" setting

63 Aussies' neighbors

64 Former senator Feingold

65 Aficionado

66 Coastline feature

## Down

- 1 "No more for me, thanks"
- 2 Noted 1910 graduate of Cambridge
- 3 In \_\_\_ of trouble
- 4 Org. that meets in schools
- 5 \_\_\_ rasa (blank slate)
- 6 Half-boxers, say
- 7 Conductor Klemperer
- 8 Sweetie, slangily
- 9 Hedgerow makeup
- 10 "How's work going?" response
- 11 "The Man with the Golden Arm" subject
- 12 Jiffy
- 13 "Obviously!"
- 18 Oil company founded in 1890
- 23 Obama's national security adviser Rice
- 25 Sister of Magda and Zsa Zsa
- 26 Record company division
- 28 John's neighbor
- 29 German soccer star Mesut
- 30 Vox editor Klein
- 32 Hawk
- 33 Goes crosstown, maybe
- 35 Ghazi Stadium's city
- 38 Impressive selection
- 39 Location for three men
- 42 Hardware store buys
- 44 Section of a mechanic's shop
- 46 Cliff near the Massachusetts coast
- 48 Ritualized drama
- 50 Tolerate
- 51 Wrap type
- 52 Lofty home
- 53 Nighttime meeting
- 54 Perfume since the 1930s
- 55 Mark eternally
- 57 Piece of candy, often
- 59 Vein of value
- 60 Jeremy in a jersey

## PUZZLE CONTEST

► Email your answer—in the subject line—to [crossovercontest@wsj.com](mailto:crossovercontest@wsj.com) by 11:59 p.m. Eastern Time Sunday, June 24. A solver selected at random will win a WSJ mug. Last week's winner: Jutta Degener, Sunnyvale, CA. Complete contest rules at [WSJ.com/Puzzles](http://WSJ.com/Puzzles). (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

## Previous Puzzle's Solution

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A	B	R	S	P	A	R	E	S	T	R	A	P
G	R	E	A	S	Y	S	N	O	O	P	S	O
S	A	R	G	H	A	M	S	C	U	P	D	R
A	S	A	I	C	L	A	R	E	N	A	R	E
I	T	S	Y	B	I	T	S	R	E	D	I	P
D	O	L	A	P	S	D	A	M	E	T	T	E
E	V	A	N	S	R	E	Y	N	E	R	T	S
D	E	M	L	A	D	E	M	C	E	E	T	S
T	E	A	S	E	R	I	F	B	O	U	T	S
C	E	A	S	E	R	I	F	B	O	U	T	S
A	L	T	A	R	A	G	A	L	A	D	E	E
P	I	E	R	S	D	A	N	L	E	K	E	S

## SPORTS

## WORLD CUP

## FRANCE STILL NEEDS TWEAKS

BY JOSHUA ROBINSON

*Ekaterinburg, Russia*  
**TAKING STOCK** of the French national team at a major tournament is one of the most thankless tasks in soccer, right up there with man-marking and reviewing offside calls. It can be frustrating, confusing and, in the end, you still might be proven wildly wrong.

And two games into their World Cup campaign, much like a Parisian waiter, Les Bleus aren't offering much help.

France dispatched Peru 1-0 here on a cold Thursday evening, to go two-for-two and book its spot in the round of 16.

But at no point did the side live up to the abundance of talent in the squad. For a team that boasts one of the most expensive teenagers on the planet in Kylian Mbappé, one of the lights of La Liga in Antoine Griezmann, and the supremely gifted Paul Pogba among others, two nervous wins against weaker opposition feel less than satisfying.

This is, after all, is more or less the squad that carried Les Bleus to the final of the European Championship two summers ago. It cruised through a qualifying group with the Netherlands and Sweden. And yet, France manager Didier Deschamps seems to have only a foggy idea of what his best lineup is. In the five days between France's opening 2-1 win against Australia and the match against Peru, France altered its formation, changed the focus of its attack, and tweaked its pressing game.

The refreshed approach helped Les Bleus carve open Peru in the 34th minute, when Mbappé tucked home a rebound from Olivier Giroud's shot. But for long stretches of the match on Thursday, Les Bleus controlled possession without creating chances.

"We did what we had to do to qualify," Deschamps said.

France will play Denmark, who tied Australia 1-1, to close out Group C play on Tuesday in Moscow.



Argentina's Lionel Messi reacts during a 3-0 loss to Croatia.

GABRIEL ROSSI/GETTY IMAGES

## WORLD CUP

## Argentina on the Brink of Elimination

Lionel Messi has vanished in the World Cup. His team might be next.

BY JONATHAN CLEGG

*Nizhny Novgorod, Russia*  
**LIONEL MESSI** has done so many miraculous things on a soccer pitch that you could have been forgiven for thinking he had run out of ways to amaze.

But on a cool night at the Nizhny Novgorod Stadium on Thursday, Messi once again produced something truly incredible. With Argentina facing a committed opponent, still smarting from its failure to beat Iceland in its opening game, and at risk of an embarrassingly early exit from the 2018 World Cup, Messi all but disappeared.

In what will surely be remembered as one of the most ineffectual performances of his storied career, Messi was a virtual bystander as Argentina fell to a 3-0 defeat against Croatia. When it was over, as the Croatian players fell to the floor in equal parts exhaustion and elation, Messi paused for a few seconds, a blank stare on his face. The he turned and stalked away down the tunnel, and out of sight for good.

"We wanted to cut out Messi, to stop him receiving the ball because he is the most dangerous player," said Croatia's Luka Modric, who

scored on a blistering strike 10 minutes from time that put his team 2-0 up and effectively ended the contest. "But I don't want to talk about other players. We are happy with our own performance."

The loss, coupled with a 1-1 draw in its opener against Iceland—in which Messi missed a late penalty—leaves Argentina in serious danger of failing to reach the knockout round. Croatia advanced with this win and, depending on other results, Iceland could need only a draw in the final round of games to lock up Group D's final spot in the round of 16.

For a team that arrived in Russia as one of the favorites to lift the trophy, and which narrowly lost in the final four years ago, Argentina's elimination would rank as a stunner. It has a high-priced coach, a squad that features a half-dozen standout attackers, and which is headlined by one of the greatest players ever to kick a ball.

Navigating its way through a group that featured Croatia, Iceland and Nigeria—ranked No. 20, No. 22 and No. 48 in the world rankings, respectively—shouldn't have posed much of a challenge.

But even before the World Cup kicked off, it was clear this team amounted to much less than the

sum of its parts. Argentina barely sneaked out of South American qualifying, needing a hat-trick from Messi in the final round of matches to lock up an automatic berth at the tournament. And its aging back line had long been identified as a potential weakness.

Manager Jorge Sampaoli decided the only solution to those woes was to double down on the diminutive genius in his team. Sampaoli made Messi his captain and the focal point of the team and even consulted him on lineup questions.

There were times when it seemed as though Messi had become an extra member of the coaching staff.

All of which makes Messi's listless displays in Russia all the more bewildering. But from the moment he flubbed that penalty against Iceland, Messi seemed to withdraw—both on the field, where he went hunting for the halfway line, but also into himself.

Against Croatia, he struggled to exert an influence on the game from the opening whistle. There were none of the driving runs he is famous for, none of the fancy tricks. In the first half, there was almost none of the ball. By halftime, with the game still deadlocked, Messi had made just 20 total touches.

And as the game wore on, and

Croatia took more control, Messi began to take on the appearance of a sulky toddler. He drifted further away from goal, taking the ball in deeper and deeper positions, as though he no longer trusted his teammates to do their jobs.

In fairness, he may have had a point. Croatia's opening goal came on a catastrophic blunder from Argentina goalkeeper Wilfredo Caballero, whose lofted clearance was picked off by Ante Rebic and smashed into the net.

Argentina poured forward in search of an equalizer, throwing on additional attacking players and changing its shape. But without Messi to make the difference, the team seemed to run out of ideas. In the final stages, Modric doubled Croatia's lead with a stunning strike from the edge of the box. And Ivan Rakitic added gloss to the score line with a third goal in stoppage time.

Sampaoli took responsibility for the defeat afterward, and resisted the notion that Messi had failed to give maximum effort. "I am the one that makes the decisions and I am the one who must answer these questions," he said.

When it comes to Messi, however, it looks like Argentina may be out of answers.

and Marlins into a single, serviceable Florida team.

Here's the good news: the audience may be aging, but those aging people care. Baseball remains an American institution—maybe it isn't the National Pastime, as it once claimed (it's since been surpassed by the NFL and American Ninja Warrior, among others) but it's still a sport that keeps an emotional hold on the country.

That's why stories like the attendance drop can go viral with readers. Reports of baseball's decline—especially thoughtful ones, like Diamond's—feel bigger than a business brief. They feel like a shifting of the plates, a cultural denouement.

There's part of me that wonders if the pendulum could swing back baseball's way. At the same time we're lecturing baseball about installing time clocks and dragging itself into the 21st century, Americans are seeking relief from their smartphones and own hectic, over-programmed lives. As we tell baseball to speed up, we're trying to slow ourselves down.

Radical thought: Could the gentle rhythms of baseball actually settle our crazy modern lives? Is there anything more meditative than an afternoon at the ballpark, drinking an \$11 beer?

Nah. I still think they need to hurry up in the bullpen. It's taking forever, and my kids are asleep.

## TV Listings

**Friday, June 22**  
*(All times Eastern)*

8 a.m.: Brazil vs. Costa Rica (FS1)

11 a.m.: Nigeria vs. Iceland (FOX)

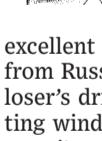
2 p.m.: Serbia vs. Switzerland (FOX)



France's Kylian Mbappé in action.

MLB | By Jason Gay

## REPORTS OF BASEBALL'S DECLINE ARE...POPULAR



The most clicked-upon story at WSJ Sports Planet Earth Headquarters this past week? It isn't anything from the World Cup, as excellent as our team coverage from Russia has been. It isn't my loser's drivel from the sports betting window in New Jersey. It wasn't golf, though golf got uncharacteristically spicy this weekend. (Phil! This isn't mini putt-putt! There's no win-a-free-root-beer hole at the U.S. Open!)

Nope, the most popular Journal sports story for the past seven days or so—by a mile—is my colleague Jared Diamond's incisive piece about the attendance issues currently plaguing Major League Baseball.

Yep. News about baseball's shrinking popularity is...super popular. Go figure.

The breakout of the moment is, well, tushes in seats. To be clear: baseball's economics are healthy—it still has plenty of ticket buyers, and it's awash in regional television money. It has a real-time sports product, and a long season. To networks, that's content with real value, enough to keep franchise values rising and players well paid.

Sure, there are additional concerns about pace of play, and alterations to in-game strategy—go-for-broke hitters plus strikeout pitchers mean fewer balls in play, and the manager-to-the-mound bullpen parades are getting obnoxious—but

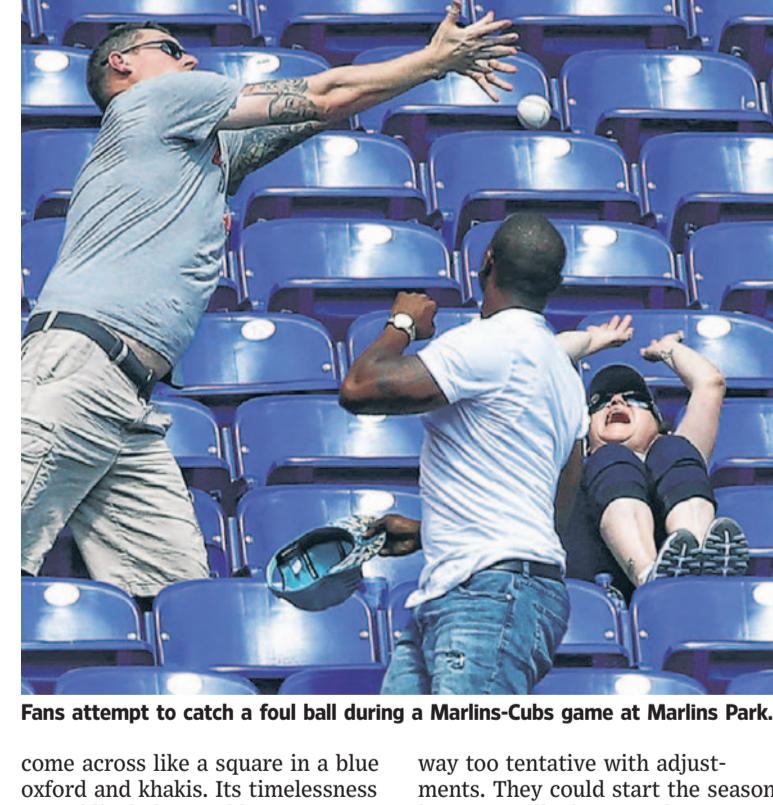
Bryce Harper isn't going to get a free agency salary chop because of it.

As Diamond's story noted, the turnstile numbers are sinking in 2018. Attendance through June 14 was down 6.6% from the same time last season, and 8.6% overall. That's a departure from the typical half percent or so swings in attendance, and enough to get the attention of MLB commissioner Rob Manfred.

Weather is at least partly to blame, the league believes. This season began with a freezer full of postponements. But crummy weather doesn't explain dips in dome cities like Toronto or less-wintery towns like San Francisco (insert your San Francisco weather joke here).

Manfred doesn't think competitive balance is the issue, but Diamond's story offered reason for concern. A historic number of baseball teams stink this season—like, really, really stink, with a winning percentage of 40% or lower. At the same time, baseball's powerhouses have been consolidated—Houston, Boston, New York and Seattle have a shot at hoarding 100 wins or more. That's an imbalance, from any perspective.

Baseball—and baseball fans—get sensitive about criticism, because old-fashioned baseball is an easy target in these go-go, hurry up modern times. The game is slower-paced than, say, hockey, and it will never be as noisy as the NFL. Compared with a hipper, digitally-savvy product like the NBA, the MLB can



WILFREDO LEE/ASSOCIATED PRESS

Fans attempt to catch a foul ball during a Marlins-Cubs game at Marlins Park.

come across like a square in a blue oxford and khakis. Its timelessness gets ridiculed as stubbornness.

Some of this is unfair. Manfred has shown a willingness to tinker with pace. MLB's digital platform, MLB Advanced Media, has long been the industry standard, with a spinoff, BAM Tech, getting sold to Disney. Meanwhile, baseball is amid a renaissance of young stars, the latest breakout being 19-year-old Juan Soto of the Washington Nationals.

So what's the issue here? I think Diamond is right about the competitive balance problem: Too many teams are out of it too early. I'd also argue that baseball is still

way too tentative with adjustments. They could start the season in May to alleviate weather concerns make it better for fans (who wants to watch baseball in 38 degree temperatures) and I don't think people would complain for more than a day. Tinkering will not provoke the national outrage that baseball seems to think it would provoke. I believe a lot of us would be fine with 150 or so games, and sharper rules to accelerate pace.

My proposal for seven-inning weeknight baseball is still available, baseball! I'm open to any experiments. Two out innings! Three ball walks! Combining the Rays

## OPINION

## A Hot Summer on Capitol Hill

By Pat Michaels  
And Ryan Maue

**J**ames E. Hansen wiped sweat from his brow. Outside it was a record-high 98 degrees on June 23, 1988, as the NASA scientist testified before the Senate Committee on Energy and Natural Resources during a prolonged heat wave, which he decided to cast as a climate event of cosmic significance. He expressed to the senators his "high degree of confidence" in "a cause-and-effect relationship between the greenhouse effect and observed warming."

With that testimony and an accompanying paper in the *Journal of Geophysical Research*, Mr. Hansen lit the bonfire of the greenhouse vanities, igniting a world-wide debate that continues today about the energy structure of the entire planet. President Obama's environmental policies were predicated on similar models of rapid, high-cost warming. But the 30th anniversary of Mr. Hansen's predictions affords an opportunity to see how well his forecasts have done—and to reconsider environmental policy accordingly.

Mr. Hansen's testimony described three possible scenarios for the future of carbon dioxide emissions. He called Scenario A "business as usual," as it maintained the accelerating emissions growth typical of the 1970s and '80s. This scenario predicted the earth would warm 1 degree Celsius by 2018. Scenario B set emissions lower, rising at the same rate today as in 1988.

What about Mr. Hansen's other claims? Outside the

Mr. Hansen called this outcome the "most plausible," and predicted it would lead to about 0.7 degree of warming by this year. He added a final projection, Scenario C, which he deemed highly unlikely: constant emissions beginning in 2000. In that forecast, temperatures would rise a few tenths of a degree before flatlining after 2000.

**James Hansen issued dire warnings in June 1988. Today earth is only modestly warmer.**

Thirty years of data have been collected since Mr. Hansen outlined his scenarios—enough to determine which was closest to reality. And the winner is Scenario C. Global surface temperature has not increased significantly since 2000, discounting the larger-than-usual El Niño of 2015-16. Assessed by Mr. Hansen's model, surface temperatures are behaving as if we had capped 18 years ago the carbon-dioxide emissions responsible for the enhanced greenhouse effect. But we didn't. And it isn't just Mr. Hansen who got it wrong.

Models devised by the United Nations Intergovernmental Panel on Climate Change have, on average, predicted about twice as much warming as has been observed since global satellite temperature monitoring began 40 years ago.

What about Mr. Hansen's other claims? Outside the

warming models, his only explicit claim in the testimony was that the late '80s and '90s would see "greater than average warming in the southeast U.S. and the Midwest." No such spike has been measured in these regions.

As observed temperatures diverged over the years from his predictions, Mr. Hansen doubled down. In a 2007 case on auto emissions, he stated in his deposition that most of Greenland's ice would soon melt, raising sea levels 23 feet over the course of 100 years. Subsequent research published in *Nature* magazine on the history of Greenland's ice cap demonstrated this to be impossible. Much of Greenland's surface melts every summer, meaning rapid melting might reasonably be expected to occur in a dramatically warming world. But not in the one we live in. The *Nature* study found only modest ice loss after 6,000 years of much warmer temperatures than human activity could ever sustain.

Several more of Mr. Hansen's predictions can now be judged by history. Have hurricanes gotten stronger, as Mr. Hansen predicted in a 2016 study? No. Satellite data from 1970 onward shows no evidence of this in relation to global surface temperature. Have storms caused increasing amounts of damage in the U.S.? Data from the National Oceanic and Atmospheric Administration show no such increase in damage, measured as a percentage of gross domestic product. How about stronger tornadoes? The opposite may be true, as

NOAA data offers some evidence of a decline. The list of what didn't happen is long and tedious.

The problem with Mr. Hansen's models—and the U.N.'s—is that they don't consider more-precise measures of how aerosol emissions counter warming caused by greenhouse gases. Several newer climate models account for this trend and routinely project about half the warming predicted by U.N. models, placing their numbers much closer to observed temperatures. The most recent of these was published in April by Nic Lewis and Judith Curry in the *Journal of Climate*, a reliably mainstream journal.

These corrected climate predictions raise a crucial question: Why should people world-wide pay drastic costs to cut emissions when the global temperature is acting as if those cuts have already been made?

On the 30th anniversary of Mr. Hansen's galvanizing testimony, it's time to acknowledge that the rapid warming he predicted isn't happening. Climate researchers and policy makers should adopt the more modest forecasts that are consistent with observed temperatures.

That would be a lukewarm policy, consistent with a lukewarm planet.

*Mr. Michaels is director and Mr. Maue an adjunct scholar at the Cato Institute's Center for the Study of Science.*

**Kimberley A. Strassel is away.**

## Canada Attacks Religious Freedom

HOUSES OF WORSHIP

Langley,  
British Columbia

By Bob Kuhn

Canada legalized same-sex marriage in 2005, amid many promises that traditional religious believers would be protected. Those promises have proved empty. Earlier this month the Supreme Court of Canada told Trinity Western University, which I lead, that it could not open a law school. Accrediting a school that upholds traditional Christian teachings on marriage could send the wrong message to Canadians who disagree with Trinity's beliefs, we were told.

This isn't about the quality of our educational programs. Our researchers hold millions of dollars in grants. Many members of our faculty have been recognized as 3M Teaching Fellows, Canada's most prestigious award for excellence in educational leadership. We are consistently ranked one of the best Canadian universities for educational experience, according to the National Survey of Student Engagement.

Trinity simply is being punished for asking its faculty and students to observe traditional Christian teachings on marriage through a community covenant. In 2001 the high court ruled decisively that this policy did not disqualify the

university from training public-school teachers. It seemed as if the ruling gave Trinity a secure place as one of the few private faith-based schools in Canada.

But that was then. In 2012 Trinity decided to open a law school. It would have been the only private one in Canada and the only one to offer a specialty in charity law. It was an arduous task from the beginning. Three provincial law societies—similar to state bar associations in the U.S.—said no in March 2014. Everyone agreed that Trinity's program met all the requirements and would train competent lawyers. But law societies across the country held public meetings during which Trinity's students and faculty were called bigots and worse.

The Law Society of Upper Canada, the nation's oldest and largest, told the high court in Ottawa during oral arguments on Nov. 30, 2017, that accrediting any "distinctly religious" organization would violate the Canadian Charter, which is similar to the U.S. Bill of Rights. It added that when the government licenses a private organization it adopts all its policies as its own. If these arguments had been accepted, they would have spelled the end of Canada's nonprofit sector. In their zeal to root out the supposed bigotry of

traditional religious believers, these lawyers were prepared to dynamite Canada's entire civil society.

Thankfully the court passed over some of our opponents' more extreme arguments. Instead, on June 15 it ruled that making Trinity's faith-based community standards mandatory could harm the dignity of

**We tried to open a law school that upholds Christian values. That's not allowed.**

members of the LGBT community who attend Trinity. The majority of the court concluded that this potential dignitary harm to future LGBT law students was "concrete," while the infringement on Trinity's religious liberty from refusing to accredit its qualified law program was "minimal."

We respectfully disagree with the court. As the British Columbia Court of Appeal put it when it ruled in favor of Trinity's law school in November 2016, a "society that does not admit of and accommodate difference is not a free and democratic society, one in which its citizens are free to think, to disagree, to debate and to challenge

accepted norms without fear of reprisal."

Despite this blow, Trinity will stand firm in its beliefs—which extend far beyond what the court ruled on. While all this controversy has swirled around us, Trinity alumni have continued their remarkable record of service. Two graduates, Richard Taylor and Jeffrey Komant, opened a school in Rwanda, and another established an organization to rescue child prostitutes in India. A group of Trinity alumni successfully lobbied Parliament to allow Yazidi refugees to enter Canada more quickly. Current Trinity students have founded a campus support network for survivors of sexual assault and raised money to sponsor a refugee family from Congo.

We are disappointed but we are not deterred. We will continue to be a biblically based, mission-driven university committed to provide everyone an excellent education—regardless of race, sexuality, gender orientation or religion. We will continue to teach our students the importance of using their skills to serve others. And above all, we will continue to stand firm, and be what we have always been—a "distinctively Christian" community.

*Mr. Kuhn is president of Trinity Western University.*

## The Case for the Do-Nothing Vacation

By Danny Heitman

As another summer begins, I've been thinking about something I heard last year, an invitation of sorts to embrace the season as a respite from ambition.

Each autumn, my son's high school hosts an assembly in which a few students give talks about the neat things they did over summer break. Many of their experiences are impressive. Last fall, one young woman spoke about her time conducting medical research. Others have gone overseas for work-study programs or taken corporate internships far from home. When they stand on a stage to discuss what they've learned, it's like a junior-level TED talk.

What lingered with me most, however, was a small disclaimer at the start of the gathering from Kristi Key, the school's director of academics. While summer educational experiences are great, she told

the audience, there's a lot to be said for spending at least part of the season off the clock. She even floated the idea of an alternative assembly in which students might discuss what they *didn't* do over the summer.

**There's much to be said for relaxing in the summer.**

Although Ms. Key works very hard, I wasn't surprised that she would also mention the idea of liberation through leisure. She's known on campus as a devotee of Walt Whitman, who notably declared, "I loaf and invite my soul."

I wish I'd known about Whitman during my childhood in the 1970s, when teachers routinely began each school year by assigning us those dreaded "What I Did This Summer" essays. I can still

remember the feeling of having nothing to write—nothing, at least, that seemed worthy of recording on the blank sheet of loose-leaf staring back at me in reproach.

Our modestly middle-class family included six children, so we never splurged on big vacations. In that time and place, formal enrichment programs like computer camp, French camp and history camp were unknown. Instead, we climbed the backyard fig tree and tried to harvest the fruit before the birds did. We played Monopoly and built towers from playing cards.

One summer my sister and I passed a week helping an elderly neighbor sort a jar of buttons from her sewing room.

Those long-ago seasons seemed to exist out of time, which is why, decades later, they endure for me as ideals of what summer should be. Days unbroken by plan or purpose gave me the space to learn who I was.

As I grew to adolescence, my summers acquired more shape. I apprenticed at our local weekly newspaper, beginning to learn the work I still do. Even so, the months felt spacious, not yet conditioned by the careerist culture of my son's generation. For him and his classmates, summer often seems like a chance to fill a spot on a résumé, not a reason to relax.

This summer, my son is flying north for a month to study robotics on a university campus. Presumably when he returns to his high school this fall he'll have grand stories for a lecture. But the rest of the time, he's home with us, blessedly doing nothing in particular. With any luck, he'll take a cue from Whitman, loafing and inviting his soul.

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

BOOKSHELF | By Will Leitch

## It's Gotta Be the Shoes

## Kicks

By Nicholas Smith

(Crown, 308 pages, \$26)

**T**he world of college basketball exploded in scandal during the past season, when the FBI announced its investigation into fraud and corruption among coaches and universities who allegedly helped secure payments for amateur athletes from Adidas and other sportswear manufacturers. In the aftermath of these revelations, a common refrain heard was that something needed to be done about the power of these shoe companies over supposedly amateur athletes. These corporations, after all, were serving as power brokers, funneling money through college coaches (basically middlemen in this scenario) to high school players and their families, who were promised future endorsement opportunities.

But how did shoe companies get so much power in the first place? How on earth have people who make freaking footwear apparently managed to reduce athletic

powerhouses like USC and Louisville to the role of glorified money launderers? It all comes down to the outsize importance of sneakers in popular culture.

In his expansive, thorough and entertaining book *"Kicks: The Great American Story of Sneakers,"* author Nicholas Smith traces the history of this \$20 billion industry, arguing that the power and allure of the shoe have shaped American business and fashion for decades. Mr. Smith notes that shoe

companies have long been interested in the main chance: The founder of Adidas provided shoes both to Nazi athletes at the 1936 Berlin Olympics and to America's great track star Jesse Owens. But ever since Nike exploded because a track coach started looking funny at his wife's waffle maker, athletic shoes have been stylistic innovators. Their manufacturers have thus become economic forces larger than the sports they're supposedly there to support. In many ways, to hear Mr. Smith tell it, the shoes have been wearing us.

"Kicks" serves as a comprehensive look at how much the sneaker became a signature indicator of cool, from Chuck Taylor and his Converse All-Stars to Clyde Frazier's Pumas to Run-DMC and their Adidas to, of course, Michael Jordan. The Chicago Bulls great teamed with Spike Lee at exactly the right moment toward the beginning of each of their careers, launching Nike into the stratosphere with the simple phrase: "It's gotta be the shoes."

By the time Mr. Jordan retired, he was as closely connected to the Nike swoosh logo as he was to the Bulls logo . . . probably more so. Today his Jordan Brand is a subsidiary of Nike, and when it released a pair of green-and-orange sneakers celebrating the Gatorade slogan "Be Like Mike," the message was clear: You no longer need to ask who Mike is, or what being like Mike might mean, or what might be required to instigate such a transformation. You just need to buy those Air Jordans.

## Companies that manufacture sneakers have become power brokers—economic forces larger than the sports they are there to support.

Mr. Smith certainly doesn't provide the shoe-makers a pass for their business tactics. The controversies over sweatshop conditions in some of Nike's factories, for instance, are hardly given short shrift. But for the most part, the author tracks (if you'll forgive the pun) the industry's history in a breezy, light way that owes more to fun historical anecdotes than to hard data, but benefits all the more from the approach. Mr. Smith himself is a "sneakerhead"—the term for those who obsess over sneaker minutiae and treat the release of a new basketball shoe the way I used to treat a Nirvana album—lining up at midnight the night before it goes on sale.

The most engaging parts of his book are those where he leans into that obsession, particularly with the book's conclusion, which chronicles modern-day sneakerhead culture. A memorable indication of the role that shoes play in today's popular imagination, he suggests, took place when Kanye West broke with Nike, in part over a disagreement about royalties from his line of Yeezy apparel. This business disagreement became such a big story that West fans started shouting obscenities about the shoe company (and Mr. Jordan) in the middle of his concerts. As the book notes, Kanye, ever wise to his market, put a stop to that. "Showing respect to the ultimate pitcher," Mr. Smith writes, "was something that crossed the lines of brand loyalty."

Today, the author suggests, sneakers have essentially replaced music as the go-to investment for companies looking at getting into the youth market. They have become so popular that most manufacturers make limited-edition shoes that exist solely to become valuable and are almost never worn. The shoes aren't for wearing; they're simply for having.

As for that college-basketball scandal? No one can claim it was a shining hour for the shoe companies, but let me offer a word of defense: At least they were looking out for the players. Yes, executives at companies like Adidas had their own well-being and their own bottom line in mind: They view young players as investments. But so does everybody else. Colleges make millions of dollars a year, and much of it comes from shoe companies who pay to put amateur athletes in their gear. But that money never makes it to the players out on the court.

At the end of the day, it seems, a few shady shoe guys were the only people willing to give any compensation at all to the players and their families. Shoe companies might not be the sports overlords we need, but they're certainly the ones we deserve.

*Mr. Leitch is a national correspondent for *MLB.com*, contributing editor at *New York magazine*, contributor to *Sports Illustrated* and the founder of *Deadspin*.*

## Coming in BOOKS this weekend

How humans harnessed energy • Winning the vote for women • Dr. Leonhard Euler and his beautiful equation

• Marcel Schwob rediscovered • The right way to look at ballet • Sam Sacks on the art of the story • & much more

## OPINION

## REVIEW &amp; OUTLOOK

## Springtime for Internet Taxers

**F**ive Supreme Court Justices decided to clean up some past mistakes on Thursday, and the rest of us are going to pay for it. That's the big consequence from a ruling that liberates state and local politicians to tax the internet nationwide with abandon.

In *South Dakota v. Wayfair*, a 5-4 majority tossed out the Court's 50-year "physical-presence" standard that limited states from collecting sales tax from out-of-state retailers. The ruling overturns its *Bellas Hess* (1967) and *Quill* (1992) precedents that said states can't force remote retailers to remit sales taxes.

States have chafed that this "physical-nexus" standard limits their sovereign powers and erodes their tax base amid the growth of internet commerce. Justice Anthony Kennedy in particular has seemed eager to atone for what he thought was a mistake for signing onto *Quill*, and Justices Clarence Thomas, Neil Gorsuch, Samuel Alito and Ruth Bader Ginsburg went along for the Commerce Clause history lesson.

Justice Kennedy writes for the majority that the "physical presence rule is a poor proxy for the compliance costs faced by companies that do business in multiple States" and that "other aspects" of Commerce Clause jurisprudence can "better and more accurately address any potential burdens on interstate commerce."

The majority has a point that the physical-presence standard is arbitrary, and states have been testing its limits. Massachusetts has proposed defining physical presence to include apps available for download by in-state residents and placing cookies on residents' browsers. "What may have seemed like a 'clear,' 'bright-line test[t]' when *Quill* was written now threatens to compound the arbitrary consequences that should have been apparent from the outset," Justice Kennedy asserts.

Perhaps, but as Chief Justice John Roberts notes in his persuasive dissent, there's no crisis that now compels the Court to expiate a long-ago mistake that Congress has the power to fix. Between 87% and 96% of sales from the top 100 Internet retailers are taxed. The main exceptions are small businesses that would struggle to comply with the sales-tax regimes of 10,000 or so jurisdictions.

Online commerce has "grown into a significant and vibrant part of our national economy

Americans will pay as Justice Kennedy tries to clean up a past mistake.

against the backdrop of established rules, including the physical-presence rule," the Chief Justice explains. The irony, as he points out, is that Justices Thomas and Kennedy along with Antonin Scalia decided *Quill* based on *stare decisis* when many fewer businesses relied on the Court's standard than do now.

Congress has been debating how to supersede *Quill* for some years. A bipartisan bill from House Judiciary Chairman Bob Goodlatte would allow states to require businesses to collect sales tax at a single, statewide rate with revenues distributed through a national clearinghouse. This would at least simplify compliance.

But as Chief Justice Roberts wisely notes, "state officials can be expected to redirect their attention from working with Congress on a national solution, to securing new tax revenue from remote retailers." The Court's decision in effect declares open season for rapacious politicians to tax online commerce. Members of Congress from spendthrift states may be less inclined to legislate a solution.

Justice Kennedy suggests that courts can be a check on greedy states and cities if they go too far and impose undue burdens on interstate commerce. But states will no doubt interpret the Court's reversal as a green light to challenge the limits of their taxing authority. Small, remote retailers will have to prove in local courts that state and municipal tax laws run afoul of the Court's *Wayfair* ruling. Godspeed.

Justice Kennedy suggests that South Dakota's law, which exempts retailers with fewer than 200 transactions in the state, is a model because it "affords small merchants a reasonable degree of protection." But a California or New York law with similar exemptions would be far more burdensome since selling 200 items in their huge retail markets would be more common.

States may also interpret the majority's ruling as a go-ahead to tax other kinds of online commerce such as media downloads and streaming. As their public pension costs explode, Connecticut and New Jersey will grasp far and wide. While big businesses may manage, smaller ones will be hard-pressed—and consumers will pay more in any case.

Congress now needs to act to prevent this considerable damage, but in the meantime there will be plenty of casualties.

## Administrative Law Smackdown

**T**hursday wasn't a complete loss for liberty at the Supreme Court. While the Justices opened Pandora's box in taxing the internet (see nearby), they also took a modest step toward enforcing more accountability on the ever-expanding administrative state.

In *Lucia v. SEC*, the Court ruled 6-3 that under the Constitution administrative law judges must be appointed by proper political authorities, not merely by career bureaucrats. ALJs, as they're known, have proliferated across the government to adjudicate disputes between citizens and federal bureaucracies. ALJs aren't Article III judges confirmed by the Senate. They are executive-branch (Article II) judges who rule on executive-branch cases.

Securities and Exchange Commission administrative Judge Cameron Elliot ruled against Raymond Lucia for securities violations. Yet Judge Cameron wasn't appointed by the President or the five SEC Commissioners. In a crisp majority opinion, Justice Elena Kagan concludes that this violates the Constitution's Appointments Clause because Judge Elliot is an officer wielding considerable authority.

As Justice Clarence Thomas writes in his concurring opinion, "the Appointments Clause maintains clear lines of accountability—encouraging good appointments and giving the public

The Supreme Court strikes a blow for political accountability.

someone to blame for bad ones." The government cannot hand authority to ALJs who are appointed by low-level managers with no line of responsibility to the President. They must be appointed by the President or SEC Commissioners in this case, or a head of department in others.

The left-leaning Justice Kagan's decision to join the five conservative judges in this view of the separation of powers is encouraging and shows a streak of intellectual independence. Justice Stephen Breyer agreed that Judge Elliot had been wrongly appointed on statutory grounds, but he saw no need for Justice Kagan's more sweeping constitutional analysis.

The ruling is a victory for political accountability in an administrative state that is ever more sprawling and opaque. Administrative judges can be especially frustrating because their rulings overwhelmingly favor the agencies for which they work. Agencies with the power for significant enforcement action like the SEC should be using them in fewer cases, and the Commissioners should review their decisions with more care than they do.

One reason Americans hate government is that they too often feel it is rigged against them. Kudos to the Justices for trying to maintain clearer constitutional lines of political accountability.

## Macron's Next Good Fight

**F**or his next magic act, Emmanuel Macron wants to reform France's creaking social-welfare programs. The French President last week released a Twitter video and delivered a speech launching a debate over social spending, and this will be his biggest reform fight to date—and also the most perilous.

Specific proposals for changes aren't due until next month at the earliest. But the outline is likely to consist of more money for health-related spending, but significantly less for income supports and housing subsidies.

France is overdue for change. Social spending eats up around one-third of annual economic output, the highest proportion among countries in the OECD. And for what? "We put a crazy amount of dough into our social benefits and poor people are still poor," Mr. Macron told his advisers in a video clip of a meeting released on Twitter last week.

The frustration is justified. An array of confusing programs makes it difficult for the genuinely needy to access benefits for which they're eligible, while poor enforcement of eligibility criteria means many receive benefits, especially housing, who shouldn't. The system has a terrible track record of ushering poor recipients into gainful employment.

That explains why social mobility in France

Now he's moving to shift France's attitude to welfare and work.

lags many other developed countries despite the extraordinary budget. By one OECD estimate, it takes six generations for the children of families in the lowest 10% of earnings to climb up to the average income, compared to five generations in America or three in Sweden.

Despite these failings, French voters historically have rebuffed attempts to reform their cherished social model. They are particularly unmoved by arguments about cost, viewing "social solidarity" as a distinguishing mark of Frenchness. That makes this an even more dangerous political push for Mr. Macron than labor-law reform last year.

Mr. Macron is smart to reorient the argument toward efficacy and individual dignity. Welfare reform in that sense is a logical follow-up on last year's labor-market overhaul. That reform made it easier for companies to hire new workers, and welfare reform is supposed to encourage more new workers to seek jobs.

An emphasis on the dignity of work also puts pressure on reform opponents to explain what they would do, beyond spending more money, to fix a welfare system that clearly doesn't work. Mr. Macron can't make France great again—or fix its shaky public finances—without tackling the welfare system's perverse incentives not to work.

## REVIEW &amp; OUTLOOK

## OPINION

## LETTERS TO THE EDITOR

## Air-Traffic Controllers Vetted and Competent

In "The Airport Control Tower Is No Place for Racial Redress" (Upward Mobility, June 6), Jason Riley wrongly suggests the FAA's air-traffic controller hiring process prioritizes racial diversity over aviation safety. This is not true. Controllers are among the most vetted, skilled and trained professionals in the nation. We do an amazing job safely managing the world's busiest, most-complex airspace.

After the FAA initially implemented its biographical assessment, the National Air Traffic Controllers Association (Natca), the union that represents FAA controllers, worked with the agency to validate a second version of that screen on the incumbent workforce. With our help, it now gauges common personality traits that applicants share with current controllers. Once applicants pass the assessment, they must pass a separate cognitive aptitude test that measures their ability to perform the role of a controller, followed by extensive medical screening and a security investigation. They then must complete four months of training at the FAA Academy. Historically, only about half successfully pass their academy training. Finally, Academy graduates must complete up to three years of classroom, simulator and on-the-job training at an air-traffic control facility to

become fully certified. Only about 80% of trainees complete facility training.

Additionally, Natca worked with Congress to pass bipartisan legislation that exempts applicants from taking the assessment if they have prior controller experience, graduated from a Collegiate Training Initiative school or are military veterans.

Staffing has reached a 29-year low of fully certified controllers, making it a critical issue for Natca with the administration and Congress. Claims that controllers are putting public safety at risk unfairly malign the reputations of these great professionals.

PAUL RINALDI  
President  
National Air Traffic Controllers Association  
Washington

As a retired air-traffic controller, I saw this change in hiring on a personal basis before I could get out the door. I, and other controllers, were tasked to train individuals of all races who weren't capable of performing the job. This profession isn't like any other. Errors are deadly and perfection is the standard. Anything less is gross negligence.

W. HOLLEY  
Fayetteville, N.C.

## Mizzou Has Learned From Its Past Mistakes

Your editorial "More Misery in Missouri" (June 16) misses the story about Mizzou, perpetuating a narrative that erodes higher education.

Were mistakes made? Yes. Are the individuals responsible still leading MU? No. And obviously, the institution paid a price for those mistakes. But we have new leadership and have affirmed our commitment to free speech.

The editorial makes it appear that many reductions were due to the enrollment decline. In fact, we are making strategic decisions to reallocate money, reducing administration and cutting low-performing programs. We are putting that money back into student financial support and high-demand programs such as artificial intelligence, medicine and engineering.

We also identified more savings through an administrative review. We are taking actions not because of enrollment issues but because we take our jobs as stewards of public resources very seriously.

The editorial misses a key point about Mizzou: We're turning the corner. During the past two years, we have received record donations and our incoming class is rebounding—up 14%. This year, the Missouri legislature fully restored our funding. This speaks volumes.

Importantly, we value free speech. When an organization such as the Journal criticizes an institution for championing similar values, it discourages the very progress for which it fights. Mizzou is a bastion of free speech, hosting speakers representing all sides—from Ben Shapiro to Angela Davis—and every speaker has presented their views to students in a collegial manner. At Mizzou, we don't shout speakers down. We listen, we debate and we come out of the conversation stronger.

DAVID STEELMAN  
Chair of the University of Missouri Board of Curators Columbia, Mo.

## The Bail System Evolved for a Good Reason

The commercial bail industry is under attack, and the consequences could be devastating ("Governments Throw Book at Bail Bonds," Business & Finance, June 8). Supporters of bail reform claim massive savings from reducing pretrial incarceration rates. However, their position fails to account for the billions of dollars in pretrial services that would become the responsibility of taxpayers.

Surety agents, like those who are members of United Bail of America, offer a series of pretrial services to defendants at a lower cost than government-funded programs can provide, including counsel on the conditions of bond, help finding

employment, relocation, additional counseling, drug testing, office and home visits and review of defendant conduct while on bail. Personal interviews with potential clients—not artificial intelligence—ensure our agents have a personal financial interest in the successful behavior and appearance of their clients in court.

Justice is served when the accused obey the conditions of bail and show up for trial, and a judge

or jury is able to determine innocence or guilt. The bail-bond system and surety agents protect the state by keeping the burden of funding pretrial services off the backs of taxpayers, protect citizens by making sure the accused comply with the conditions of bail and face the court, and protect the accused by providing counsel and support during what can be a confusing and trying time.

SCOTT WILLIS  
Chief executive  
Palmetto Surety  
Charleston, S.C.

## Marketing French as a World Language, or Not

My wife, the daughter of Italian emigrants, grew up in Geneva and attended the French-speaking compulsory schools. Every Wednesday afternoon, the Italian Consulate offered free Italian lessons for Italian families. When we moved to Lugano and our children attended compulsory Italian-speaking schools, we looked for a similar set up with the French Consulate. We were told that such a thing simply doesn't exist. Such courses would have been a welcome contribution to preserve and to expand the "Francophonie" ("The Ultimate Demarche: France Wants to Oust English From the EU," World News, June 15).

JEAN-PIERRE REGLI  
Lugano, Switzerland

## Pepper ... And Salt

THE WALL STREET JOURNAL



"It needs more vermouth."

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

# Trump's Critics Desecrate the Holocaust

By Jay Winik

**A**lmost everyone, including President Trump, agrees that separating alien children from their parents and housing them in detention centers was an untenable policy that needed to be changed. Some have said, not without justification, that the images were reminiscent of the internment of Japanese-Americans during World War II.

But another comparison is indefensible. "Other governments have separated mothers and children," tweeted Michael Hayden, who directed the Central Intelligence Agency under George W. Bush—with a photo

**Separating alien families was an inhumane policy. Likening it to the Nazi genocide is obscene.**

of railroad tracks leading into the Auschwitz-Birkenau death camp. "Children are being marched away to showers," said MSNBC host Joe Scarborough, "just like the Nazis said that they were taking people to the showers and then they never came back." Sen. Dianne Feinstein of California said in a television interview: "This is the United States of America. It isn't Nazi Germany, and there's a difference."

Mrs. Feinstein is right. There is no comparison.

Jews in Nazi-occupied Europe were rounded up and packed into cattle cars, with little air or light, no food and virtually no water, for a harrowing two- to three-day trip to Auschwitz. They rode in terror and anticipation, having no idea what was in store for them at the destination. Exhausted and scared, they frequently had to stand for the entire trip. Mothers clutched sons; daughters held on to fathers; children gripped both parents' hands; grandparents and the infirm struggled to stay alive. Many didn't survive the journey.

When the trains arrived at Auschwitz, it was a scene of chaos, confusion and horror. After days trapped in darkened cattle cars, squinting into bright floodlights lining the tracks was almost unbearable. So was the stench, like nothing the captives had ever smelled before. They didn't know it at the time, but it was the odor of burning human flesh and hair.

Outside, they heard all kinds of noises: German shepherds and Doberman pinschers barking loudly, and commands in German most of them couldn't understand. When they stumbled out of the cattle cars, disoriented and anxious, timidly asking questions, the German shouted back, "Raus, raus, raus!" ("Out, out, out!"). In the distance, the prisoners saw a skyline of chimneys, with bright orange plumes of flame



ALAMY STOCK PHOTO

Railroad tracks lead into Auschwitz-Birkenau, a Nazi death camp in Poland.

shooting into the clouds. They didn't know that most of them would be ash within hours.

The SS separated the healthy males, slating them for work details while everyone else was taken to the gas chambers.

Invariably, mothers wanted to stay with their children. The SS would say, "good, good, stay with child." Under a rain of baton blows, women, children and old men were marched into "changing rooms" and told to undress. The Germans told the prisoners that they were going to be "disinfected." Then they tightly wedged some 2,000 people at a time into the chambers, where they saw what looked like shower heads.

The massive airtight doors were locked with an iron bolt. It was dark. Zyklon B was released, and the screaming began. The prisoners huddled together, screamed together. While children violently hugged their parents, hundreds of people tried to push their way to the door, trampling children in the process. In the dark, skulls were crushed and hundreds of people were battered beyond recognition. The bloodcurdling screams turned into a death rattle, then a gasp. Within 20 minutes, the job was done.

The bodies lay in heaps, every one of them dead—as many people as were cut down in Pickett's Charge at

Gettysburg; two-thirds of the 9/11 death toll. The bodies were then burned, the ashes used as filler for German roads and walking paths. Within hours, the Nazis would repeat the process, extinguishing another 2,000 human lives.

As for the prisoners who were selected to work in the camps, the Germans stripped them of their identities, referring to them instead by numbers tattooed on their forearms. Prisoners were forced to stand half-naked, doused with buckets of ice-cold water, or lashed 50 times with a whip. They were awakened at 4 a.m., forced to do backbreaking work for 12 hours with virtually no rest or food. They slept almost naked, with no blankets in temperatures often below freezing in the winter. Most died within weeks of arriving at the camp.

Between the gas chamber and the work detail, more than a million people were murdered this way at Auschwitz.

The debate over the child-separation policy is a morally weighty one. How does the U.S. balance controlling the border with the obligation to treat people, including illegal aliens, humanely?

But the comparison to the Holocaust is an obscene lie.

*Mr. Winik, formerly the inaugural historian-in-residence at the Council on Foreign Relations, is author of "1944: FDR and the Year That Changed History."*

## Don't Count on an Aging Germany to Save the Euro



Angela Merkel and Emmanuel Macron formulated the beginnings of a deal this week to make the eurozone viable, if you want a eurozone of the sort they desire. Their plan is important for the common currency's immediate future. It's also probably irrelevant over the longer term.

In a bilateral summit, the German chancellor and French president agreed to work toward some protean form of eurowide fiscal union. This eurozone budget would be financed both via member-state contributions and by developing a stream of earmarked revenues (or "own resources" in eurospeak).

The two leaders didn't say how big the budget would be or what it would be spent on, but no matter. Mrs. Merkel has crossed a Rubicon by conceding that the eurozone should have a fiscal-transfer mechanism.

As difficult as getting Mrs. Merkel's agreement has been, this is the solution to a eurozone problem

she herself created. The original, and best, vision for the euro was as a kind of gold standard, under which countries would adhere to strict limits on deficits and debt as the price of admission.

For that model to work, countries that consistently broke the rules would have to be allowed to exit the currency bloc. But Mrs. Merkel, with the assent of the rest of Germany's political class, decided in the heat of the eurozone crises that as a political principle no country should leave the currency.

As a result, German taxpayers already are backstopping the eurozone. This week's agreement is merely a modest start to formalizing the arrangement. With that political matter out of the way, the real problem confronting a eurowide fiscal union is economic: Germany doesn't have the money to pay for it.

No one is accustomed to thinking of German finances as a problem for the euro. Berlin's federal budget is currently in surplus, to the tune of 1.2% of gross domestic product or €38 billion last year. Its national debt is trending steadily downward,

from a peak of 80% of GDP in 2012, to 64% last year, to below the EU standard of 60% in 2019, if projections hold.

Browbeating Germans into spending their extra cash has become the idée fixe of much of the global economics profession. The Trump administration, the International

### Berlin has a responsible fiscal policy, but it faces a demographic crisis worse than anywhere but Japan.

Monetary Fund and a motley assortment of professors and pundits are demanding greater "investments" in public works to reduce Germany's trade surplus.

Yet there's a lot less money here than meets the eye. Over the next few decades, Germany's inexorably aging population will place ever greater demands on the national fisc.

This is a common condition across the developed world, but it's more acute in Germany than anywhere

other than Japan, since the population is aging quickly.

A 2016 analysis prepared for the Finance Ministry in Berlin showed that total age-related spending—taxpayer-funded pension payouts, medical care and other items—amounted to 26% of GDP in 2014, or nearly 60% of total government spending. Under a particularly optimistic set of assumptions about demographic change, employment conditions and economic growth, that burden would grow to 29% of GDP by 2060. If Germany misses those rosy forecasts, old-age entitlements will account for 33% of GDP instead.

Berlin can't afford this. Reforms over the past 20 years have increased the retirement age, which will hit 67 in 2030. Tax rates and benefit levels have been adjusted to balance better. Yet those reforms alone are insufficient. Under optimistic assumptions, old-age spending would push up Germany's debt to 75% of GDP by 2060—or 220% if the pessimists are right.

Estimates vary widely, but it's plausible to believe that Berlin would need to increase its baseline

surplus by €35 billion to €110 billion total over the next four or five years to avoid becoming an Italy-on-the-Rhine in coming decades. This could be achieved by cutting benefits further, which is not currently on the table; by raising taxes, which would darken the fiscal picture even more by weighing on economic growth; or by cutting other spending.

The point isn't that Germany has been more reckless than other countries in managing its long-term entitlement liabilities. It has been modestly more responsible. Rather, the point is that, absent drastic policy changes, the fiscal abyss is a reality and will probably affect Germany's financial ability and political willingness to subsidize the rest of the eurozone.

This column won't venture an opinion on how the eurozone should brace for this reality, other than to observe that economic growth is the indispensable ingredient for any scheme—for Germany or the eurozone—to avert disaster. What's the plan for achieving that growth, with or without the generosity of overstretched German taxpayers?

## Charles Krauthammer, a Great Thinker and an Even Better Friend

By Irwin Stelzer

**C**harles Krauthammer, who died Thursday at about 5 p.m. ET, announced his impending departure from this world in the straightforward, clear-eyed, elegant manner that fans had come to expect from him. The loss to America is dwarfed by the loss to his family and friends, but nevertheless it is enormous.

Especially at this time. The nation is deeply divided. Americans are having difficulty separating fact from fiction. Today's debates lack the intellectual rigor and civility that Charles championed in his columns, his appearances on Fox News, and his many speeches and essays. When Donald Trump emerged on the political scene, Charles was no cheerleader. But after the election, Charles insisted on treating Mr. Trump with the fairness and respect due the president of the United States. Still, he kept watch for dangers to the institutions the Founding Fathers put in place—the "guardrails" that constrain any president's behavior.

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THE WALL STREET JOURNAL.

Friday, June 22, 2018 | B1

## Fed Says Banks Can Bear the Worst

First leg of stress test shows lenders are able to withstand a financial crisis

BY LALITA CLOZEL AND TELIS DEMOS

The Federal Reserve determined the largest U.S. banks were healthy enough to withstand a severe economic downturn and would continue lending during a crisis, as the industry posts record profits and prepares for a wave of regulatory relief.

The Fed's "stress test" sce-

nario for the 35 largest bank holding companies, which hold 80% of the assets at banks operating in the U.S., found the firms were "strongly capitalized" and would retain adequate capital levels in severely adverse conditions, according to the first round of results released Thursday by the central bank.

The positive scorecard indicates most of the banks are likely to win the Fed's approval next week to increase dividends after a second round of results that will determine whether the firms pass or fail the annual stress-test exercise, put in place after the 2008 cri-

sis. However, **Goldman Sachs Group Inc.** and **Morgan Stanley** barely cleared one of the key regulatory minimums of the first round.

Thursday's results are the latest positive news for an industry that took years to dig itself out of the financial crisis and faced a tightened regulatory regime meant to prevent another period of financial turmoil. Congress and Trump-appointed regulators have taken steps to ease regulation and struck a cooperative tone with the industry, placing financial firms in a friendlier political climate at a time manufacturing, retail and

other industries face uncertainty over U.S. trade policy.

"Despite a tough scenario and other factors that affected this year's test, the capital levels of the firms after the hypothetical severe global recession are higher than the actual capital levels of large banks in the years leading up to the most recent recession," Fed Vice Chairman for Supervision Randal Quarles said in a statement.

A senior Fed official said this year's economic scenarios were the toughest to date, a response to the strong economy. One-time accounting changes related to last year's tax law also handicapped some firms.

As a result, banks' capital levels fell closer to the regulatory minimums than they had in recent years. The banks' core common equity Tier 1 capital ratios collectively dropped as low as 7.9% during the scenario period, down from 12.3% in actual high-quality capital at the end of 2017. That is well above the 4.5% requirement. But it is still a smaller surplus than last year, when that ratio was 9.2%.

In certain cases, the cushion was much narrower. Goldman Sachs and Morgan Stanley, for example, just cleared their supplementary leverage ra-

*Please turn to page B10*

## Big Oil Pulls Back, Threatens Supplies

BY SARAH KENT

LONDON—For the past two years, big oil-exporting nations reined in production to boost prices.

But rather than responding with fresh investment, Western oil companies have retrenched, a move many now say threatens a longer-term supply crunch.

As oil executives descend on Vienna this week, members of the Organization of the Petroleum Exporting Countries, Russia and other big producers are looking to broker a deal to pump more crude now that prices have climbed.

A decision to move forward with the plan to lift output could have a big effect on short-term oil prices and prices at the gasoline pump.

But further out, industry spending on new oil fields will have a more lasting impact on both supply and prices.

Since oil prices plunged in 2014, the world's biggest publicly listed Western oil companies have slashed their capital spending by roughly 40%, according to data from investment bank Jefferies. While Brent crude prices have climbed 9.2% this year, flirting with their highest level since 2014 last month, executives at big oil companies have largely vowed to keep a tight lid on spending.

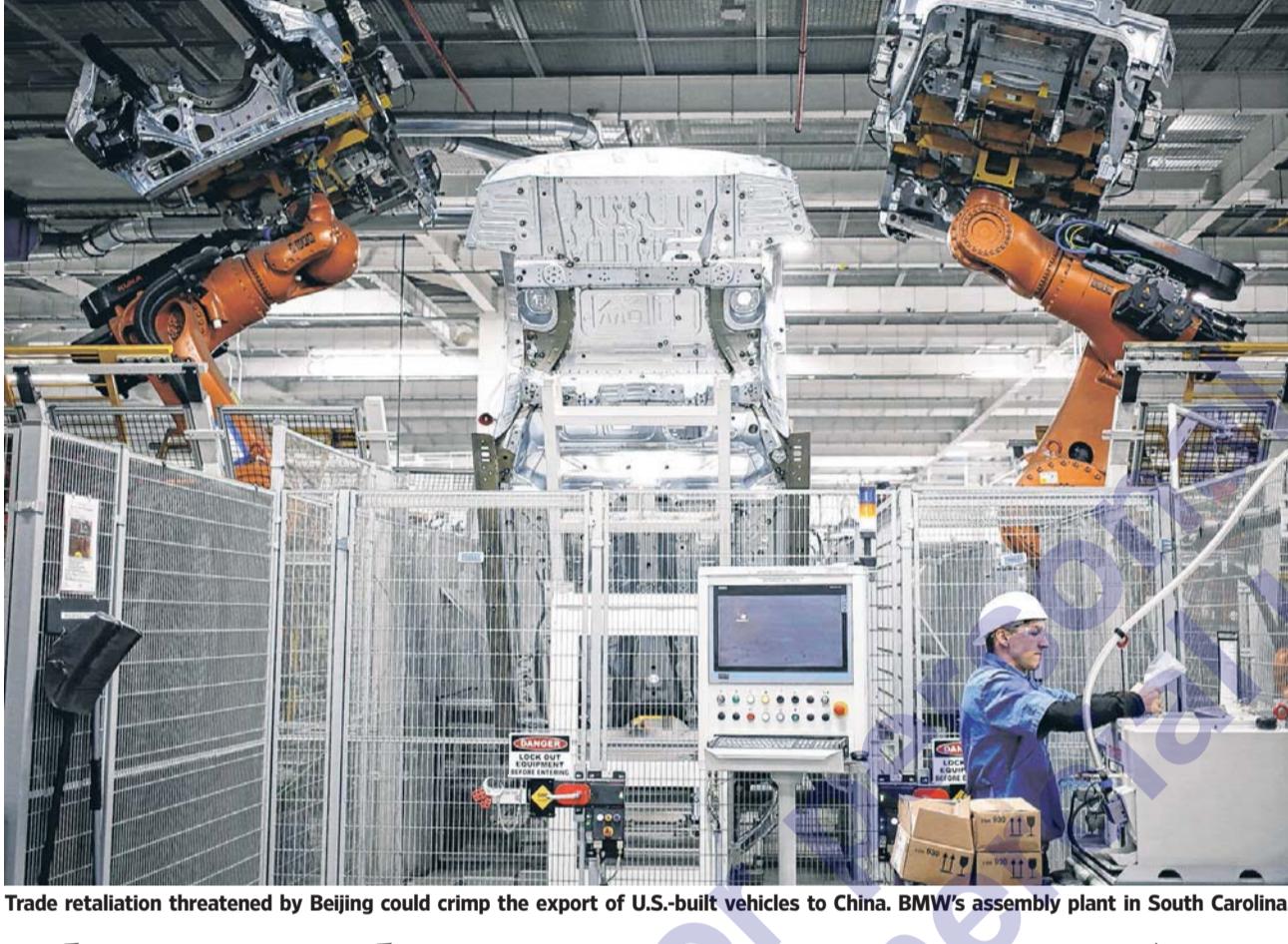
"We're going to maintain the capital discipline," BP PLC Chief Executive Bob Dudley said this month.

The companies, including **Chevron Corp.** and **Royal Dutch Shell PLC**, are moving cautiously under pressure from investors, who were burned by big budgets and poor returns when prices were high. Instead of spending on new projects, these companies are paying down debt and generating cash for those skeptical investors, with buybacks or higher dividends.

But without fresh spending on new oil production, the world could slip into a supply crunch after 2020, the International Energy Agency has warned. The sector needs to raise its spending by a third just to maintain production at current levels in coming years, according to Wood Mackenzie, an oil-focused consulting firm.

"The industry isn't spending enough to sustain itself," said Angus Rodger, a Wood Mackenzie research director.

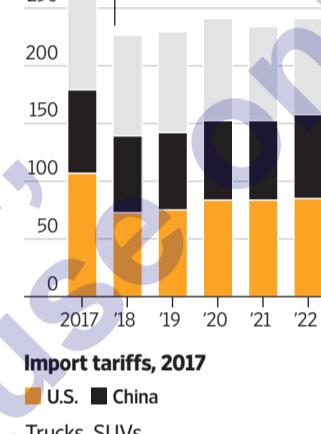
*Please turn to page B2*



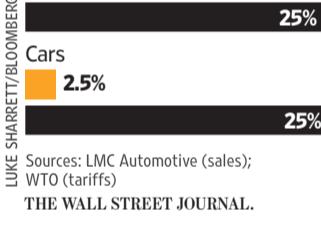
### Caught in the Middle

High Chinese duties weigh heavily on German car makers that export to that market from the U.S.

#### China sales of U.S.-built vehicles, in thousands



#### Import tariffs, 2017



Sources: LMC Automotive (sales); WTO (tariffs)

THE WALL STREET JOURNAL.

Trade retaliation threatened by Beijing could crimp the export of U.S.-built vehicles to China. BMW's assembly plant in South Carolina.

## That Rattle You Hear Is From Auto Stocks

BY WILLIAM BOSTON

BERLIN—Global auto stocks were pummeled Thursday after **Daimler AG** issued a profit warning overnight that the Mercedes-Benz owner pinned on trade tensions between the U.S. and China.

Daimler warned that Chinese retaliatory import duties on cars built in the U.S. would hurt sales of its sport-utility vehicles in the world's largest auto market. Its shares fell 4.3%, and investors anticipated trouble for other car makers, including the two other Ger-

man auto giants, **BMW AG** and **Volkswagen AG**. In U.S. trading, **General Motors Co.**, **Fiat Chrysler Automobiles NV**, **Ford Motor Co.** and **Tesla Inc.** took a hit as well.

German auto makers build tens of thousands of SUVs in the U.S. for export to China, and it appears new Chinese tariffs could hit them harder than American manufacturers that Beijing explicitly targets.

With global supply chains designed for a world of open trade and low tariffs, Germany's auto giants are being caught in the crossfire with

little latitude to shift sales to more welcoming markets.

"Uncertainty and chaos have consequences, and we're starting to see that," said John Bozzella, head of Washington lobbying group Global Automakers and Here for America, a coalition of companies including Mercedes-Benz, BMW and Honda Motor Co., among others.

Thomas Sedran, Volkswagen's strategy chief, said he didn't want to speculate about how the company would respond to higher U.S. and Chinese tariffs or an escalation of

trade tensions between the U.S., Mexico and Canada. He did acknowledge, however, that Volkswagen, the world's biggest auto maker by sales, had few routes of escape.

"Shifting production on short notice is not possible, it's not feasible. At the end of the day this will have an impact on the pricing of vehicles. At this stage we are in a more reactive mode," Mr. Sedran said.

A BMW spokesman said the company was exploring a "variety of scenarios and strategic options," but wasn't making

any changes yet. "The company's business outlook remains unchanged," he said, adding that its forecasts presume global economic and political conditions don't change significantly.

In May, China said that as of July 1 it would cut tariffs on vehicle imports to 15% from 25% to quell U.S. complaints of a trade imbalance. But after President Donald Trump went ahead and ordered import duties on billions of dollars of Chinese goods, Beijing said it would maintain its longstand-

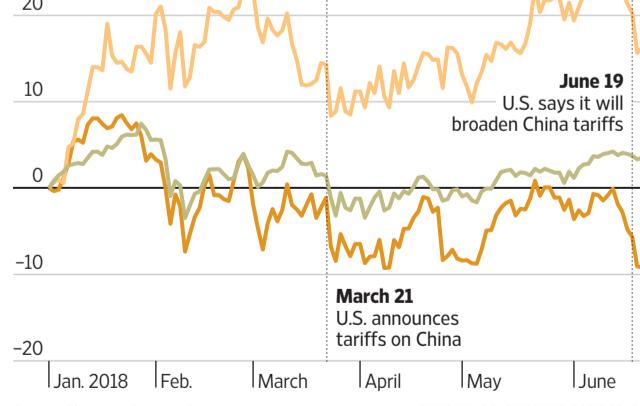
*Please turn to page B2*

STREETWISE | By James Mackintosh

## How to Invest in a Trade Spat

### Caught in the Crossfire

Caterpillar and Boeing shares have been hit by tit-for-tat tariffs between the U.S. and China.



with big Chinese exposure, particularly those that could also make handy high-profile targets for foreign retaliation.

So far, that has meant selling shares in **Caterpillar** and **Boeing**, preferring smaller stocks to bigger ones, and preferring the U.S. to emerging markets, especially China

and big trading partners such as South Korea.

"There were a lot of assumptions that these tariffs were simply negotiating tactics and we would come up with some sort of agreement and they wouldn't be put in place," said Robert Baur, chief global economist at

*Please turn to page B11*

### INSIDE

#### FIAT CHRYSLER SWEATS OUT RECALLS

AUTOS, B2



#### FATAL FAILURE PROMPTS FAA REVIEW

AIRLINES, B5

## 'Roseanne' to Spin Off Without Roseanne

By JOE FLINT

"Roseanne" may be gone but her TV family lives on.

ABC and the production company that makes "Roseanne" are moving forward with a spinoff of the hit sitcom that was abruptly canceled last month after the show's star Roseanne Barr made a racist tweet about Valerie Jarrett, a former top aide to President Barack Obama.

The new show, tentatively titled "The Conners," features the other stars and co-stars of "Roseanne," including John Goodman, Laurie Metcalf and Sara Gilbert. ABC has ordered 10 episodes of the show for this fall, and it is to air in the same time slot of 8 p.m. Eastern on Tuesdays.

Ms. Barr, who was an executive producer of "Roseanne" will have no creative input in the new show nor will she be a financial participant. In a statement, Ms. Barr said she agreed to this "in order that 200 jobs of beloved cast and crew could be saved and I wish the best for everyone involved."

Tom Werner, head of "Roseanne" producer Werner Ente-

tainment, said the company is grateful for the agreement to "keep our team working as we continue to explore stories of the Conner family."

To be sure, it is less than certain that the show about the Conner family of the fictional town of Lanford, Illinois, will fare without its matriarch. When "Roseanne" returned last spring after a more than two-decade hiatus, it averaged an impressive 18 million viewers per episode, according to Nielsen.

Ms. Barr's support for President Donald Trump was also part of the show as her character, Roseanne Conner, was a booster of the administration much to the chagrin of the rest of her family. Mr. Trump even tweeted in support of the show.

The show's success suggested that there was an audience that Hollywood was overlooking. Critics, however, charged that Ms. Barr had distorted values and that the new show betrayed the messages and themes of the original "Roseanne."

Neither ABC nor Mr. Werner said how the disappearance of Ms. Barr's character would be explained.

## INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

**A - B**

Abraaj Group.....	B10
Adidas.....	B5
Aetna.....	A3
Air Arabia Group.....	B10
Airbnb.....	B4
Aldi.....	B12
Alibaba Group.....	B4
Alphabet.....	A9
Amazon.com.....	A9,B3,B11,B12
American Canyon Solutions.....	A4
AmTrust.....	B10
Anthem.....	A3
Apple.....	B4,B12
Atavist.....	B4
AT&T.....	A9,B3
Automatic.....	B4
Baidu.....	B4
Bank of America.....	B10
Best Buy.....	B11
BMW.....	B1
Boeing.....	B1,B2
Boise Cascade.....	A5
Bright Health.....	A3

**C - D**

Caterpillar.....	B1,B12
Centene.....	A3
Chanel International.....	B5
Chevron.....	B1,B11
CIT Group.....	B10
Citigroup.....	B10
Colony Capital.....	B10
Comcast.....	A1
Comerica.....	B10
Comprehensive Health Services.....	A4
Daimler.....	B1,B11
Deere.....	A5,B12

**E - F**

Deutsche Bank.....	B3
Dick's Sporting Goods.....	B5
eBay.....	B11
Equinor.....	B2
Exxon Mobil.....	B11
Facebook.....	A9
Fiat Chrysler.....	B1,B2
Foot Locker.....	B5
Ford Motor.....	B1,B2,B11

**G - H**

General Motors.....	B5
Goldman Sachs Group.....	B1
Groupon.....	B4
GrubHub.....	B4
Hulu.....	A9
Humana.....	A3

**I - K**

Intel.....	A1,A8,B11,B12
JPMorgan Chase.....	B10
Kayak Software Group.....	B4
Kellogg.....	A5
Kroger.....	B3,B12

**L - M**

Lidl.....	B12
Lockheed Martin.....	A5
Meituan.....	B4
Molina Healthcare.....	A3
Morgan Stanley.....	B1

**N - O**

Netflix.....	A9
Neuberger Berman.....	B10
Nike.....	B5
Nintendo.....	B4
Northrop Grumman.....	A5

**P - Z**

Ocado Group.....	B3,B12
Under Armour.....	B5
UnitedHealth Group.....	A3
United Parcel Service.....	A5
Verizon.....	A9
Virginia Premier Health Plan.....	A3
Volkswagen.....	A2,B1

**U - V**

Web.com Group.....	B3
Wells Fargo.....	B10
WPP.....	B3
Yelp.....	B4
Zions Bancorp.....	B10

**REBECCA COOK/REUTERS**

## INDEX TO PEOPLE

**L - M**

Lafferty, David.....	B12
Loach, Tom.....	A3
Malone, John.....	A9
McLean, Colin.....	B12
McMullen, Rodney.....	B3,B12
Moran, Michael.....	A5
Mullenweg, Matt.....	B4
Murdoch, Rupert.....	A1
Musk, Elon.....	B4

**S - V**

Sanchez, Juan.....	A4
Schlosser, Mario.....	A3
Schlomann, Mike.....	B3
Sedran, Thomas.....	B1
Shenoy, Navin.....	A8
Sorrell, Martin.....	B3
Stensland, Petter.....	B10
Thompson, Nick.....	B4
Villere, Sandy.....	B11

**W - Z**

Patrick, Adam.....	B5
Rabb, Jefferson.....	B4
Rancourt, Wayne.....	A5
Ratliff, Evan.....	B4
Reece, Michael.....	B10
Renduchintala, Venkata.....	A8
Zyskind, Barry.....	B10

## BUSINESS & FINANCE

# Fiat Chrysler Sweats Out Recalls

By MIKE SPECTOR

A glitch in its vehicles' cruise-control feature has vaulted Fiat Chrysler Automobiles NV to the No. 1 spot in a category in the U.S. that car companies generally want to avoid: recalls.

The Italian-U.S. auto maker launched a recall campaign in late May to address a flaw in more than five million vehicles that could prevent drivers from canceling cruise control should an "unlikely sequence of events" occur, the company said. The malfunction risks causing a vehicle to maintain a set speed even when a motorist taps the brakes or flips a switch to turn off cruise control.

The company said it would provide updated software to fix the problem and wasn't aware of any injuries tied to it. Company officials described the recall as a proactive move to ensure customers' safety after it found one driver who had experienced the glitch.

Still, it is the latest in a series of recalls Fiat Chrysler has made. The company so far this year has recalled more than six million cars and trucks in the U.S. spanning nearly two dozen campaigns, according to government data.

Ford Motor Co. has the second-highest total, with more than two million vehicles recalled.

Fiat Chrysler has recalled more vehicles in each of the past three years than any other U.S. auto maker, with 5.4 million in 2017, 8.8 million in 2016 and 11.5 million in 2015,



The auto maker has stood out in the wake of an unprecedented U.S. crackdown on auto-safety practices.

the data show. Some of the totals include recalls of vehicles with faulty Takata Corp. air bags, which affected nearly every auto maker.

Fiat Chrysler has emerged as one of the most scrutinized companies in the wake of an unprecedented U.S. government crackdown on auto-safety practices industrywide. Revelations of flaws with General Motors Co. ignition switches linked to 124 deaths and 275 injuries, and exploding Takata air bags now tied to nearly two dozen fatalities and hundreds of injuries, led to record U.S. recalls of roughly 50 million vehicles annually for several years starting in 2014. The tally, though ebbing, remains at elevated

levels with roughly 31 million vehicles recalled in 2017 and nearly 15 million so far this year.

Fiat Chrysler's cruise-control action follows a recall to address more than two million of its heavy-duty and light-duty trucks with gear shifts that can be moved inadvertently from the "park" position, an action started in December and expanded in February. In October, Fiat Chrysler separately recalled more than 700,000 sport-utility vehicles with a brake defect and nearly 470,000 sedans and SUVs that can fail to deploy safety restraints designed to prevent whiplash.

The cruise-control action stemmed partly from Fiat

Chrysler's decision several years ago to start using computer analytics to spot problems before they spread, Mark Chernoboy, the company's chief technical compliance officer, said in an interview.

To find vehicle glitches, Fiat Chrysler's computer system searches keywords spanning multiple databases, including consumer complaints to U.S. safety regulators, customer-service calls and repair orders from dealerships, he said.

Mr. Chernoboy predicted that the size of recalls would ultimately decrease as manufacturers use technology to find problems faster.

—Andrea Fuller contributed to this article.

KRISTJAN BOCS/BLOOMBERG NEWS

sold about 15,000 U.S.-made cars in China, with its revenue there doubling to \$2 billion even with the 25% tariffs as Chinese consumers have been willing to pay well above the sticker price.

Fiat Chrysler and General Motors would likely be less affected by a higher import duty. Fiat Chrysler last year exported roughly 17,000 American-made vehicles to China, building many of its lower-end SUVs in the country. GM exports only a few hundred niche vehicles to China, relying largely on locally made product for what is its largest market. GM said in a statement that it is assessing the potential impact of the various trade and tariff actions.

Toyota Motor Corp., Japan's largest auto maker, doesn't export at all from the U.S. to China.

Daimler called China's import tax on U.S. autos the "decisive factor" for lowering its earnings projection. "This effect cannot be fully compensated by the reallocation of vehicles to other markets," it said in a statement late Wednesday. The company declined to comment further.

For Tesla, China has become its second-biggest market and a critical one as the electric-car company seeks to transform into a mass-market auto maker. Last year, Tesla

peaked across the board, irrespective of the ongoing trade discussions?"

Still, Daimler's profit warning is one of the first signs that Mr. Trump's trade actions are fueling a retaliation that will hurt manufacturers in the U.S. that send their products abroad.

Trading policies that threaten auto makers' bottom lines could have negative ripple effects throughout the U.S. supply chain and across the in-

dustry, Global Automakers' Mr. Bozzella said. "Even if the logic is we

## BUSINESS NEWS

# AT&T Unveils 'Skinny' TV Service

BY DREW FITZGERALD

**AT&T** Inc. unveiled a new video service, called WatchTV, that aims to use a "skinny bundle" of channels to recapture some of the millions of cord-cutters who dropped cable and satellite TV. The package would offer a small number of TV channels to most subscribers for as little as \$15 a month while giving free access to subscribers on unlimited data plans.

AT&T said Thursday that the new service will come complimentary with two wireless plans. The \$15-a-month version is expected to launch later. Bundled with the top-tier wireless plans, WatchTV will include channels from AMC Networks Inc. and Discovery Communications Inc. Viacom Inc. channels like Comedy Central and MTV2 would join soon after launch.

"This is a very, very skinny bundle that every single one of our mobile customers will get," AT&T Chief Executive Randall Stephenson said last week in an interview with CNBC. "Those are the kinds of things we are going to bring to market."

The wireless company also plans to pay programmers fees based on the package's subscriber base, per industry practice. But the free version that comes with unlimited-data plans would count only subscribers who spend significant time using the app, according to a person familiar with its plans.

That would upend the established model in which cable and satellite-TV companies pay programmers fees based on how many subscribers have a channel accessible in their bundle, regardless of whether they watch it.

None of AT&T's attempts to shake up the pay-TV business would work without a willing programmer. Its \$81 billion takeover of Time Warner Inc., which owns channels including CNN, TBS and TNT, gave it just that.

Mr. Stephenson first teased the new light-TV service in April, when he testified in defense of the deal. He said at the time that the new plan would withhold expensive sports programming from the bundle, allowing the company to charge customers less for the remaining channels. But the package likely will include basketball and baseball carried on TBS and TNT, according to the person.

# Deutsche Breaks Up Strategy Team

BY JENNY STRASBURG

**Deutsche Bank** AG's global corporate-strategy team is being dismantled and the executive who runs it, Ali Almakkay, is leaving that role, according to people familiar with the matter.

Of the more than a dozen employees who work under Mr. Almakkay, most are likely to move into other jobs, the people said. Mr. Almakkay has told colleagues he is in discussions about possibly moving to another position but otherwise will leave Deutsche Bank, one of the people said.

Chief Executive Christian Sewing's decision to break up the corporate strategy team was communicated to Mr. Almakkay and his team about three weeks ago, roughly two months after Mr. Sewing was named CEO, replacing John Cryan.

The changes are part of a broad reshuffling of top executives under Mr. Sewing.

Mr. Almakkay, who joined Deutsche Bank in mid-2015 from Bank of America Corp., is based in London and doesn't speak German, one of the people said. A Deutsche Bank spokeswoman declined to comment about the strategy group and declined to comment on Mr. Almakkay's behalf. The lender hasn't named a replacement for him or spelled out plans, if any, for a revamped strategy group.

# WPP Hears It From Former Chief

Martin Sorrell takes issue with way ad firm handled his departure and with its strategy

BY NICK KOSTOV

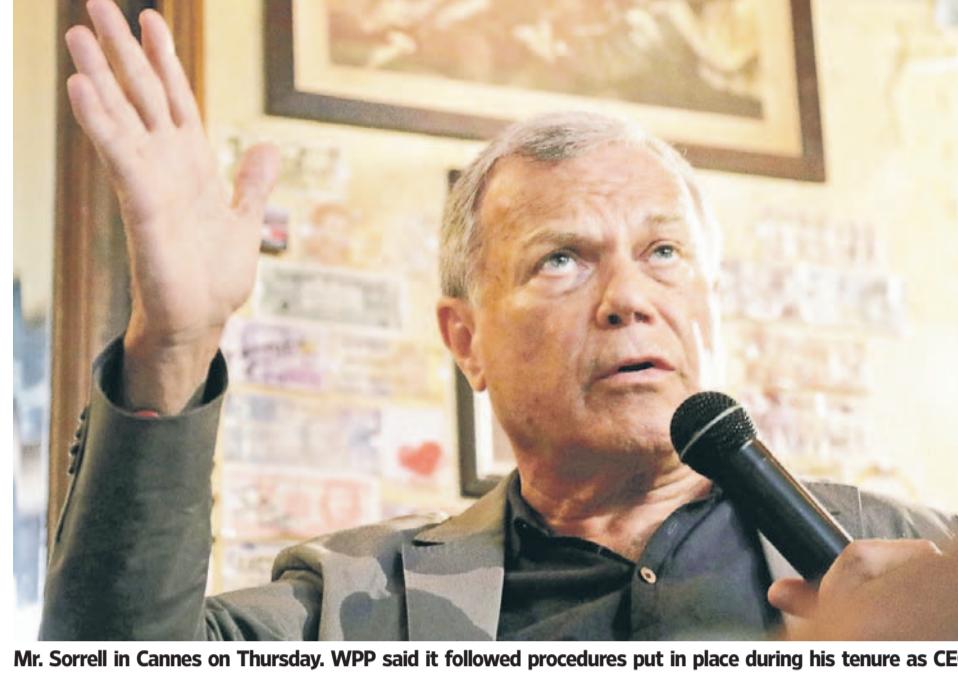
CANNES, France—Former **WPP** PLC chief Martin Sorrell lashed out at the ad giant on Thursday, criticizing its strategy as well as the handling of his resignation as CEO in April.

Mr. Sorrell, who was attending the annual Cannes Lions advertising festival, said he "violently" disagreed with Chairman Roberto Quarta's claim that he was treated the same as any other employee facing dismissal.

In response, WPP said: "The process followed relating to the investigation of the whistleblower's allegations was exactly that put in place while Martin Sorrell was CEO."

After three decades at the firm, Mr. Sorrell stepped down after The Wall Street Journal reported in early April that WPP's board was looking into an allegation of improper personal behavior and whether he had misused company assets, and that the board had retained a law firm for a probe. Mr. Sorrell said at the time that he rejected the allegation "unreservedly."

WPP has said the allegation didn't involve sums that were



Mr. Sorrell in Cannes on Thursday. WPP said it followed procedures put in place during his tenure as CEO.

material to the company. Earlier this month, the Journal reported that the board's investigation addressed whether Mr. Sorrell used company money for a prostitute.

A spokesman for Mr. Sorrell said last week that the former CEO "strenuously denied" the allegation and would be making no further comment. He added that Mr. Sorrell had signed a nondisclosure agreement that precluded him from discussing the circumstances surrounding his departure.

The board-instigated probe

has ended but it is unclear what was determined.

"All I would say is that a spokesperson for me has made it quite clear what my view is on the allegation, or indeed all of the scurrilous and salacious stuff that has been thrown around. It is quite extraordinary," Mr. Sorrell said Thursday.

In an onstage interview with trade magazine the Drum, Mr. Sorrell said he has asked WPP to investigate "a leak over the Easter Weekend" that he said was "the most

damaging thing that happened during the course of those events."

"There has been no investigation of how, why and what the leak consisted of, and I think that is a fundamental error," he said.

In its statement, WPP said, "Regarding The Wall Street Journal's original story, WPP takes confidentiality extremely seriously and is acting appropriately."

"We stand by our reporting," said a spokeswoman for Dow Jones, which publishes

the Journal.

The departure of Mr. Sorrell, who has yet to be replaced, came as WPP and other ad agencies are working to streamline their business models in an age of digital disruption driven by fast-moving tech companies.

WPP says it is reviewing minority stakes it holds in businesses as it looks to simplify its sprawling business and improve its debt-to-earnings ratio. On Wednesday, WPP said it would sell its 18.7% stake in Globant, a developer of digital marketing software with a market capitalization of about \$2 billion.

Mr. Sorrell, who still owns 2% of WPP, said he thought it was a "significant mistake" for the ad firm to look to sell the Globant stake.

"To my mind WPP needs more of the Globants, not less," Mr. Sorrell said. "Globant is a force, and it is one of the few digital disruption forces that can compete with the consultancies on a head-to-head and even basis."

A WPP spokesman said the company was "looking to monetize some of our minority interests in line with our strategy to focus on our controlled businesses and release capital from the minority investment portfolio."

Last month, Mr. Sorrell announced plans to create a rival advertising firm, which he called S4 Capital.



The grocer's strong results sent its shares up 9.7%. Kroger is moving to confront rising competition.

# Kroger Revamp Bears Fruit

BY HEATHER HADDON

**Kroger** Co. delivered stronger than expected earnings and sales, sending its stock up 9.7% as investors welcomed evidence that the grocer is growing even as it overhauls operations to compete with **Amazon.com** Inc. and discounters.

The largest U.S. supermarket chain by stores and sales reported revenue of \$37.5 billion in the quarter ending in May, up from \$36.3 billion the prior year. Earnings per share on an adjusted basis more than doubled, to 73 cents per share on \$626 million in earnings from 32 cents per share on \$303 million in the prior year.

Kroger has been overhauling operations to face rising competition in the retail food sector, particularly as Amazon rolls out food delivery and discounts at the Whole Foods chain it bought last year.

European discount chains Aldi and Lidl are also expanding in the U.S., putting pressure on established supermarkets to keep prices low. Kroger is cutting prices on some groceries to keep customers loyal.

"We've been aggressively

working to transform our business and accelerate where we are going," Kroger Chief Executive Rodney McMullen said in an interview.

Mr. McMullen said the company would continue to invest in technology while working with suppliers to keep costs down.

Cincinnati-based Kroger said last month that it was taking a roughly \$250 million stake in British online grocer **Ocado Group** PLC to run its automated warehouses and process online orders. That will help bolster the deliveries that Kroger offers through third-party providers and in-store pickup points it is introducing for online orders. Walmart Inc. is also expanding delivery and in-store pickups to compete with Amazon.

Kroger executives said Thursday that digital sales grew 66% during the company's first quarter. They said they hope eventually to offer digital orders across the country, even in regions such as the Northeast, where Kroger doesn't operate stores.

Kroger also said last month that it was buying Home Chef

and would sell that company's meal kits in its stores. That is part of a broader culling of the products sold at nearly 2,800 Kroger stores to emphasize better-selling products and store-brand goods.

Some analysts believed the big changes on Kroger's shelves could weigh on sales if customers struggle to find familiar goods. Kroger said Thursday that the changes would damp sales until around the fall.

"It actually takes our associates and our customers a while to actually find things in the store," Chief Financial Officer Mike Schlotman said at an investor conference last month.

Mr. McMullen said Thursday that the restocking program was "off to a fantastic start" and that it contributed to the company's strong performance this quarter. Executives said cost savings also helped. Shares in several other food retailers also rose early Thursday. Kroger's percentage jump was on track to be the stock's biggest one-day gain since March 2009, since September 2010, with its stock closing at \$28.73.

# UPS, Teamsters Reach Tentative Contract Pact

BY PAUL ZIOBRO

Teamsters negotiators said they have tentatively agreed to a new five-year contract with **United Parcel Service** Inc., a deal that promises to raise wages for existing workers but creates a new class of lower-paid drivers to handle weekend deliveries.

The agreement, which must be finalized and then ratified by a membership vote, follows months of talks to reach a deal before the current agreement expires on July 31. The two sides are negotiating one of the largest collective bargaining agreements in the U.S., covering about 260,000 UPS employees.

The Teamsters national negotiating committee said Thursday the new contract provides hourly wage increases totaling \$4.15 over five years and raises the starting wage for part-time workers to \$13 an hour as of Aug. 1, with increases in subsequent years.

The settlement also creates a new category of "hybrid drivers" that would normally work on weekends, allowing

the company to expand its Saturday delivery and potentially add Sunday services.

Under the current contract, most package-truck drivers work Monday-to-Friday shifts and earn higher wages on weekends.

The union says they are entitled to double-time wages in some areas for working on a Sunday, amounting to nearly \$74 an hour.

The hybrid driver idea has inflamed divisions within the Teamsters, including a faction opposed to the current union leadership of President James P. Hoffa.

"I am confident that once the membership has reviewed and understood the changes, they will see that this agreement is among the very best ever negotiated for UPS members," Denis Taylor, co-chairman of the Teamsters UPS national negotiating committee, said in a statement.

A UPS spokesman said the company had reached a handshake agreement with the Teamsters and said the company would provide more information Friday.

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# Web.com Is Selling Itself

BY ALLISON PRANG

logue with Starboard moving forward."

Web.com also said Thursday that it might look at other deal possibilities up until Aug. 5. However, the company noted the search might not bring about a deal, and if it did, Siris would still be given the chance to match a better offer. Shares of Web.com, up 19% year to date, rose 11% Thursday.

In December, Siris, which focuses on tech firms, was looking for \$3 billion for a fourth fund. The company bought Intralinks Holdings Inc., a document-sharing tech company, for about \$1 billion in November.

## NOTICE TO THE HOLDERS OF

### Banco Central del Uruguay Value Recovery Rights

NOTICE IS HEREBY GIVEN pursuant to the Fiscal Agency Agreement dated as of February 19, 1991 under which the above Rights were issued that the Calculation Agent has prepared and delivered to Banco Central del Uruguay a Calculation Report for the Payment Date occurring on July 2, 2018 setting forth for the Reference Period April 2015 - March 2018 the following amounts:

#### Commodity Terms

Trade Index 23.02065708

Formula Amount US\$ 0.00

Value Recovery Payment in respect of each

Value Recovery Unit US\$ 0.00

By: Citibank, N.A.  
as Fiscal Agent

June 22, 2018

## TECHNOLOGY

# WordPress.com Owner Buys Web Publisher

By BENJAMIN MULLIN

Publishers are increasingly turning to digital subscriptions in an ultracompetitive digital ad market dominated by Facebook and Google.

That is one reason why **Automattic Inc.**, the owner of the popular publishing platform sold by WordPress.com, acquired the technology and publishing company **Atavist** in a bid to expand the suite of subscription and membership tools it offers to its customers.

The deal encompasses Atavist's proprietary content management system, its customer base and the Atavist Magazine, which publishes long-form journalism every month. The companies didn't disclose financial terms of the deal.

The acquisition represents a resolution of sorts for Atavist, a Brooklyn-based digital startup launched in 2011 to give independent publishers tools to create content and make money from it. The company was founded by Nick Thompson, now editor in chief of Wired; Evan Ratliff, a contributor to the New Yorker and Wired; and Jefferson Rabb, a programmer.

Atavist's primary product is a publishing software platform with free and paid tiers. The free version allows users to create their own home pages

and build multimedia stories; the paid tiers allow users to launch paywalls, collect subscription fees and sell individual stories. The software has more than 200,000 users, but only a "small percentage" pay for premium versions, Mr. Rabb said.

By acquiring Atavist, Automattic will improve upon its suite of tools in an era where many publishers are turning to digital subscriptions, said Matt Mullenweg, chief executive of Automattic.

By buying the Atavist Magazine, Automattic adds to its portfolio of brands focused on the written word. Automattic, which raised \$160 million in 2014 at a valuation of \$1.16 billion, also owns Longreads, a digital publisher that shares fiction and nonfiction online.

Atavist raised \$5.7 million in debt and venture funding from backers including Barry Diller's IAC/InterActiveCorp, former Google CEO Eric Schmidt and prominent venture capitalist Marc Andreessen.

At its peak, Atavist employed a staff of 13 journalists,

# Chinese App Aims for IPO

By LIZA LIN

**BEIJING**—China's burgeoning middle class, which is increasingly going online to order lunch, book hotel rooms and perform other tasks, is fueling expectations that an eight-year-old startup with an innovative smartphone app will go public at a lofty \$60 billion valuation this year.

**Meituan-Dianping** defies easy comparison to a company in the U.S., instead providing a range of services: vouchers like **Groupon Inc.**, reviews in the style of **Yelp Inc.**, food delivery similar to **Grubhub Inc.** and travel services akin to those provided by **Kayak Software Group's** namesake travel website.

Few U.S. or Chinese companies offer the same breadth of services as Meituan does, and it hopes to carve a spot for itself among Chinese internet giants **Alibaba Group Holding Ltd.**, **Baidu Inc.** and **Tencent Holdings Ltd.**

Beijing-based Meituan, backed by social-media company Tencent, has an app used by more than 320 million people to buy cinema tickets, book lifestyle services or get restaurant recommendations.

"We are talking about eating, traveling and all the local services," said Neil Shen, founding partner of **Sequoia Capital China**, one of

## From Restaurants to Rentals

Meituan-Dianping offers Chinese consumers an all-in-one services app.

### Meituan-Dianping's in-app functions



Source: Meituan-Dianping

### 1 Restaurant reviews

Works like Yelp

### 2 Movie and show tickets

Works like Fandango

### 3 Hotel booking

Works like Booking.com

### 4 Food delivery

Works like Grubhub

### 5 Ride hailing

Works like Uber

### 6 Home rentals

Works like Airbnb

### 7 Travel booking

Works like Kayak

### 8 Supermarket

Works like Walmart

THE WALL STREET JOURNAL.

sity of Delaware to become an entrepreneur—first with a social-media knockoff of Facebook, which he eventually sold to a local competitor, and later with a Chinese version of Twitter.

Authorities shut the latter business in 2009 after ethnic unrest in the Xinjiang region, which state media blamed in part on social media.

Meituan still operates at a loss, people familiar with the matter said, thanks in part its battle with Ele.me. Both companies offer discounts to attract and retain customers, and while Ele.me is valued at roughly one-third of Meituan, Alibaba's deep pockets mean there is always a threat the subsidy war could escalate.

"Chinese consumers are extremely price-sensitive," said Steven Zhu, an analyst at Pacific Epoch in Shanghai. "The risk is when Meituan stops offering subsidies, customers will jump to its competitors."

Di Youquan, a 27-year-old civil engineer in Beijing, said he started using the Meituan app to order lunch and now uses Meituan's 1.3 billion user reviews to check out restaurant reviews and buy movie tickets. He also used the app to find a tattoo parlor and a bridal photography studio.

"These are all real people who have visited these places and written reviews," Mr. Di said. "It saves me the hassle of asking around for recommended places."

Alibaba was once an investor in Meituan, but sold its stake after Meituan acquired delivery service Dianping—backed by rival Tencent—in 2015. Tencent has put more money into the merged company, leading the most recent funding round of \$4 billion in October.

Mr. Wang, Meituan's founder, said in an interview that there is room for competition even though the internet market is crowded.

"Being an entrepreneur, you always need to worry about a lot of things," Mr. Wang said. "But the most important thing to worry about is whether you see real demand, and whether you know what the customer wants and whether you can meet that need."

—Xiao Xiao  
contributed to this article.

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## BANKRUPTCIES

## IN THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE

In re: ENDURO RESOURCE PARTNERS LLC, et al., Chapter 11 Case No. 18-11174 (KG) Debtors.<sup>1</sup> (Jointly Administered)

## NOTICE OF (A) PLAN CONFIRMATION HEARING, (B) OBJECTION AND VOTING DEADLINES AND (C) SOLICITATION AND VOTING PROCEDURES

TO: ALL HOLDERS OF CLAIMS AGAINST ENDURO RESOURCE PARTNERS LLC AND ITS AFFILIATED DEBTORS AND DEBTORS IN POSSESSION AND ALL OTHER PARTIES IN INTEREST IN THE ABOVE-CAPTIONED CHAPTER 11 CASES

## PLEASE TAKE NOTICE OF THE FOLLOWING: On June 18, 2018, Enduro Resource Partners LLC and its affiliated debtors and debtors in possession in the above-captioned chapter 11 cases (collectively, the "Debtors"), filed their (i) Joint Plan of Liquidation of Enduro Resource Partners LLC and its Debtor Affiliates Under Chapter 11 of the Bankruptcy Code [Docket No. 193] (as may be amended from time to time, the "Plan") and (ii) Disclosure Statement for Joint Plan of Liquidation of Enduro Resource Partners LLC and its Debtor Affiliates Under Chapter 11 of the Bankruptcy Code [Docket No. 194] (as may be amended from time to time, the "Disclosure Statement"). On June 18, 2018, the Bankruptcy Court entered an order (i) approving the Disclosure Statement as containing "adequate information" pursuant to section 1125 of the Bankruptcy Code, (ii) establishing the Voting Record Date, the Voting Deadline, and other dates, (iii) approving procedures for soliciting, receiving, and tabulating votes on the Plan and for filing objections to the Plan, and (iv) approving the manner and forms of certain notices [Docket No. 199] (the "Disclosure Statement Order").

The Debtors are soliciting acceptances of the Plan from Holders of Claims who are entitled to vote on the Plan. The Bankruptcy Court can confirm the Plan and bind all Holders of Claims and Equity Interests if it is accepted by the holders of at least two-thirds in amount and more than one-half in number of the Claims in each Impaired Class who vote on the Plan and if the Plan otherwise satisfies the applicable requirements of section 1129(a) of the Bankruptcy Code. If the required acceptance is not obtained, the Bankruptcy Court may thereafter modify the Plan to bind the Holders of Claims who provide fair and equitable treatment to, and does not unfairly discriminate against, each Class rejecting the Plan and (b) otherwise satisfies the requirements of section 1129(b) of the Bankruptcy Code. If the Plan is confirmed by the Bankruptcy Court, it will be binding on all Holders of Claims and Equity Interests whether or not a particular Holder voted or affirmatively voted to reject the Plan.

The Confirmation Hearing to consider confirmation of the Plan will commence at 10:00 a.m. (prevailing Eastern time) on **July 30, 2018**, before the Honorable Judge Gross, United States Bankruptcy Judge, in the United States Bankruptcy Court for the District of Delaware, located at 824 Market Street, 6th Floor, Courtroom 3, Wilmington, Delaware 19801.

**Critical Information Regarding Voting on the Plan.** In accordance with sections 1122 and 1123 of the Bankruptcy Code, the Plan contemplates classifying Holders of Claims into various Classes for all purposes, including with respect to voting on the Plan, as follows:

## SUMMARY OF STATUS AND VOTING RIGHTS

Class	Claim/Interest	Status	Voting Rights
1	Other Secured Claims	Unimpeded	Not Entitled to Vote (Presumed to Accept)
2	First Lien Claims	Impaired	Entitled to Vote
3	General Unsecured Claims	Impaired	Entitled to Vote
4	Second Lien Claims	Impaired	Entitled to Vote
5	Intercompany Claims	Impaired	Not Entitled to Vote (Deemed to Reject)
6	Intercompany Interests	Impaired	Not Entitled to Vote (Deemed to Reject)
7	Enduro Equity Interests	Impaired	Not Entitled to Vote (Deemed to Reject)

The Voting Record Date is **June 20, 2018**. The Voting Record Date is the date by which it will be determined which Holders of Claims in Classes 2, 3, and 4 are entitled to vote on the Plan.

The deadline for voting on the Plan is **5:00 p.m. (prevailing Eastern time)** on **July 23, 2018** (or 5:00 p.m. (prevailing Eastern time) the "Plan Objection Deadline").

Any objection to the Plan must: (i) be in writing; (ii) conform to the Bankruptcy Rules and the Local Rules; (iii) state the name and address of the objecting party and the amount and nature of the Claim of such Entity; (iv) state with particularity the basis and nature of any objection to the Plan; and, if practicable, a proposed modification to the Plan that would resolve such objection; and (v) be filed contemporaneously with a proof of service, with the Plan Objection Deadline by the parties listed below (the "Notice Parties").

**CONFIRMATION OBJECTIONS NOT TIMELY FILED AND SERVED IN THE MAN-NAF FORM HEREIN MAY NOT BE CURED BY THE BANKRUPTCY COURT AND MAY BE DISMISSED WITHOUT FURTHER NOTICE.**

The deadline for filing and serving objections to confirmation of the Plan is **July 23, 2018 at 5:00 p.m. (prevailing Eastern time)** the "Plan Objection Deadline".

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## BUSINESS NEWS

# Fatal Failure Prompts FAA Engine Review

Safety assessments focus on front covers following accident on Southwest flight

By ANDY PASZTOR

Federal aviation regulators are conducting a new and expanded type of safety review—covering an array of current jetliner engines—as a result of a fatal Southwest Airlines Co. accident two months ago.

The enhanced hazard assessments, disclosed in an interview with acting Federal Aviation Administration chief Daniel Elwell, focus on potential threats from structural failures of front engine covers, called cowlings. Airborne breakups of such ancillary parts typically haven't been considered in safety analyses or mandatory certification standards for modern jet engines.

But now, in the wake of a highly unusual engine failure that destroyed a cowling and killed a Southwest passenger in April, Mr. Elwell said the agency for the first time is looking into the extent of danger posed by precisely such rare events.

"The concept that we may have an issue where a fan blade disintegrates the cowling" has prompted the studies, according to Mr. Elwell. "I don't see a trend," he added, but it's a "normal, smart, very

[cautious] and careful way" to react to the Southwest accident. The assessments haven't been reported before.

Separately, accident investigators at the National Transportation Safety Board are delving into how a single, fast-rotating blade broke off inside the engine on Southwest Flight 1380, the result of a gradual weakening of the metal. A remnant of the blade battered the inside of the cowling, according industry and government officials.

When airflow and severe vibration broke up the damaged cover, fragments were hurled into the wings and body of the Boeing Co. 737. One piece blasted out a cabin window, partially sucking out the passenger.

Safety board experts, expected to hold a public hearing on the accident this year, are considering issuing nonbinding recommendations on ways to protect cowlings from such damage, according to people tracking the board's probe.

In Tuesday's interview, Mr. Elwell said it is too early to determine whether traditional engine-certification rules should be revised to reflect the previously unrecognized hazard. The engine family involved in the April accident has had two such cowling ruptures in some 350 million flight hours, according to engine experts.

The FAA safety reviews are expected to take months and



A highly unusual engine failure in April destroyed a front engine cover, called a cowling, and killed a Southwest passenger.

will be carried out in conjunction with the industry. A spokesman for the safety board didn't have any comment. In response to questions, the FAA on Wednesday said both metallic and carbon composite blades, which have metal edges, are covered by the analyses.

Aviation experts are particularly concerned about engine hazards for twin-engine jets flying long overwater routes

that routinely take them three hours or more from emergency landing strips. Approvals for such flights assume that if an engine fails or has to be shut down, it will stay intact.

The latest studies "may have an impact on how we look at" operational restrictions for overwater trips, Mr. Elwell said.

However, the engine model that suffered the damage on the Southwest flight, manufac-

tured by a joint venture between General Electric Co. and France's Safran SA, isn't used on such intercontinental routes.

"Current certification standards do not address" what occurred on Flight 1380, but "investigators and regulators now have an opportunity to recommend needed changes" to correct a potentially unsafe condition, according to consultant John Cox. A GE spokesman con-

firmed that determining cowling durability isn't part of current engine-certification tests, which are required to demonstrate that any broken blade will be contained within the engine casing. In the case of Flight 1380, the fractured blade remained inside the engine as required, but momentum slammed it into inner sections of the front cover, weakening that structure so it came apart.

## Chanel Gives First Look at Results

By MATTHEW DALTON

PARIS—Chanel, the storied French fashion house, published complete financial results for the first time Thursday, revealing itself as one of the luxury industry's top-selling brands.

The move was a significant step in the 108-year-old brand's transformation from elite couture house to global luxury empire.

Revenue last year was \$9.62 billion, up 12% compared with 2016. That places Chanel ahead of Gucci and Hermès but likely behind Louis Vuitton in the rankings of the world's biggest luxury brands. Its net profit was \$1.79 billion, up 19% from a year earlier.

Chanel's announcement lifts the cloak of mystery around a company whose operations have long generated speculation in the industry. In an era when many high-end brands have been snapped up by conglomerates, analysts and investors have wondered whether Chanel has the financial wherewithal to remain independent. The brand is owned by the French brothers Alain and Gérard Wertheimer, whose grandfather was the



A Chanel fashion show in Paris in May. The brand's revenue totaled \$9.62 billion last year, up 12%.

business partner of founder Gabrielle "Coco" Chanel.

"Our financial strength gives us the means to remain independent and to focus on the long term," said Philippe Blondiaux, Chanel's chief financial officer.

Without overall published results from the company, analysts previously examined

figures disclosed by a holding company incorporated in the Netherlands, **Chanel International BV**. For 2016, the most recent year results were available, the subsidiary reported revenue of \$5.67 billion, a 9% drop from a year earlier. Thursday's disclosure shows those figures understated the heft of the Chanel brand.

Thursday's disclosure also revealed a \$2.2 billion cash pile and relatively little debt.

Louis Vuitton is the only luxury brand that might generate more revenue, though its parent, LVMH Moët Hennessy Louis Vuitton, doesn't break out results. Analysts estimate Louis Vuitton's revenue last year at \$11 billion.

## Puma Jumps Back Into the NBA Game

By SARA GERMANO

For the first time in a generation, **Puma SE** is on top of the basketball world.

The German sportswear company, in its return to the men's performance basketball business, signed four top draft prospects to endorsement contracts this week including DeAndre Ayton and Marvin Bagley III, the top two overall picks in the National Basketball Association Draft in New York on Thursday night. Puma has plans to release a new on-court shoe this fall and has announced a consulting role for rapper and entrepreneur Jay-Z.

Puma's basketball moves come roughly 20 years after the brand last operated in that space and nearly a half-century since its signature basketball star, Walt "Clyde" Frazier, was starring for the New York Knicks. (Mr. Frazier, now a broadcaster and as of this week a lifetime endorser for Puma, has continued his success. The Knicks haven't.)

"If we were going to be successful in the U.S. in the long term, we have to return to our performance category roots,"

said Adam Petrick, global marketing director for Puma, on the decision to re-enter basketball. Puma exited the U.S. sport around the turn of the century to focus on style-based footwear and sports like soccer and track and field, he said.

But since then, much has changed in hoops footwear. Though **Nike Inc.**, the largest sportswear maker by sales in the world, remains the leader in basketball shoes, the market has grown more competitive with entries by **Adidas AG** and **Under Armour Inc.**

Dollar sales of basketball footwear in the U.S. were down 4% for the 12 months ended in April, according to retail tracker NPD Group.

Mr. Petrick said while Puma is restarting its performance basketball shoe business, it hopes the products will appeal to style-conscious consumers, too. He said the company's retail partners indicated "something new was needed to improve and spark interest in basketball footwear." Footwear retailers like **Dick's Sporting Goods Inc.** and **Foot Locker Inc.** have spoken about their discussions with vendors.

## Boardrooms Show Increase In Share of Female Directors

By VANESSA FUHRMANS

Women are gaining more seats in U.S. boardrooms, though not necessarily those with the most power.

In the first five months of this year, 248, or 31%, of new board directors at the country's 3,000 biggest publicly traded companies were women, according to an analysis of corporate filings by ISS Analytics, the data arm of Institutional Shareholder Services. That is the highest percentage in at least a decade, and puts 2018 on track to be a record year for new female board members.

Shareholder pressure, along with the #MeToo movement, is fueling some of the momentum, board recruiters say. "Some [companies] are being dragged forward on this issue, and others are embracing it," said Julie Hembrock Daum, head of executive-recruitment firm Spencer Stuart's North American board practice.

Big investors such as State Street Global Advisors and BlackRock Inc. are urging companies to diversify their boards and, in some cases, are voting against certain board members at firms with all-male boards. Many investors point to correlations that studies by McKinsey & Co. and other consulting

firms and business schools have drawn between greater diversity and enhanced financial returns as reasons for demanding greater female representation on boards. Other firms are bringing more women into the boardroom in the wake of sexual-harassment scandals, or to help prevent them, recruiters say.

Wynn Resorts Ltd. added three women to its board in April after its founder, Steve

**18%**

Portion of board seats held by women at 3,000 U.S. companies

Wynn, stepped down as chief executive amid sexual-misconduct allegations. Matt Maddox, who succeeded Mr. Wynn as CEO, said at the time that the board appointments signified a "turning point" for the company and were part of an effort to bolster its corporate governance.

Despite the uptick in women directors, companies haven't propelled them at the same rate into leadership roles in the boardroom. Though women occupy 18% of board

seats at the 3,000 biggest companies, 10% of lead independent directors are women and 4% of boards are led by a chairwoman, not a chairman, according to the ISS data.

The women who are gaining entry into corporate boardrooms often come with a greater set of skills and qualifications on their resumes than their male counterparts, the ISS analysis found—a reflection, in part, of the specific expertise boards are increasingly looking for in new directors. A greater proportion of today's women directors have direct experience in finance, technology, sales and legal and government affairs than their male counterparts, though few of them have held the role of CEO.

"It shows there are plenty of qualified women out there," said John Roe, head of ISS Analytics.

Typical of the new class of female board members is Susan Li, vice president of finance at Facebook Inc., who was appointed to Alaska Air Group's board of directors last month.

"With more than a decade of experience in Silicon Valley, Susan Li brings valuable perspective on the digital economy," Alaska Air CEO Brad Tilden said.



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THE WALL STREET JOURNAL.

# GLOBAL FOOD FORUM

Explore key risks and opportunities  
shaping the global business of food

SEPTEMBER 27, 2018 | NEW YORK, NY

On September 27, The Wall Street Journal will bring together leaders in agribusiness, food production, consumer products, economics and government to focus on how changing consumer tastes, new technology, global competition and other forces are transforming this critical sector of the economy. Join our Global Food Forum audience and leaders from the top companies in the sector. The organizations below are just a sampling of our 2016 and 2017 participants.

915 Labs | Accenture | AeroFarms | AgFirst Farm Credit Bank | AgriCapital | Agrivida | Agrocobán | AgroFresh | AgTech Accelerator | Ahold Delhaize | AIB International | Alantra | Algenol Biotech | Alico | American Farm Bureau Federation | AMERRA Capital Management | Analog Devices | Animal Agriculture Alliance | Anterra Capital | Apio | Applied Invention | Aqua Spark | Archer Daniels Midland | Arrell Food Institute at the University of Guelph | Arrowhead Beef | ASPIRE Beverage Company | Australia and New Zealand Banking Group | Australis Aquaculture | Bank of America | Barclays | Beaver Creek Ranch | Bellisio Foods | Berjé | Beyond Meat | Bimbo Bakeries USA | Biotechnology Innovation Organization | BiOWiSH Technologies | Blackland Capital Partners | BMO Harris Bank | Bojangles' Restaurants | Bunge | Calysta | Campbell Soup | Cargill | The Center for Food Integrity | Chew | Chobani | CHS | Clara Foods | Clear Creek Farm | Clear Labs | The Climate Corporation | Closed Loop Capital | CoBank | Conagra Brands | Corn Refiners Association | Country Partners Cooperative | Cultivating New Frontiers in Agriculture | Dairy Farmers of America | DBL Partners | Deloitte | Devault Foods | Dietz and Watson | District Ventures Capital | Diversigen | DLA Piper | DowDuPont | DuPont | Earthgreen Products | Edlong Dairy Technologies | eMeals | Environmental Defense Fund | The Equity | EY | fairlife | FamilyFarms Group | Farmers Pride | Farmland Partners | Farmstead | Federal Agricultural Mortgage Corporation | Federal Farm Credit Banks Funding Corporation | Feeding America | Finke Farms | Firmenich | Floratine Products Group | FMC | Food Future | Food Marketing Institute | Foster Farms | Foundation for Food and Agriculture Research | Freshly | FultonFishMarket.com | Gelson's Markets | General Mills | GEOSYS Intl | Givaudan Flavors | Glanbia | Golden State Foods | The Good Food Institute | Grain Craft | Griffith Foods | Grocery Manufacturers Association | Guckenheimer | The Hain Celestial Group | Hancock Agricultural Investment Group | HarvestPlus | The HAVI Group | HEB Grocery | Hershey | Highland Family Farms | Hormel Foods | The Humane Society of the U.S. | Illinois Farm Bureau | Ingredion | Innovation Center for U.S. Dairy | International Farming | International Food Information Council | J.S. Ferraro | KEEN Growth Capital | Ketchum | Kroger | Kuli Kuli | Lamb Weston | Land O'Frost | Land O'Lakes | Larsen & Toubro | LG Corporation | Local Roots Farms | Lopez Foods | Louis Dreyfus | LT Foods Americas | Mars | The Maschhoffs | McDonald's | McKinsey | Memphis Meats | Merck | Michigan Department of Agriculture | Mission Foods U.S. | Mitsui | Modern Meadow | Mosa Meat | Munchery | Mutima Capital | National Aquarium | National Association of State Departments of Agriculture | National Pork Board | Nestlé | Newman's Own | NGEN Partners | Nima | Nomura Securities | Noosa Yoghurt | North American Meat Institute | North Castle Partners | NSF International | Olam International | Orange County Produce | Oregon Farm Bureau | Paine Schwartz Partners | Panera Bread | PAR Technology | Peapod | Pennsylvania Department of Agriculture | PepsiCo | Perdue Farms | Peri & Sons Farm | Pete and Gerry's Organics | Phibro Animal Health | Pinnacle Foods | Piper Jaffray | PMMI | Quirch Foods Company | Rabobank | RBC Capital Markets | Ready Pac Foods | Reily Foods | Reiter Affiliated | ReposiTrak | Retail Ready Foods | S2G Ventures | Sample6 | Sapient Global Markets | Sargent Foods | Schwan's | Scoular | Sensient Technologies | Shanghai Farms | Siggi's Dairy | Simple Mills | Smithfield Foods | Social Capital | Soft Robotics | South Carolina Department of Agriculture | Southeastern Grain | Spoon University | Starbucks | Strassburger Steaks | Sun Capital Partners | Sustainable Insight Capital | Swander Pace Capital | Teays River Investments | Tecumseh Poultry | Thomas Foods Intl | Tilia Holdings | Trace Genomics | Trader Joe's | Tyson Foods | U.S. Bank | U.S. Department of Agriculture | U.S. Farmers & Ranchers Alliance | U.S. Food and Drug Administration | U.S. Trade Representative | Unilever | Valent BioSciences | Virox Technologies | Walmart | Waycrosse | Weber Shandwick | West Liberty Foods | White Oak Pastures | Wish Farms | World Economic Forum | The Yield Lab | Zoetis | Zume Pizza

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## MARKETS DIGEST

## EQUITIES

## Dow Jones Industrial Average

**24461.70** ▼196.10, or 0.80%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.05 20.82  
P/E estimate \* 16.48 18.10  
Dividend yield 2.23 2.32  
All-time high 26616.71, 01/26/18



Bars measure the point change from session's open

Mar. Apr. May June

\*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## S&amp;P 500 Index

**2749.76** ▼17.56, or 0.63%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio \* 24.69 24.09  
P/E estimate \* 17.35 18.75  
Dividend yield 1.89 1.95  
All-time high 2872.87, 01/26/18



## Nasdaq Composite Index

**7712.95** ▼68.56, or 0.88%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio \* 25.73 25.97  
P/E estimate \* 21.05 21.05  
Dividend yield 0.95 1.11  
All-time high: 7781.51, 06/20/18



## 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	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	MidCap 400	SmallCap 600
<b>Industrial Average</b>	24639.21	24406.63	<b>24461.70</b>	-196.10	-0.80	26616.71	21287.03	<b>14.3</b>	-1.0	<b>10.7</b>
<b>Transportation Avg</b>	10893.42	10757.13	<b>10826.84</b>	-46.09	-0.42	11373.38	9021.12	<b>16.2</b>	2.0	<b>8.8</b>
<b>Utility Average</b>	694.10	686.79	<b>690.62</b>	2.24	<b>0.33</b>	774.47	647.90	<b>-5.1</b>	-4.5	<b>6.6</b>
<b>Total Stock Market</b>	28908.88	28644.54	<b>28699.82</b>	-203.93	<b>-0.71</b>	29630.47	24958.26	<b>13.9</b>	3.7	<b>9.0</b>
<b>Barron's 400</b>	760.41	750.85	<b>752.27</b>	-8.24	<b>-1.08</b>	760.51	629.56	<b>17.2</b>	5.8	<b>8.9</b>

## Nasdaq Stock Market

Nasdaq Composite	7803.45	7699.20	<b>7712.95</b>	-68.56	-0.88	7781.51	6089.46	<b>23.7</b>	11.7	<b>14.7</b>
Nasdaq 100	7308.26	7203.93	<b>7217.49</b>	-63.22	-0.87	7280.70	5596.96	<b>24.9</b>	12.8	<b>16.9</b>

## S&amp;P

S&P	500 Index	2769.28	2744.39	<b>2749.76</b>	-17.56	-0.63	2872.87	2409.75	<b>12.9</b>	2.8	<b>9.2</b>
MidCap 400	2001.51	1982.93	<b>1987.34</b>	-14.45	-0.72		2003.97	1691.67	<b>14.5</b>	4.6	<b>8.9</b>
SmallCap 600	1052.90	1040.00	<b>1042.41</b>	-9.99	-0.95		1052.40	817.25	<b>23.3</b>	11.3	<b>12.3</b>

## Other Indexes

Russell 2000	1708.02	1685.59	<b>1688.95</b>	-18.04	-1.06	1706.99	1356.90	<b>20.2</b>	10.0	<b>9.5</b>
NYSE Composite	12622.54	12539.83	<b>12560.23</b>	-88.51	-0.70	13637.02	11699.83	<b>7.2</b>	-1.9	<b>4.4</b>
Value Line	584.13	578.23	<b>579.04</b>	-5.09	-0.87	589.69	503.24	<b>11.9</b>	3.0	<b>4.0</b>
NYSE Arca Biotech	4999.45	4917.02	<b>4924.25</b>	-94.03	-1.87	5018.28	3787.17	<b>23.4</b>	16.6	<b>5.3</b>
NYSE Arca Pharma	532.79	528.19	<b>529.16</b>	-3.87	-0.73	593.12	514.66	<b>-3.6</b>	-2.9	<b>-3.2</b>
KBW Bank	108.43	106.63	<b>107.79</b>	0.05	<b>0.04</b>	116.52	89.71	<b>16.8</b>	1.0	<b>11.3</b>
PHLX® Gold/Silver	81.42	80.75	<b>80.89</b>	-0.35	-0.43	93.26	76.42	<b>-1.1</b>	-5.1	<b>6.7</b>
PHLX® Oil Service	150.21	147.17	<b>147.76</b>	-3.49	-2.31	170.18	117.79	<b>16.2</b>	-1.2	<b>-10.1</b>
PHLX® Semiconductor	1408.85	1379.37	<b>1381.01</b>	-17.59	-1.26	1449.90	1020.51	<b>27.3</b>	10.2	<b>4.6</b>
Cboe Volatility	15.18	12.18	<b>14.64</b>	1.85	<b>14.46</b>	37.32	9.14	<b>39.7</b>	32.6	<b>1.6</b>

\$ 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	After Hours	High	Low
SPDR S&P 500	SPY	6,587.7	274.08	-0.16	-0.06	274.67	273.90	
Bank of America	BAC	6,060.3	29.21	-0.08	-0.27	29.40	29.14	
iShares MSCI Emg Markets	EEM	5,550.7	43.46	-0.01	-0.02	43.82	43.44	
Twitter	TWTR	4,397.6	45.09	-0.15	-0.33	45.29	45.08	
Invesco QQQ Trust I	QQQ	4,381.9	175.38	-0.33	-0.19	177.24	175.25	
Wells Fargo	WFC	3,957.0	54.53	0.16	0.29	55.14	54.26	
Hewlett Packard Ent	HPE	3,074.9	15.30	-0.12	-0.78	15.44	15.15	
21st Century Fox C I A	FOXA	2,969.8	48.40	0.05	0.10	48.75	48.34	

## Percentage gainers...

Company	Symbol	Volume (000)	Last	Net chg	% chg	High	Low
EchoStar	SATS	88.5	57.73	12.50	<b>27.64</b>	59.15	45.23
Tandem Diabetes Care	TNDM	163.4	23.33	3.02	<b>14.87</b>	23.69	20.01
Senseonics Holdings	SENS	195.6	5.14	0.16	<b>3.21</b>	5.18	4.96
Ascena Retail Group	ASNA	69.2	4.54	0.14	<b>3.18</b>	4.54	4.36
Cemex ADR	CX	810.6	6.33	0.15	<b>2.48</b>	6.33	6.18

## ...And losers

<tbl

## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Open	
<b>Copper-High (CMX)</b> -100 mm lbs.; \$ per lb.	30,043.5	30,043.5	30,029.0	30,025.0	-0.0215	295	
June	30,059.0	30,075.0	30,041.0	30,043.5	-0.0185	101,775	
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.	1262.70	1268.90	1260.00	1267.20	-4.00	200	
Aug	1269.70	1272.30	1262.40	1270.50	-4.00	324,452	
Oct	1275.80	1277.70	1268.50	1276.30	-4.00	12,841	
Dec	1282.20	1284.00	1275.00	1282.40	-4.10	97,579	
Feb'19	1288.70	1288.70	1282.40	1288.60	-4.20	15,416	
June	1297.90	1300.40	1297.90	1301.10	-4.40	4,233	
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.	955.50	961.50	955.50	955.50	-11.60	18	
Sept	958.70	961.90	943.30	945.60	-11.60	21,564	
Dec	951.20	955.50	941.80	941.70	-11.00	1,511	
March'19	936.40	936.40	911.00	911.00	-11.00	8	
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.	870.90	871.90	861.50	863.20	-10.90	45,613	
Oct	874.70	875.30	865.20	866.60	-11.00	41,570	
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.	16,290	16,360	16,190	16,326	0.017	84,605	
July	16,475	16,560	16,385	16,524	0.021	32,468	
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.	65.41	66.22	64.00	65.54	-0.17	455,623	
Sept	64.93	65.56	63.90	64.86	-0.38	267,493	
Oct	64.44	64.91	63.45	64.19	-0.53	212,611	
Nov	64.21	64.55	63.28	63.84	-0.61	144,761	
Dec	63.85	64.24	63.02	63.55	-0.64	289,426	
Dec'19	60.35	60.56	59.75	59.89	-0.70	189,741	
<b>NY Harbor ULSO (NYM)</b> -42,000 gal.; \$ per gal.	2,100.8	2,108.8	2,068.1	2,070.1	-0.0370	53,142	
Aug	2,104.1	2,112.2	2,072.3	2,074.2	-0.0365	94,741	
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.	2,021.6	2,025.9	1,997.5	2,012.3	-0.112	62,032	
Aug	2,007.8	2,013.9	1,983.5	1,996.0	-0.152	119,583	
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu	2,968	3,012	2,947	2,975	0.011	72,916	
Aug	2,968	3,006	2,945	2,972	0.007	193,588	
Sept	2,947	2,981	2,923	2,947	0.003	167,658	
Oct	2,953	2,985	2,931	2,954	0.003	172,802	
March'19	3,052	3,076	3,032	3,051	-0.001	114,906	
April	2,679	2,693	2,670	2,681	0.002	116,554	

## Contract

Open High hilo Low Settle Chg Open interest

## Agriculture Futures

<b>Corn (CBT)</b> -5,000 bu.; cents per bu.	July	354.25	359.00	349.25	357.00	2.75	362,167
Dec	375.50	380.50	371.00	378.25	2.50	658,421	
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.	July	238.75	243.00	237.00	242.00	3.25	1,639
Dec	239.50	242.25	235.25	239.25	-5.50	2,377	
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.	July	889.50	891.25	878.25	880.50	-9.00	194,071
Nov	910.75	912.50	899.25	901.50	-9.00	363,912	
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.	July	337.10	336.10	320.00	331.80	-1.40	74,150
Dec	338.00	339.80	333.10	334.30	-2.00	170,178	
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.	July	29.37	29.45	29.01	29.19	-1.18	84,901
Dec	30.00	30.13	29.66	29.79	-2.57	207,400	
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.	July	1263.50	1269.00	1259.00	1269.50	4.50	2,912
Sept	1049.00	1049.00	1030.00	1032.50	-8.50	6,281	
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.	July	490.75	498.75	482.25	495.25	7.00	69,663
Sept	500.75	510.00	493.00	506.75	7.50	167,255	
<b>Wheat (KC)</b> -5,000 bu.; cents per bu.	July	489.50	496.25	482.00	493.25	4.50	50,481
Sept	506.75	513.50	499.00	510.00	4.25	205,207	
<b>Wheat (MPLS)</b> -5,000 bu.; cents per bu.	July	525.75	561.00	552.00	552.75	...	10,637
Sept	564.25	572.75	562.25	564.75	1.50	24,321	
<b>Cattle-Feeder (CME)</b> -50,000 lbs.; cents per lb.	Aug	149.25	149.425	147,900	148,475	-0.95	23,464
Sept	149.825	149.900	148,650	149,250	-0.70	6,222	
<b>Cattle-Live (CME)</b> -40,000 lbs.; cents per lb.	June	109,000	109,150	108,250	108,650	-0.375	5,756
Aug	106,750	106,875	105,600	106,125	-0.525	144,653	
<b>Hogs-Lean (CME)</b> -40,000 lbs.; cents per lb.	July	79,975	80,650	79,575	80,475	0.450	27,218
Aug	74,700	75,825	74,150	75,725	0.575	76,933	
<b>Lumber (CME)</b> -110,000 bd. ft.; \$ per 1000 bd. ft.	July	524.30	547.00	523.00	547.00	15.00	2,881
Sept	510.80	531.30	508.50	531.30	15.00	2,303	
<b>Milk (CME)</b> -200,000 lbs., cents per lb.	June	15.27	15.28	15.26	15.26	-0.06	2,983
July	14.95	14.95	14.70	14.86	-0.14	3,673	

## Open High hilo Low Settle Chg Open interest

	Contract						Open interest
	Open	High	hilo	Low	Settle	Chg	
<b>Cocoa (ICE-US)</b> -10 metric tons; \$ per ton	2,514	2,517	2,501	2,501	2,509	-59	205
July	2,540	2,540	2,490	2,513	-40	103,441	
<b>Coffee (ICE-US)</b> -37,500 lbs.; cents per lb.	113.75	113.75	112.00	112.60	-1.05	1,715	
Sept	116.50	117.30	115.25	116.25	-40	153,767	
<b>Sugar-World (ICE-US)</b> -12,000 lbs.; cents per lb.	11.85	12.02	11.85	11.87	-0.02	86,455	
Oct	12.16	12.35	12.15	12.21	0.2	474,489	
<b>Sugar-Domestic (ICE-US)</b> -112,000 lbs.; cents per lb.	12.60	12.75	12.25	12.21	0.26	2,075	
July	12.15	12.25	12.05	12.21	0.09	1,573	
<b>Cotton (ICE-US)</b> -50,000 lbs.; cents per lb.	83.40	84.20	83.01	83.21	...	5,879	
Dec	84.39	85.14	84.13	84.29	0.11	186,197	

# BIGGEST 1,000 STOCKS

WSJ.com/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. and the previous day.

Thursday, June 21, 2018

Net Stock Sym Close Chg Net Stock Sym Close Chg

**A B C**

ABB ABB 22.09 -0.38

ADT ADT 8.67 0.01

AES AES 12.89 -0.04

Aflac AFL 44.43 -0.29

AGNC Inv AGNC 18.90 -0.04

ANGI Homesvc ANGI 15.84 -0.35

Ansys ANSS 181.90 -0.83

ASML ASML 204.24 -1.26

AT&T T 31.60 -0.40

AbbottLabs ABT 61.75 -0.39

AbbVie ABIV 95.55 -2.70

Ablomed ABMD 438.27 -7.94

Accenture ACN 160.05 -1.74

ActivisionEnt AVT 76.05 -0.79

AdobeSystems ADBE 248.83 -2.41

AdvanceAuto AAP 139.50 0.40

AdMicroDevices AMD 15.65 -0.87

Aegon AEG 6.02 -0.16

Americorp ABC 164.45 -0.50

AerCap AER 54.24 -0.31

Aetna AET 189.15 -0.18

AffiliatedMtrs AMG 153.43 0.70

Alpsys ALPS 63.04 0.25

AgnicoEagle AEM 44.09 0.02

AirProducts APD 156.47 -1.11

AlkamatiTech AKM 81.69 -1.01

AlaskaAir ALK 64.05 0.85

Albermarle ALB 91.97 0.36

Alcoa AA 44.81 -0.46

AlexandraEst ARE 126.41 -0.19

AlexionPharm ALXN 25.81 -0.39

AltaSea ATMS 19.65 -0.04

AlticeUSA ATSC 68.97 -0.43

Amcorr AMCO 18.90 -0.04

AMG HOMELANDS AMG 10.05 -0.04

AMN AMZN 170.22 -19.86

AMR Corp AMR 11.31 -0.13

Astrazeneca AZN 35.18 -0.58

AthenaHealth ATHN 159.93 -1.83

AtheneHldgs ATHN 159.93 -1.83

Atmel ATM 4.85 -0.07

AtmosEnergy ATMO 88.85 -0.52

Autodesk ADSK 137.74 -3.20

Automech AMK 21.83 -0.01

Avient AVT 76.05 -0.79

AxonRemt AVN 100.22 -1.33

AxaltaCoating AXTA 30.44 -0.04

AIG AIG 54.25 -0.06

AktaCoating AXTA 30.44 -0.04

Alcoa ALCO 15.89 0.10

AmericaMovil AMOV 15.89 0.10

AmericaMovil AMOV 15.99 -0.05

Amgen AMGN 18.69 -0.29

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## BANKING &amp; FINANCE

# Money Managers Embrace the Quants

By JUSTIN BAER

Asset managers are paying up to hire data scientists and engineers as part of an effort to help portfolio managers with investment decisions and devise new trading strategies.

Many of these traditional stock- and bond-picking firms want these mathematical and computer experts to dive into pools of data—and the machine-learning tools that harness that data and other information—in search of fresh perspectives and blind spots.

At **Neuberger Berman Group** LLC, its data-science team began this year with big plans, if limited resources.

"Just me and an intern," group head Michael Recce said.

Six months later, the group has added a fifth member to its team of data scientists and engineers as it works through a backlog of projects for the firm's portfolio managers. Neuberger's investment managers have already poached some of Mr. Recce's staff, leading him to recruit replacements.

"Each town needs one," he said, paraphrasing Alexander Graham Bell's famous line predicting the telephone's widespread use.

Data scientists, who have already helped usher media companies, retailers and other old-line industries into the digital age, first arrived at Wall Street banks decades ago as computing power and the complexity of derivatives surged.

They built computer models that traded securities, giving rise to the quantitative-investing field that has changed how markets function.

At asset managers, these data scientists aren't about to

**Firms are spending millions of dollars to beef up their data-analysis capabilities.**

outnumber the phones found on the trading floors. But many of these traditional stock- and bond-picking firms are spending millions of dollars to beef up their data-analysis capabilities.

"Most of it is at an early stage, and I don't think it's matured yet," said Onur Erzan, a senior partner at consultant McKinsey & Co. "There will be new sources of data and it will help with investment decisions, but the real question is can an asset manager sustain an edge on those kinds of insights."

Data scientists with advanced degrees from top universities can expect to earn as much as \$280,000 a year in an entry-level job at an investment firm, according to Options Group, a Wall Street recruiter. Asset managers aren't just competing with other financial firms for talent, but with "the whole economy," said Michael Karp, Options Group's chief executive. "It's a whole new world."

The push into data arrives at a tenuous period for investment firms as trillions of dollars have flowed into low-cost, index-tracking investments and out of funds in which managers actively buy and sell securities and whose uneven performance could no longer justify the higher fees.

Petter Stensland's foray into data began in late 2012 when, as a junk-bond analyst at AllianceBernstein Holding LP, he needed to analyze the prospects of the many oil-and-gas companies emerging in the nation's energy boom.

For many of these producers, their value—and their ability to repay their debts—hinged on how much oil or gas they could pull from the land they owned. The problem was there were no reporting stan-

dards on energy reserves, and the producers' own views were subjective, Mr. Stensland said.

Mr. Stensland said he and his team began to compile data from the states' oil-and-gas commissions, stitching together decades of history on oil wells' output in each parcel of land (typically about 640 acres). Building Bertha, the database's chosen name, took 15,000 man-hours. The analyst traveled to industry towns such as Midland, Texas, and Roswell, N.M., where he could copy older data preserved in oil-and-gas libraries' microfilm. By mid-2014, Bertha had persuaded the high-yield investment team that certain producers were at greater risk of defaulting on their debt. The firm sold the shakiest bonds.

## Europe's Central Banks Go Separate Ways on Rates

Central banks in Europe on Thursday signaled different outlooks toward rate increases, suggesting the divergent paths of the world's largest central banks are gripping smaller ones, too.

By Brian Blackstone  
in Zurich, Nina Adam  
in Frankfurt and Jason  
Douglas in London

The Bank of England held its benchmark interest rate steady at 0.5%, but officials said they expect economic growth in the U.K. to pick up in the months ahead following a soft start to the year, setting the stage for a rise in borrowing costs this summer.

Norway's central bank also stayed on hold but said rates will probably go up in September.

In contrast, the Swiss National Bank kept its key policy rate in deeply negative territory and signaled no forthcoming changes despite signs of healthy economic activity and slowly rising inflation, as the bank remains constrained by the actions of the European Central Bank.

Divergence among major central banks has emerged as a key theme recently with potential repercussions on stock, bond and currency markets.

The shifting policy landscape comes against a backdrop of rising uncertainty over the outlook for the global economy, with mounting fears about the prospect of a trade war and signs that a spell of synchronized global growth is ending.

Last week, the Federal Reserve raised short-term interest rates, while the ECB signalled an end to its bond program but also said it probably wouldn't raise rates at least until September 2019. The Bank of Japan, meanwhile, maintained its ultra-easy policies including a minus-0.1% deposit rate and government-bond buying.

The BOE has said that it expects to raise its benchmark interest rate around three times over the next three years to bring inflation in the U.K. back to the central bank's 2% goal.

On Thursday, Chief Economist Andrew Haldane joined two other officials on the BOE's nine-member panel in calling for an immediate rise in borrowing costs, citing mounting inflationary pressure. The majority preferred to wait, but economists anticipate the BOE will follow the Fed in nudging up short-term borrowing costs as soon as August.

Norway's central bank kept its key policy rate at a record low of 0.5% but said this would probably go up in September. "The outlook for the Norwegian economy suggests that it will soon be appropriate to raise the key policy rate," it said.

The SNB left its deposit rate at minus-0.75%, as widely expected by economists, where it has been since January 2015. It also said the Swiss franc is "highly valued" and that it was willing to intervene in currency markets, if necessary, should the franc strengthen too much. The lion's share of Swiss exports go to the euro-zone, so it is difficult for the SNB to tighten policy ahead of the ECB for fear of strengthening the franc.



Air Arabia says its exposure to Abraaj totals \$336 million. The airline is seeking to protect its investment and business interest.

## Buyout Firm Abraaj to Sell 4 Funds

By WILLIAM LOUCH  
AND SIMON CLARK

Troubled Dubai-based private-equity firm **Abraaj Group** said it agreed to sell four of its funds to U.S. investment-management company **Colony Capital Inc.**

Financial terms weren't disclosed for the sale of the funds, which own stakes in companies in Latin America, sub-Saharan Africa, North Africa and Turkey.

Colony, based in Los Angeles, has also agreed to oversee, on an interim basis, other Abraaj funds.

Abraaj owes hundreds of millions of dollars, and two of its creditors have claimed in legal filings that repayment of loans is overdue. Earlier this

month, Abraaj said its holding company based in the Cayman Islands filed for liquidation. The firm has told investors in a \$1.6 billion buyout fund that it would use any proceeds from the sale of its fund-management business to pay back money they borrowed from the fund, according to a person familiar with the matter.

Private-equity firms raise funds from investors and then buy companies, which they seek to expand before selling for a profit. Abraaj said it is transferring staff in eight offices and its own investment in the four funds to Colony as part of the deal.

Abraaj's problems began this year when the Bill & Melinda Gates Foundation and other investors hired a forensic

accountant to look into possible misuse of money they had put into a \$1 billion Abraaj health-care fund, according to people familiar with the audit.

The future of the health-care fund is still unresolved, after a continuing attempt by its backers to separate it from Abraaj's wider fund-management business.

Investors in the fund have held talks with U.S. buyout giant TPG about taking control of the assets, The Wall Street Journal previously reported.

**Air Arabia Group**, a company in which Abraaj has previously invested, said this week that it has "exposure" to the private-equity firm totaling \$336 million "through fund portfolios and short-term

investments." The airline said it had appointed experts to ensure its "investment and business interest is protected."

Abraaj was founded in Dubai in 2002 by Pakistani deal maker Arif Naqvi and managed nearly \$14 billion at its peak earlier this year.

Abraaj said the Colony deal has received in-principle regulatory approval and is expected to close upon approval from the Grand Court of the Cayman Islands by July 1.

The portfolio of assets Colony is acquiring spans sectors from consumer goods and health care to energy and industrial companies.

Colony Capital wasn't available for comment.

—Nicolas Parasie contributed to this article.



Randal Quarles, the Fed's vice chairman for supervision, saw high capital levels in the results.

ture, the Fed could also ease the stress tests for firms with \$100 billion to \$250 billion in assets.

Regulators also are working on other rule changes that would benefit big banks, including making it easier to comply with the Volcker rule, which bars banks from hedge-fund-like trading activities, and changing a capital requirement known as the enhanced supplementary leverage ratio, which requires the largest banks to maintain a minimum proportion of capital to assets.

Concerns that rising short-term interest rates would squeeze banks are so far not being borne out. Americans still keep a huge percentage of their deposits at the biggest retail banks—JPMorgan, Bank of America and Wells Fargo & Co.—as those firms pay some of the lowest rates on savings accounts.

Banks continue to find ways to lend at higher rates. Commercial and industrial loan growth has picked up of late, and the U.S. market for loans to risky companies hit a trillion dollars for the first time this year.

The Fed's stress tests are released in two parts. On Thursday, the Fed assessed the health of the banking system as a whole and released "quantitative" results, or calculations showing how banks fared during hypothetical scenarios.

On June 28 the Fed will say whether banks passed or failed, publishing a second version of the "quantitative" results.

## AmTrust Holders Back Plan To Go Private

By WAVERLY COLVILLE

**AmTrust Financial Services** Inc. said Thursday that shareholders approved its plan to be taken private by two New York families and a private-equity firm.

The bid was initially challenged by activist investor Carl Icahn, who recently owned as much as a 9.4% stake in the company.

Mr. Icahn said the first deal was "happening at the wrong price at the wrong time" and was an attempt by the families and firm to manipulate shareholders into voting for a deal that benefits only them.

Earlier this month, Mr. Icahn agreed to support the deal when the buyers increased the offer to \$2.95 billion, or \$14.75 a share, from \$2.7 billion, or \$13.50 a share.

Evergreen Parent LP, an entity formed by AmTrust Chairman and Chief Executive Barry Zyskind, George and Leah Karfunkel and Stone Point Capital LLC are set to acquire 45% of the insurance company. The deal is expected to close during the second half of this year.

## Banks Able To Handle The Stress

Continued from page B1

tios—a measure that includes lending and derivative exposure relative to their capital levels. Goldman Sachs was 3.1% and Morgan Stanley 3.3%, compared with a 3.0% minimum.

Goldman Sachs appeared to be caught off guard by the results. In a statement, the bank said that its own capital models "diverge" from the Fed's, and it is "examining that divergence." Goldman also said its capacity to return capital "may be higher than this year's test would otherwise indicate."

A Morgan Stanley spokesman said in a statement that the stress-test results "may not be indicative of the capital distributions that we will be permitted to make" and said it would give more detail next week.

Firms conduct their own internal tests using the Fed's doomsday scenario. If after seeing the Fed's results, a company determines it is at risk for failing, it can take it a "mulligan" and resubmit more conservative shareholder payouts.

The Fed won't take any direct action based on the results released Thursday. But they do signal how much capital the Fed will allow banks to

return and could affect the size of the payouts that banks seek.

Banks have performed strongly in the initial round of stress tests for several years. In 2017, all firms also passed the more consequential second round, meaning the Fed didn't have to limit any of the banks' investor payouts.

Overall, the Fed calculated the largest U.S.-based bank holding companies would have loan losses of \$429 billion under a hypothetical scenario that envisioned the U.S. unemployment rate rising to 10% and gross domestic product dropping 7.5%, with a steepen-

ing Treasury yield curve.

In contrast, banks are by many measures enjoying their strongest period in a decade. Boosted by a healthy economy and busy corporate clients, U.S. banks reported record profits for the first quarter, with \$56 billion in net income, according to the Federal Deposit Insurance Corp.

The corporate tax cut in 2017 added about \$7 billion to the bottom line for banks in the quarter. But even without that benefit, profit would still be at a record.

The biggest banks in particular are gobbling up market share from struggling overseas

rivals and smaller U.S. lenders.

Thanks to a volatile market, stock-trading desks at the big five investment banks—JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc., Goldman Sachs and Morgan Stanley—had their best start to a year in 2018 since the financial crisis.

The Fed exempted three banks that had submitted capital plans for the stress tests, thanks to the new banking law increasing a threshold for stricter regulatory supervision to \$250 billion in assets from \$50 billion. Those firms were CIT Group Inc., Comerica Inc. and Zions Bancorp. In the fu-

## MARKETS

# Treasurys Advance As Politics Stir Fears

BY AKANE OTANI

U.S. government bond prices rose Thursday as concerns about growing political risk around the world kept investors on edge.

The yield on the benchmark

**CREDIT MARKETS** 10-year U.S. Treasury note settled at 2.899%, compared with 2.928% Wednesday.

Yields, which fall as bond prices rise, slipped overnight as reports that Italy tapped a euroskeptic as head of its Senate Finance Committee and that auto maker Daimler warned its profit would take a hit from Chinese tariffs. Investors tend to buy Treasurys and other assets perceived as safe, like the Japanese yen, when they feel the outlook for growth looks shaky.

Worries that increasingly restrictive trade policies could cut into global economic growth have kept stocks and bond yields under pressure in recent weeks, bringing Treasury yields off their highs for

## 2.899%

The yield on the benchmark 10-year U.S. Treasury note

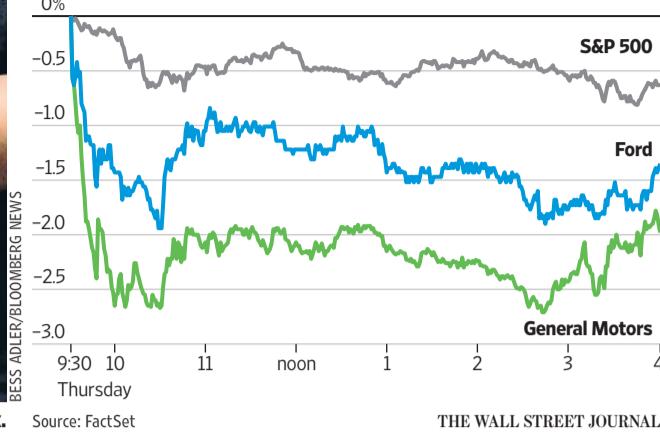


Amazon.com fell after the Supreme Court ruled states can require online merchants to collect sales tax.

## Auto Losses

Shares of U.S. car companies fell after Germany's Daimler said tariffs would hit its sales and earnings.

### Performance, minute by minute



Source: FactSet

THE WALL STREET JOURNAL.

# Dow Drops Eighth Day in a Row

BY DANIELLE CHEMTOB AND CHRISTOPHER WHITTALL

The Dow Jones Industrial Average fell, notching its longest streak of consecutive declines in more than a year as trade friction between the U.S. and China weighed on stocks.

The consequences of escalating trade tensions became clearer after German auto maker **Daimler** issued an unexpected profit warning late Wednesday, saying Chinese retaliatory import duties on vehicles built in the U.S. would crimp sales and earnings.

The announcement pushed down shares of auto makers and other trade-sensitive stocks around the world and gave investors a glimpse of

how President Donald Trump's moves to enact protectionist trade policies could affect corporate profits. The Dow industrials declined nearly 200 points to post an eighth consecutive session of losses, the longest run of daily declines since March 2017.

"If we continue to see other companies start to warn that the trade war—trade tariffs—start to have an impact on earnings, that would be bad for all stocks and really bring market sentiment down," said Brant Houston, managing director and portfolio manager at CIBC Atlantic Trust.

The Dow industrials declined 196.10 points, or 0.8%, to 24461.70. The S&P 500 fell 17.56 points, or 0.6%, to 2749.76. The tech-heavy Nasdaq Composite shed 68.56 points, or 0.9%, to 7712.95 in

its worst day since April.

Shares of **Ford Motor** dropped 16 cents, or 1.3%, to \$11.71, and **General Motors** lost 83 cents, or 2%, to 41.12.

Rising tariffs between the U.S. and trading partners such as China and Europe are only part of the story, some analysts said. The biggest threat to car makers is what happens to the North American Free Trade Agreement between the U.S., Canada and Mexico, said Philippe Houchois, an equity analyst at Jefferies.

"The longer-term risk is to what extent it affects what car companies have been doing for the last two decades in terms of globalizing their supply chains," he said.

Shares of energy companies also struggled Thursday as officials from major oil-exporting countries reportedly

neared a deal to increase crude output by one million barrels a day.

The S&P 500 energy sector fell 1.9%, with **Chevron** declining 2.70, or 2.2%, to 122.59. **Exxon Mobil** lost 76 cents, or 0.9%, to 79.69.

Shares of e-commerce companies also slumped after the Supreme Court ruled Thursday that states can require online merchants to collect sales tax. **Amazon.com** shares dropped 19.86, or 1.1%, to 1730.22, and **eBay** declined 1.25, or 3.18%, to 38.01.

But traditional retailers could benefit from the ruling, said Sandy Villere, portfolio manager of the Villere Balanced Fund. **Target** rose 75 cents, or 1%, to 76.14, while **Best Buy** added 1.37, or 1.8%, to 77.23.

"I think it could level the

playing ground a little bit between some of the internet retailers versus bricks-and-mortar," Mr. Villere said.

Technology companies also traded lower, with shares of **Intel** sliding 1.27, or 2.4%, to 52.19. The company's chief executive resigned after the chip maker determined he violated company policy during a past, consensual relationship with an Intel employee.

Shares that investors typically buy in times of volatility rose Thursday, with the S&P 500's utilities and real-estate sectors gaining 0.3% and 0.6%, respectively.

Overseas, the Stoxx Europe 600 shed 0.9%, closing at its lowest value since April.

In Asia early Friday, the Shanghai Composite Index and Japan's Nikkei Stock Average were both down 0.8%.

# Gold at Year's Low on Rate Worries

BY AMRITH RAMKUMAR AND DAVID HODARI

Gold prices fell to a fresh 2018 low, continuing a prolonged retreat even as investors' jitters over a potential trade war stoked volatility in other markets.

Front-month gold for June delivery fell 0.3% to \$1,267.20 a troy ounce on the Comex division of the

**COMMODITIES** New York Mercantile Exchange, its fourth drop in the past five sessions and its lowest close since Dec. 20. Prices have fallen 7% from their January peaks despite anxiety over protectionist trade policies and inflation prompting some haven buying, with gold traders instead more focused on higher interest rates.

The precious metal struggles to compete with yield-bearing assets such as Treasurys as rates rise. On Wednesday, Fed-

## Losing Luster

Trade tensions have failed to give gold a boost, as a stronger dollar weighs on the metal's prices.

### Gold price

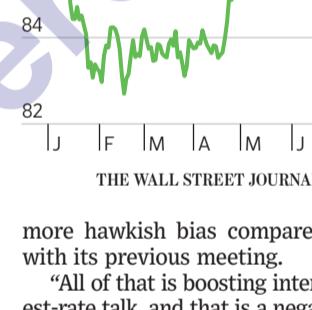
\$1,375 a troy ounce



Source: WSJ Market Data Group

### WSJ Dollar Index

88



THE WALL STREET JOURNAL.

eral Reserve Chairman Jerome Powell said sturdy U.S. economic growth has built a strong case for continuing to gradually lift interest rates.

On Thursday, the Bank of England's rate-setting committee voted 6-to-3 to keep rates on hold, indicating a mildly

more hawkish bias compared with its previous meeting.

"All of that is boosting interest-rate talk, and that is a negative for gold," said George Gero, managing director at RBC Capital Markets. "Gold is unable to compete with higher interest rates at the moment."

The recent bearish signals in the gold market mark a contrast from earlier in the year, when gold stayed above \$1,350 and some bulls called for prices to pierce \$1,400 for the first time since 2013. Now, some analysts are betting prices could fall further if they get below \$1,250 and U.S. economic growth remains strong.

Some investors are wondering whether the recent rally in gold, which had its best year since 2010 a year ago, might end. Mr. Gero noted some money managers have recently been selling gold to cover margin calls on other assets, with other commodities also falling on trade and interest-rate fears.

The dollar has stabilized on the back of escalating trade friction, making gold more expensive for overseas buyers. The WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, fell 0.2% Thursday from its highest level in nearly a year.

cluding Apple's iPhone, could be hit. Ironically, a successful U.S. company is more exposed to possible U.S. tariffs on China than it is to Chinese tariffs on the U.S. Even worse is for chip makers who do produce in the U.S. and sell to China, as they might be hit twice, once if China levies a tariff on their chips, and once if the U.S. charges a tariff on the phone imported back from China.

UBS strategists who tried to isolate Asian stocks embedded in global supply chains also found little effect, until very recently.

The biggest effect has instead been on wider markets and currencies. There has been no link between how much of an Asian company's sales come from the U.S. and its stock performance in local-currency terms, according to data from S&P Global Market Intelligence. But include the effect of currency moves, and U.S.-exposed Asian stocks have underperformed by about 10 percentage points, UBS found.

The simple rules of thumb—sell China, sell Korea, sell emerging markets, prefer smaller to larger U.S. stocks and buy the safe-haven dollar and bonds—have been working better than detailed analysis so far, in part because the prospects for a trade war are still so uncertain. If it becomes clear that new trade barriers are here to stay, understanding both the details of which companies will be hit and the knock-on effects on the economy will matter more.

# Upgrade Bolsters Argentina

BY JULIE WERNAU AND CELSEY DULANEY

Argentine stocks surged Thursday following the nation's upgrade to emerging-market status by index provider MSCI, providing a shot of confidence in the country's financial markets after a recent currency rout rattled global investors.

The MSCI Argentina rose 8%, erasing a week of losses. The peso edged higher against the U.S. dollar, and Argentine bonds rose 1.9% in the JPMorgan EMGB Global Diversified benchmark.

The upgrade from a frontier country to an emerging market follows two years of changes by market-friendly President Mauricio Macri and is expected to bring billions of dollars in investment to the country's stocks.

The news was a relief to investors who had feared a widespread sell-off in Argentine assets in recent months would derail its chances of earning a spot in the widely tracked index.

Argentina's inclusion, which adds foreign-listed stocks to the emerging-markets index in May 2019, will bring an estimated \$3 billion in active and passive investment into Argentina, said Uto Shinohara, head of research and portfolio management at Mesirow Financial Currency Management, which has approximately \$80 billion under management.

That comes as Argentina continues to deal with the fallout of a currency sell-off that began in April amid rising U.S. interest rates and a stronger dollar. A series of missteps by the central bank led to the resignation and replacement of the country's central bank chief.

## Moving Up

Argentine stocks rallied after index provider MSCI upgraded the country's stocks to emerging market status.

### MSCI Argentina index



Source: Thomson Reuters

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# Investing During a Trade Spat

Continued from page B1

Principal Global Investors in Des Moines, Iowa. "That's clearly not right, but how far it is going to go, we don't know."

The first corporate information knocked shares in German car maker **Daimler** down 4% on Thursday. It said profit would be hurt as China's retaliatory tariffs on U.S. light trucks hit Mercedes SUV exports from its Alabama factory. But information about other companies is sparse, partly because supply chains are so complex.

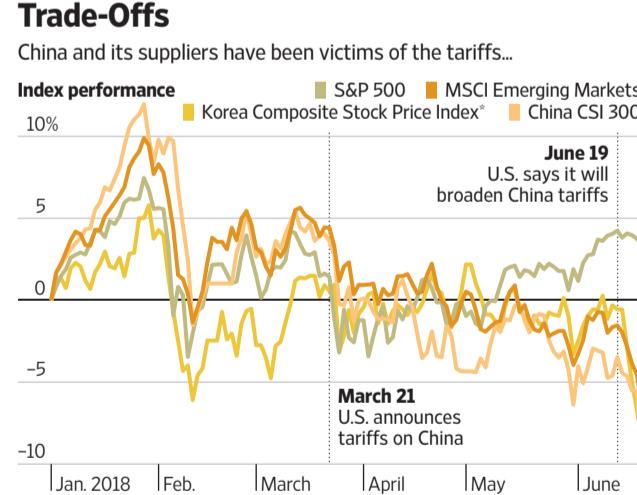
Tuesday's price drops showed that China-related stocks in the U.S. are sensitive to trade fears. All but one of the 14 S&P 500 members that make more than a quarter of their revenue from China declined by more than the index.

Yet, the same stocks suggest that trade-war fears haven't sunk in properly, with six of them up and seven down since the day before the announcement of tariffs on the first \$50 billion of Chinese goods in March. Caterpillar and Boeing tell the same story, with their shares falling hard this month but being dominated by other issues until then.

This makes sense. It is hard to price in something

## Trade-Offs

China and its suppliers have been victims of the tariffs...



...but shares of S&P 500 companies with higher sales in China haven't all dropped since tariffs were announced in March.

Company	Percentage of revenue from China	Share-price change since March 21
Qorvo	51.8%	10.9%
Broadcom	53.6	5.5
Qualcomm	65.4	3.4
Micron Technology	51.1	-2.7
Wynn Resorts	73.3	-3.9
Skyworks Solutions	82.7	-8.9

\*In U.S. dollars  
Sources: FactSet (index performance); S&P Global Market Intelligence (companies)

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you don't understand, and the implications of a trade battle are obscure, at best. Not only do we not know precisely which products will be targeted in the next round, or how long the tariffs will last, but we have little understanding of complex corporate supply chains.

Measures of revenue exposure to China—or of Chinese corporate exposure to the U.S.—don't capture the com-

plexity of modern manufacturing, either. U.S. company Qualcomm has microchips made for it in Taiwan, before they are sold into China to make mobile phones and shipped abroad. Even if China extended tariffs to U.S. chips, those made in Taiwan wouldn't be covered.

On the other hand, if the U.S. extends tariffs to consumer goods, then the suppliers to imported phones, in-

AUCTION RESULTS  
Here are the results of Thursday'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.

2018, EIGHT-MONTH TIPS

Applications \$13,100,001,700

Accepted bids \$5,000,001,200

\*Noncompetitively \$2,016,000

Auction price (rate) 103.306254 (0.934%)

Interest rate 1.00%

Bids at clearing yield accepted 89.73%

Cusip number 912810585

The Treasury inflation-protected securities, dated June 29, 2018, mature on Feb. 15, 2048.

## MARKETS

# Small-Cap Stocks Claim Higher Ground

Rising dollar, concerns about weaker global growth lead investors to seek relative safety

By JON SINDREU

Investors are flocking to the shares of small companies as a looming trade war with China, a rising dollar and concerns about weaker global growth make these domestic-focused stocks more attractive than large-cap peers.

The S&P Small Cap 600 is on a tear, up 11% since the start of the year to a record, compared with a 2.8% gain for the S&P 500. The Russell 2000, another index of small U.S. companies, has gained 10%.

Small companies, as measured by market capitalization, tend to earn most of their money at home and are typically insulated from overseas turmoil.

"We continue to like small-cap equities because they have a more domestic focus, less impacted by trade or dollar fluctuations," said Angus Sippe, a fund manager at Schroders PLC, which has £447 billion (\$591.89 billion) under management.

Even in Europe, where the dollar's rise has benefited multinationals, the MSCI Europe Small Cap index is down 1.4% on the year through Wednesday, compared with a 5% fall for the broader MSCI Europe.

Medium-size companies have done better than their larger peers but have far underperformed smaller firms: In the U.S., the level of the S&P Small Cap 600 relative to the S&P Mid Cap 400 is the highest since 1998.

This past week, small companies widened their advantage, as trade tensions between the U.S. and China increased. On Monday, Presi-



\*Earnings are 12-month forward forecasts, since June 2008

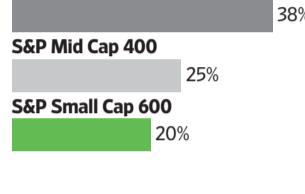
Source: FactSet

Small-caps are now pricier than large-caps.

Price/earnings ratios\*



Share of revenue from abroad



pared with 5.5% for the S&P Small Cap 600. Large companies also have a much bigger exposure to the technology sector, which has been the star of 2018.

This makes the rally in small-capitalization shares even more remarkable, although it has made them look more expensive. They now trade at almost 18 times the earnings they are expected to generate during the next 12 months, compared with 17 times for large-capitalization stocks, a larger gap than the average of the past decade.

David Lafferty, chief strategist at Natixis Global Asset Management, which manages about \$900 billion, believes U.S. medium-size companies are more attractive than small ones, because they have greater liquidity and their valuations are similar to larger companies.

To be sure, preference for small-caps over the larger companies has swung up and down over the past decade. This is in contrast with the period between 2000 and 2005, when small-caps consistently gained ground.

Even in Europe, where the weakening euro has boosted multinationals' foreign revenue, some investors and analysts see domestic-focused firms as an attractive way to protect from the dangers of a widespread escalation in trade barriers.

For Roland Kaloyan, head of European equity strategy at Société Générale SA, who believes the eurozone's soft patch will prove temporary, these shares are a good place for investors to park their money as interest rates go up.

"Small and medium-size companies were very leveraged five years ago, now they've deleveraged massively," he said.

—Riva Gold contributed to this article.

dent Donald Trump called for a fresh round of tariffs on \$200 billion of Chinese goods. Chinese officials have pledged to retaliate with tariffs on U.S. car makers, farmers and industrial companies.

Shares of U.S. multinationals such as Caterpillar Inc., Boeing Inc. and Deere & Co. were hit.

Analysts still need to work out how individual companies would be affected by a disruption in global trade, partly because many domestic-focused companies have globally exposed suppliers. But this is just one of the many factors that have benefited smaller companies in

recent months.

Hopes of a prolonged synchronized period of global growth have lessened because of weaker economic data coming from Europe and China. Meanwhile, U.S. retail sales and consumer spending have continued to improve, suggesting that America's domestic economy has room to expand.

This has also boosted the U.S. dollar, reversing a stretch of weakness earlier in 2018. The WSJ Dollar Index, which measures the greenback against a basket of 16 currencies, is up 2.5% this year, making the foreign revenue of U.S. multinationals

less valuable when converted back to dollars.

S&P 500 companies generate 38% of their income overseas, figures by data provider FactSet show, whereas for those in the S&P Small Cap 600 it is only 20%. Still, medium-size firms in the S&P Mid Cap 400 get 25% of their revenue from abroad—not much more—and their shares have risen far less.

"Sales growth is feeding through to the bottom," said Colin McLean, chief investment officer at SVM Asset Management. The Scottish firm has large stock allocations in small and medium-size companies around the

developed world. "Investors have realized they've been underexposed to these stocks," he said.

Following last year's passage of U.S. tax cuts, a survey of small-business profitability in May hit its highest reading since records started in 1973, according to the National Federation of Independent Business. Views about business expansion were also the most optimistic in the survey's history.

Still, multinationals have reaped even larger benefits from the tax cuts. Earnings expectations for the S&P 500 this year have been upgraded 9.2% since December, com-

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

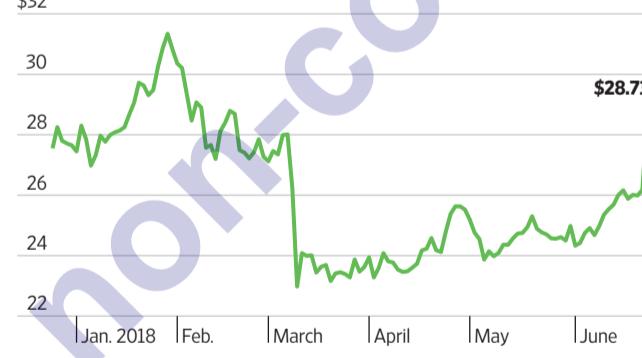
WSJ.com/Heard

Email: heard@wsj.com

# Kroger Spends to Make Money

## Restocked

Kroger shares rebounded sharply Thursday



Source: SIX

pany last reported earnings in March. But the company's earnings for its fiscal first quarter ended May 26 show its strategy is paying off.

Kroger's adjusted earnings, excluding the sale of its convenience store business and other items, rose to 73 cents a share from 58 cents

a year earlier. Sales rose 3.4%, to \$37.53 billion. Both beat analyst expectations. The company also raised the low end of its full-year earnings-per-share guidance.

Private-label sales were particularly strong, rising 5.1% from a year earlier. The company's own brands are

growing faster than national brands in almost every category, Mr. McMullen said.

Margins declined slightly from a year earlier on the company's investment spree, but investors didn't seem to mind. Kroger's shares climbed 9.7% on Thursday, regaining all of the ground lost after the prior, disappointing earnings report.

Challenges remain. Rising competition from European deep discounters Aldi and Lidl may put further pressure on margins. Kroger's plan to develop Ocado's automated grocery delivery business in the U.S. remains unproven and must compete with the formidable Amazon-Whole Foods operation.

But, faced with rapid changes across the industry, Kroger can't sit still. Investors are starting to appreciate its efforts to stay ahead of the curve.

—Aaron Back

# The Future Is Now For a New Intel Chief

The comfort in being Intel is that big problems often seem a long way out. The surprise resignation of the company's chief executive makes them seem uncomfortably close.

Intel is now being forced to face some of those issues now, at least in the sense of finding the right person to address them. Those problems aren't near term in nature; Intel, in fact, is expected to see its best sales growth this year since 2011, along with record earnings. But questions such as the company's future leadership in chip-making processes and the threat of large customers such as Apple making more chips in-house are looming over Intel.

Those are hard questions to answer. So Intel's shareholders are right to be a little concerned. The company's stock price slipped 2.4% Thursday, despite Intel's effort to calm the waters by also announcing strong preliminary results for the second quarter with a week left to go in the period. Revenue will be up nearly 15% year over year, to \$16.9 billion, making for Intel's best quarter of growth in nearly seven years. The company also projected ad-

justed per-share earnings of 99 cents, 15% above Wall Street's consensus target.

Those questions came to the forefront when CEO Brian Krzanich resigned over violating Intel's antifraternization policy by engaging in a consensual relationship with another employee. Mr. Krzanich was seen as successful for having helped Intel diversify away from personal computers and push deeper into data centers, which kept questions about Intel's future at bay.

But other problems have crept up on his watch. Intel's effort to move chip production to a new 10-nanometer process has hit several technical snags, with volume production now expected next year, two years later than originally planned. That has allowed rivals like Taiwan Semiconductor Manufacturing to close the gap.

Moore's Law, which roughly holds that computing power should double every two years, has remained gospel at Intel even as it hits up against the natural laws of physics. The company needs to find a new boss who will challenge that long-standing faith and find ways to keep Intel ahead of the competition. —Dan Gallagher

## OVERHEARD

The British are famous for serving up warm, flat beer, but this is being proved an outdated idea by the fears that have been stirred up by news of a Europewide shortage of carbon dioxide after several major production plants were closed for maintenance.

One of the country's biggest pub chains, Wetherspoons, said some beers could stop flowing within days. And this comes in

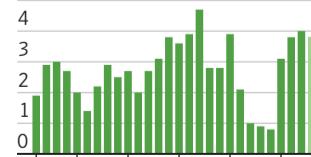
the middle of the World Cup, which is drawing crowds into pubs to watch soccer games.

Most beer sold in Britain nowadays is fizzier lagers, pale ales and mass-produced beers kept in kegs. The only place it isn't used is in old-fashioned real ales, which are naturally carbonated in casks or bottles by the live yeast they contain. Warmer, flatter beers might be making a big return after all.

# Yen Again Proves to Be Haven in Storm

## Buoyant

Japan's current-account surplus as a share of gross domestic product



Note: 2018 is a forecast

Source: International Monetary Fund

lence causes yield-seeking Japanese investors to pull back from foreign assets, driving the currency up.

Moreover, the yen has the support of a big current-account surplus, forecast at 3.8% of gross domestic product in 2018 by the International Monetary Fund. That

supports the currency when investors are fretting about countries that run deficits and need to attract capital. The yen has thus been resilient amid the trade clash between the U.S. and China.

The yen might even benefit if the picture improves and global central banks feel more comfortable about tightening policy. The Bank of Japan is firmly at the back of the pack, but that means that there is room for the currency to rise if investors start to consider a move. Other currencies, like the euro and sterling, have shown that markets are very sensitive to this initial step, which can fuel appreciation. And structurally, there is reason to believe that the yen could be driven higher by Japan's aging population,

which will need to sell foreign assets to fund spending, Morgan Stanley argues.

Importantly, the yen is seen as undervalued. Based on the average of a range of valuation measures, Deutsche Bank in June found it to be the cheapest of 31 currencies it had modeled.

One danger scenario for the yen is a world in which risk appetite surges alongside rising expectations of higher U.S. rates. That sounds like a stretch, because investors are wondering about risks related to the end of the financial cycle in light of the Federal Reserve's moves. The calm of 2017 seems unlikely to return swiftly. The yen is already in pole position this year and it looks likely to stay there.

—Richard Barley



Funny but nerdy.  
Meg Wolitzer on growing  
up on Long Island **M8**

# MANSION

*'Is the prison that Mr. Scoundrel lives in at the end of his career a more uncomfortable place than the workhouse that Mr. Honesty lives in at the end of his career?' —Wilkie Collins*

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

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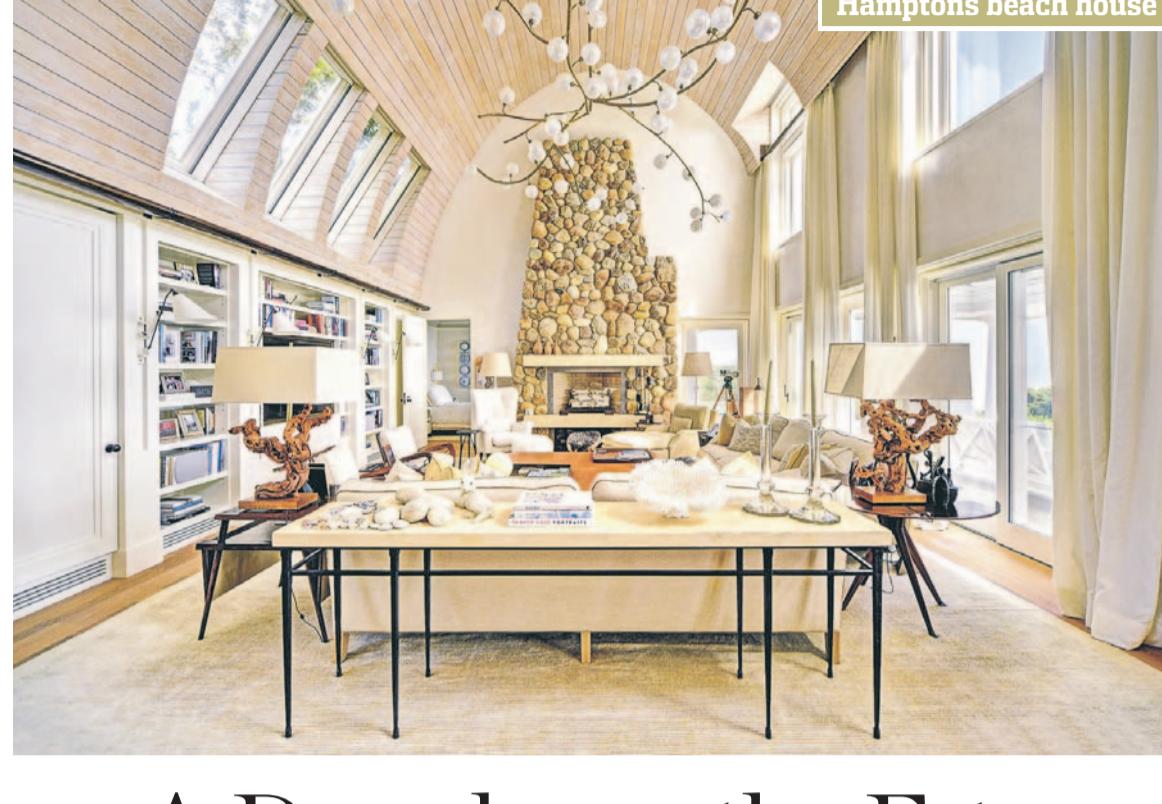
THE WALL STREET JOURNAL.

Friday, June 22, 2018 | **M1**

## Palm Beach waterfront home



## Hamptons beach house



## New York penthouse

BY KATHERINE CLARKE

**WHEN REAL-ESTATE AGENT** Jason Haber first viewed Bernard Madoff's penthouse on Manhattan's Upper East Side in 2009, he saw Mr. Madoff's personal belongings still in the apartment—as if the disgraced financier had just stepped out of the room. White polo shirts were stacked in a drawer. An electric shaver sat on the bathroom vanity.

"It was so awkward because you knew it was all his and it felt weird being there," said Mr. Haber of Warburg Realty, who was vying to get the listing from the government. "There were federal agents all over the house inventorying everything. They asked me to surrender my phone be-

cause no one was allowed to take photographs."

It has been almost 10 years since Mr. Madoff confessed to his sons that his investment company was basically "a giant Ponzi scheme," estimated at the time to represent about \$50 billion.

His confession set off a chain of events that led to the court-ordered seizure and sale of his four prime real-estate properties, including the Manhattan penthouse where Mr. Madoff had spent several months under house arrest. Proceeds from the sale of the penthouse, his Hamptons beach house, a Florida home and a villa in the South of France, among other assets, were used to pay restitution to his victims.

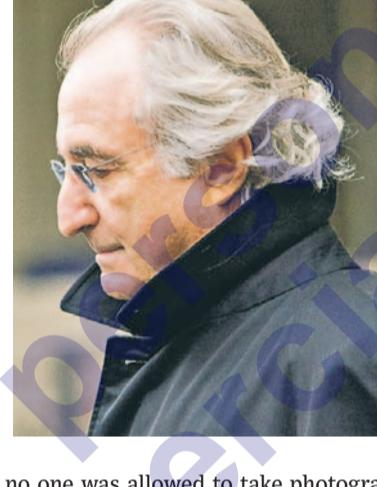
Today, Mr. Madoff is nearly nine years into a 150-year prison sentence after pleading guilty to 11

counts of financial and mail fraud, money laundering and perjury related to the Ponzi scheme.

Meanwhile, the properties, mostly sold at the bottom of the real-estate bust, have gained in value by millions of dollars, partly because of the real-estate recovery and partly because of improvements made by the homes' new owners.

The infamous Manhattan penthouse where Mr. Madoff and his wife, Ruth, spent most of their time, for example, sold in 2010 for \$8 million. Today, its estimated value tops \$13 million, according to industry experts. Here is the story behind the sales, most of which were organized by the U.S. Marshals Service, with estimates by real-estate professionals of what they are worth today.

Please turn to page M6



## Cap d'Antibes villa

## THE SCOTS DO A REAL-ESTATE JIG

Home prices are rising faster in Edinburgh than in 20 other U.K. cities, according to a real-estate tracking company; a shortage of inventory is driving up costs, but new developments will help replenish the city's housing supply.

BY RUTH BLOOMFIELD

**AROUND 2.5 MILLION** people from across the world will converge on Edinburgh to see comedians, actors, singers and street artists perform at the annual Fringe Festival. The fun and games start in August, but those with a stake in the city's real-estate market are already smiling.

According to Hometrack, a property-analytics firm, Edinburgh is the most buoyant real-estate market of the 20 cities it tracks across the U.K. Prices in the Scottish capital rose 7.2% between April 2017 and this year to an average £222,800, or almost \$300,000. London, by comparison, saw below-inflationary price increases of 0.8% over the same period. The average city price growth was 4.9%.

An imbalance between supply and demand is driving up prices, says David Marshall, operations director of Warner Solicitors. "Right now there are about 1,000 homes for sale," he said. "Ordinarily

Please turn to page M10



**NEW TOWN** Cottages on Circus Lane in New Town, where Edinburgh's prime real estate can be found. Prices for townhomes here—most built in the late 17th century and early 18th century—range from about \$530 to \$800 per square foot.

## INSIDE



**\$12.5 MILLION**  
Seagram's scion lists penthouse **M2**



**TOO MUCH STUFF**  
The challenges of downsizing **M3**



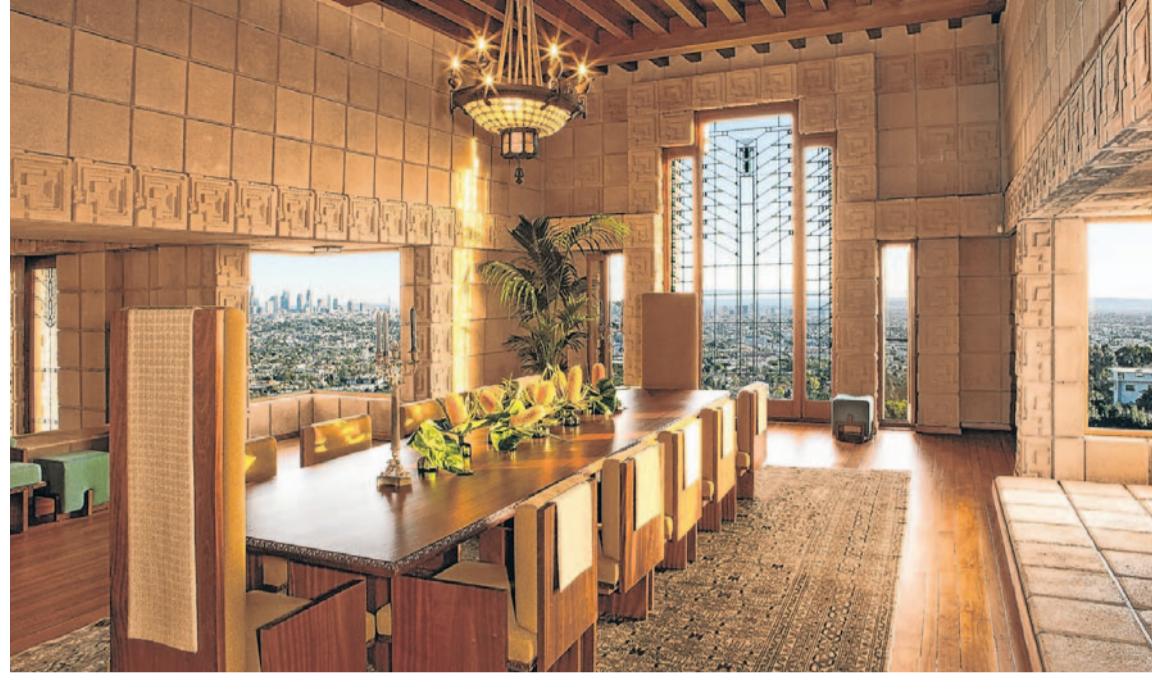
**SUPERHERO LAIRS**  
House hunting for comics characters **M5**

JO HANLEY FOR THE WALL STREET JOURNAL

## MANSION

## PRIVATE PROPERTIES

# Billionaire Lists Landmark L.A. Estate for \$23 Million



Weeks after buying a former estate of the late entertainer Bob Hope, billionaire Ron Burkle is listing another prominent Los Angeles property, the Frank Lloyd Wright-designed Ennis House, for \$23 million.

Located on a hilltop in Los Feliz, the landmark home resembles a Mayan temple, having been built from roughly 27,000 concrete blocks. Named after a former owner, the circa-1920s home has appeared in numerous movies and television shows, including "Blade Runner" and "Buffy the Vampire Slayer."

With panoramic views of the Los Angeles skyline, the house has three bedrooms, according to Ron de Salvo of Coldwell Banker, who has the listing with Branden and Rayni Williams of Hilton & Hyland.



The house is about 5,500 square feet, and the property also includes a guesthouse and a swimming pool.

The home sustained serious damage in the 1994 earthquake as well as the torrential rains of 2005. The Ennis House Foundation, the nonprofit that owned it at the time, started restoring the house, and Mr. Burkle completed the project after buying it for roughly \$4.5 million in 2011, according to Frank Quintero, a

spokesman for Mr. Burkle.

Mr. Quintero said Mr. Burkle, co-founder of the investment firm Yucaipa Cos. worked with historians to maintain the home's original appearance. For example, the house has its original light fixtures and switches, but they've been rewired, said Tim Gleason, curator of the Ennis House. Mr. Burkle also had furniture made from designs created by Mr. Wright for the house. People with knowledge of the property said Mr. Burkle spent more than \$10 million on the restoration.

Mr. Burkle is passionate about restoring houses, and with the Ennis House "he's enjoyed the home and gotten it to a place where he can now focus his conservation efforts on other projects," Mr. Quintero said. —Candace Taylor

## BRONFMAN HEIR SEEKS \$12.5 MILLION FOR NEW YORK PENTHOUSE

Matthew Bronfman, an heir to the Seagram liquor fortune, is listing his newly built New York penthouse for \$12.5 million.

The penthouse is at 400 Park Avenue South, a shard-like skyscraper in the city's NoMad district that was designed by Pritzker Prize-winning architect Christian de Portzamparc. The four-bedroom, 4½-bathroom unit spans 3,592 square feet and has nearly 11-foot ceilings. It has four exposures. The building's amenities include a swimming pool with a Jacuzzi, a fitness center and spa, a golf simulator and a screening room.

Mr. Bronfman, 58, and his wife, Melanie, purchased the unit in January 2016 for \$10.182 million

and upgraded its interiors, he said. "It was the perfect location for us to merge our uptown and downtown lives," Mr. Bronfman said, noting that they also enjoyed the "spectacular" sunrise and sunset views. He said they are moving to be closer to their son's school on the Upper East Side.

Mr. Bronfman is the chairman and CEO of BHB Holdings, a family investment office. He is the son of Canadian-American billionaire Edgar Bronfman Sr., who died in 2013.

Real-estate agents Brian Manning, Tim Schneider and Chris Franklin of Brown Harris Stevens have the listing.

—Katherine Clarke



MARY E. NICHOLS (CA); CARY HOROWITZ/BROWN HARRIS STEVENS (NY); NICKOLAS SARGENT PHOTOS (FL)

## CORAL GABLES HOME ASKS A RECORD \$55 MILLION

A Coral Gables, Fla., estate is set to go on the market for \$55 million.

If it sells for that price, the property would set the record for the priciest home ever sold in the city, according to appraiser Jonathan Miller. The record was set in 2017, when a home owned by Alan Potamkin of Miami-based Potamkin Cos., one of the largest automotive-dealer groups in the country, sold for \$43.7 million, property records show.

The \$55 million home is located in a members-only gated community known as Gables Estates Club, according to the listing agent, Dennis Carvajal of One Sotheby's International Realty. Prospective owners must pay a nonrefundable fee of \$100,000 to apply, according to Mr. Carvajal and a community

spokeswoman. Owners go through rigorous background checks, and security guards patrol the area by sea and by land 24 hours a day, the spokeswoman said.

Mr. Carvajal described the home's style as Mediterranean meets neoclassical. Overlooking a waterway leading to Biscayne Bay, the estate sits on roughly 2.4 acres and is about 16,198 square feet, with six bedrooms and 10 bathrooms in the main house. The living room has a double-height ceiling with two stories of windows.

Amenities include a movie theater, dockage for a 90-foot yacht, a four-car garage, a game room and two guesthouses, Mr. Carvajal said. One of the guesthouses is joined to the main home by a covered loggia, while another is in a separate structure. Millions were spent on

landscaping, which includes over 600 different species of palms, trees, plants and flora.

The listing is owned by Manuel Diaz, founder of Manuel Diaz Farms, a landscaping-services business. He bought the site on which the property sits for about \$6.4 million in 2003, property records show. He wasn't available for comment.

Mr. Carvajal said his client is selling because his children have grown and the home is simply too large. "It's something they've enjoyed for 10 years but the reality is that it's a bigger home than they need," he said. —Katherine Clarke

Scott McNealy lists his sports-laden Silicon Valley estate for \$96.8 million. M10

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## MANSION

JUMBO JUNGLE | ROBYN A. FRIEDMAN

## GETTING RID OF A LIFETIME OF STUFF

As baby boomers get older and move to smaller homes, they face a challenge: how to sell many of the possessions they've accumulated over the years. It's a similar conundrum faced by heirs who must dispose of assets after a loved one dies; 'organization is the key'



CHRIS GASH/SHUTTERSTOCK (SOFA, LAMPS, 3); ALAMY (STATUE); GETTY IMAGES (WATCH)



As baby boomers age, many are planning to downsize into smaller homes. But preparing to live in a smaller space brings up a challenge: how to get rid of all the stuff you've accumulated through the years.

Whether it's vintage furniture, antiques, collectibles or couture fashions, knowing where to sell it—and how—is key to maximizing your return on investment. That applies whether you're a homeowner selling possessions or an estate administrator handling the sale of personal effects after the death of a family member or friend.

"The baby boomer generation is downsizing," says Jacquie Denny, co-founder of Everything But the House, an online estate-sale and consignment marketplace based in Cincinnati that does busi-

ness across the country. "On top of that, we're an affluent generation. Many of us have multiple homes."

Ms. Denny launched the firm in 2008 after handling her aunt's estate. An auctioneer "came in and took the two nice paintings in the house and then wanted me to throw the rest in the front yard with a guy who didn't know a loomed rug from a hand-woven rug," she says. "There was no system."

When someone wants to downsize or sell estate assets, Ms. Denny's firm will visit the property for a free consultation. If the owner wants to proceed, the firm will photograph, catalog, sell and ship the items via its auction website, where bids start at \$1. With about 1.5 million registered bidders, she has sold everything from a Patek Philippe 18-karat gold watch for \$8,700 to a 1978 Beechcraft B60 Duke airplane for \$12,000. Her

fees range between 15% and 50% of the selling price.

Rachelle Rosten, executive managing director of the Master Trust and Probate Division of Douglas Elliman Real Estate in Beverly Hills, frequently works with down-sizers as well as people who inherited a house and need to clean it out before selling.

She first advises her clients to decide what they want to keep and what they want to sell or donate. Those decisions sometimes take years, she says, due to the emotions involved when a loved one passes away.

It's important to strategize on the best method—and place—to sell an asset, Ms. Rosten says, because the value of an item often depends on where it's located. A house she recently sold, for instance, had art-deco bedroom furniture with inlaid wood. "In Florida, it would have had a huge amount of value. In Los An-

geles, it has virtually none. That's where auction houses come into play because they can place it in the right market," she says.

Four years ago, Dindy Yokel, a writer and publicist in Boca Raton, Fla., had to sell the contents of her mother's 7,500-square-foot home, which was filled with antiques, art, custom furniture, jewelry, Edward Fields rugs, Herend figurines, Christofle flatware and designer clothing and accessories, including more than 20 Chanel handbags. She used eBay to sell some in-demand items, such as the Herend collection. She sold antique posters back to the gallery they were purchased from and used local auction houses for much of the rest. The process took about five months.

Here are some things to consider if you need to dispose of assets in a home you plan to sell:

## • Conduct an inventory.

Ms. Yokel's first step was to create spreadsheets itemizing every item in her mother's home. That helped her determine value—she says an entire set of antique books will fetch more than selling books one by one—and exclude items she and her brothers wanted to keep.

It took her more than a month just to do the inventory, which was also necessary for estate-tax purposes. "We were doing research as we did the inventory to determine the demand," she says. "But as you're going through it, you're also mourning somebody so it's not easy. It's a horrific process, but organization is the key."

• Consider selling the house furnished. If the furniture is in good shape and in demand, consider removing personal effects and collectibles and selling the house furnished. Some buyers might appreciate a turn-

key property, particularly if they plan to use it as a vacation home.

• Find a reputable auction company. Whether it's local or national, an auction house will walk though the home and provide advice on the assets. There should be no charge for that service unless an appraisal is required. "An appraisal may be well worth it because in some cases you may think something has no value and you're going to give it away, but then find out it's hugely valuable," Ms. Rosten says.

Two years ago, she handled the sale of a triplex that was in a prime location but in poor condition and filled with the prior owner's belongings. Although the new owners initially wanted to toss everything, they ultimately hired an estate-sale company. The "rubbish" was actually old collectibles and games. The sale netted \$42,000, Ms. Rosten says.



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## MANSION

## ANNOTATED ROOM

# A Dining Room With Railroad Roots

A Portland, Ore., couple spent \$375,000 to redo a space that was once part of a railway terminal

**THIS 1,900-SQUARE-FOOT** townhouse in Portland, Ore., is located in a 1908 brick building that was once the freight warehouse and passenger terminal for the Spokane, Portland and Seattle Railway. The owners, who live in Washington, D.C., purchased the two-story, two-bedroom unit in

2016 for \$3.1 million as a getaway to the heart of Portland's Pearl District, an artsy—and pricey—neighborhood northwest of downtown.

The homeowner, who works in the tech industry, and his wife asked Portland-based architect Jeff Lamb to create a

space where they could relax and entertain. Mr. Lamb aimed to design a sophisticated space that stayed true to the building's industrial past. The dining room, shown here, cost about \$375,000 to renovate and furnish. Here are some of the components with estimated prices.

—Nancy Keates



1. The custom-designed **light fixture** is meant to evoke floating clouds. It is composed of 25 blown-glass pieces with LED lights inside. They were fabricated by Ian Gilula at Elements Glass in Portland.  
**Price:** \$42,000

2. The custom **dining table** features a 11-foot by 4-foot slab of walnut on a steel base. It was

fabricated by another local company, Kai Fuhrmann Master Furniture Makers.  
**Price:** \$22,400

3. To create display space, Mr. Lamb designed a **display console** made of steel, walnut and burled maple that was also fabricated by Fuhrmann Master Furniture Makers.  
**Price:** \$21,500

4. Maple-veneered panels on the **ceiling** were made by Form and Structure and visually define the dining space.  
**Price:** \$24 a square foot

5. The **rug**, called Mamluk Spice by Wool Silk Christiane Millinger, is made with a wool-silk blend and measures 10-feet by 16-feet.  
**Price:** \$21,760

6. The sheer **draperies** were custom made by the Shade Store in Portland. They create privacy while allowing light into the interiors.  
**Price:** \$7,800, which included installation

7. The Saarinen Arm **Chairs** are from Design Within Reach.  
**Price:** \$17,056 for 12

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## MANSION



EVAN JOSEPH/WARNER BROS./EVERETT COLLECTION (BALE)

BATCAVE NOT INCLUDED A comparable property for Wayne Manor, home of Batman (played by Christian Bale), could be a 12-bedroom, 30,000-square-foot home in Alpine, N.J., asking \$39.9 million.

SPREAD SHEET | ADAM BONISLAWSKI

## LUXURY LAIRS SUITABLE FOR A SUPERHERO

What would Batman's Wayne Manor or Iron Man's high-tech hub list for today? We find some comparable properties

**HOW MUCH** does a subterranean lair add to the value of an estate? What's the best comp for a mansion for a gang of mutant crime fighters? How do you price a magical brownstone with square footage that's far greater than the structure could plausibly hold?

Such are the dilemmas inherent in appraising a superhero's abode. It's a challenging task, but it can be done, says Constantine Valhouli, co-founder and director of research at NeighborhoodX, a real-estate research firm.

Take, for instance, the Malibu, Calif., manse of playboy inventor Tony Stark, aka Iron Man. What's an appropriate price for a sprawling oceanfront home that, as Mr. Valhouli puts it, "looks like a cliffside Zaha Hadid?"

For a comparable figure, he suggests the former Johnny Carson estate, an equally spectacular Malibu property currently on the market for \$81.5 million, or a little more than \$11,500 per square foot.

As a comparable property for Wayne Manor, home of Batman, Mr. Valhouli suggests a 12-bedroom, 30,000-square-foot home on the site of the former Frick mansion in Alpine, N.J., listed for \$39.9 million. Asked about the home's superhero-worthiness, listing broker



HOME SCHOOL A Westchester County, N.Y., property that's on the market for \$36 million could work as Xavier's School for Gifted Youngsters, home of the X-Men. Inset, Professor Charles Xavier (portrayed by Patrick Stewart).

Noble Black, of Douglas Elliman, notes its highly private nature, which is nice when you're trying to keep your crime-fighting alter ego under wraps. Also key, Mr. Black says, is the ample vehicle storage—essential space for various Bat-contraptions.

"You've got a great port cochere, and then once you drive through there you have a private courtyard with garage space for 11

cars," he says. Privacy is also a prime selling point for a Westchester County, N.Y., property on Armonk Road that Mr. Valhouli suggests as a comp for Xavier's School for Gifted Youngsters, home of Marvel Comics' X-Men.

The 22,000-square-foot mansion (on the market for \$36 million) is situated on 97 acres, says listing broker David Sokolowski, of Nest

Seekers International. "You have to drive up a quarter of a mile road to get to the house, so it's very secluded in terms of privacy and exposure from the street."

Sounds like just the spot for stash-

ing a crew of mutant superheroes.

Slightly less luxurious is a fifth-floor walk-up on West 46th Street in Manhattan's Hell's Kitchen neighborhood. The unfinished one-bedroom, listed for \$595,000, is a

bit rough around the edges at the moment, says Donald Kemper, the listing agent, but that makes it perfect for a gritty character like Daredevil, who is a resident of the neighborhood.

"Someone is going to come in and redesign this place," says Mr. Kemper, who's with Douglas Elliman. "But as it is right now, it's definitely the type of place Daredevil would occupy."

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## MANSION

# Madoff Mansions Get a New Life

Continued from page M1

**NEW YORK PENTHOUSE**  
Sold for: \$8 million  
Estimated value today: \$13.268 million**MANHATTAN'S EAST SIDE** The Madoffs' East 64th Street home, sold in 2010 for \$8 million, struck visitors as dark. 'It was as if he was consciously, or subconsciously, trying to hide,' one subsequent owner said. The dining room of the home, top center, before the new owners brightened the interior.

Graves added. "Over time, it's gotten better. But at that time, it was a little more poignant. There were people still grappling with their losses. There were people who simply turned away from even looking at the home based on the historical context."

Mr. Kahn recalled first visiting the home out of curiosity but quickly saw how she could improve it. "There were big awnings that hung over the windows, so you never saw a glimpse of sky," she said. "It was as if he was consciously, or subconsciously, trying to hide."

When she moved in, Ms. Kahn invited her

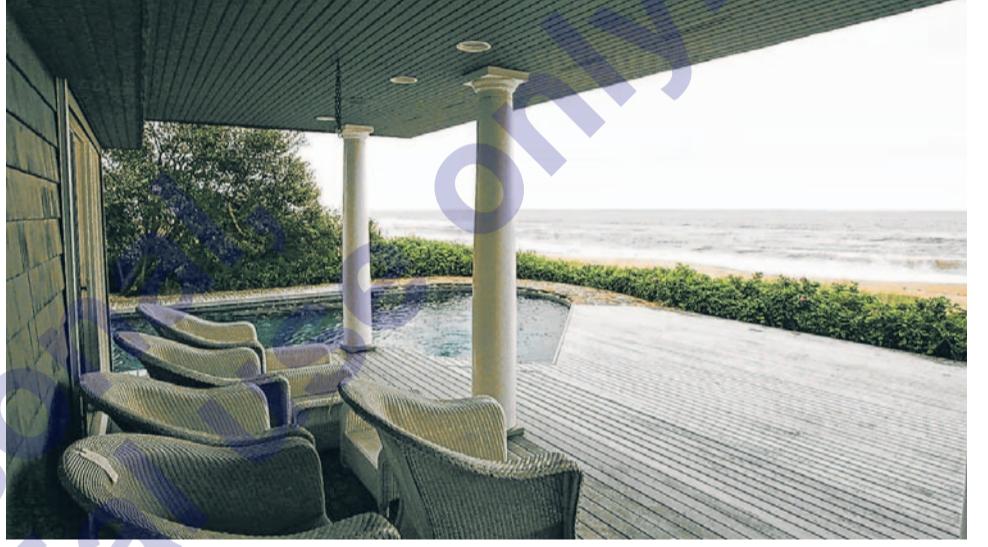
friends over for a so-called smudging party, she said, where they burned lavender and sage, and recited prayers and poems, to rid the home of negative energy.

Mr. Graves said it helped that his client had banished the dark-colored drapes and brightened up the home with whimsical art. She also hosted charity fundraisers there and would have guests write their names on the door. "She had this rainbow collection of permanent markers everyone used as they came in," he recalled. Anyone willing to see the home, he added, would be met with a cheerful image.

If the apartment were to sell today, it would likely trade for a similar price to its 2014 sales price, provided no further work has been done, Mr. Graves said. In 2014, the median price for a three-bedroom Manhattan home was \$3,728 million, compared with \$4,094 million in 2017, according to a report by Douglas Elliman.

Appraiser Jonathan Miller said the market for luxury New York sales—classified as the top 10% of homes—had dipped by about 8.5% since 2014. All other factors being equal, that would equate to a value for the apartment of about \$13.268 million today.

**MONTAUK, N.Y.** The beachfront home at the tip of Long Island was also decorated in a dark aesthetic, with Formica countertops. It was purchased for \$9.41 million in 2009 and given a full makeover. It is on the market now for \$21 million.

**CAP D'ANTIBES VILLA**  
Sold for: About \$1.3 million  
Estimated value today: \$1.6 million

Mr. Madoff's home in the Cap d'Antibes area of the South of France was a three-bedroom apartment in a Mediterranean-style villa with terra-cotta roof tiles and green shutters, according to Guillaume Turquois, the agent who represented Mr. Madoff in his purchase of the property.

It was located in the Chateau des Pins development, a luxury community with tennis courts and sea views. It has 24 apartments across seven villas, Mr. Turquois said.

The Madoffs bought the property in 2000 or 2001, according to a filing by Mr. Madoff's lawyer in 2009.

It was sold by public prosecutors in France to a Russian businessman for about \$1.3 million in 2009, Mr. Turquois said, confirming reports in the French press. Mr. Turquois didn't represent the French government in that sale of the property.

Mr. Turquois said the apartment was unremarkable. "It was nice. I won't say luxury fixtures. There was nothing extraordinary," he said.

If it were to come on the market today, the apartment would likely be valued at roughly \$1.6 million, based on current market conditions, Mr. Turquois said.

**HAMPTONS BEACH HOUSE**  
Sold for: \$9.41 million  
Estimated value today: \$21 million

The Madoffs' Montauk, N.Y., home was decorated in a similarly dark aesthetic, with Formica countertops and dark oriental rugs.

Mr. Miller, an appraiser with Miller Samuel, recalled watching a video tour of the property offered to the media, and remembered that the host, a U.S. Marshal with a bulge from a firearm on his side, speaking of the property's "understated elegance."

Owners Steven and Daryl Roth bought the roughly 3,000-square-foot home, which has unobstructed views of a public beach and a gunite pool overlooking the ocean, for \$9.41 million in 2009 and completed a huge renovation spearheaded by designer Thierry Despont. They installed a new staircase and moved the master suite from the ground floor to the second floor.

The Roths are selling because they have two other homes nearby in East Hampton and don't have much time to spend at the Montauk property, listing agents Gary Depersia and Joan Hegner of the Corcoran Group previously told The Wall Street Journal. The property is on the market for \$21 million. Mr. Roth is chairman of Vornado Realty Trust, a real-estate company. The Roths declined to comment.

Mr. Miller said he rarely saw a substantial premium or a discount on a property based on its connection to a boldface name such as Madoff's.

"For every example that can be provided for someone that paid a premium, you can provide one or more examples of a discount," he said.

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**FLORIDA WATERFRONT** The family's Palm Beach house was called a 'classic island home.' It sold for \$5.65 million in 2010, then was renovated and resold three years later for \$9.1 million.**PALM BEACH WATERFRONT HOME**  
Sold for: \$5.65 million  
Estimated value today: \$12.1 million

The Madoffs bought their Caribbean-style Palm Beach, Fla., property in 1994 and didn't do much work on it. Mr. Madoff and many of his clients were members of the Palm Beach Country Club.

The real-estate agents marketing the property for the Marshals Service in 2009 called the five bedroom, roughly 8,800-square-foot property a "classic island home." It had high vaulted ceilings, a covered loggia, a pool and a private deepwater dock for a yacht.

While it lagged behind the other Madoff properties during a weak Florida luxury market, the home was purchased from the

marshals by the Texas-based Bray Children's Trust for \$5.65 million in 2010. The buyer hired Michael Perry of MP Design & Architecture in Palm Beach to renovate it.

The trust then resold the home in 2013 for \$9.1 million to a Garden City, N.Y.-based company identified in public records as Algonquin Partners LLC. Records link that company to Austrian Prince Alexander von Auersperg. Neither the trust nor Mr. von Auersperg could immediately be reached for comment.

As for what the property might sell for today, prices for high-end homes in Palm Beach have risen substantially since the home last sold in 2013, according to findings by Mr. Miller. For luxury homes, defined as the top 10% of sales, they increased by 33%, meaning the home could be worth as much as \$12.1 million, all other factors being equal.

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## MANSION

HOUSE CALL | MEG WOLITZER

# Who Cares What Cool Girls Think?

The author of 'The Wife' started to write at age 6 and told stories in class as her teacher took notes

**When I was 9, my older sister, Nancy, and I went off to sleepaway camp in upstate New York. We sat on a hill with some other kids, crying at the end of an afternoon. We were homesick.**

Several summers later, at an arty sleepaway program, I hated the idea of ever having to leave. Over that teenage summer, I was thrilled about everything. I also became a little pretentious.

In a way, both summers shaped me and had something to do with the writing that would happen later. The first taught me about loneliness. The second was an awakening to excitement.

I was born in Brooklyn, N.Y. Five months later, we moved to Syosset, on Long Island. I remember our first house as small, with a patch of lawn, a driveway, some shrubs and one bathroom.

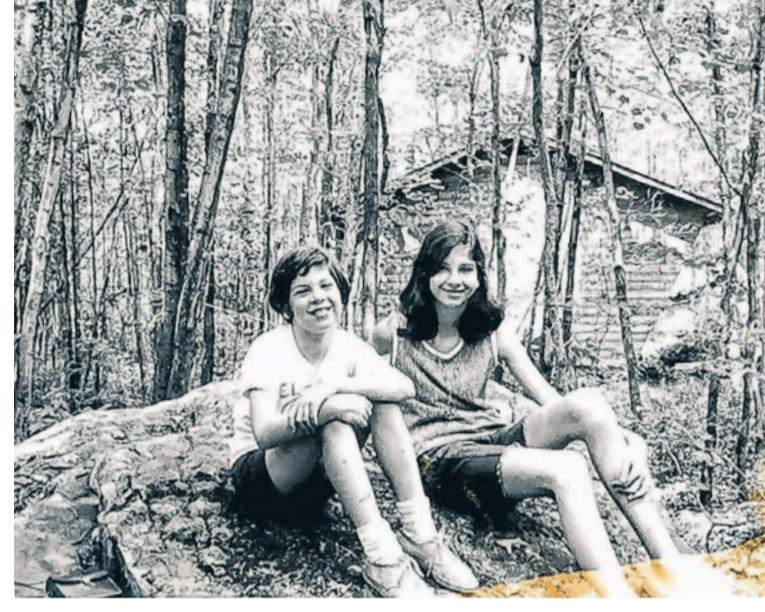
In the middle of second grade, we moved to a bigger house—with two bathrooms.

My father, Morton, was a school psychologist in Mineola. He also had a practice in nearby Hicksville. My mother, Hilma, was a published novelist, and she was creative in everything she did. She had taken art classes at New York's Brooklyn Museum.

Each year at our school fair, she drew portraits of kids in profile. Her drawings were quite good. Decades later, former classmates would tell me their parents still had them framed on the wall.

Though my parents weren't bohemian, they were bookish and interested in art and culture. We often traveled into Manhattan in our white station wagon to visit the Museum of Modern Art.

Growing up in Syosset, I straddled a couple of different worlds. By nature I was introverted, but I did things that were extroverted. I was funny in my family and also



**SUMMER PLACE** Meg Wolitzer, right, in Sweden in 2016, and, above on left, with her sister, Nancy, at summer camp in upstate New York in 1968.

among my friends, but a little nerdy. I wanted to be someone teachers liked.

My sister was 3½ years older than me and much less mainstream, especially with music. Nancy liked singers such as Phil Ochs and Lou Reed.

My parents bought her a turntable with the understanding that she'd let me listen to my music. One day, I came in with my Osmonds records. Nancy kept turning down the volume. She worried that the cool girl next door would hear it coming out of her window.

Though I came of age in the '70s, my rebellion was pretty mild. I preferred being in the neighbor-

hood of bad rather than bad itself. I was there when my friends made some prank calls and had pizza delivered to their neighbor across the street. I was scandalized by it and just observed, which maybe is a writer's lot.

I began writing when I was 6. I wrote in the kitchen on our yellow butcher-block table. I also wrote on the floor of my room, leaning on a book.

First grade was a fertile year. My teacher, Mrs. Gerbe, would invite me up to her desk to dictate stories to her. She'd write them down. My mother still has a batch of them, in Mrs. Gerbe's handwriting but in my voice.

My mother was maternal and



FROM LEFT: ZUMA PRESS; WOLITZER FAMILY

proud of my writing. She knew that writing was a lot of work. She also knew there would be painful disappointments along the way.

At 21, when I was a senior at Brown University, my agent called to tell me that Random House had bought my first novel, "Sleepwalking." I was beyond excited.

I called my parents and they were so happy. My mother understood exactly how I felt. I was paid \$5,000, and I thought the check would last a lifetime.

Today, my husband, Richard, and I live on Manhattan's Upper West Side. I finally have an office, which I never had before. When I write, I'm often on my big white Crate and Barrel sleeper sofa. I

like that it's part analyst's couch, part lounger. I prop myself up on one end and rest the laptop on my knees.

What I remember most about my Syosset bedroom were the portraits I drew inside my closet door. They were of famous people I admired, like Janis Ian and T.S. Eliot.

I sometimes wonder if those drawings are still there.

—As told to Marc Myers

Meg Wolitzer, 58, is the author of 12 novels, including "The Interestings" and "The Wife," which opens as a film adaptation starring Glenn Close on Aug. 17. Ms. Wolitzer's new novel is "The Female Persuasion" (Riverhead).

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## Special Advertising Feature

# Cape, Islands Gain Ground with Investors

**WITH AVAILABLE INVENTORY LOW, HOMES MOVE FAST AT ALL PRICES**

By Joseph Dobrian

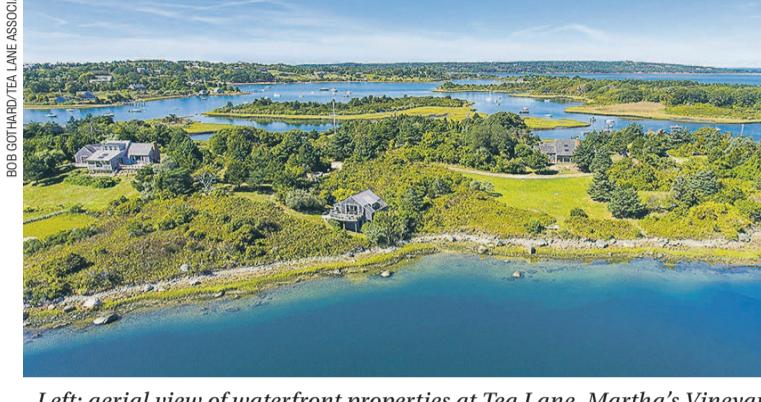
**C**ape Cod, the South Coast/South Shore and the islands of Martha's Vineyard and Nantucket are perpetual winners in the second-home market, partly because of the lifestyle those markets offer, and partly because of the investment value of the real estate there. Inventory continues to shrink, so well-priced homes sell quickly—in all price ranges.

**NATIONWIDE TREND**

"The trends in southeastern Massachusetts are the same trends we are seeing around the rest of the country," reports Michael Schlott, president of Kinlin Grover Real Estate, which has offices across the area.

"The main issue is very low inventory. Inventories have been shrinking for the past three years, and we are now at historic lows in many markets. As a result, well-priced homes coming onto the market are selling quickly. This is true for all segments: low-end, mid-range and high-end homes. For the first quarter of this year on Cape Cod, the South Coast and the South Shore, available single-family home inventory was down almost 13%, and the average sale price was up 10%.

"At the high end, the average sale price was up more than 11%. When homes come onto the market they are going



Left: aerial view of waterfront properties at Tea Lane, Martha's Vineyard; right: shingle-style homes with modern interiors are popular in Nantucket.



quickly, and selling for significantly more than a year ago.

"A traditional market sees 3% to 5% appreciation, so we are talking about first-quarter numbers that are three or four times higher than the average market," he adds.

"However, it's important to remember that quarterly statistics like these represent a small window into the market and not necessarily a growing trend."

"Prices are increasing, but they are likely to stay more within traditional ranges over the long run. Also, the average number of days that a home stays on the market is down 15% to 20%."

Mr. Schlott acknowledges that the new federal tax laws impacting real estate—in particular the \$10,000 cap on the property tax and reduced mortgage-interest deductions—have created some uncertainty, but low inventory continues to drive sales on Cape Cod because the area is built out.

On Martha's Vineyard, Abby Rabinovitz, owner of Tea Lane Associates in Chilmark, Mass., reports that the 2018 market is just starting to get hot. Inventory is low, she agrees, but several interesting properties are available and buyers are coming in at every price point.

**WATERFRONT HOMES**

"Entering the Vineyard market at lower price points is difficult due to lack of inventory," Ms. Rabinovitz says. "Vineyard properties below \$1 million can go quickly."

However, "because of the Vineyard's salt-water ponds, you don't have to be right on the ocean to have an incredible waterfront property. The ponds provide a 'close-to-nature' experience, amazing views and easy access to some gorgeous Atlantic beaches."

"The Vineyard has something for everyone. Do you want to be in-town? Would you rather be isolated and remote? Close to nature but still convenient to

everything? You can find it here. We're very excited about a new listing that's on the market for the first time in more than 50 years, a three-home waterfront estate on Stonewall Pond on almost six acres. Another special property we are listing sits on Tisbury Great Pond, with intimate views of the pond out to the ocean. A third is a beautifully crafted home overlooking Quitsa Pond and the Vineyard Sound. Each of these properties has easy deeded access to a beautiful private Atlantic beach."

At Island Properties BHHS (Berkshire Hathaway HomeServices), owner Michael O'Mara says Nantucket is a smaller, more remote, less expensive market than Martha's Vineyard—but Nantucket, too, is seeing a real estate boom.

The number of sales there is up 25% in 2018, year to date, and dollar value is up 39%.

"The big part of the market is under \$3 million," he says. "Nantucket is more centralized

than Martha's Vineyard, with very few towns. We have the second-busiest airport in New England, and aviation has made Nantucket a more practical place to own."

**"YOU DON'T HAVE TO BE ON THE OCEAN TO HAVE AN INCREDIBLE WATERFRONT PROPERTY."**

"New homes are very popular here. Millennials are often willing to sacrifice location in exchange for new properties with creature comforts. The trend is toward a contemporary look on the interior, but with the old-fashioned shingle style on the outside," Mr. O'Mara adds.

"Climate-wise, Nantucket is little cooler than New York or Boston. Your body has a perfect temperature, and many people seem to find it on Nantucket."

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# Boston Area Continues to Create Excitement

## DEMOGRAPHIC TRENDS HELP TO MAKE THIS A BUSY MARKET

By Joseph Dobrian

**M**etropolitan Boston continues to be one of the tightest markets in the United States, particularly at the upper end. It has always been supply-constrained, due to various factors—and it's one of the most desirable markets to the luxury home-buyer, because of its amazing variety of entertainment, education, technology, and business opportunities. Several of its communities, notably Boston and Cambridge, have been adding condo properties, but they go fast.

**ENERGETIC**

Mark Lippolt, senior vice president at Coldwell Banker Hammond Residential in Boston, characterizes the market as "boringly consistent" from a broker's viewpoint, but energetic if you're buying or selling. Uncertainty about interest rates has led to some hesitation, as have the high state and local taxes. However, demographic trends are keeping sales figures high.

"I've always believed that demographics are as important as economics and are often overlooked," Mr. Lippolt says. "I've just seen a study that reports single women are more than twice as likely to be buying homes, including condos, as single men. They accounted for 18% of home purchases last year, according

SAMUELS AND ASSOCIATES



Residences at The Pierce are designed as contemporary but comfortable, with curtain glass walls for panoramic views.

to the National Association of Realtors, compared to 7% for single males. Single women are the second-largest category of buyers after married couples. The profile of the single female buyer impacts the market."

**ENHANCED SECURITY**

Among the property features developers and sellers should think about to attract this important demographic are enhanced security, proximity and ease of parking. People aged 25 to 34 make up 23% of Boston's population today—and 15% of them have moved into the market in the past year.

"Millennials want access to public transportation, so we've seen a push on the part of developers and builders to put their complexes near transportation hubs and bus and train stations," Mr. Lippolt adds.

"Millennials are amenities-driven. Their parents might not have been concerned about

bike racks, but they are. They also want to live in lively neighborhoods with lots of nightlife and restaurant choices. In greater Boston, they tend to have decent median household incomes—which explains our ability to command strong rental rates."

### "SINGLE WOMEN ARE THE SECOND- LARGEST CATEGORY OF BUYERS AFTER MARRIED COUPLES."

Boomers (people born between 1946 and 1964) remain a major force in Boston's real estate market, in both condos and private homes. Mr. Lippolt says they tend to look for homes in turnkey condition, with first-floor master suites, leaving

upstairs for the children and grandchildren. They also want home offices, plus wider doors and hallways to address any mobility issues.

At Boston-based LandVest, Greta Gustafson, managing director of new development, reports that new homes "continue to fly off the market this year—faster than developers can keep up."

Boston's inventory is at a record low, she says, and today's buyers are well-informed and carefully comparing all options.

"Developers are curating exceptional living experiences. We're seeing trend-setting architectural designs, and amenities such as private elevators and museum-quality finishes. They're in a race to offer the 'best in class,' and that race doesn't appear to be slowing down.

"Some developers offer a balance between elegant living

and casual comfort. The Pierce Boston in Fenway is a great example of flawless architectural design that seamlessly fits into the fabric of an evolving neighborhood. Residences at the Pierce are contemporary, but comfortable. Two of the key features are curtain walls of glass that bring in panoramic views, and top-of-the-line concierge services. This is also the only development in the city to offer individual private rooftop cabanas for purchase."

**BUCOLIC COAST**

Julie Johnson, agent at Jack Conway on the Bay, in Onset, notes that the south coast of upper Cape Cod offers a more bucolic alternative to Boston, without the sky-high prices that the outer cape commands. Inventory is relatively low there, too, she reports, but waterfront property with acreage is available.

"One property I'm enthusiastic about is a 2,200-square-foot home on 1.26 acres, on the waterfront, for only \$675,000. Further along the cape, the prices get higher—and so do property taxes.

"We're the gateway to Cape Cod, 45 minutes from Boston and about 20 from Hyannisport. This is an unusual market in that we have so much coastline," Ms. Johnson remarks.

"Onset used to be Greater Boston's terminal point, before cars were invented, because it was the last train stop, and it has some wonderful waterfront properties."



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# Rhode Island Offers History, Festivals, Sailing

**LOTS OF ATTENTION IS BEING FOCUSED ON THE STATE AS A WHOLE**

By Joseph Dobrian

**R**hode Island may be the smallest state in the Union, but it's big on excitement. Not just its picturesque coastal towns, but inland areas, too, are getting increased attention from homebuyers. For the moment, in Newport, the main coastal community, the top end seems to favor the buyer, with available inventory higher than usual. Newport and Watch Hill remain the most active markets. Newport is seeing more interest from people who plan to live there year-round. Smaller towns like Narragansett and Jamestown also offer some compelling properties. People who want a more urban experience are drawn to Providence—a lower-priced alternative to Boston, with plenty of cultural options driven by educational institutions.

**EXPANDING MARKET**

"Rhode Island's second-home market is expanding," says Judy Chace, broker/owner at Mott & Chace Sotheby's International Realty in Providence, R.I.

"Everyone knows about Newport and Watch Hill, but buyers are now exploring the whole state, going farther afield. Two areas getting more national and regional acclaim are Narragansett, and the island of Jamestown, which is located in Narragansett Bay with Narragansett on

PHOTOGRAPH PROVIDED BY GUSTAVE WHITE SOHIEBY'S INTERNATIONAL REALTY

*Homes on Rhode Island, where the second-home market is growing rapidly, range from traditional styles to more modern luxury developments.*

one side and Newport on the other side. It's eight miles long and a mile wide; it's quaint and picturesque, with mostly family-owned businesses. Jamestown has flown under the radar for a long time; it's a one-stoplight town, and upscale.

"The town of Little Compton sits on a beautiful coastal area, with much of the town under conservation easement," Ms. Chace continues. "If you drive down the main road, you see hundred-acre farms rolling down to the shore, and farm stands at the side of the road, with 'honor boxes.' You put your money in the box for the flowers or carrots you're buying, take your change, and go on your way. There's a big white church overlooking the town common, which was established in the 1600s, and in the churchyard is

buried Elizabeth Alden, the first child of European parents born in New England."

"You can't get there from here," is what Little Comptonians like to say about their town, she adds, and that remoteness is part of its attraction. It's only 15 minutes from Newport by boat, but 40 minutes by car. When you buy a home in Little Compton, some of the proceeds go to a local agricultural trust, which pays farmers to agree that their property can only be sold as a farm, not for development. "More than 2,000 acres are preserved in that way," she says.

Paul Leys, broker-owner at Gustave White Sotheby's International Realty in Newport, says that the high end of the market there is more active than usual. Last year, he reports, 17 properties were sold at \$2 million or more; today, 33

PHOTOGRAPH PROVIDED BY GUSTAVE WHITE SOHIEBY'S INTERNATIONAL REALTY

*Homes on Rhode Island, where the second-home market is growing rapidly, range from traditional styles to more modern luxury developments.*

such properties are available.

"That's a little more inventory than I like to see in that price point, but we just closed on a \$6,295,000 contemporary home, and another one at \$6 million two months ago," he says. "The \$4 million to \$7 million range is heavy with inventory right now, but it's a good selection for the buyers.

**NEWPORT LIFESTYLE**

"You'll get more bang for your buck here than on Nantucket, Martha's Vineyard or in the Hamptons, and Newport is easy to get to. It's the agent's job to sell the Newport lifestyle, because our buyers are so mobile: they might be looking at homes in Kennebunkport or the Hamptons next weekend. We have to convince them of how much fun it is to live here, what with the boat races, the tennis, the musical

festivals. We have a big sailing community here, and Newport does a good job of marketing itself as a destination."

Newport also stands out as more of a year-round community than many of its competitors, Mr. Leys says.

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"We don't close down in winter," he confirms. "We have a [Christmas festival], a big winter festival in February and other events—and we're only a 90-minute drive from Boston if the traffic isn't too heavy."

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## Special Advertising Feature

# Water, Mountains, Culture Attract Homebuyers

YEAR-ROUND RESIDENCY BECOMES MORE POPULAR IN THE UPPER STATES

By Joseph Dobrian

**P**eople looking to buy second homes in New England generally think first of Cape Cod or Nantucket, but the upper New England states of Maine, New Hampshire and Vermont are gaining adherents. Those northernmost states have been hidden treasures for generations, but word is spreading—and many families choose to settle there year-round.

**OUTDOOR ACTIVITIES**

According to Heather Peterson, owner of Petersons Real Estate in Peterborough, N.H., New Hampshire is a four-seasons destination, offering plenty of outdoor activities and a vibrant arts scene. A variety of institutions ensure a wealth of educational opportunities, and state-of-the-art health care.

"This is no longer just a second-home market," she says. "People move here for a lifestyle change. They want community connections, recreation opportunities out their back door and a variety of cultural events. We're a 90-minute drive from Boston, or four to five hours from New York. Being removed from the larger employment centers translates to some great home values, especially at the higher end. You can get a huge country estate with lots



Top: a New Hampshire home; bottom: waterfront living in Standish, Maine.

**"IT'S NOT JUST A SECOND-HOME MARKET. PEOPLE MOVE HERE FOR A LIFESTYLE CHANGE."**

of acreage in the \$1.5 million range, or a newer post-and-beam 'smart house' with mountain views for less than a million dollars. Your money goes very far here."

The Peterborough area has

lakes and mountains, she says, but not as impressive as those in the Lakes Region or the White Mountains. People move to Hillsborough County, which borders Massachusetts, to get involved in the arts, the farm-to-table food movement, and festivals.

Pamela Perkins, owner of Four Season's Sotheby's International Realty in New London, N.H., covers New Hampshire and Vermont, focusing mainly on the Lake Sunapee region.

"We have 1,100 homes on Lake Sunapee, and usually 20 to 30 for sale at any given time," she says. "Right now, we have six waterfront opportunities. Inventory is low throughout the region. The lake is crystal clean. Mount Sunapee rises at the south end of the lake. We have an abundance of culture, and no traffic lights."

**OLD-WORLD CHARM**

Ms. Perkins is currently offering 100 Garnet Hill, a lakefront compound with "old-world charm and state-of-the-art technology," priced at \$7,995,000.

In Maine, next door, home buyers tend to focus on the state's coastline—the longest of any state, by some measure—and waterfront properties there will always command the highest price tags.

The state's interior has its supporters too, because of its natural beauty and variety of winter activities. Story Litchfield, principal broker at the Northeast Harbor office of LandVest (a Christie's affiliate) reports that Maine's overall market looks strong this year, with buyers stepping up early so as to enjoy the summer.

"Waiting can lead to missed opportunities," she warns. "The good properties—waterfront properties with views—are in the greatest demand, and a dock is an important factor to many buyers. Building a dock

can be difficult due to shallow water or local restrictions, so if you find a home with a private dock in place, don't hesitate.

"I have a fabulous and wonderfully private property: Faraway, a beautifully restored shingle-style cottage with seven bedrooms with a private dock, on a six-acre peninsula with sweeping ocean and Island views. I'm also offering Fairview, which consists of a newer construction on 12 acres on a quiet cove. The amenities include a home theatre, wine cellar, and exercise room."

"The global perception of Maine has evolved," says Chris Lynch, president/owner at Legacy Properties Sotheby's International Realty in Portland, Maine. "The buyer base has exploded in the past five years. The most desirable communities have had very tight inventory."

"The Maine brand has always been a summer-vacation brand. But now, people are experiencing Maine's four seasons, with plenty to do all year round. We see more buyers coming out of historically competing markets such as Cape Cod, Martha's Vineyard and Nantucket, selling their homes to buy in Maine. The food and arts scenes continue to become more desirable, and more people are voting with their pocketbooks."

*Joseph Dobrian is a freelance writer specializing in real estate.*

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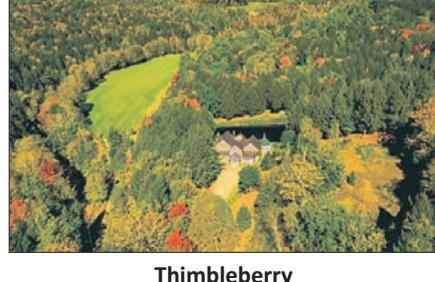
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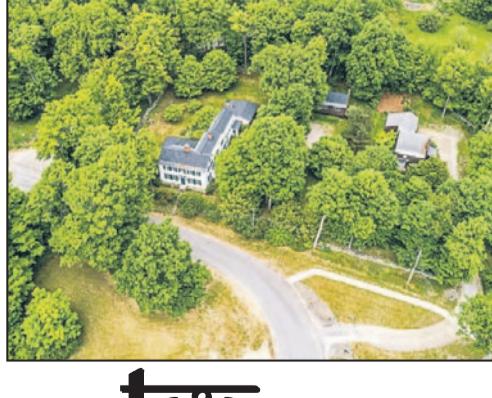
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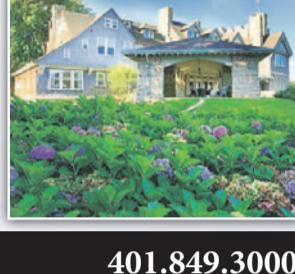


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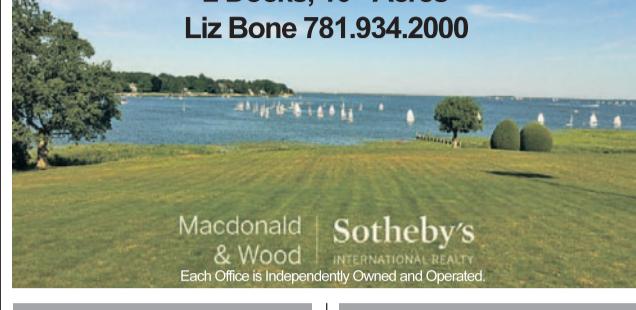


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## MANSION

## PRIVATE PROPERTIES

# Scott McNealy Lists Sports-Laden Estate

Silicon Valley veteran Scott McNealy is listing his mega Palo Alto, Calif., estate for \$96.8 million.

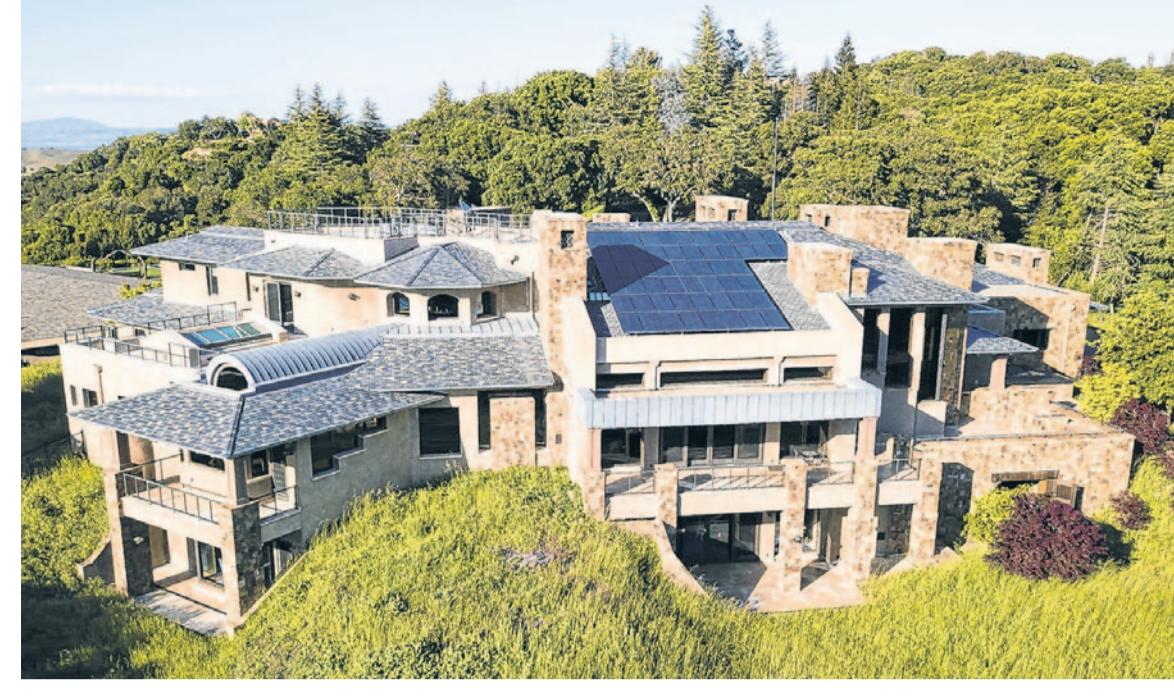
On over 13 acres, the property includes a roughly 28,000-square-foot, four-level main house. The home, which is partially built underground, contains a 4,700-square-foot gym with a climbing wall and locker room; a home theater; poker and billiards rooms; "pizza room" with a pizza oven and a disco with a dance floor and disco ball. There is also a safe room with panic buttons and a sliding Kevlar door, said Mr. McNealy, 63.

"I'm not into sail boats or modern art, and I'm too cheap to fly private," said Mr. McNealy, who is the former chief executive of Sun Microsystems, which sold to Oracle for \$7.4 billion in 2010. He opted to spend his money on "a home and facility where the boys' buddies would come to our place instead of driving them all over the Bay Area."

To that end there is a 7,300-square-foot ice hockey rink, where the McNealys' four sons, now ages 16 to 22, grew up practicing one of their favorite sports. Its original inflatable dome cover irked neighbors, who complained to local officials in 2009. The city required the McNealys to replace it with a solid enclosure that blended in with the hillside, according to a spokeswoman for the City of Palo Alto.

Golf was also a big part of the boys' upbringing: The property has a 110-yard practice area with an artificial turf green, a grass green and three traps. Maverick, the oldest son, is a professional golfer, while the other three boys are serious amateurs, Mr. McNealy said.

Mr. McNealy said he bought the first lot in the mid-1980s, and lived in a house on the property in his bachelor days. In 2001, he bought a second lot and took down the existing houses; he and his wife Susan spent just under \$11



million on the lots, he said. Building, including a two-year process to secure the permits, took seven years.

The couple is selling because they will soon be empty nesters and "the house deserves more activity than the two of us," he said, adding that they own a home in Lake Tahoe.

Mr. McNealy said he initially used a traditional agent—who he declined to identify—to "whisper list" the property for a couple of years, meaning it wasn't formally listed. A buyer failed to materialize, so Mr. McNealy is listing the house with REX, a Woodland Hills, Calif., real estate startup in which he is an investor and a board

member. The brokerage doesn't list houses on the multiple listings service, doesn't split commissions with buyer's agents, and charges no more than a 2% commission.

—Katy McLaughlin

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## MANSION

## Homes in Edinburgh



Continued from page M1  
at this time of year there  
would be 2,500 or 3,000.

"It becomes a bit of a vicious circle because the main reason you hear from people about why they are not putting their home on the market is that they can't find anything to buy."

Edinburgh's prime real estate can be found in the New Town neighborhood, a Unesco World Heritage site close to Edinburgh Castle, which possesses some of the city's best pubs, bars, shops and restaurants. Its homes are typically tall, elegant townhouses built during the late 17th and early 18th centuries, and the majority have since been converted into apartments. Savills is currently listing a two-bedroom apartment on Moray Place, one of the area's most sought-after streets, for offers over \$830,000. The property measures 1,463 square feet and overlooks Moray Place's central garden.

Andrew Riddell, associate director at Strutt & Parker estate agents, estimates that a full New Town house—typically measuring 5,000 to



**WHAT'S NEW?** A rendering of The Crescent, above, a high-end apartment building that's under construction. Below, the city's greatest landmark, Edinburgh Castle.

6,000 square feet—would fetch around \$530 per square foot. On especially sought-after streets—including Moray Place plus nearby Heriot Row and Northumberland Street—prices can rise to around \$800 per square foot.

Scotland was hit hard by the global recession and then suffered a series of confidence-shaking bombshells: two referendums (Scottish independence in 2014 and Brexit in 2016), property-tax increases in 2015, and then the political uncertainty caused by the 2017 general election. Now, however, confidence is returning, bolstering

the real-estate market, says Edward Douglas-Home, a partner at Knight Frank. "Everyone thinks that independence looks very unlikely, and so they can now get on with their lives."

According to Mr. Marshall, the majority of buyers already live in the city or are expatriate Scots returning home from England and the rest of the world. Over the past two or three years he has also noticed a number of Chinese investors buying in New Town. "When there is an asset class that is appreciating, then knowledgeable investors will gravitate towards it," he said.

New development is expected to replenish the city's housing and commercial stock—and spiff up its look. The dowdy, 1970s St. James shopping mall downtown is being redeveloped by TH Real Estate in a \$1.3 billion project. When completed in 2020 there will be 850,000 square feet of stores, 30 restaurants, a movie theater, W Hotel and 150 apartments that are expected to go on sale next year.

Elsewhere a former bus depot and gas works immediately south of New Town is also being redeveloped with stores, offices and apartments on a 7.5-acre site named New Waverley. Edinburgh is also seeing luxury residential-led developments, including redevelopment of the Gothic Donaldson's College, a heritage Victorian building and former school for deaf children.

Developer City & Country is converting this grand old landmark, around 1.5 miles west of the heart of New Town, into 112 homes, priced

from about \$350,000 for a 260-square-foot apartment to \$1.5 million for a 1,943-square-foot three-bedroom home. Later this year, penthouses within the building's turrets and with views to Edinburgh Castle, will go on sale starting at \$3.3 million.

Meanwhile Scottish home-builder CALA Homes has started work on The Crescent, a building designed like a traditional curved Georgian terrace, set in the college grounds. The Crescent contains another 84 homes and two- and three-bedroom apartments priced from \$1.26 million to \$1.86 million.

Whether buyers prefer Edinburgh's new or historic homes there is one distinct perk of owning a home in the city: short-term rental opportunity.

"Edinburgh's population is said to triple during July and



especially August," said Mr. Riddell. "Lots of people go away for all of August and the rent will cover their holiday and more besides. Even people who don't leave town will go and stay with family so they can rent out their homes."

He estimates that a one-bedroom apartment in the center of Edinburgh would

yield around \$265 per night for its owners, while a two-bedroom property would rent for around \$465 per night. Add in the city's two other peak tourist dates—Christmas and the New Year's—and it would be feasible to cover almost an entire year's mortgage payments on the back of Edinburgh's international appeal.

## On the Market



## Offers over \$2.3 million

## Stockbridge

Seven bedrooms, five bathrooms

Georgian house measures 5,500 square feet over four stories. Inside there is a cantilevered staircase lit with an original skylight, sash windows, fireplaces and original timber floors. Agent: Knight Frank



## Offers over \$828,000

## New Town

Four bedrooms, two bathrooms

Set on Drummond Place, this apartment is within a classic townhouse. The property measures 2,110 square feet and is on the basement and lower levels of the house. Agent: Strutt & Parker



## Offers over \$1.79 million

## West End

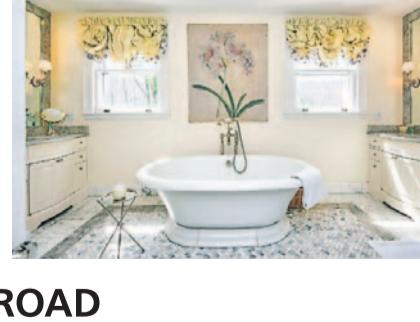
Five bedrooms, five bathrooms

This townhouse measures 3,993 square feet over four floors. The property has been recently renovated, but period features, including a stone fireplace and ornate cornicing, have been preserved. Agent: Strutt & Parker

## PUBLIC OPEN HOUSE



Sunday, June 24th 2:00pm-4:00pm



## 845 NORTH SALEM ROAD

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