

THE WALL STREET JOURNAL.

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WEDNESDAY, MAY 24, 2017 ~ VOL. CCLXIX NO. 120

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What's News

Business & Finance

Glencore has approached grain trader Bunge about combining, which would give the Swiss miner a major presence in U.S. agriculture. **B1**

◆ Fiat Chrysler was sued by the Justice Department, which alleged the car maker used illegal software to cheat on emissions tests. **B1**

◆ China's credit rating was cut by Moody's, which cited expectations that the country's financial strength will wane in coming years. **A9**

◆ Mexico and Canada said talks with the U.S. to update Nafta should be trilateral, and that bilateral pacts would be impractical. **A2**

◆ New-home sales fell sharply in April, a potential sign of weakening in the market amid rising prices and limited inventories. **A2**

◆ Uber said it mistakenly underpaid New York City drivers for the past 2½ years, an error that will likely cost it tens of millions of dollars. **B4**

◆ The Labor Department cleared the fiduciary rule for retirement savings to take effect in June. **B14**

◆ Financial shares lifted U.S. stocks to a fourth day of gains. The Dow rose 43.08 points to 20937.91. **B15**

◆ Target agreed to pay \$18.5 million to resolve an investigation by state prosecutors into its 2013 hack. **B3**

◆ Sears reached an agreement to extend the maturities for some of its debt. **B3**

◆ Honeywell will decide whether to break off its aerospace division by the fall, the company said. **B3**

World-Wide

◆ U.S. intelligence officials learned about contacts between Trump's campaign associates and Russian officials last year, sparking concerns and justifying a probe, ex-CIA chief Brennan said. **A1**

◆ Britain raised its terrorism-threat level to "critical," as police identified the suicide bomber who killed 22 people and injured dozens in Manchester. **A1, A10-A11**

◆ Trump faced resistance in Congress over a budget plan that relies heavily on cuts to social programs and aggressive growth projections. **A1, A6**

◆ Trump said Israeli and Palestinian leaders are ready to strike a peace deal, as he ended his Mideast tour. **A8**

◆ U.S. forces backed by a gunship killed at least seven al Qaeda fighters in Yemen, the Pentagon said. **A8**

◆ Bahraini forces clashed with Shiite Muslim protesters, killing five people and wounding hundreds. **A8**

◆ A cybersecurity firm said a group linked to North Korea was likely behind the recent ransomware assault. **B4**

◆ The Philippines put an island under martial law after fighting between the army and an Islamist group. **A9**

◆ Pakistan is cracking down on social-media critics of its powerful military. **A8**

◆ The NRA is framing legislation that would make it easier to buy gun silencers as a public health issue. **A3**

◆ Two Indonesian men were caned as punishment for same-sex relations. **A9**

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In Manchester, flowers were left in remembrance of the victims of Monday's terror attack. Vigils were held across the U.K. on Tuesday.

U.K. Raises Terror Warning

Government suggests another attack possible and deploys military as police identify bomber

MANCHESTER, England—The British government raised its terrorism threat level to "critical" on Tuesday, suggesting fears of another attack as

By Georgi Kantchev,
Mike Bird and David
Gauthier-Villars

police identified the suicide bomber who killed 22 people and injured dozens of others in an attack on concertgoers here.

British police gave the suspect's name as Salman Abedi and said he was 22 years old,

but declined to provide other details about him. A U.S. law-enforcement official said Abedi was a British citizen of Libyan descent.

Prime Minister Theresa May said security forces were exploring the possibility that "a wider group of people" were involved in the attack. The higher threat level, she said, means "not only that an attack remains highly likely, but that a further attack may be imminent."

Under the heightened alert level, she said, military personnel would replace police officers guarding key places and big events around the country, in an emergency plan called Operation Temperer.

British counterterrorism chief Mark Rowley said late Tues-

day that police raised the threat level because of several leads related to the attack.

Britain's threat level has been at the "severe" level since 2014. It has only been at a "critical" level twice before, in 2006 and 2007.

Security officials and experts said the use of explosives in Monday's attack required a higher level of skills and collaboration than in the recent string of vehicle rampages, whether Abedi manufactured the bomb or received it from an accomplice.

Islamic State claimed responsibility for the attack, the deadliest in the U.K. since 2005. British police had no comment on the Islamist extremist group's assertion, and U.S. officials cautioned they

hadn't verified any connection between Islamic State and the attack.

As fans of American singer Ariana Grande streamed out of the Manchester Arena after her concert on Monday, Abedi detonated an explosive device and unleashed carnage, police said, sending survivors fleeing as panicked parents searched for their children amid the chaos.

Abedi, who grew up in Please see ATTACK page A10

U.K. Terror Attack

- ◆ Thrills turned to panic for young music fans..... A10
- ◆ Parties suspend election campaign..... A11
- ◆ Bombing shows challenge of securing events..... A11

CIA Eyed Russian Links to Trump Campaign

BY BYRON TAU
AND JOSHUA JAMERSON

WASHINGTON—U.S. intelligence officials learned about contacts between President Donald Trump's campaign associates and Russian officials last year, sparking concerns that the Kremlin could try to cultivate people close to Mr. Trump, former CIA director John Brennan testified Tuesday.

The testimony by Mr. Brennan, while not citing evidence of collusion by Trump associates in Russia's alleged interference in the 2016 presidential election, sheds new light on why federal agents decided last year to initiate a full investigation. The Central Intelligence Agency helped start the probe by turning over information to the Federal Bureau of Investigation.

"I know that there was a sufficient basis of information and intelligence that required further investigation by the bureau to determine whether or not U.S. persons were actively conspiring, colluding with Russian officials," Mr. Brennan told the House Intelligence Committee.

The former CIA director's comments came as the Senate Intelligence Committee said it would issue two new subpoenas to business entities controlled by Mr. Trump's former national security adviser, Mike Flynn, who was forced to resign in February after giving false statements about his contacts with Russia's ambassador to the U.S.

The decision to issue subpoenas marks an escalation of the Please see TRUMP page A4

A Swiss Bid for a U.S. Grain Giant

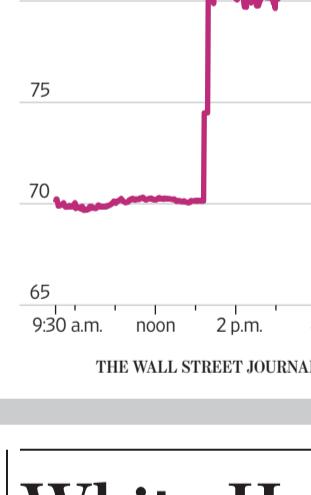
Glencore PLC has approached grain trader Bunge Ltd. about combining, a deal that would give the Swiss miner a major presence in the U.S. agriculture market. **B1**

Net sales in latest year for major agricultural-commodities traders, in billions

	Net sales in latest year for major agricultural-commodities traders, in billions
Cargill	\$107.2
Archer Daniels Midland	\$62.3
Louis Dreyfus	\$49.8
Bunge	\$42.9
Wilmar	\$41.4
Cofco	\$35.0
CHS	\$30.3
Glencore Agriculture	\$22.0
Olam	\$20.6

Sources: the companies; FactSet (shares)

Bunge shares Tuesday, minute-by-minute



THE WALL STREET JOURNAL.

TOP ENGINEER SPARKS GOOGLE-UBER WAR

Employee ran side businesses, is accused of taking driverless-car secrets

BY JACK NICAS AND TIM HIGGINS

Anthony Levandowski, the former Google engineer at the center of a battle between the tech giant and Uber Technologies Inc., was never a typical employee. And for years, Google was fine with that.

Weeks after Google hired him in 2007 to work on a global photo database called Street View, Mr. Levandowski, then 27 years old, registered a startup to sell a sensor system to Google for the same project, according to public records and former employees of both companies.

For the next four years, Mr. Levandowski split his time between his day job at Google and the startup, 510 Systems LLC, an hour away in Berkeley, Calif., where he directed employees to develop technology related to his

Google projects, including self-driving cars, according to former 510 Systems employees.

After Google discovered the side business, instead of reprimanding Mr. Levandowski for a potential conflict of interest, it ultimately bought 510 Systems for about \$20 million.

Now Google parent Alphabet Inc. and Uber are embroiled in a legal fight over driverless-car technology, with Mr. Levandowski playing a starring role. The two firms, along with several other companies, are locked in a race to automate cars, a contest that could affect the future of transportation.

A look back at Mr. Levandowski's nine years at Google shows an employee who sometimes operated at the edge of what a typical com-

Please see WAR page A12

◆ Uber shortchanged New York drivers..... B4

Manhattan Prosecutors Smell a Rat

* * *

Or maybe mold, in the decrepit U.S. Attorney's office

* * *

By NICOLE HONG
AND ERICA ORDEN

The next U.S. attorney in Manhattan will take over the most prestigious office of federal prosecutors in the country, famous for their aggressive pursuit of Wall Street titans, prominent politicians and overseas hackers.

That person will also inherit an office with a history of bedbugs, lead-contaminated water and other less-than-desirable working conditions.

Behind the law-enforcement agency known for sending hundreds of white-collar criminals to federal prison lies a decaying workspace in downtown Man-

White House Budget Faces Swift Pushback

President Donald Trump faced swift resistance from Democrats and a range of Republicans on Capitol Hill on Tuesday after offering a 10-year plan to balance the federal budget that depends heavily on

By Kate Davidson,
Kristina Peterson
and Natalie Andrews

cuts to government safety-net programs and expectations of a big gain in economic growth.

The White House budget proposal for the 2018 fiscal year that begins Oct. 1 would cut federal spending by \$4.5 trillion over 10 years. But it leaves mostly untouched the big entitlement programs—Social Security and Medicare for retirees—and proposes increases to infrastructure spending, a new parental leave program and a short-term boost to military spending.

With those priorities set—in addition to the shared Republi-

can goal of cutting taxes—the White House offered up significant reductions in other spending programs to further the aim of reducing budget deficits. But the call for rolling back programs that touched their constituents made lawmakers bristle.

The proposal, which serves as a recommendation to Congress, is likely to be largely rewritten when lawmakers craft their own budget resolutions in the coming months.

"I hate to say it, but I would say the budget was dead before the ink was dry," Rep. Don Young (R., Alaska), who opposes the budget's elimination of two programs in his state.

Payments to Medicaid, the federal-state health program for the poor, would be cut by

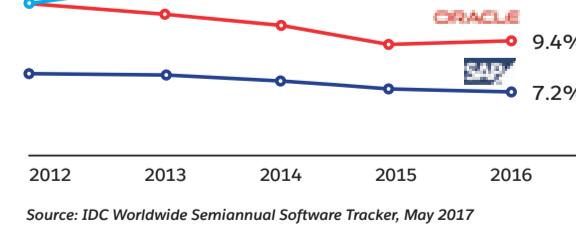
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◆ Greg Ip: Growth target of 3% looks out of reach..... A6

◆ Winners and losers in proposed budget..... A6

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Source: IDC Worldwide Semiannual Software Tracker, May 2017

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U.S. NEWS

Trilateral Nafta Talks Are Sought

BY ANTHONY HARRUP

MEXICO CITY—Mexican and Canadian officials said Tuesday that negotiations to update the North American Free Trade Agreement with the U.S. should be trilateral as a matter of common sense, and that replacing it with bilateral pacts would be impractical.

"Nafta is a trilateral agreement, and that has worked because it's a trilateral North American trading relationship," Canada's Minister for Foreign Affairs Chrystia Freeland said here. "Nafta can be modernized only with the agreement of the three parties...and I am confident that that will be how we go."

The view was echoed by Mexican Foreign Minister Luis Videgaray, who said three bilateral pacts between the three countries would be impractical and a lost opportunity. "In the very beginning, Nafta was not a trilateral deal, but after some thought, common sense made it a trilateral deal. And that was 25 years ago when the integration of value chains was not present," he said.

U.S. Commerce Secretary Wilbur Ross has said that the reworking of Nafta could be as the existing trilateral pact or a series of bilateral pacts with



Workers cut sugar cane this month in Mexico. Officials from that nation and Canada met Tuesday.

clearly what goals will be set out in this process," Mr. Guajardo said.

Mexico favors adding subjects to Nafta such as information technology and e-commerce, and is willing to address rules of origin to source more components in the region, "as long as we don't shoot ourselves in the foot and all end up losing," he said.

For example, of the TV screens assembled in Mexico for export, only 32% of the content comes from North America and the rest from Asia. An "illogically ambitious" attempt to raise the regional content to, say, 90% could make it easier for companies like LG and Samsung to export whole TV sets and pay corresponding tariffs than to relocate production, he said.

Mr. Guajardo stressed Mexico's opposition to the reintroduction of quotas or trade tariffs, and said actions to address trade imbalances should be through increased levels of trade and not through trade restrictions. The Trump administration still has to send Congress details of its concrete objectives before talks can begin.

—William Mauldin

contributed to this article.

symmetrical provisions. President Donald Trump has kept open the possibility of abandoning Nafta if the U.S. doesn't secure a satisfactory deal.

The Trump administration notified Congress earlier this month of its intention to renegotiate the 23-year-old trade pact, and formal talks are expected to begin by mid-or-late August.

U.S. Trade Representative

Robert Lighthizer has said that the U.S. hopes to maintain the existing structure of the agreement, though there are no guarantees, and that many parts of the negotiation will be conducted bilaterally.

Ms. Freeland acknowledged that some issues within the region are bilateral by nature, such as U.S. disputes with Canada over lumber and with Mexico over sugar.

Mexican Economy Minister Ildefonso Guajardo warned against too much optimism after the notification sent to Congress appeared to be simpler and more general than had been expected. The Trump administration still has to send Congress details of its concrete objectives before talks can begin.

"This second document is the most relevant to see

U.S. WATCH

SANCTUARY CITIES

Ad Campaign Aims To Help Immigrants

Chicago is embarking on a public-service campaign celebrating and welcoming immigrants to the city, one of the boldest moves yet by a sanctuary city.

The campaign includes billboards and a website that points immigrants to resources, including legal assistance, mental-health care and information on how to become a citizen.

"If [immigrants] are isolated and nobody stands up for them, they can be picked on," said Mayor Rahm Emanuel, who has joined mayors in sanctuary cities in resisting federal calls to get tougher on illegal immigrants.

—Shibani Mahtani

OHIO

Neighbor Charged In House Fire

A neighbor of a family that died in a house fire was charged Tuesday with intentionally setting it ablaze, killing two adults and five children.

Stanley Ford, 58, was charged with aggravated murder and arson, said Akron, Ohio, police.

Investigators wouldn't discuss a possible motive because they are still investigating the May 15

fire. A message seeking comment was left at Mr. Ford's home.

Police said they didn't know of any connection between Ford and the family other than they were neighbors.

Killed were 35-year-old Dennis Huggins, his partner, 38-year-old Angela Boggs, and five children: 14-year-old Jered Boggs, 6-year-old Daisia Huggins, 5-year-old Kylie Huggins, 3-year-old Alivia Huggins and 11-month-old Cameron Huggins.

—Associated Press

VOTING RIGHTS

Texas Is Moving To Sap Voter ID Law

Texas Republicans are moving to weaken a voter ID law and send it to Gov. Greg Abbott after a judge twice ruled that the original version deliberately tried to suppress minority voters.

The changes approved Tuesday by the GOP-controlled House don't expand the list of IDs that Texas has required since 2011. Gun licenses remain acceptable, but not college IDs.

The new law would let people without an ID cast a ballot if they sign an affidavit.

In April, U.S. District Judge Nelva Gonzales Ramos reaffirmed that the original law intentionally discriminated.

—Associated Press

Going Home on World Turtle Day



PATIENT DISCHARGED: Don, a 200-pound loggerhead sea turtle, is released at Sombrero Beach in Marathon, Fla., on World Turtle Day. Don was rescued last month after getting entangled in fishing line and was treated for wounds on his face and shoulder at the nearby Turtle Hospital.

New-Home Sales Fell By 11.4% In April

BY LAURA KUSISTO AND SARAH CHANEY

WASHINGTON—New-home sales fell sharply in April, a potential sign of weakening in the market at a time of rising prices and limited inventories.

Purchases of new, single-family homes, which account for a narrow slice of U.S. home sales, decreased to a seasonally adjusted annual rate of 569,000 in April, down 11.4% from March, the Commerce Department said Tuesday.

The data have a margin of error of 10.5%, and the overall trend remains one of continuing improvement in the market. Before last month, sales had risen for three straight months.

New-home construction has been tepid throughout much of the housing market's five-year recovery, but there have been recent signs of a resurgence in the starter-home segment. Builders say they are stepping up construction at the lower end, and the share of first-time buyers in the market is increasing.

The housing market is at or near 10-year highs for sales of newly built and previously owned homes, and economists said momentum is likely to continue throughout the year despite last month's dip.

"The trend in sales for both [new and existing homes] is clearly up, and up for good reasons. The job numbers are solid, wages appear to be picking up a bit of steam and mortgage rates haven't moved up much," said David Berson, chief economist at Nationwide Insurance.

The median sale price for a new home fell in April from a year earlier to \$309,200, indicating builders are shifting attention toward starter-home buyers. The U.S. housing market picked up steam toward the end of 2016, momentum that carried into the early months of this year.

New-home construction declined modestly in April for the third time in four months. The slowdown in starts is likely to exacerbate an imbalance of supply and demand in the market. Sales of existing homes hit their strongest pace in a decade in the first quarter, the National Association of Realtors said last week.

"We are on a slow and steady upward trajectory, and that's good news both for those in the industry, but also, more important, for homeowners who have been stymied by low inventory," said Ralph McLaughlin, chief economist at the real-estate website Trulia.

Health Fight Roils Centrist GOP Group

BY KRISTINA PETERSON AND NATALIE ANDREWS

WASHINGTON—Rep. Tom MacArthur resigned from his post as co-chairman of a key group of centrist House Republicans, over its members' concerns about a measure he negotiated with conservatives that eased passage of the Republican health-care bill.

The New Jersey Republican stepped down Tuesday as one of three co-chairs of the Tuesday Group, saying it had become clear to him that his approach to legislating differed from others in the group.

"You can't lead people where they don't want to go," Mr. MacArthur told reporters Tuesday. "The group needs to be free to do what it wants; I need to be able to do what I think is right."

Mr. MacArthur came to prominence this month when he worked with members of the House Freedom Caucus, a group of roughly three-dozen of the House's most conservative Republicans, on an amendment aimed at bringing down the cost of premiums.

House GOP leaders had previously been forced to pull their health-care bill aimed at rolling back much of the Affordable Care Act, in the face of defections from both centrist and conservative Republicans. Mr. MacArthur's measure brought most of the Freedom Caucus on board, and GOP

leaders were able to pass the bill this month.

But his amendment drew resistance from others in the Tuesday Group, which has around 50 members on its roster.

The measure, known as the MacArthur amendment, would let states opt out of parts of the ACA, by allowing insurers in some states to charge higher premiums to people with pre-existing health conditions who let coverage lapse.

The amendment sparked a debate beyond the Capitol, drawing an emotional reaction from ABC talk-show host Jimmy Kimmel and from voters at town halls, including one Mr. MacArthur held in

Willingboro, N.J., this month.

The House bill narrowly passed on a largely party-line vote; the Senate is writing its own ACA repeal bill.

Mr. MacArthur told the centrist Tuesday he had been motivated to try to make the group more relevant. Unlike the Freedom Caucus, the Tuesday Group typically doesn't take official stances as a bloc, giving it less leverage.

Mr. MacArthur also noted that many of the group's members opposed the House GOP health bill, even after voting repeatedly to repeal parts of the ACA while President Barack Obama was in office and their votes were only symbolic.

CORRECTIONS & AMPLIFICATIONS

The suicide bombing in Manchester, England, took place Monday night. In some editions Tuesday, a Page One photo caption with an article about the attack incorrectly said that it took place on Tuesday.

A coterie of President Donald Trump's former campaign associates, including David Bossie, Anthony Scaramucci, Jason Miller and Corey Lewandowski, were spotted around the West

Wing or were in touch with the administration in recent weeks. A Page One article on Saturday about the Trump administration incorrectly said the former associates all visited the White House last week.

In Saturday's Review section, a photo with an article about space law showed a 2013 flight of Virgin Galactic's SpaceShipTwo. The caption incorrectly gave the year as 2015.

There are people who have bristled with me engaging with the Freedom Caucus," Mr. MacArthur said. "I'm going to do that again, that's who I am. I'm going to work with everyone here."

Mr. MacArthur will remain a member of the group, whose other co-chairs include Reps. Charlie Dent of Pennsylvania and Elise Stefanik of New York, who shied away from speaking to reporters during the health-care debate.

Rep. Rodney Davis (R., Ill.) said he wasn't opposed to Mr. MacArthur's leadership.

"We're members of Congress. When isn't there discord in the group?" he said.

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U.S. NEWS

Kentucky Looks to Mine Alternatives

As coal production wanes, new ventures aim to mitigate job losses, revive region

BY ARIAN CAMPO-FLORES

PIKEVILLE, Ky.—With coal production on the decline, an energy company is pursuing a project that might seem heretical in this eastern Kentucky mining region: a solar-energy farm.

Berkeley Energy Group and a subsidiary of the French renewable-energy company **EDF Energies Nouvelles** aim to begin building a \$100 million facility on a reclaimed strip mine next year.

As the state's largest solar complex, it would produce as much as 100 megawatts of electricity. To fill an estimated 100 jobs that would be created, the partners would give priority to unemployed coal miners. The project would "put miners back to work and diversify our holdings and diversify the region," said Ryan Johns, project-development executive at Berkeley Energy.

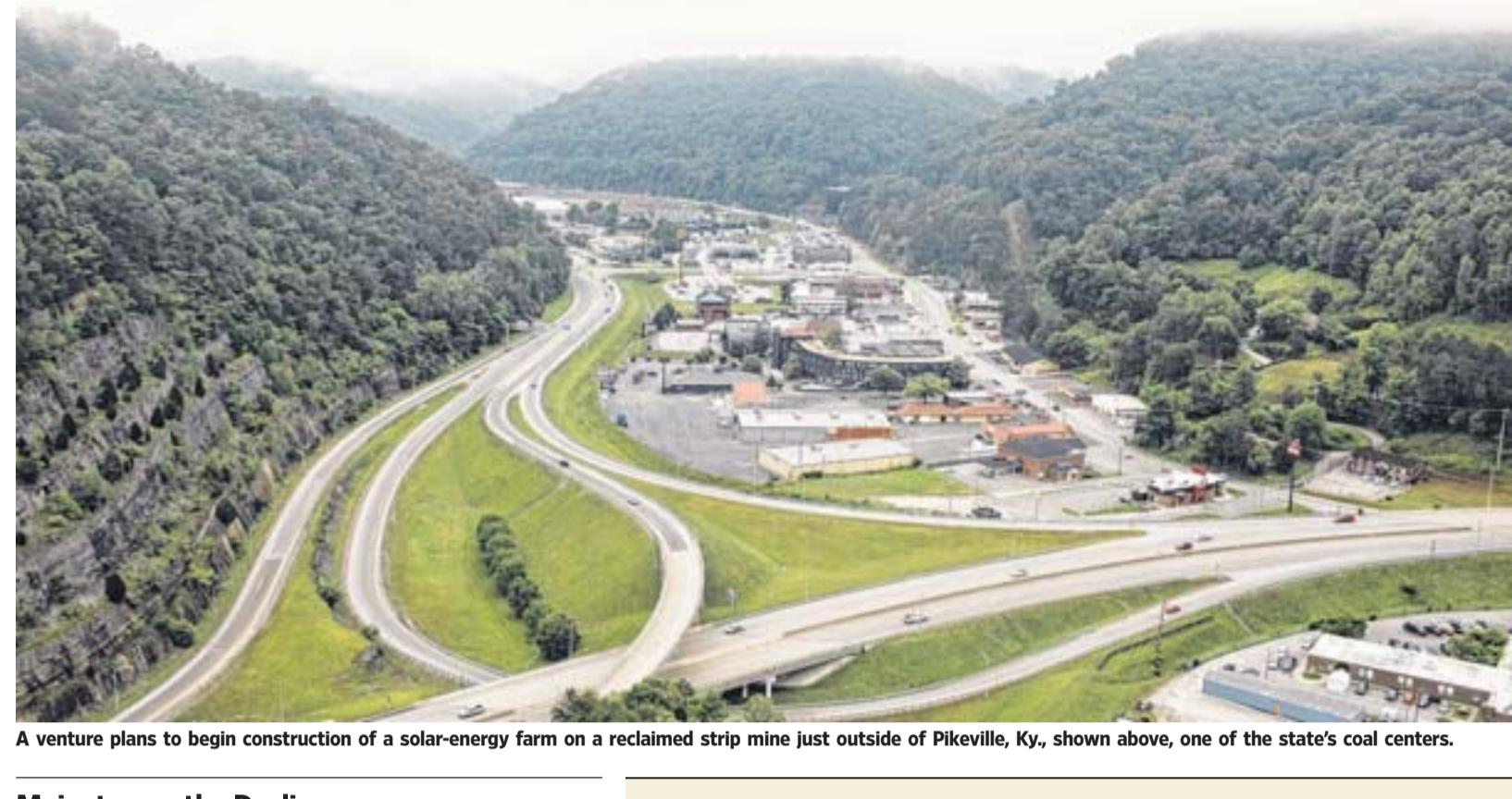
The solar farm is one of a string of ventures in recent years aimed at reviving a region decimated by job losses in the coal industry, including a drone-testing facility, a high-tech greenhouse and software-coding training programs. But even if all the projects succeed, employment isn't likely to return to previous levels.

Pike County, where the solar farm is planned, has lost more than 2,500 coal-mining jobs since 2011, with the number of remaining jobs totaling 845 as of the first quarter of this year.

In Hazard, one of the principal coal towns in eastern Kentucky, the local community college has been training laid-off miners to work as linemen for the electrical-utility industry.

So far, more than 180 students have completed the program, which has a 90% placement rate, said Jennifer Lindon, president of Hazard Community and Technical College.

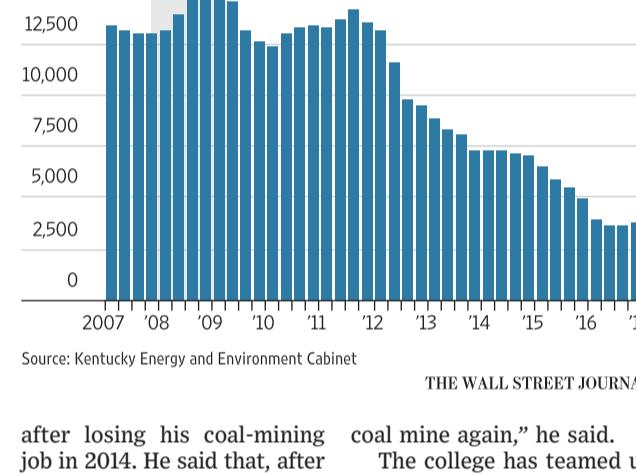
Anthony Bowling, 51, enrolled in the program shortly



A venture plans to begin construction of a solar-energy farm on a reclaimed strip mine just outside of Pikeville, Ky., shown above, one of the state's coal centers.

Mainstay on the Decline

Coal-mining employment in eastern Kentucky, quarterly



THE WALL STREET JOURNAL.

after losing his coal-mining job in 2014. He said that, after years of working underground, it was difficult to adjust to a job climbing up utility poles in 100-degree heat. But he has grown accustomed to it and is happy with the pay—\$18 more an hour than he earned as a miner. "I probably will never set foot in an underground

coal mine again," he said.

The college has teamed up with county governments and other entities to create a local drone-training and -testing facility on a former strip mine.

The area—secluded, with varied topography and devoid of air traffic—is well-suited to companies seeking to develop and test unmanned aerial vehicles.

Seeking to Diversify In Coal Country

Though President Donald Trump has vowed to bring back coal jobs, many analysts are doubtful they will return, because of systemic changes in the energy market.

Natural gas provides a cheap and plentiful alternative, and extracting eastern Kentucky coal has become expensive. That switch has sapped the region of 10,000 coal-mining positions over six years, according to state data.

"There's no silver bullet to solve this," said Peter Hille,

president of the Mountain Association for Community Economic Development. "But there could be a thousand silver BBs."

His organization has funded or advised a variety of ventures, including Mountain Tech Media, a digital-marketing company in Whitesburg. The 12-member, worker-owned cooperative provides marketing work to a growing portfolio of restaurants, festivals and tourism organizations.

Other groups are training people to write software code. Interapt, a Louisville technology company, created an intensive 32-week classroom and internship program in Paintsville that received federal and local funding, and pays \$400 a week.

The first class, which started with 50 people selected from 800 applicants, just completed the program, and Interapt has offered jobs to 22 of them so far, said Chief Operating Officer Eric Seto. Others have found work elsewhere.

One Interapt hire is Alex Hughes, who ran an animation business in nearby Prestonsburg until the regional downturn from coal-job losses left him with just one customer. He now works as a developer at Interapt's Paintsville site and hopes one day to be a project leader. "This is a start of this new ecosystem that we're trying to create here," Mr. Hughes said.

—Arian Campo-Flores

One of the first tenants could be **AppHarvest**, an agricultural startup that seeks to build a 2-million-square-foot, high-tech greenhouse on the property to grow cherry, grape and vine tomatoes for sale in Kentucky and nearby states.

Chief Executive Jonathan Webb said he is raising funding for the \$60 million project. He

envisions the site as an innovation hub where workers can gather after hours to discuss and nurture other startup ideas.

He estimates 140 people may work growing and harvesting vegetables. "It is imperative that the area has economic diversification and attracts new investments from outside the state," Mr. Webb said.

FCC Won't Move Against Colbert for Crude Remarks

BY JOHN D. MCKINNON

The Federal Communications Commission said Tuesday it has concluded there was "nothing actionable" under the agency's rules concerning crude comments by comedian Stephen Colbert a few weeks ago.

The FCC received thousands of complaints about the May 1 broadcast of "The Late Show with Stephen Colbert," accord-

ing to an agency official. But the agency concluded that the FCC's obscenity and indecency rules wouldn't apply to warrant a fine.

The FCC's enforcement bureau "has concluded that there was nothing actionable under the FCC's rules," a spokesman said.

The flap started when the host of CBS's late-night talk show made a series of crude jokes at President Donald

Trump's expense, including suggesting a sexual relationship between Mr. Trump and Russian President Vladimir Putin.

That resulted in a wave of criticism on social media and elsewhere, and some said they thought Mr. Colbert's language was antogay as well as indecent. On a subsequent episode, the comedian said that in retrospect he would have changed a few words

"that were cruder than they needed to be," and said that anyone who expresses love for another person "in their own way is to me an American hero."

But he said he didn't regret the gist of his remarks, which later drew a response from the president himself.

Subsequently, Mr. Trump was critical of Mr. Colbert in an interview with Time, terming him a "no-talent guy" and

saying that the controversy "only builds up my base."

He also took credit for Mr. Colbert's recent ratings surge, to which Mr. Colbert responded on his show:

"The president of the United States has personally come after me and my show, and there's only one thing to say, 'Hee-hee-hee-hee! Yay!'" Mr. Colbert said gleefully.

FCC indecency enforcement actions have become rare,

partly because its standards are challenged often in court. Beginning in 2006, the agency deferred enforcement action on most indecency cases because of continuing litigation. Recently, it has started processing new cases again.

It has various standards for broadcasts. One bars "obscenity" at all hours. Another prohibits "indecency," but covers only the period between 6 a.m. and 10 p.m.

Gun Lobby Wants to Ease Silencer Buying

BY BETH REINHARD

The National Rifle Association, which typically rests its case on the Second Amendment and personal security, is framing legislation that would make it easier to buy gun silencers as a public health issue.

The NRA's campaign includes rebranding silencers as "suppressors" because they don't completely silence the sound of gunfire. Silencers reduce the average firearm noise from 165 decibels to below the potentially dangerous level of 140 decibels.

"The Hearing Protection Act" is the gun lobby's priority in Congress, along with a bill that would allow people to carry concealed weapons across state lines if they have permits in their home state.

"We can have disagreements about politics, but there should be universal support for hearing protection," said Chris Cox, executive director of the political arm of the NRA.

Gun control groups oppose efforts to make suppressors more accessible, arguing that the noise of gunfire is essential to warn potential victims and help law enforcement track down criminals.

"Hearing is important, of course, but so are people's lives," said Erika Soto Lamb, a spokeswoman for Everytown for Gun Safety. "This is about

Dominick Reuter/Agence France Presse/Getty Images



A visitor handles a gun with a silencer at a National Rifle Association trade show in February.

Putting profits over public safety."

The push to make it easier and cheaper to buy silencers comes at a time when gun sales are on the decline. Background checks dropped 11% between January and April this year compared with the same period in 2016, according to federal data. Background checks more than doubled under former President Barack Obama to 27.5 million last year.

Demand for silencers also rose during the Obama administration, with the number of

registrations reaching 902,805 last February, according to the Justice Department. A Depression-era law requires suppressor buyers to submit fingerprints and photographs, pay a \$200 fee and pass a background check that can take nine to 12 months. "It's the hardest consumer product to buy," said SilencerCo spokesman Jason Schauble.

Proposed legislation would allow full rebates on the \$200 fee and make the red tape the same as what's required to buy a firearm. That means a buyer could walk out of a

store with a suppressor after an instant background check in some states on the same day.

The silencer legislation is expected to be well received by the Republican-led Congress and President Donald Trump. Asked about Mr. Trump's position on the silencer legislation, a White House spokeswoman said, "The Trump administration is dedicated to preserving Second Amendment rights, as well as eliminating regulations and laws that interfere with those rights."

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U.S. NEWS

House Talks Up Its Border Tax Plan

By RICHARD RUBIN

The tax idea that has sparked a months-long corporate lobbying battle got its moment in the spotlight at a House hearing Tuesday, but its political future still looks dim.

Backers of border adjustment—taxing imports while exempting exports—are trying to rebuild support for the idea, which has come under attack from corporations, some anti-tax conservatives and Senate Republicans.

The proposal now sits in limbo, where House Republicans insist that it is essential to a major rewrite of the U.S. tax code, but where the political obstacles seem nearly insurmountable. The Trump administration has been ambivalent and has said it can't back the plan in its current form. "It

doesn't create a level playing field," Treasury Secretary Steven Mnuchin said Tuesday at a separate event in Washington.

Senate Majority Leader Mitch McConnell (R., Ky.) said last week that it probably couldn't pass the Senate.

Still, border adjustment is a crucial piece of the House GOP tax plan for two important reasons, and those features have kept House Republicans such as Speaker Paul Ryan (R., Wis.) from abandoning it.

First, it provides about \$1 trillion over a decade to pay for cutting the corporate tax rate to 20% from 35%. Second, by basing U.S. taxes on the location of consumers—instead of profits—the proposal would eliminate the benefits of the tax-avoidance games that companies have perfected over the years by booking and parking

profits abroad. Under the House plan, the U.S. wouldn't tax foreign sales.

"Companies will no longer gain by moving their headquarters to Bermuda, their manufacturing plants to China or their intellectual property to

The idea of taxing imports while exempting exports lacks broad support.

Ireland," Rep. Kevin Brady (R., Texas), House Ways and Means Committee chairman, said at the panel's first hearing on the subject Tuesday.

But the path forward for border adjustment looks murky

at best as the GOP tries to finish a major revamp of the business and individual tax systems this year.

The proposal could even have trouble getting out of the Ways and Means Committee because of Republican objections. Rep. Erik Paulsen (R., Minn.) added his name to the list of opponents on Tuesday.

Without a clear decision on whether to back border adjustment or not, the Republican tax agenda is slowed. If and when Republicans jettison the idea, they would need to find another way to pay for corporate rate cuts and to protect the U.S. tax base from fleeing to low-tax countries.

Retailers and other importers have blasted the border-adjustment plan in the House GOP's tax blueprint. They warn that preventing them from de-

ducting the cost of imports would drive up their tax rates and force them to raise prices. And legal experts have warned that the U.S. could lose a challenge to the tax at the World Trade Organization.

Brian Cornell, the chief executive officer at Target Corp., said its tax rate would more than double, to about 75% and the retailer would be left with only bad options. "We'll put every tax benefit we currently receive on the table, every single one, in order to pass tax reform, to lower that rate," he said at the hearing.

Backers of border adjustment say those concerns are overblown. They contend that the dollar would rise to offset the tax change and blunt any effects on the prices of imports.

—Nick Timiraos
contributed to this article.

WASHINGTON WIRE

ETHICS WATCHDOG

Government Agency Rebuffs White House

The Office of Government Ethics pushed back late Monday against a White House effort to block it from obtaining information about waivers granted to lobbyists serving in the administration, escalating tensions between President Donald Trump and the oversight agency.

On May 17, Mick Mulvaney, director of the Office of Management and Budget, questioned in a letter the Office of Government Ethics' authority to request more information about the waivers, which the administration can grant to lobbyists serving in violation of ethics rules.

"This data call appears to raise legal questions regarding the scope of OGE's authorities," Mr. Mulvaney wrote in a letter reported by the New York Times. He said that "due to the uniqueness of OGE's request," the Justice Department's Office of Legal Counsel "may need to be consulted," and added: "I therefore request that you stay the data call until these questions are resolved."

On Monday evening, Walter Shaub, the director of the Office of Government Ethics, posted on the agency's Twitter account his response to Mr. Mulvaney.

"The unusual nature of your letter highlights OGE's responsibility to lead the executive branch ethics program with independence, free from political pressure," he wrote. "Accordingly, OGE declines your request to suspend its ethics inquiry."

He said he expects agencies to comply with the order by June 1.

—Rebecca Ballhaus

DISABILITY PAYOUTS

House Backs Changes For Veterans' Appeals

The House has approved legislation to cut the time it takes for the Department of Veterans Affairs to handle appeals from veterans unhappy with their disability payouts.

It is an effort to reduce a claims backlog without adding billions in government costs. Currently, veterans could wait five years or more to resolve appeals.

The bill would allow veterans to file "express" appeals if they waive their right to a hearing or the ability to submit new evidence. The VA could test the new program for up to 18 months until the department was able to certify it was ready for a fuller rollout with enough money.

Lawmakers hope the legislation could ultimately reduce wait times to less than a year.

The vote was 418-0. It now goes to the Senate.

—Associated Press



Former CIA Director John Brennan testifying before the House Intelligence Committee on Tuesday.

his Russian intelligence counterpart last summer to stop meddling in U.S. politics.

Mr. Brennan also offered an explanation for the FBI counter-intelligence investigation that was opened after the election.

"I encountered and I'm aware of information and intelligence that revealed contacts and interactions between Russian officials and U.S. persons involved in the Trump campaign," said Mr. Brennan, a career CIA official who was appointed director by President Barack Obama, a Democrat.

Mr. Trump, a Republican, has denied that he or his campaign coordinated with any foreign entity. Russian officials have denied meddling in the election.

"The entire thing has been a witch hunt," Mr. Trump said last week before leaving for his first foreign trip as president.

A White House spokesman said that Mr. Brennan's testimony backed up the president's longstanding assertion.

"Despite a year of investigation, there is still no evidence of any Russia-Trump campaign collusion," the spokesman said.

In his testimony, Mr. Brennan disclosed that the intelligence community's alarm about Russia "brazenly" interfering in the election prompted him to warn

President Retains Lawyer in Probe

President Donald Trump retained his longtime lawyer Marc Kasowitz to serve on a team of private attorneys representing him in the special-counsel probe of his associates' ties to Russia, two senior White House officials said Tuesday.

Mr. Kasowitz has worked

missal raised questions about whether the president was trying to quash the probe.

Mr. Trump asked Mr. Comey to end an investigation into Mr. Flynn, according to people close to Mr. Comey. Mr. Trump has denied he made that request.

In a separate hearing Tuesday morning, Director of National Intelligence Dan Coats declined to answer questions about whether Mr. Trump had asked him to state publicly that

with Mr. Trump for 15 years, helping keep his divorce records sealed and representing him in a 2006 case in which the billionaire sued an author for allegedly understating his wealth.

Presidents typically hire private attorneys to protect their personal interests should they become the subject of an investigation. The White House counsel represents the office, rather than the individual.

—Rebecca Ballhaus

there was no collusion between his presidential campaign and the Russian government in response to a Washington Post report.

Mr. Coats was asked if he had discussed with Mike Rogers, director of the National Security Agency, any request from Mr. Trump regarding collusion. Mr. Coats responded: "That is something that I would like to withhold, that question, at this particular

point in time."

Mr. Coats was also asked if he knew of any efforts by the White House to interfere in other aspects of the Russia inquiry, including allegations the president asked Mr. Comey to ease off investigating Mr. Flynn.

"I am not aware of that," Mr. Coats said.

Meanwhile, the heads of the Senate Intelligence Committee, Chairman Richard Burr (R., N.C.) and Vice Chairman Mark Warner (D., Va.), said they planned to subpoena two Virginia-based business entities in the wake of Mr. Flynn's refusal to cooperate with the committee's requests for documents.

One day earlier, Mr. Flynn invoked his Fifth Amendment right under the Constitution to avoid self-incrimination, writing in a letter to the committee that he was declining to hand over documents the panel subpoenaed.

—Paul Sonne

contributed to this article.

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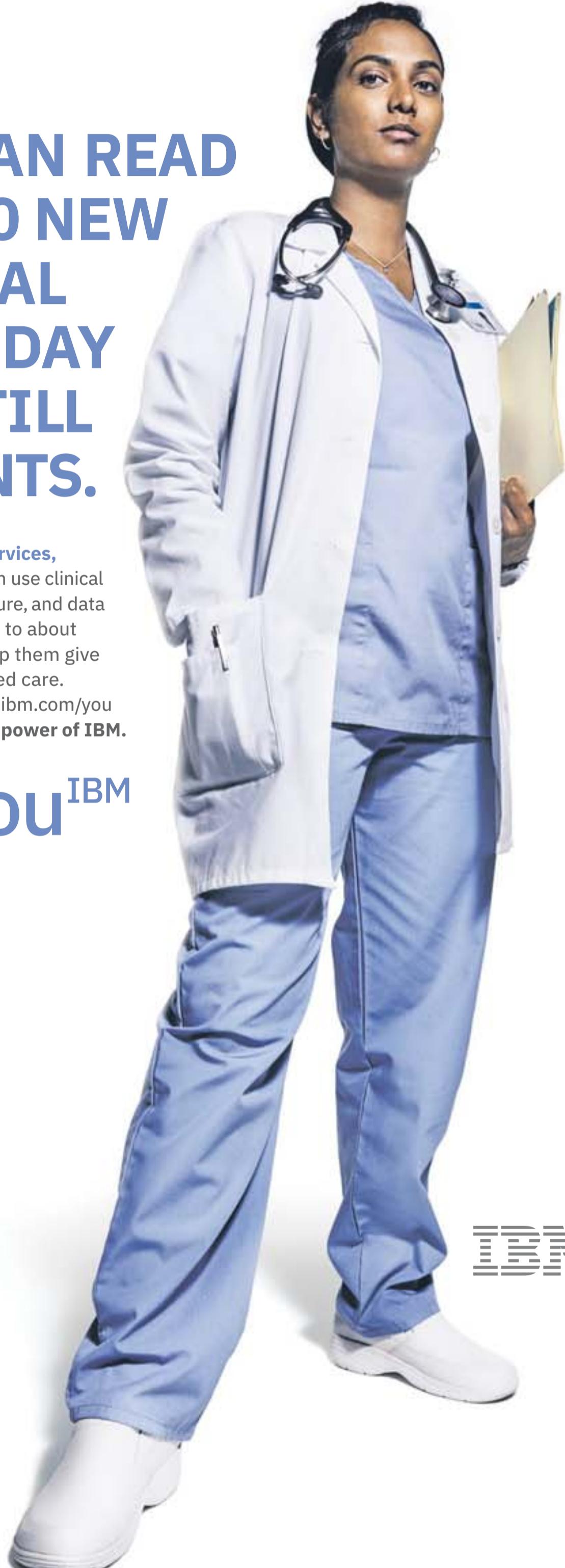
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PRESIDENT TRUMP'S BUDGET PROPOSAL

CAPITAL ACCOUNT | By Greg Ip

Trump's Growth Target Looks Out of Reach

 Great leaders, whether of sports teams, companies or countries, set audacious goals to spur followers on to great accomplishments. But the goal isn't enough: A leader also needs a credible path to achieve it.

That's the problem with President Donald Trump's first budget. It sets a worthy objective of sustained 3% economic growth, but offers no rigorous plan to back it up.

To listen to budget director Mick Mulvaney, the main thing holding the U.S. economy back is a bad attitude. Projections by the previous administration and the Congressional Budget Office of 1.9% long-term growth were "sad," he said Monday. "That assumes a pessimism about America, about the economy, about its culture, that we're simply refusing to accept."

We believe that we can get to 3% growth and we don't believe that's fanciful."

Mr. Trump—moving in the opposite direction of Presi-

dent Barack Obama—promises lower taxes and less regulation, which should increase business investment and thus worker productivity. Moreover, a less-generous social safety net could prod some people back to work. More workers who are more productive are the ingredients of faster growth.

Yet there are good reasons independent economists think the U.S. can't return to its historic growth of 3%. The U.S. working-age population grew 1.2% a year from 1950 through 2000.

With the baby boomers retiring and families shrinking, it will grow less than 0.3% a year over the next decade. To make a credible case for 3% growth, Mr. Trump has to identify some wellspring of workers or productivity that his predecessors have missed.

Mr. Mulvaney thinks prodiging many people off social safety-net programs and back to work will be good for them, and for growth.

In principle, that's true, but the magnitudes are

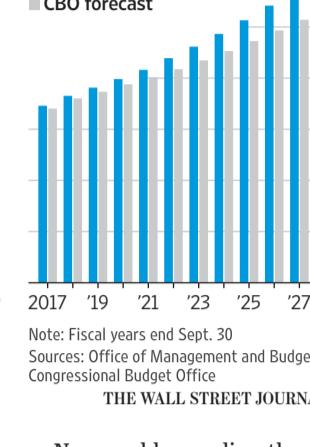
doubtful. About half of household heads on food stamps and three quarters of those on Medicaid already work, says Robert Moffitt, an economist at Johns Hopkins University. At most, 13 million recipients of Medicaid and 6.5 million recipients of food stamps don't work (and the two groups overlap). The growth of people on disability insurance can be slowed with tougher eligibility, but experience suggests getting existing recipients off is almost impossible.

When welfare was cut off in the 1990s for single mothers able to work, the share of those not working dropped by up to a third. That kind of effect on 13 million Medicaid recipients or 6.5 million food-stamp participants would generate only a modest, and one-off, boost to a labor force of 160 million. The effect on gross domestic product would be even more muted because, Mr. Moffitt notes, these workers have extremely low skills and thus productivity.

It's All Up To Growth

The Trump administration forecasts nearly \$600 billion more in annual tax revenue by 2027 than the Congressional Budget Office.

Projection of revenue, trillions



Note: Fiscal years end Sept. 30

Sources: Office of Management and Budget; Congressional Budget Office

THE WALL STREET JOURNAL.

Nor would repealing the Affordable Care Act do the trick. The CBO estimates its health-insurance subsidies, which become less generous as wages rise, discourage work and would eventually

reduce employment by 2 million. But little of that has been felt yet, and the Republican replacement plan maintains some of those subsidies.

One safety-net reform that would meaningfully expand the labor force would be a higher retirement age for Social Security and Medicare. But Mr. Trump promised not to touch either and his budget, it declares, "does not."

Lowering corporate tax rates in theory would make many more capital projects profitable, bolstering productivity meaningfully. But the budget doesn't include a tax reform plan. It merely assumes reform will be "deficit neutral," then extrapolates today's tax take, as a share of GDP, out for the next 10 years.

Mr. Trump has proposed steep cuts to personal and corporate tax rates that even optimists think will add trillions to the deficit. The Tax Foundation, a pro-tax-cut think tank, reckons lowering the corporate rate to 15% as Mr. Trump wants would only raise growth to 2.3% from 1.9%, and that boost would

peter out once all the newly profitable capital projects had been undertaken.

Mr. Trump is intent on limiting regulation. As with taxes, this goes in the right direction, but the benefits are potentially slim.

Sam Batkins of the American Action Forum, a conservative think tank, says the administration has already slowed the production of new rules, but repealing significant rules is hard because it requires Congress.

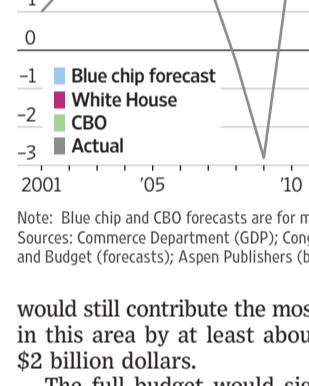
Presidents are supposed to be optimists. But much is at stake with this one. Many of his other promises rely heavily on the 3% growth goal. For example, the budget is supposed to balance by 2027, with the help of nearly \$600 billion a year in added revenue attributable solely to a more aggressive growth forecast. Until Mr. Trump presents a credible vision for achieving that growth, the rest of his promises are best viewed with deep skepticism.

Winners and Losers in the Proposed Budget

Fiscal Forecasts

Compared with his recent predecessors, President Donald Trump's economic forecasts are significantly more optimistic over a decade than those of private-sector and government economists.

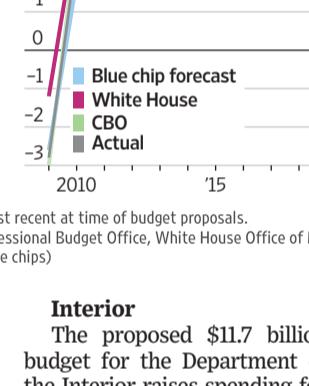
Bush 2001



Note: Blue chip and CBO forecasts are for most recent at time of budget proposals.

Sources: Commerce Department (GDP); Congressional Budget Office, White House Office of Management and Budget (forecasts); Aspen Publishers (blue chips)

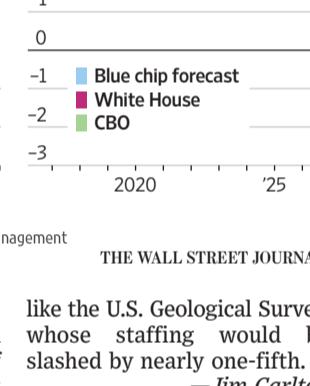
Obama 2009



Note: Blue chip and CBO forecasts are for most recent at time of budget proposals.

Sources: Commerce Department (GDP); Congressional Budget Office, White House Office of Management and Budget (forecasts); Aspen Publishers (blue chips)

Trump 2017



Note: Blue chip and CBO forecasts are for most recent at time of budget proposals.

Sources: Commerce Department (GDP); Congressional Budget Office, White House Office of Management and Budget (forecasts); Aspen Publishers (blue chips)

The budget would bolster school choice through about \$400 million for expansion of charter schools and vouchers for low-income students to attend private and religious schools.

An additional \$1 billion in Title 1 funding, typically targeted for schools with high poverty rates, would be used for a new grant program focused on open enrollment to allow students to attend the public school of their choice.

—Tawnell D. Hobbs and Josh Mitchell

Justice

The Trump administration proposed 300 new federal prosecutors to combat violent crime and prosecute more immigration violations. It also proposed adding \$100 million for national security priorities, including 20 new cyber agents at the FBI and 80 positions to specifically help investigators get into encrypted devices.

It also asked for \$75 million, including 450 positions to help process a backlog of immigration court cases. That includes 75 new immigration judges. The agency's overall budget is down 3%, which officials attributed to one-time construction cost reductions and money left over from prior years.

—Aruna Viswanatha

Funding Proposal

Appears to Conflict

By NICK TIMIRAS

President Donald Trump's proposal to balance the budget within 10 years includes some aggressive and potentially inconsistent economic assumptions and accounting devices.

One example: The White House predicts economic growth will pick up without much of an increase in inflation or interest rates. That is expected to boost revenue growth and reduce the need for social-safety-net spending. To achieve a mix of fast growth and low inflation and interest rates, the economy would need to deliver a worker-productivity boom other forecasters don't foresee.

This disconnect is evident by comparing White House interest-rate forecasts with those of others. Even with no significant acceleration in growth, the Federal Reserve projects short-term interest rates will rise to near 3% in 2019 from less than 1% now. The Trump administration sees short-term rates rising to 2.1% during the same stretch.

Another example: The plan presented Tuesday would make big cuts to budgets for education and research and development, two areas that could help stimulate the kind of productivity growth that would boost economic growth without causing a rise in inflation or interest rates. Research funding would be cut 25% next year at the Pentagon, 23% at the National Aeronautics and Space Administration, and 20% at the National Institutes of Health.

"Economic policy is about trade-offs. If you assume away the trade-offs, it's like cheating," said Ernie Tedeschi, an economist at Evercore ISI.

The budget proposal's focus on reduced deficits also sets up potential collisions with Mr. Trump's other preferences.

While he proposed a \$200 billion boost in funding for public-private infrastructure investment, he simultaneously would cut \$95 billion in funding for the Federal Highway Trust Fund over the next decade.

The budget also appears to double count the benefits of faster economic growth: Once to offset the effects of lower tax rates on revenue and a second time to help close the deficit.

The budget estimates Mr. Trump's policies will generate an extra \$2.1 trillion in revenue and help to balance the budget by 2027. "The same money cannot be used twice," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget.

A White House official said the budget doesn't double count the benefits of economic growth because it assumes the tax plan will cover its costs with other strategies, such as limiting deductions and tax breaks.

—Richard Rubin contributed to this article.

PLAN

Continued from Page One

more than \$600 billion over a decade from levels projected under current law in addition to proposed Medicaid cuts under the House bill repealing and replacing much of the Affordable Care Act.

The food-stamp program would be cut over 10 years by \$193 billion, the student-loan program by \$143 billion, disability payments by \$72 billion and farm subsidies by \$38 billion.

—Felicia Schwartz

would still contribute the most in this area by at least about \$2 billion dollars.

The full budget would significantly cut back on contributions to international organizations, which includes the United Nations, international peacekeeping efforts and the World Health Organization and others. Bilateral economic assistance, foreign military financing and global health funding would also face deep cuts.

—Felicia Schwartz

The proposed cuts to some federal programs are not mere shavings; they are rather deep and harmful to my district spanning Kentucky's Appalachian region and other rural, impoverished parts of the country," Rep. Hal Rogers (R., Ky.), a former chairman of the House Appropriations Committee, said of the proposal.

Democrats blasted the overall budget proposal.

"This is the budget you write if you think working families have it too easy," Sen. Ron Wyden (D., Ore.) said.

The budget also takes aim at some smaller government programs meant to benefit people living in sparsely-populated areas loyal to Mr. Trump. The blueprint calls for scrapping two commissions important to Alaska, a state that Mr. Trump won by 15 points in the November election.

In all, nondefense spending as a share of the economy would fall to just 1.5% by the end of the next decade, well below the lowest level in records going back to 1962.

Besides wide-ranging spending reductions, the proposal depends on a projection that

economic growth will reach 3% by 2021 and stay there through 2027, bolstering government revenue and holding down the need for support programs like unemployment insurance.

That growth projection is more aggressive than the Congressional Budget Office projection of 1.9% over a decade or the Fed's 1.8% projection. It also assumes the country's economic expansion, already nearly eight years old, won't be interrupted by another economic downturn.

The plan drew praise from some Republicans for proposing to balance the budget over 10 years and boosting military spending. GOP lawmakers have also backed overhauling federal funding for Medicaid in previous congressional budgets. Still, many balked at cuts to foreign aid, farm subsidies, health-care programs for low-income families and other programs that mattered back home.

"It's nothing new—it's just a lot of people who don't know what the hell is going on in farm country," said Senate Agriculture Committee Chairman Pat Roberts (R., Kansas), who objected to proposed cuts for farm subsidies and new limits on crop insurance, as well as cuts to the Supplemental Nutrition Assistance program, also known as food stamps.

Sen. John McCain (R., Ariz.), chair of the Armed Services Committee, said the increase for the military was "a betrayal of the president's commitment to rebuild our military. It's way too low and will not restore our military from the draconian cuts that were the result of eight years of Barack Obama's failed leadership."

With Mr. Trump traveling through the Middle East and

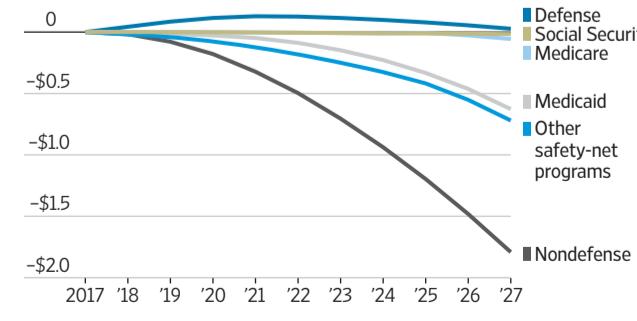


Office of Management and Budget Director Mick Mulvaney

Spending Trends Under Trump

President Donald Trump proposes balancing the budget by cutting Medicaid and other programs while largely maintaining or increasing funding levels for defense and Social Security.

Cumulative change in spending



Source: White House Office of Management and Budget

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programs such as food stamps, in addition to funding a new parental-leave program.

The 2018 budget blueprint is especially important this year because Republicans plan to use it as a vehicle to advance an overhaul of the tax code.

House Freedom Caucus

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WORLD NEWS

Trump Sees a Chance for Mideast Peace

President steers clear of saying how two sides will surmount obstacles to a deal

By CAROL E. LEE
AND RORY JONES

JERUSALEM — President Donald Trump wrapped up a three-day Middle East tour by declaring that Israeli and Palestinian leaders are ready to strike a peace agreement, though both sides used the president's visit to highlight the daunting obstacles that stand in the way.

Israeli Prime Minister Benjamin Netanyahu took aim at Palestinian Authority President Mahmoud Abbas, castigating him for his condemnation of Monday night's bombing in Manchester, England, while the authority helps administer a longstanding welfare program for families of Palestinian suicide bombers and those of Palestinian prisoners in Israeli jails.

"Well I hope this heralds a new change because if the attacker had been Palestinian and the victims had been Israeli children, the suicide bomber's family would have received a stipend from the Palestinian Authority," Mr. Netanyahu said.

Standing in the West Bank town of Bethlehem beside Mr.



President Donald Trump met with Palestinian Authority President Mahmoud Abbas in the West Bank town of Bethlehem on Tuesday.

Trump on Tuesday, Mr. Abbas reiterated longtime Palestinian demands for a Palestinian state alongside Israel, with East Jerusalem as its capital.

Many lawmakers in Mr. Netanyahu's parliamentary majority reject that position, even as a starting point for negotiations.

Like Mr. Netanyahu, whom

Mr. Trump met Monday for talks, Mr. Abbas was blunt in stating Palestinian grievances: "Our fundamental problem is with the occupation and settlements and failure of Israel to recognize the state of Palestine."

As he did throughout his visit to Israel and the West Bank, Mr. Trump sought to strike a note of optimism, say-

ing at the Israel Museum that he is "personally committed to helping both sides reach a peace agreement."

Both Mr. Netanyahu and the Palestinian leaders, the president said, want peace, adding: "Making peace, however, will not be easy. We all know that. Both sides will face tough decisions."

Mr. Trump hasn't committed his administration to the long-standing U.S. policy of a two-state solution to the conflict.

His refusal to do so—which White House officials have said is designed to give the two sides maximum room to negotiate—is an omission that frustrates Palestinians while buoying right-wing Israelis.

He did, however, deliver a veiled criticism of the Palestinian welfare program, the Netanyahu government's latest bone of contention with the Palestinian Authority and the reason, it says, why it has no Palestinian partner for peace.

"Peace can never take root in an environment where violence is tolerated, funded and even rewarded," Mr. Trump said alongside Mr. Abbas in Bethlehem. "We must be resolute in condemning such acts in a single unified voice."

Israeli officials have been pressuring the U.S. to cut funding for the authority while it continues to participate in the program.

Palestinian officials argue that the payments are a social benefit to families and have so far appeared unwilling to restructure the system.

In meetings in Israel on Monday and with regional leaders over the weekend in Saudi Arabia, Mr. Trump has attempted to advance his aim of reaching not only a peace agreement between the Israelis and Palestinians, but also a regional alliance between Israel and its Arab neighbors.

"This trip is focused on that goal: bringing nations together around the goal of defeating the terrorism that threatens the world and crushing the hateful ideology that drives it," he said at the Israel Museum.

Bahraini Forces in Clash With Protesters

Bahraini forces clashed with Shiite Muslim protesters, killing five people and wounding hundreds of others in a flare-up of a long-running confrontation between the Sunni monarchy and majority Shiite population, activists and Amnesty International said.

By Asa Fitch in Dubai
and Margherita Stancati in Riyadh

Tuesday's clashes, in which Amnesty and local activists said forces fired tear gas and birdshot at protesters, took place near the home of Isa Qassim, the country's top Shiite cleric. Shiite activists have held sit-ins since authorities stripped the cleric of his citizenship last year, a move authorities said was aimed to clamp down on those subordinate to foreign religious authorities.

Bahraini forces surrounded and raided Mr. Qassim's house, but he wasn't taken into custody, Amnesty said.

The clashes came two days after a court sentenced Mr. Qassim to a one-year suspended jail sentence on charges of money laundering and raising funds without a license. Amnesty said these activities related to his collection of tithes to be distributed to the poor.

Bahrain's Ministry of Interior on Tuesday evening said police forces carrying out a "targeted security operation" that morning in Diraz, the coastal village where Mr. Qassim lives, came under attack with firebombs, metal rods, knives and axes.

They responded proportionately, resulting in the death of five "outlaws" and in the injury of 18 policemen, a ministry statement said.

It said police have so far arrested 286 people, many of whom were hiding in Mr. Qassim's house. They included some who had earlier escaped from a prison and "terrorists and convicted felons," it said.

The clashes followed a Sunday meeting in Saudi Arabia between U.S. President Donald Trump and Bahrain's King Hamad bin Isa al-Khalifa.

Bahrain is an important U.S. ally in the Middle East. It hosts the U.S. Fifth Fleet, the force that patrols shipping channels around the Arabian Peninsula.

Activists suggested that the meeting with Mr. Trump had emboldened Bahraini leaders to instigate the clashes.

Tensions between the Bahrain's monarchy and the restive Shiite population have been boiling over since 2011, when authorities put down Arab Spring demonstrations.

President and Pope Seek Common Ground

By FRANCIS X. ROCCA

VATICAN CITY—When President Donald Trump visits Pope Francis on Wednesday, at the halfway point of a trip the White House has cast as a pilgrimage of peace, the two leaders will have a chance to reset an acrimonious public relationship.

Yet the two men, famously divided on the pope's signature issues of migration and climate change, could struggle to find significant areas of agreement.

As of last week, representatives of the White House and the Vatican working on the agenda for the meeting had found few common policy priorities, according to someone familiar with the preparations.

Vatican meetings between pontiffs and heads of state are more stagecraft than hard-nosed politics. Wednesday's meeting carries extra weight given the public sparring match last year, when the



Pope Francis celebrated Mass at a Rome church on Sunday.

pope said Mr. Trump's opposition to migration made him "not Christian," and Mr. Trump shot back that questioning his faith was "disgraceful."

"They have a little fence-mending to do. They got off to a bad start," said Jim Nicholson, ambassador to the Holy See under President George W. Bush.

"Everyone knows there are areas of disagreement," said Cardinal Donald Wuerl of Washington. "It's just important that they're getting together to say, 'What are some of the areas where we have common ground?'"

Mr. Trump stands to gain, amid the many controversies besetting him at home, from images of a friendly encounter

with the enormously popular pope. The Vatican is sensitive to the White House's concerns and eager to avoid anything that could appear like a scolding, according to someone familiar with the preparations.

The pope himself has sought to play down the tensions. When asked about the coming meeting with Mr. Trump, he said that "we need to look for the doors that are at least slightly open, to enter and talk about the things we have in common, and to go on.

Step by step."

On the eve of his departure, Mr. Trump said: "I look forward to speaking with the pope about how Christian teachings can help put the world on a path to justice, freedom, and peace."

Abortion, an issue uniting the Trump administration and American Catholic bishops, is a point of common ground, but isn't a priority for the pope.

Pope Francis has made a

priority of addressing global warming, describing it as a real threat to life on the planet and calling for cutting fossil fuel use to stem it. The White House, to the contrary, is deciding whether the U.S. should withdraw in full from the Paris Agreement to cap emissions.

A main goal of Mr. Trump's foreign trip—outreach to the Muslim world—is in principle one that could appeal to Pope Francis, who has fervently promoted close relations with Islam.

Pope Francis and Mr. Trump have both voiced concern for besieged Christian minorities in the Middle East, but the Vatican's call to increase aid for displaced Christians and other minorities in the region clashes with the White House's aim to cut budgets.

With the two differing on migration, only narrow areas of that theme, such as combatting human trafficking, are likely to bring them together.

U.S. Troops Kill al Qaeda Fighters in Yemen Battle



Houthi supporters on Monday rallied at San'a's airport as the U.N. special envoy to Yemen arrived.

left the battlefield under their own power. He also said there were no credible indications of civilian casualties.

The U.S. has long carried out drone strikes against AQAP,

but Tuesday's operation was the first by U.S. Special Operations forces in Marib province and their deepest move into Yemen so far to fight AQAP, the spokesman said.

It was also the second known counterterrorism operation involving American air and ground forces in Yemen since Donald Trump was sworn in as president. As many as 14

AQAP militants were killed in a U.S. commando raid on Jan. 29, an operation in which a U.S. Navy SEAL also died.

The raid comes as Mr. Trump visits the Middle East in his first overseas tour as U.S. president. His stop in Israel and the Palestinian territories came a day after his two-day visit to Saudi Arabia, which is leading a regional coalition fighting to oust Houthi rebels from the Yemeni capital San'a and restore President Abed Rabbo Mansour Hadi.

The Trump administration has signaled it wants to help Saudi Arabia expand its arsenal to counter Iranian influence, including in Yemen. During his visit to the Saudi capital Riyadh, Mr. Trump and Saudi King Salman Bin Abdulaziz Al Saud signed an arms deal valued at nearly \$110 billion.

The U.S. sees AQAP as an especially dangerous branch of the militant group because of the group's advanced bomb-making capabilities and history of carrying out attacks abroad.

Many PTI supporters took to social media to accuse Gen. Qamar Bajwa, the army chief, of going soft on the government. Others, including supporters of the ruling party, accused the military of acting beyond its constitutional limits in preserving the civilian government.

Mr. Khan said such comments were "unacceptable" and authorities will act against those that "unjustly criticize and ridicule" the military and judiciary.

Pakistan Investigates Social-Media Critics of Its Military

By QASIM NAUMAN

ISLAMABAD, Pakistan—Pakistan is cracking down on social-media critics of the nation's powerful military, a move many activists and opposition lawmakers say is aimed at suppressing free speech and political dissent.

Authorities targeted 27 users on Facebook and Twitter in the past week that allegedly criticized the military, Interior Minister Chaudhry Nisar Ali

Khan said Tuesday. Mr. Khan said eight of the 27 are being interviewed about their anti-military posts, while the rest are being sought for questioning. Mr. Khan said the investigation isn't targeting the social-media platforms.

Pakistan's military has ruled the country for about half of its 70-year history. It remains a potent force. Ruling-party members say the government doesn't want to feud with the military in the run-up to na-

tional elections in the next year, when Prime Minister Nawaz Sharif seeks to be re-elected.

"The military is an institution that makes jet fighters, holds nuclear weapons and has five hundred thousand armed men. But they are scared of a 140-character tweet," said Jibril Nasir, a human-rights activist. "It is obvious this is about egos, not national security."

The military didn't respond to requests to comment.

The crackdown comes after

renewed tensions between Mr. Sharif's civilian government and the military following a report last year that he confronted the military over its alleged support for some jihadist groups.

After the military termed the leak a breach of national security, the government launched an inquiry. Two ministers were fired, but leaders and supporters of Pakistan Tehreek-e-Insaf, or PTI, the main opposition party, demanded stronger action.

Tensions between the Bahrain's monarchy and the restive Shiite population have been boiling over since 2011, when authorities put down Arab Spring demonstrations.

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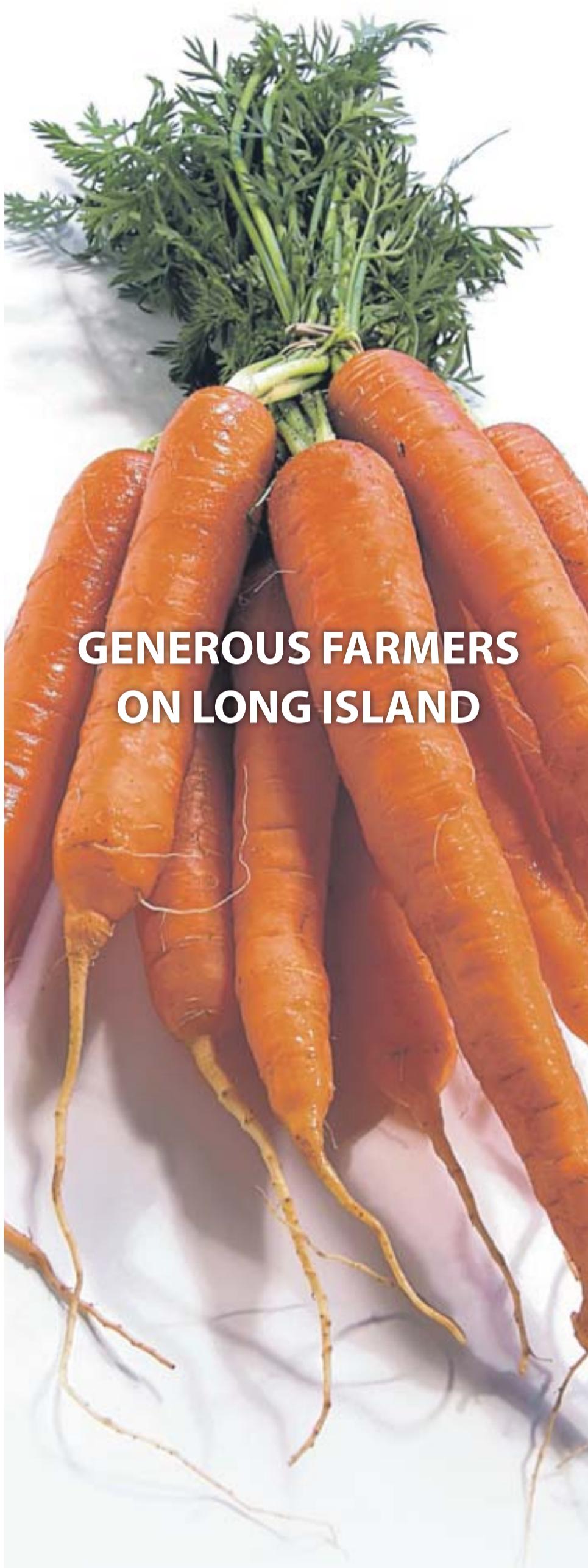
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WORLD NEWS

WORLD WATCH

PHILIPPINES

President Puts Island Under Martial Law

President Rodrigo Duterte declared martial law in the southern island of Mindanao following fighting between the army and an Islamic State-linked militant group.

The declaration follows a battle Tuesday between government troops and militants from the Maute group in Marawi, a small city. Fighting began after militants seized several buildings, setting them on fire and parading the black Islamic State flag through the streets.

In a statement early Wednesday, Mr. Duterte said he would be "harsh" under martial law to preserve the Philippines, leaving open how long it would last.

"Well, if it would take a year to do it, then we will do it. If it's over within a month, then I'd be happy," he said.

—*Jake Maxwell Watts*

UNITED NATIONS

Ethiopian Elected To Lead WHO

A former Ethiopian government official who led a major expansion of his country's health-care system and served as foreign minister was elected the World Health Organization's new director-general.

Tedros Adhanom Ghebreyesus defeated two challengers, David Nabarro and Sania Nishtar, to claim the world's top public-health post, winning election in Geneva under a new open-ballot system that gives equal weight to votes from each of the WHO's 194 member countries.

Dr. Tedros, as he is called, is the WHO's first director-general from Africa.

He pledged in an acceptance speech Tuesday to use his new role "to bring change and reform we need for this noble organization to reclaim its trust from member states and from every citizen of the world."

—*Betsy McKay*

Moody's Cuts China's Debt Rating

By SHEN HONG

SHANGHAI—Moody's Investors Service cut China's sovereign credit rating for the first time in nearly three decades, citing expectations that the country's financial strength will deteriorate in coming years as debt keeps rising and the economy slows.

Moody's on Wednesday said it downgraded China's rating to A1 from Aa3, while changing its outlook to stable from negative. It follows a decision by the rating firm to change China's outlook to negative from stable in March last year.

Moody's last cut China's credit rating in November 1989, the same year as the mass protests in Beijing's Tiananmen Square. Its decision means Moody's now rates China's credit alongside that of countries such as Japan, Saudi Arabia and Israel.

The move comes as Beijing has intensified a campaign in recent months to rein in risky investment and financing practices that pose a threat to the stability of the world's second-largest economy. The People's Bank of China has raised key short-term interest rates twice since early February, while the banking regulator cracked down on investment products with highly leveraged bets in capital markets.

The central bank's tightening efforts have come ahead of a key political meeting in

China this autumn during which a number of changes to the country's leadership are expected. Beijing has been keen to ensure economic stability in the run-up to the meeting. China's annual growth rate rose to 6.9% in the first quarter.

Beijing has intensified a campaign to rein in risky investment.

pacity in industries such as glass and steel, which has diverted funding to "zombie" companies rather than to promising firms in the real economy.

Still, a number of analysts are concerned that China's economy has become too reliant on ever-rising levels of credit, much of which has been provided by the country's expanding shadow banking sector. China's total debt reached 253% of its gross domestic product last year, up from 213% in 2013 and 149% in 2008, according to J.P. Morgan.

"The downgrade reflects [our] expectation that China's financial strength will erode somewhat over the coming years, with economy-wide debt continuing to rise as potential growth slows," Moody's said.

Another ratings firm, Fitch Ratings, downgraded China's debt in 2013 to A+, a rating

that is on a par with Moody's after the downgrade. S&P rates China's debt at AA-, equivalent to a notch higher.

Moody's downgrade could have an impact on China's exchange rate and economy over the longer term as it could weaken Chinese companies' ability to raise new debt or repay existing debt in global markets, said Zhu Chaoping, China economist at UOB Kay Hian Holdings, a Singapore investment bank.

"Once Chinese companies run into trouble with their overseas debt, the yuan will be under pressure," Mr. Zhu said.

In the freely traded offshore market early Wednesday, the dollar was at 6.8843 against the yuan, up slightly from 6.8808 at Tuesday's close. In the onshore yuan market, where the People's Bank of China has a firm grip, it is up at 6.8932 from 6.8897 Tuesday.

Indonesians Caned Over Sexual Conduct

By ANITA RACHMAN

18,000 islands home to 250 million people, where Shariah, or Islamic religious law, forms the basis of the justice system.

The two men, identified as Muhammad Taufik, 23 years old, and Muhammad Habibi, 20, were given 83 lashes each before a crowd of 1,000 to 1,500 people in front of a mosque in the capital of Aceh province on the northern tip of Sumatra Island.

The flogging on Tuesday marked the first time the cane has been used to punish same-sex relations in the province of Aceh, though it is used for other offenses there. Besides the two men, eight other offenders were whipped, including a heterosexual couple punished for having intimacy outside marriage. That term covers being alone in a private place. They each received 27 lashes.

On Sunday night, police in the cosmopolitan capital, Jakarta, arrested more than 140 men at a gay party at a



The flogging of a man for having gay sex reflects the rise of more-conservative Islam in Indonesia.

sauna club. Those arrests, on accusations of violations of pornography law fit a pattern of similar raids and arrests on private premises, activists said.

"Sadly, it coincides with the rise of intolerant Islamism in Indonesia," said Andreas Harsono,

a researcher for Human Rights Watch. "It's time to question the notion that Indonesia is a moderate Muslim-majority country."

In front of the mosque, several hooded men wielding rattan sticks about 3 feet long took turns striking the backs of those

punished, one by one, with a medical official present.

Messrs. Taufik and Habibi were offered drinks after 40 lashes. The men folded their hands tightly against the pain.

—*I Made Sentana in Jakarta contributed to this article.*

Big Brother Tightens Control By Mining Foreign Firms' Data

CHINA'S WORLD

By Andrew Browne

investors are just now trying to fathom its implications. "Data ownership helps autocratic systems," says Jörg Wuttke, the departing president of the European Chamber of Commerce in China.

The Trump administration is fixated on traditional threats to trade. Wilbur Ross, the commerce secretary, recently hailed new U.S.-China trade agreement that opens the Chinese market to U.S. beef, liquefied natural gas and selected financial institutions as "a herculean accomplishment."

That may be true, though it misses the wider point: The real challenge to foreign businesses in China these days is occurring behind its borders. Despite China's pledges to give markets a greater role, President Xi Jinping is leading a retrograde drift toward industrial command-and-control.

If Deng Xiaoping's economic "open door" is indeed clanging shut, behind it lies an increasingly hostile environment for multinationals. They are now on notice to actively support Mr. Xi's grand statist project to turn China into a "manufacturing superpower."

The social-credit system of rewards and punishments is the enforcement mechanism. To view it solely as a kind of Orwellian dystopia, though, would be a mistake. Frauds and fakes plague the Chinese marketplace; better data will boost consumer trust.

Likewise, stronger data

collection will help enforce environmental regulation.

Dash cams aboard truck fleets will identify errant drivers. Digital feeds from e-commerce sites will expose glitches in customer service and payment irregularities.

Evitably, predicts Mercator, Chinese and foreign companies watching their credit scores are more likely to fall in line behind state planning objectives.

The Mercator report predicts that the social-credit system "could become a powerful, big-data-enabled tool kit for monitoring, rating and steering the behavior of participants into a politically desired direction."

Of course, the system could end up wrecking the economy. Excessive regulation risks upsetting the delicate balance between government control and commercial disruption that allows innovation to flourish.

It is unclear what the West can offer as a defense. The best hope of dealing with state capitalism is the Trans-Pacific Partnership, which the Trump administration has abandoned.

As it is, foreign players in the world's fastest-growing technology and consumer markets will shortly find themselves looking over their shoulders at the whizzing numbers on their scorecards. When Big Brother is the regulator, their fortunes will be at the mercy of invisible eyes and mysterious algorithms.

OU DONGGU/XINHUA/ZUMA PRESS



A worker logs into a big-data platform in Guizhou province.

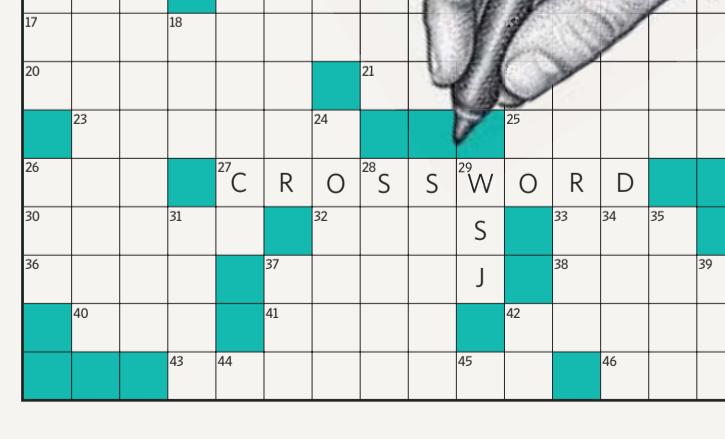
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WAR

Continued from Page One

pany would accept—even one like Google that encourages entrepreneurialism among its workers. While Google's approach helps it create new businesses, it also can spark disagreements between the company and its employees over who owns certain technology.

Alphabet accuses Mr. Levandowski of stealing its driverless-car technology and bringing it to Uber, which he joined as head of driverless cars last year after earning more than \$120 million at Google. Alphabet has filed two arbitration claims against him and is suing Uber for allegedly conspiring with him.

Investigation sought

Last week, the judge handling the civil lawsuit asked federal prosecutors to investigate Alphabet's allegations that Mr. Levandowski stole trade secrets.

Uber, a ride-hailing company, denies wrongdoing and is contesting the accusations in court. It isn't clear how Mr. Levandowski has responded to the arbitration claims, which are private. Uber declined to make him available for an interview and he didn't respond to requests for comment.

This account of Mr. Levandowski's tenure at Google and simultaneous work for his own companies is based on interviews with a dozen former 510 Systems and Google employees, and on court filings and other public records.

Google encourages employees to spend 20% of work time on side projects of their choosing that benefit the company, and it has created a so-called incubator for employees to found startups inside the company. Some eventually leave to start their own ventures, such as social-media firms Instagram and Pinterest Inc. Even Google's co-founders, Larry Page and Sergey Brin, have launched their own outside companies in recent years, including firms developing flying cars and an airship.

Mr. Levandowski's outside companies benefited Google for years. Technology developed by 510 Systems helped Google create its own maps and avoid paying for third-party data. When Google launched its self-driving

Alphabet's claims against Mr. Levandowski and Uber.

Mr. Levandowski, who stands 6 feet 6 inches tall, was born in Brussels and came to the U.S. in the early 1990s, at age 14. As a teenager in Marin County, north of San Francisco, he created a digital map of his school and started a company to provide technical support for local businesses' websites.

He caught the bug for robots as an industrial-engineering student at the University of California, Berkeley, where he made one with Lego pieces that could sort Monopoly money. He also began experimenting with driverless vehicles, organizing classmates to enter a 2004 Defense Department competition to race autonomous cars across the Mojave Desert. To save money, the team built a driverless motorcycle, dubbed Ghostrider. It crashed within seconds and is now displayed at the Smithsonian Institution.

Around 2006, before he joined Google, Mr. Levandowski was part of a digital-mapping project called VuTool, which used sensor technology developed for the Defense Department race.

Google's Mr. Page was looking for a similar tool for its maps service. He believed Google's mission to "organize the world's information" needed a lot more data from streets, according to employees who worked on the project, which became Street View.

Google's team was struggling with an expensive high-resolution camera. Sunlight streaked through images. VuTool was moving faster by using off-the-shelf parts and a system built by Mr. Levandowski and a few classmates that combined information from multiple sensors.

Google hired Mr. Levandowski and the VuTool team in April 2007. A few weeks later, Mr. Levandowski registered 510 Systems, named after Berkeley's area code. He soon began selling his sensor-fusion system to Google via a middleman.

The black-and-yellow box became the brains of the Street View system. It synchronized information from multiple sensors, including cameras, satellite data and the car's wheels, so images gathered as the vehicles drove through neighborhoods would precisely match where they were taken.

During 510 Systems' first several months, Google was its only customer. Former 510 Systems employees say the transactions occurred through a middleman that branded the devices, sold them to Google and eventually manufactured them directly. Google bought more than 100 over the first year. Former 510 Systems employees said they kept quiet about their high-profile customer, giving Google the code name Aspen.

Mr. Levandowski told few employees at 510 Systems about his Google job, although some figured it out because he often wore Google apparel, the former employees say. Fellow engineers on Google's Street View team knew of Mr. Levandowski's connection to 510 Systems, a former Google employee says.

Alphabet lawyers have suggested Google executives initially didn't know they were buying technology from one of their own employees.

"You did not disclose to Google your involvement with 510 Systems...before Google discovered your involvement with them, correct?" an Alphabet lawyer asked Mr. Levandowski

Key Contributor

While Google engineer Anthony Levandowski was helping run the company's self-driving car program, outside firms he founded supplied two key technologies for the cars.

LEVANDOWSKI TECHNOLOGY

Connection to controls:

Enables computer to control the steering wheel, gas and brakes.

LIDAR

A sensor that uses lasers 'sees' the car's surroundings.

GPS

Provides location data.

Computer (in trunk)

Runs software that drives the car.

Sensor-fusion system (in trunk):

Melds data from various sensors for the computer.

Wheel encoder:

Tracks movement to cross-check location data.

Radar:

Helps detect objects that the lasers and cameras miss.

*Not all highlighted Sources: Former employees (Levandowski's technology); Google; Getty Images (photo) THE WALL STREET JOURNAL.



Anthony Levandowski with an Uber driverless car in December, months after he joined the company.

Side Projects

While working for Google, Anthony Levandowski started several outside firms that developed technology related to his projects at Google. Google bought two of the firms, and Uber acquired the others.

April 2007 Google hires Levandowski. Jan. 27, 2016 Levandowski leaves Google.

GOOGLE 2009 2011 2013 2015 2017

510 SYSTEMS Built sensor-fusion systems for Google and other companies

Company began

ANTHONY'S ROBOTS Developed self-driving-car technology

ODIN WAVE/TYTO LIDAR Developed laser sensors called lidar that are used in driverless cars

OTTOMOTTO Developed self-driving trucks

UBER 2010 2012 2014 2016

August 2016 Levandowski joins Uber.

THE WALL STREET JOURNAL.

*Google alleges Levandowski owned the company; public records say it was initially registered by his personal lawyer.

Sources: court documents; public records

in a deposition last month, according to a transcript. Mr. Levandowski declined to answer, invoking his Fifth Amendment rights.

At 510 Systems, Mr. Levandowski appeared sporadically, often meeting with managers late at night, former employees say. He brought on his stepmother, Suzanna Musick, as chief executive to help manage the dozen or so employees. Former employees described Ms. Musick, a former consultant, as a competent manager but unschooled in the technology. Ms. Musick didn't respond to requests for comment.

By 2008, 510 Systems' devices were helping Google offer street-level images for dozens of cities. Then Google halted its purchases. It had reverse-engineered the system and built its own, according to employees of both companies.

By that time, 510 Systems was selling its sensor systems to surveying firms and later to Microsoft Corp. Through the middleman, 510 Systems sold Google camera rigs similar to the Street View ones for about 20 small planes Google used to take aerial images for its maps.

Mr. Levandowski's passion for robots hadn't faded. In 2008, he was asked to make a driverless vehicle to deliver a pizza for a Discovery Channel show. He formed another startup, Anthony's Robots LLC, and assembled 510 Systems engineers to modify a Toyota Prius. Weeks later, the car—embazoned with 510 Systems and Anthony's Robots decals—drove over San Francisco's Bay Bridge with a police escort and pizza inside.

Months later, in 2009, that car became a seed vehicle for Google's driverless-car project, a bold new venture for a company based on internet advertising.

Shifting focus

Over the next year, Mr. Levandowski quietly shifted 510 Systems' focus toward driverless cars, pulling 510 Systems engineers onto driverless-car projects.

510 Systems quietly began supplying Google with self-driving technology, including a modified sensor-fusion box and a system that connected computers to a car's steering wheel, gas and brakes.

The companies' unusual relationship hardly registered with 510 Systems employees. "Amongst ourselves we said, 'That's a little strange, isn't it?'"

Public records show the new company, Odin Wave LLC, was originally registered by Mr. Levandowski's personal lawyer.

That lawyer didn't respond to requests for comment. At the time, Mr. Levandowski ran the lidar team at Google.

Mr. Levandowski quit Google in January 2016, days after launching his own driverless-car venture, Ottomotto LLC.

Alphabet alleges that when he left, he took 14,000 confidential files about Google's lidar system, and some top engineers.

Mr. Levandowski then merged Ottomotto with the lidar business housed at the former 510 Systems headquarters, Alphabet alleges.

In August, Uber bought the new company for \$680 million in stock. Court documents show Mr. Levandowski received more than \$250 million.

said former 510 Systems software engineer Ben Discoe. "But that was extent of it. We liked our jobs."

At last month's deposition, an Alphabet lawyer asked Mr. Levandowski: "You used confidential information from Google to help develop technology at 510 Systems, correct?" Then, "You brought Google Street View source code to 510 Systems...correct?" Mr. Levandowski invoked the Fifth Amendment.

Two former 510 Systems employees said in interviews Mr. Levandowski often would return from a day at Google and suddenly have answers to engineering questions the 510 Systems team had been struggling with.

One day in early 2011, 510 Systems employees awoke to an email from Mr. Levandowski calling a companywide meeting.

At the headquarters, they lined up to sign a nondisclosure agreement at a desk manned by Mr. Levandowski. Then he announced Google was buying 510 Systems and Anthony's Robots for its driverless-car program.

Mr. Levandowski sold the company for about \$20 million, just below the threshold at which employees would have shared in the proceeds. Google hired about half of the company's 50 or so employees.

Mr. Levandowski signed a noncompete agreement that for two years barred any outside involvement in a variety of areas, including sensors, robotics and driverless cars.

The relationship between Google and 510 Systems "was completely tangled," says Mr. Discoe, the former 510 Systems engineer. "I guess the decision to be bought or not be bought was basically: Are we going to untangle this or are we just going to give up and merge it?"

More than five years later, the most valuable piece of the acquisition is 510 Systems' lidar system, a laser sensor crucial to driverless cars because it allows them to effectively see their surroundings. The system was the predecessor to the lidar that Waymo, Alphabet's recently renamed autonomous-vehicle unit, now uses on its most advanced driverless cars.

That lidar, one of Waymo's most valuable technologies, also is at the center of the claims Alphabet has filed against Mr. Levandowski and Uber.

Alphabet has alleged that Mr. Levandowski continued his side dealings in violation of his noncompete agreement. In August 2012, a year after the 510 Systems acquisition, a new business making lidar was founded at 510 Systems' former headquarters, a building owned by Mr. Levandowski, Alphabet alleges.

Public records show the new company, Odin Wave LLC, was originally registered by Mr. Levandowski's personal lawyer.

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said. The situation was too awkward to confront the people who had previously occupied the office.

"What if it had been them? You could never speak to that person again," he said.

The office is connected to the Metropolitan Correctional Center, a detention facility with nearly 800 inmates, including Mexican drug lord Joaquin "El Chapo" Guzman. Lawyers in Manhattan have debated which building is in better physical condition.

"The low point was when a defendant...sat in one of our nicer conference rooms and asked to have the next meeting at the prison because it was more comfortable," said Brendan McGuire, who led the office's terrorism and international narcotics unit.

Anthony Barkow, who left the office in 2008, said he has noticed some improvements during his visits back as a defense attorney. "They did take the garbage bags off the water fountain," he said.

The GSA says the fountains now have filters.

OFFICE

Continued from Page One

Hattan that even the acting U.S. attorney there, Joon Kim, calls "shabby chic, without the chic."

That may be understating the situation, which goes beyond the worn carpets and dated computers typical of a government building.

In the past decade, the workspace, which occupies an entire nine-story building, has suffered bedbug outbreaks and the occasional ant infestation. Brian Jacobs, who served as the office's deputy chief of appeals until 2015, once noticed a strange odor, only to later discover the source to be a dead rat decomposing in a radiator.

"Every job has its unique challenges," Mr. Jacobs said. "Coping with bad smells is not one you expect."

People in the office say they tend to avoid the water. In 2003, an inspection found the water fountains had unsafe levels of lead, according to the General Services Administration, which

owns the building. The office subsequently covered the water fountains with garbage bags, and prosecutors began informal "water clubs," in which they would chip in funds to buy coolers of filtered water.

A spokeswoman for the GSA, the federal agency that manages government buildings, said it is "committed to correcting any deficiencies" in the facility. The agency is currently conducting a study "to identify the immediate and long-term needs" of the building, and is seeking to authorize funding to upgrade it, the spokeswoman said.

The conditions owe partly to the fact the office sits in a building that has never undergone an extensive face-lift. The brick-and-concrete structure was built in 1974 in an architectural style bearing Soviet echoes.

The run-down building has almost become a badge of honor, former prosecutors say, signaling the office chooses to spend money on cases, not aesthetic improvements. Shabby conditions haven't deterred top law-school graduates from wanting to work as Manhattan

federal prosecutors, a high-profile job that often leads to a lucrative law firm partnership.

"You just sort of gave into it," said Carrie Cohen, who left in 2016 after prosecuting public-corruption and securities cases for nearly nine years.

A long line of prominent lawyers have served as the Manhattan U.S. attorney, including former FBI Director James Comey, former SEC Chairwoman Mary Jo White and former New York City Mayor Rudy Giuliani. Most recently, Preet Bharara was fired in March by President Donald Trump, after he refused a request for the remaining U.S. attorneys appointed by President Barack Obama to resign.

"No one comes to us for fancy office space or cushy perks," said Mr. Kim, who became acting U.S. attorney after Mr. Bharara's firing.

Rather, Mr. Kim said, young prosecutors compete for a chance to be part of the office's prestigious record of cases. "That sense of greater purpose, I think, more than makes up for the mismatched furniture and windowless conference rooms."

The Manhattan U.S. attorney's office, whose jurisdiction is the Southern District of New York, is known for its independence from Washington, earning it the nickname "Sovereign District of New York." It has a reputation for sparring with other districts to take control of high-profile investigations.

That attitude also seems to extend to the office furniture, which is so dilapidated that decent chairs and other furnishings are in high demand. By the time Sharon Cohen Levin left as a Southern District prosecutor in 2015, she had worked there for nearly 25 years and accumulated several valuable items, including a coat rack.

A feeding frenzy started when her office mates found out she was leaving.

"I would literally go out to lunch and another piece of furniture would be missing," said Ms. Levin, who led the money-laundering and asset-forfeiture unit. "People were fighting to take my stuff."

The furniture conditions even caught

GREATER NEW YORK

Governors Gird for Woes at Penn

Christie orders summer fare cut on NJ Transit; Cuomo suggests state take over the station

BY PAUL BERGER

The governors of New York and New Jersey on Tuesday sketched out plans to deal with Amtrak's looming reduction of service into Penn Station—including a steep fare cut this summer on some NJ Transit trains—while lashing out at the national passenger railroad's stewardship of the nation's busiest train station.

Penn Station handles 600,000 passengers each weekday who stream through the underground warren of corridors from NJ Transit, Long Island Rail Road, Amtrak and the New York City subway.

Amtrak will close several tracks at a time at Penn Station for most of July and August, reducing service by up to 25% while engineers conduct extensive repairs to a web of tracks and switches following derail-



SPENCER PLATT/GETTY IMAGES

Rail passengers waiting to board at Penn Station in April.

ments in March and April.

New Jersey Gov. Chris Christie on Tuesday accused Amtrak, which owns and operates Penn Station, of "long-term neglect."

Speaking in Trenton, Mr. Christie, a Republican, gave the most detailed picture yet of how the summer disruption would affect commuters.

He said NJ Transit's Morris and Essex Midtown Direct trains—which carry about 23,000 people on an average weekday—would be diverted to Hoboken, where passengers

would transfer free of charge to the PATH rail system or to ferries to Manhattan.

Mr. Christie said he has ordered the state-run NJ Transit to lower monthly fares for the redirected passengers 56% to 63% during July and August.

A spokeswoman for NJ Transit said a detailed schedule would be released June 9. She added that the disruption would occur continuously from July 10 through Sept. 1.

Mr. Christie said that although he is pleased with Am-

trak's recent cooperation, he still backs a plan proposed with Democratic New York Gov. Andrew Cuomo earlier this month for a private operator to take over Penn Station.

"Given Amtrak's duplicity, their dishonesty, and their inability to be able to keep this infrastructure in a state of good repair, we can't any longer for a long-term solution rely upon Amtrak," Mr. Christie said.

Without directly referring to Mr. Christie's criticisms, Amtrak Chief Executive Charles "Wick" Moorman released a statement Tuesday evening saying that the situation at Penn Station was a result of "decades of under investment by all three operators as well as commuter train volume growth to levels well beyond what the station was designed for."

Mr. Cuomo, speaking at the CUNY Graduate Center in Manhattan, said he now has an alternative idea for Penn Station's future—New York state should take it over.

He pointed out that a state agency, the Empire State Development Corp., is already renova-

tating a new train hall for Amtrak and LIRR passengers at the James A. Farley post office building across Eighth Avenue from Penn Station.

Highlighting decades of underinvestment in Penn Station as well as in the New York City subway system, which Mr. Cuomo controls, the governor painted a bleak picture of a looming transportation crisis. He announced a competition, with three prizes of \$1 million each, for ideas to improve the subway.

Although Mr. Cuomo didn't lay out details of how LIRR passengers would be affected by what he described as the coming "summer of hell," he said he has formed a task force to seek solutions to the disruption, including park-and-ride and high-speed ferry services from Long Island. The group will also examine Penn Station's future.

Amtrak announced Tuesday that it hired HNTB Corp., an infrastructure firm, to help it keep to its timetable of finishing the track renewal project by the end of the summer. Mr. Cuomo said: "I am dubious."

Bronx Residents Press De Blasio

BY MARA GAY

New York City Mayor Bill de Blasio got an earful in the Bronx, where he met with residents and business owners as part of a five-borough tour.

The Democrat, who is up for re-election this year, is spending the week in the Bronx as part of his "City Hall in Your Borough" initiative. On Tuesday, about 200 people gathered inside the cavernous rotunda of the Bronx County Courthouse, where the mayor fielded dozens of questions about intensely local issues, ranging from sanitation tickets to bus routes.

Margaret White, 63 years old, asked him to improve relations between police and the young men of Morrisania, her Bronx neighborhood. Doing so was a 2013 campaign promise Mr. de Blasio made. The mayor frequently mentions a decrease in police stops of pedestrians under his administration.

"It hasn't gotten any better," Ms. White said, adding she would vote for Mr. de Blasio anyway.

Marcos Quintana, who lives in the West Farms area, asked what could be done about overcrowding in the city's subway system. Mr. de Blasio pointed out that the system is largely state-controlled.

"I heard it's a little more complicated than that," said Mr. Quintana, 37, who works as a doorman in Queens. He said he often has to allow two or three trains to pass him by before he is able to find one that isn't too crowded.

Later, Mr. de Blasio stopped by Madonia Brothers Bakery on Arthur Avenue, where he praised the cannoli.

"The cannoli is a very serious issue in my life," said the mayor, who often speaks of his mother's Italian-American roots. He said he and his wife, Chirlane McCray, had a "giant cannoli" at their wedding celebration. "No wedding cake, just cannoli."

Charles Lalima, one of the bakery's owners, told the mayor that business was brisk, mostly.

"Business isn't bad except for today. They have the streets blocked off for some reason," he joked, referring to the mayor's security detail and a bevy of reporters who had gathered outside the bakery.

The Bronx is the second stop on the mayor's tour. He spent a week in Staten Island last month.

Heightened Security in the City



EXTREME VIGILANCE: Police were on patrol in Times Square on Tuesday. The NYPD rolled out counterterrorism units to music venues, transit hubs, sports arenas and other spots throughout the city following a deadly attack by a suicide bomber in Manchester, England. There was no specific credible threat against New York City, police said.

Senate Democrats Gain Majority, but GOP in Control

BY MIKE VILENSKY

A special election in Harlem on Tuesday gave Democrats a majority in the New York state Senate to match its majority in the Assembly—but the party won't have more power.

Because of an alliance between nine Democratic senators and the GOP, Republicans will maintain control over the Senate, barring the Democratic Party from a coveted trifecta in Albany—controlling the Assembly, Senate and governorship.

With the Democratic Party controlling a historically low number of legislatures nationwide, the nine renegade Democrats in New York empowering the GOP are now under pressure to rejoin the fold.

Ahead of the state's 2018 legislative elections, there are already Democratic primary campaigns under way to oust the New York rebels, while national Democratic groups are seeking to broker a reconciliation between the renegades and the mainliners.

"New York [has] the opportunity to become the seventh state in the nation with a completely Democratic state government," Rep. Keith Ellison of Minnesota, deputy chairman of the Democratic National Committee, said earlier this week. "I am willing to do whatever might be helpful to bring together a Democratic majority in the New York state Senate."



Democrats have a vast majority in the New York Assembly and the governor, Andrew Cuomo, is a Democrat. The eight-person Independent Democratic Conference, led by Sen. Jeff Klein of the Bronx, formed six years ago when the Senate Democrats were riven by coups and scandals, because Democrats at the time didn't support the Democratic leader and had tried to oust him.

The GOP has benefited from the alliance because at times it would have been a minority conference without the dissident Democrats plus another Democrat, centrist Simcha

Felder of Brooklyn. The Democrats in the bipartisan coalition have touted that it raised the minimum wage while allied with the GOP, while the GOP has touted its middle-class tax cuts.

Control of the New York state Legislature could affect the national party, because the New York state Senate controls congressional district boundaries and will redraw them by 2020.

But the renegade Democrats are doubling down on their alliance with the GOP, saying their liberal bona fides are solid, and that their mainline counterparts are grandstand-

ers who might not pass liberal bills even if they were in control.

On Tuesday, Brian Benjamin, a Democratic organizer, won the Harlem seat left vacant by a Democrat who joined the New York City Council. Mr. Benjamin, who will ally with his party, ran against Republican businesswoman Dawn Simmons in a district where Democrats are heavily favored.

Mr. Benjamin, 40 years old, said he hopes his election begins a process of reconciliation. "Let's end the civil war and reunite," he said in an interview, "before it gets very messy next year."

New State Senator Is Liberal Activist

Brian Benjamin, the Democrat who will be Harlem's new state senator, is a longtime liberal activist with a host of connections in New York politics.

Mr. Benjamin, who won the seat in Tuesday's special election, is a 40-year-old real-estate developer and chairman of a Harlem community board. He had the backing of the governor, mayor and labor unions in his bid for the open Senate seat representing Manhattan.

He has vowed to push for the Rikers Island jail complex to close ahead of the schedule laid out by Mayor Bill de Blasio earlier this year, and to help unite two warring Democratic factions in the state Senate.

"Being a new member, I come with fresh set of eyes," Mr. Benjamin said.

He has powerful local ally on his side: Keith Wright, a former Harlem assemblyman and chairman of the Manhattan Democratic Committee.

Party committees handpick their nominees in New York's special legislative races to fill vacancies, in lieu of a regular primary. The Manhattan Democrats chose Mr. Benjamin, a New York City native, over other local Democrats at a meeting in March.

The seat, in a heavily Democratic area, was vacated by former Democratic Sen. Bill Perkins, who joined the New York City Council.

Businesswoman Dawn Simmons, the Republican candidate, had urged voters to consider another party in the district. She promoted a platform of school choice and better relationships between police and the Harlem community.

Mr. Benjamin has some name recognition outside of Harlem thanks to his appearance on a 2014 reality-television show that chronicled his romantic drama with his then-girlfriend.

Mr. Benjamin said he is "100% retired" from reality TV. While he is no longer dating the woman from the show, Tiffany Jones, she endorsed his candidacy, her representative said.

He will join the Senate's mainline Democrats over the dissident Independent Democratic Conference, which is allied with the GOP. Though his win gives Democrats a one-person numerical majority, Republicans will remain in control because of the rebel Democrats working with them.

"I could never get my arms around this idea of helping Republicans," said Mr. Benjamin, who comes from a family of Democratic activists. "My mom would kill me."

—Mike Vilensky

GREATER NEW YORK

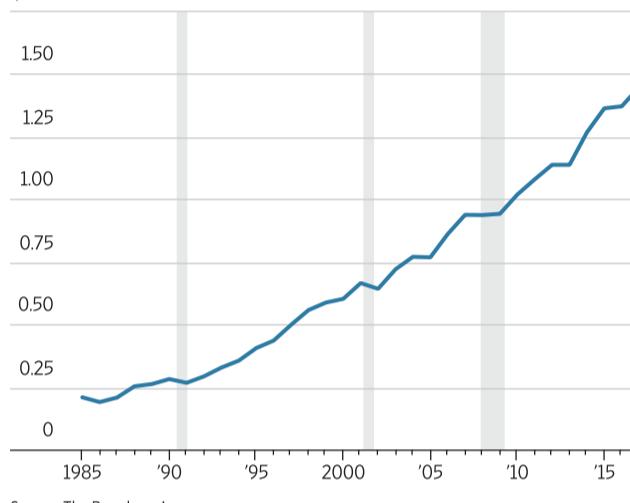


MATTHEW MURPHY

Mike Faist, left, and Ben Platt in a scene from 'Dear Evan Hansen.' The Tony-nominated musical is one of a number of new shows that have consistently posted grosses of at least \$1 million a week.

Surging Sales

Broadway annual grosses



Source: The Broadway League

THE WALL STREET JOURNAL.

Record Year on Broadway

BY CHARLES PASSY

Call it Broadway's big year. Shows set a record \$1.45 billion in ticket sales for the 52-week season that concluded this past Sunday, according to the Broadway League, the trade group that tracks the industry. That marks a 5.5% gain over the previous season, which itself set a record.

The season benefited from a number of new Tony Award-nominated musicals that have garnered strong followings and posted consistent weekly grosses of \$1 million-plus. Among them: "Natasha, Pierre & the Great

Comet of 1812," "Dear Evan Hansen" and "Come From Away."

Another hit this season: the revival of "Hello, Dolly!" starring Bette Midler. It has played to standing-room-only crowds since it opened in April, grossing as much as \$2.1 million a week.

Long-running shows also have played a part in Broadway's success during the past year. "Hamilton," the breakthrough show of 2015-16, continues to dominate, selling at 100%-plus capacity week after week. During the winter holidays, the show took in as much \$3.3 million a week and commanded a top price of

\$998 for a premium seat.

The impact of "Hamilton," however, goes beyond that. The historical-themed hip-hop musical has brought a new and decidedly younger audience to the theater, say Broadway observers. In turn, that has helped adventuresome shows such as "Dear Evan Hansen," which explores teen alienation in the age of social media, find an audience.

"A lot of people who aren't typical Broadway fans want to learn about what's going on besides 'Hamilton,'" said Melissa Anelli, the co-founder of BroadwayCon, a convention for theatergoers.

Still, the season's figures

weren't all positive. While the box office was up, attendance declined by 0.4% to 13.27 million.

The gains in grosses outpaced the increase in attendance, say Broadway insiders, because shows are maximizing ticket revenue through dynamic pricing, a strategy that ties the cost of a seat with demand.

Ultimately, many shows are running below 80% capacity. And that doesn't always spell success, even with dynamic pricing, says Ken Davernport, a veteran Broadway producer.

"I'd like to see more butts in seats," he added.

METRO MONEY | By Anne Kadet

Want to Get a Unicorn Horn? There's a Shop for That

New York is a city so big, so wealthy, and so packed with tourists, it can seemingly support a shop specializing in just about anything. The latest example: Brooklyn Owl, a new store in Park Slope. It sells unicorn horns.

When I stopped by the shop with a pal last week, co-owners Cory and Annie Bruce greeted us with their 8-year-old daughter, Bee, who works the register. They wore matching purple shirts. They were all wearing horns.

The family guided us through the unicorn transformation process. First, we

tried on stuffed fabric horns in various sizes and colors, priced from \$14 to \$30.

The original size is better for everyday activities like a spin class, Mr. Bruce advised. The largest size "is better if you're going to a gala."

Next we were told to find secret phrases on the store walls. My discovery: "Do the impossible." I was told to repeat this in front of the magic mirror.

Suddenly, lights flashed and a voice boomed from above: "You are now a unicorn! Your sparkly magic shall brighten the days of all who see you!"

"Welcome to unicorn-dom," said Mr. Bruce.

Mrs. Bruce encouraged us to stroll the neighborhood wearing our horns. We walked down Flatbush Avenue and got coffee. There was zero reaction from passersby. I love this city so much.

Reaction to the store itself has been mixed. While the mommy blogs love it, it has garnered derisive comments about those precious Brooklynites and their insufferable whimsy. Comparisons have been made to Empire Mayonnaise, the mayo-only store that operated for several years on nearby Vanderbilt Avenue.

Mr. Bruce dismisses those.

"I don't want to say that unicorns are better than mayonnaise. That's an age-old battle," he says. "But it's a different thing. There are seldom people excited about mayonnaise. I see them every day excited about unicorn horns."

He also repudiates suggestions that Brooklyn Owl is cashing in on the current unicorn craze.

Indeed, the business is no mythological-creature-completely. Launched in 2012 as a



MARK KAUZLARICH FOR THE WALL STREET JOURNAL

Bee Bruce, 8 years old, models a unicorn horn in Brooklyn Owl.

See a video about her parents' Park Slope store at WSJ.com/NY.

manufacturer and wholesale provider of horns to gift shops and toy stores, it's now a global powerhouse with a staff of 10, supplying more than 300 retailers.

In the storefront's tiny backroom, a small crew cuts fabric—either felt or spandex—and stuffs horns with recycled plastic poly-fill. Sewer Elsa Clarke-Edwards, who recently moved here from Jamaica, says she's been a seamstress for de-

cades but never before made unicorn horns. "I'm very surprised," she said. "Normally, I'm doing bridal tailoring."

Brooklyn Owl isn't the only unicorn industry contender, of course. Archie McPhee, the well-known maker of novelty products, also began offering horns in 2012, starting with a unicorn horn for cats. "It seemed like an obvious thing," says David Wahl, the company's Director of Awesome.

A year later, it added an inflatable horn for humans.

"People wanted to look like their cats," says Mr. Wahl.

There are also newer online contenders offering hand-sewn horns suspiciously similar to Brooklyn Owl's design, at lower prices. These horns might appeal to the uneducated consumer who doesn't realize that authentic unicorns parts are only made in New York.

Indeed, Mr. Bruce says it'd be cheaper to have the horns crafted elsewhere. Potential clients at trade shows sometimes react with sticker shock to his wholesale prices.

Whether the city can support a unicorn horn store remains to be seen. But Mr. Bruce says the shop is already fulfilling its mission: serving as a testing ground for new horn styles and letting them meet customers in person.

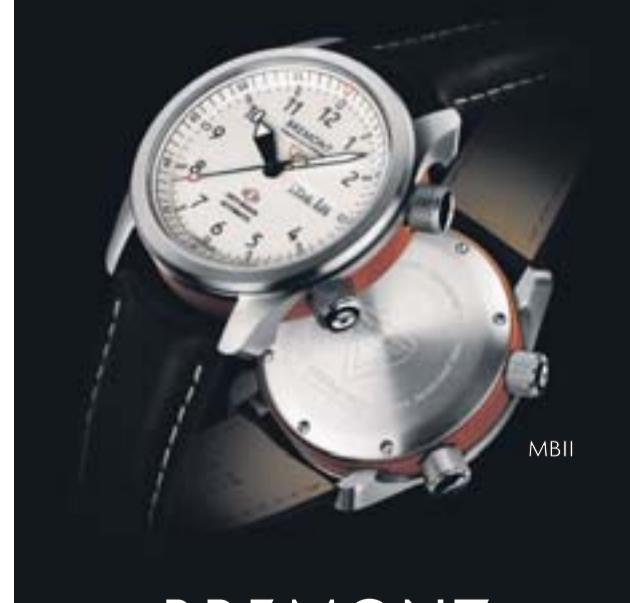
Plus, Brooklyn Owl appears to be the only unicorn horn shop on the planet.

"It's fun," says Mr. Bruce, "to be the only one."

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Soupman Executive Faces Tax Charges

BY CORINNE RAMEY

The Taxman is coming for the Soupman's company.

Federal prosecutors unsealed an indictment Tuesday charging an executive at Soupman Inc., of "Seinfeld" fame, with tax evasion. The company, based in Staten Island, licenses the recipes, likeness and name of Al Yeganeh, the man who inspired the "Soup Nazi" character in the television show.

The indictment, filed in Brooklyn, charges Robert Bertrand, the company's chief financial officer, with 20 counts of failing to pay federal income taxes, Medicare and Social Security for Soupman's employees. Prosecutors contend that from 2010 to 2014, Mr. Bertrand paid his employees on the side in cash and paid certain workers in large amounts of unreported stock.

Mr. Bertrand didn't report these payments to the Internal

Revenue Service, despite being warned by an external auditor in 2012, prosecutors said. From 2010 to 2014, Soupman racked up nearly \$3 million in unreported stock and cash compensation, and the total tax loss to the government was about \$600,000, they said.

A lawyer representing Mr. Bertrand didn't respond to a request for comment. Mr. Bertrand pleaded not guilty in federal court and was released on bail. If convicted, he faces up to five years in prison.

Mr. Yeganeh, the basis for the "Soup Nazi" character, opened his Manhattan soup store in 1984, according to the website of Soupman Inc. Mr. Yeganeh's fame spread after a 1995 "Seinfeld" episode in which the Soup Nazi berates his customers standing in long lines, often yelling, "No soup for you!"

The company didn't respond to a request for comment.

GREATER NEW YORK WATCH

TIMES SQUARE CRASH

New Jersey Teenager Is Out of Hospital

A New Jersey teenager mowed down by a driver on a Times Square sidewalk is out of a hospital. But one of her high-school classmates and five other victims remain hospitalized.

Thursday's crash killed a Michigan teen and injured 22 other people. They included Dunellen, N.J., high school seniors Destiny Lightfoot and Jessica Williams.

Dunellen Public Schools Superintendent Gene Mosley said Ms. Lightfoot was released from a hospital Tuesday, while Ms. Williams remained in the hospital.

New York's Bellevue Hospital and Mount Sinai Health System say they continue caring for a total of six crash victims. At least two are in critical or serious condition.

Driver Richard Rojas has been charged with murder. He hasn't entered a plea.

Associated Press

CRIME

Gang Member's Body Found in Park: Police

A body found in a park in Queens was a 16-year-old member of the MS-13 gang, police said.

The body of Julio Vasquez was discovered Sunday. Police said he was stabbed 28 times in the back and had at least six wounds in his chest. He had been dead about a week, they said.

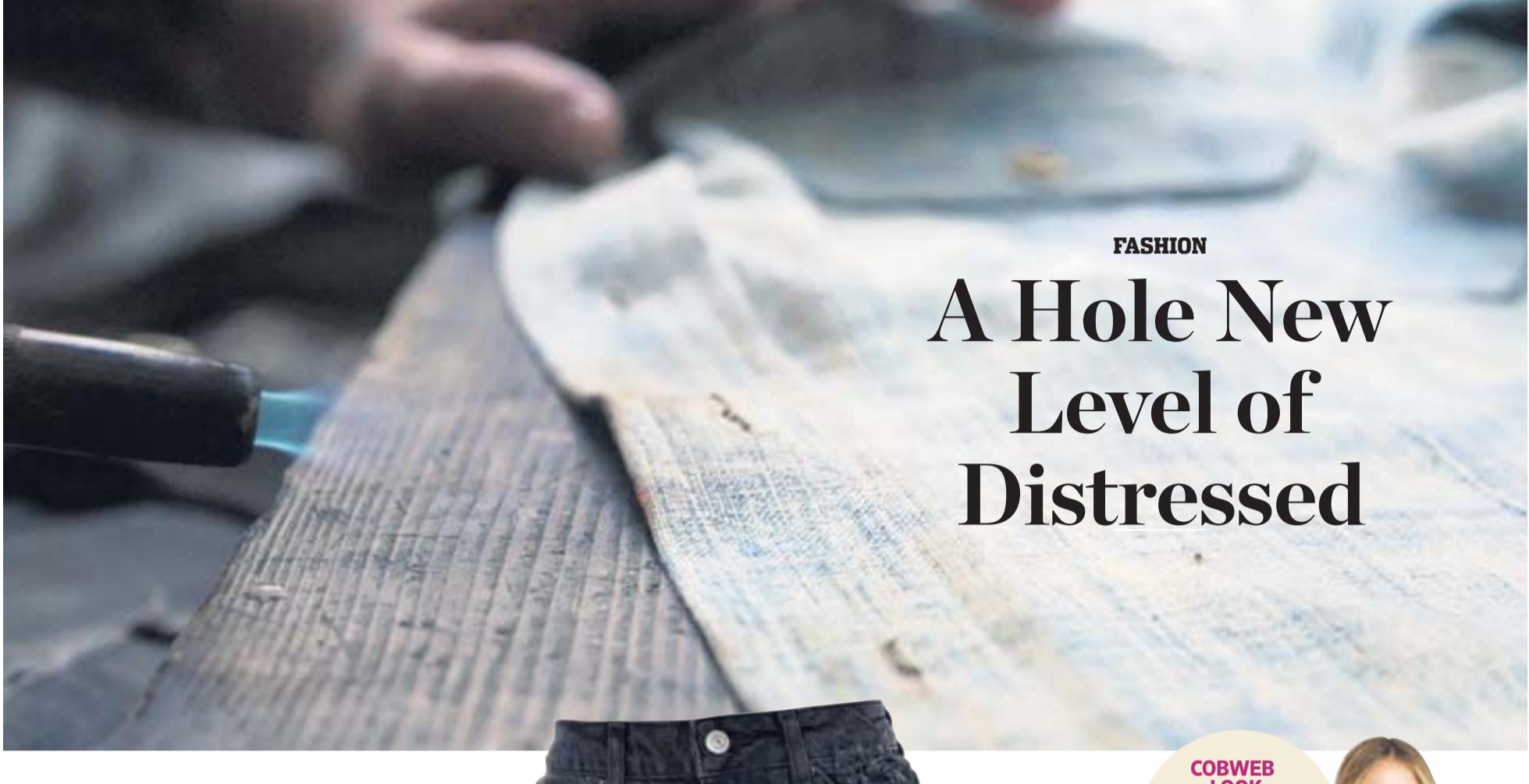
Police believe he was killed elsewhere and his body was dumped in the park.

There was no apparent connection to the spate of gang killings in suburban Long Island, east of where the teen's body was found.

MS-13, which has ties to El Salvador, has been blamed for the deaths of at least 11 mostly young people in Brentwood and neighboring Central Islip, both on Long Island, since the start of the school year.

Associated Press

LIFE & ARTS



FASHION

A Hole New Level of Distressed

BY ANNE MARIE CHAKER

"YOU WORE IT IN A LAKE, you wore it sliding down a dirt hill," says Blaine Halvorson, founder of clothing company MadeWorn.

But you didn't really.

The goal of MadeWorn's rock-concert T-shirts is to mimic a shirt that was worn at least once a week for 20 years, Mr. Halvorson says.

They sell for \$160 and up. Each one is sanded, stretched, nicked and torn for 10 to 15 minutes by a staff of four employees at his Los Angeles art studio. In addition, the shirts go through multiple wash cycles and get hung out in the sun.

Mr. Halvorson makes shoes, jackets, jeans and other garments as well, working with nature and chemistry to perfect their wear and tear. He has poured coffee over shoes buried in dirt piles and has let animals stomp on swatches of leather (the outcome was too smelly to wear).

Designers call it "distressed" when fabric has been worn to look old and weathered. Now, using an arsenal of everything from air guns to lasers to sanding tools, retailers and designers say we have hit a moment of peak distress. Holes, rips and tears have become shortcuts for people trying to convey they have carefree, unfussy lives and adventures under their belts. Worn details appear in everything from jeans to T-shirts and even dresses that are marketed as "nibbled," "mothbitten" "shredded," "destroyed" and "loveworn."

Dawn Carter says she loves the faded shade of black, loose threads around the edges and holes of a MadeWorn T-shirt she recently bought. "The little nicks and holes are how an old fabric would wear over time," says the 45-year-old psy-

chologist in Newport Beach, Calif.

"It does seem to be extreme at the moment," says Mo Richach, head of design for Topshop, a British label that includes a \$28 "long-sleeve nibbled T-shirt" speckled with holes. A \$60 pair of shredded "mom shorts" are sold with "ripped details, authentic trims."

Clothing designers ask Bill Curtin, owner of BPD Washhouse in Jersey City, N.J., which processes denim, "how can we destroy it to be completely shredded but still wearable?" he says.

Sometimes, creating a look of destruction can require several meetings with a designer.

Mr. Curtin recalls recently following a pattern that specified a ripped knee hole. When he met with the design team, however, they felt the opening oddly resembled an elephant's face.

"The shape itself turned into something that looked conversational and not abstract enough," he says. "We had to go back in and add more destroying to it."

Overall, denim distress requires a two-phase process that can take up to eight hours, says Mr. Curtin, and labor can cost five times the price of the fabric. "When you buy a \$200 jean, you're getting a jean that's been touched by a lot of hands," he says.

The "dry process" involves manual abrasion, including sandpapering by hand and using an electric sanding tool on belt loops, waistbands and on the fly, "so that the yarn starts breaking and threads



SHREDDED
Topshop's
\$60 shredded
'Mom shorts'
have 'ripped details,
authentic trims.'

labels such as Comme des Garçons and Maison Margiela have showcased models wearing holes and tattered shreds for several years.

Kanye West's Yeezy menswear line has also featured torn sweaters and sweatshirts since 2015, which helped bring distress styles to mass-market appeal, says Sidney Morgan-Petro, senior retail editor for WGSN, a fashion trend forecasting company.

The pre-ripped and torn versions of Pam & Gela track pants and T-shirts now outsell the clean versions by 40%, say co-founders Pamela Skaist-Levy and Gela Nash-Taylor. "We love to shred over the shoulder.

It looks cool and feminine but also tough," says Ms. Skaist-Levy. The line's \$165 Destroyed Holey Annie sweatshirt features box-cutter rips around the neckline and shoulder area. "It's expensive because it's all done by hand," says Ms. Nash-Taylor. The tears "have to be placed strategically, otherwise it looks like Swiss cheese."

A Basic Annie sweatshirt without the holes is less expensive—at \$135.

Jill Goldman, a 54-year-old filmmaker in Los Angeles says that her Holey Annie sweatshirt adds something "punk-rock edgy" to an outfit that can be dressed up with heels, to give a look that says "you're not trying, but still chic," she says. She appreciates that the holes in her sweatshirt look natural yet evenly distributed.

"I care about where my holes are placed," she says. "If I were ripping my own clothes, it would look terrible. I would never do that."

COBWEB LOOK
The 'distressed detail' on IRO's
\$110 sweatshirt features pulled
and torn holes.



SLASHED
Re/done
slashes jeans
under the right
back pocket
where they
might wear out
on their own.



WORK & FAMILY | By Sue Shellenbarger

SAVE YOURSELF FROM TEDIOUS SMALL TALK



WE'VE ALL GOTTED mired in banal small talk at some point. What if there were a way to avoid that conversational quicksand?

If someone says, "I just got back from vacation," three in four people give a dead-end reply like, "Boy, do I need one of those." A more inviting question, such as, "What was your favorite day like?" can keep the conversation from dying on the vine, according to research by Contacts Count, a Newtown, Pa., consulting and training firm that advises employers on networking.

Much of our day-to-day talk is a missed opportunity. The ability to draw others into meaningful conversations can determine whether people want to get to know you, or remember you at all. Failure to learn it can stall your career.

Vanessa Van Edwards had been attending networking events for several years during and after college when she realized she was having the same conversation again and again. "It went like

this: So what do you do? Yeah. Where are you from. Yeah, yeah, been there. Do you live around here? Well, I'd better go get another glass of wine," says Ms. Van Edwards, a Portland, Ore., corporate trainer and author of "Capture," a new book on social skills.

She started trying conversation-openers that jarred people a bit, in a pleasant way: "Have you been working on anything exciting recently?" Or, "Any exciting plans this summer?"

"If I'm feeling very brave, I ask, 'What personal passion projects are you working on?'" Ms. Van Edwards says. She began making contacts who followed up more often.

People are more likely to remember encounters that are emotionally charged, research shows. Opening lines that spark pleasure, such as, "What was the highlight of your day?" tend to spark conversations that are memorable and enjoyable, Ms. Van Edwards says.

Please see TALK page A15

LIFE & ARTS

MY RIDE | By A.J. Baime

It's Her Thing: A Strange '70s Volkswagen

Brenda Berys, the San Francisco-based director of events at Gigya, a tech company, on her 1973 Volkswagen Thing, as told to A.J. Baime.

You never know when a chance encounter is going to change your life. In 2006, I was walking through a parking lot in Miami when I saw this bright yellow car. I was immediately struck by it. By the end of that day, I had found the owner, who was this beautiful, eccentric blond woman. I said, "I want that car." She said, "Whoa! Settle down." We started talking, and we became instant friends.

Four years later, we both moved to the West Coast, and had the Thing shipped to East Palo Alto. We had the engine rebuilt, banged out all the dents, and got to work, hoping we could blaze future careers in the nonprofit world. We drove that car all over—a blonde and a redhead, sun shining, no roof. Friends started calling us "The Girls in the Car." To us, the Thing represented our new lives and all the good we were going to do for people.

For the few who recognized the car, it brought back all these memories of the 1970s. The Thing [not a nickname, this is the car's actual name] was a descendant of a German World War II vehicle, and it was only sold in the U.S. for about two years starting in 1973. The doors are detachable, the windshield folds down, and the car supposedly could float. [This much is a myth.] It's not quite a dune buggy, not quite a Jeep. It's just...a Thing.

Soon after the Thing appeared in 1973, the federal government and Ralph Nader criticized it for not meeting safety standards. After just two years, sales ended in the U.S.

About five years ago, my friend moved away, but she left the Thing for me. Driving it is still so much fun. It feels like a go-kart on the road, and everywhere I go, VW enthusiasts come out of the woodwork to share their car stories with me. The Thing lacks every comfort and convenience, and it's broken down a million times. But still, its charm never wears thin.

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



Brenda Berys, the San Francisco-based director of events at Gigya, a Silicon Valley tech company, with her 1973 Volkswagen Thing. All four doors pop off, and the windshield, above, flips down. A peek at the no-frills interior, bottom left.



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LIFE & ARTS



Jlin's new album is 'Black Origami'

MUSIC REVIEW | By Jim Fusilli

Footwork Goes Global

Jlin takes a sound with roots in Chicago and gives it an international flavor all her own

THE MUSIC of composer-producer Jlin, the stage name of Jerrilynn Patton, now resides in that delicious and liberating place where it can't be easily defined, as demonstrated on her new album, "Black Origami" (Planet Mu).

Ms. Patton's recordings have their roots in footwork, the form of electronica that came to prominence—at least in Chicago, where it originated—in the 1990s. A narrow definition of footwork perceives it as frantic dance music that requires a high number of beats per minute, an onslaught of percussive notes of short duration and subordinate roles for melody and harmony. But Ms. Patton's music doesn't aim to serve dancers. Instead it employs a variety of tempos and unexpected interludes, and at times sounds like minimalism filtered through house music and the rattle of Chicago's L.

On "Black Origami," her second full-length album, complex synthetic passages draw influences from cultures far from the South Side. The title track taps into Middle Eastern and South Asian modes and instrumentation, while "Nyakinuya Rise" relies on layers of African shakers and hand drums as counterpoint to tribal-like chants. Dope Saint Jude, a rapper from Cape Town, South Africa, provides the jabbing top line on "Never Created, Never Destroyed." Though Ms. Patton continues to display an uncanny and often dazzling knack for the use of drum sounds, the stuttering pipe-band snare of footwork often appears as an accent rather than a primary feature.

Growing up in Gary, Ind., where she still resides, the 30-year-old Ms. Patton took piano and drum lessons, the latter with Johnny Jackson, who played percussion

behind fellow Gary residents the Jackson Five. When Mr. Jackson was killed in 2006, Ms. Patton chose to halt her training and instead focused on making footwork tracks on her laptop by chopping up and recasting samples. She began to question whether she could have an original sound if she stuck to footwork, which is alternately known as juke and whose most notable practitioners include RP Boo, Traxman and the late DJ Rashad. Once Missy Elliott and others brought footwork to the mainstream, Ms. Patton saw the risk of codification that limited creativity.

"It became trendy to be trendy, not a trend-setter," Ms. Patton recalled when we spoke by phone. She set out to find her own style of music-making.

When she began to issue her original recordings, two tracks, including the aptly titled "Erotic Heat," found their way onto the 2011 footwork

compilation "Bangs & Works Vol. 2" on the Planet Mu label. Popping with subtlety, tension and restrained sensuality, "Erotic Heat" foreshadowed her quest for distinction. Her 2015 debut, "Dark Energy," opened with "Black Ballet," a track that featured a piano motif, strings and brass before an operatic voice entered accompanied by the kind of percussion more aligned with a classical ensemble. If some musical threads are discarded too soon on "Dark Energy," it was because Ms. Patton had an excess of ideas for the pop-song format.

On "Black Origami," Ms. Patton is more concise in her writing, despite the expansion of the colors of her synthetic sound palette. In "Kyanite," birdlike effects flit around scat-singing, tight patterns on the taut drums and a motif that invokes a pungi, a Middle Eastern flute. The most prominent features of the too-brief "Calcination" are the air and space she leaves around the timpani or kick drum. "Hatshepsut" suggests a row of percussionists in a snappy marching band. Created with the experimentalist Holly Herndon, "1%" features rhythmic, staticky pulses and bursts under spoken voices, one of which is a recording of a telephone operator; another, culled from the film "Resident Evil," repeats "You're all going to die down here."

Ms. Patton says she is at work now on music for a ballet and is eager to score a film. On "Black Origami," she performs "Holy Child" with avant-garde composer and multi-instrumentalist William Basinski, musical descendant of minimalists like Brian Eno, Philip Glass, Steve Reich and others. Their collaboration, which fits hand in glove with several tracks on the new album, illustrates how far from footwork cliché Ms. Patton has traveled, as well as where she might go in the years ahead.

Mr. Fusilli is the Journal's rock and pop music critic. Email him at jfusilli@wsj.com and follow him on Twitter @wsjrock.

TALK

Continued from page A13

Such openers also risk falling flat. Ms. Van Edwards recently asked a stranger she met on a business trip what he was working on that was exciting. The man replied that he hated his job and was going through a divorce. She salvaged the exchange by thanking him for being honest, empathizing and drawing him into brainstorming about what's it's like being stuck in a rut and how to escape it.

Only one in four people sees value in asking probing questions of strangers, based on a Contacts Count survey of 1,000 people. Doing so can be risky, says Lynne Waymon, the firm's CEO and co-author of a book on networking. "I'm demanding more of you when I ask thought-provoking questions. I'm making an assumption that you're in this conversation to make something of it—that you're not going to see somebody across the room and say, 'Oh, I need to go talk to Susan or Bob,'" she says. "But the connections you make are going to be much more dramatic and long-lasting."

A valuable 17-year friendship for Bill Stokes, an executive recruiter, began when a woman he met at a fundraiser asked him, "What do you do to relax?" His reply, that he'd been raised on a farm and loved going to horse races, sparked a conversation about her hobby of rescuing retired racehorses in need of a home, and the friendship blossomed quickly, says Mr. Stokes, founder of the Washington Network Group, a Washington, D.C., executive group.

Many people who rely on small talk don't realize they lack critical conversational skills until they hit a career wall. Employers can hire coaches or trainers to deliver a crash course in conversation to professionals who lack the skills to engage new clients or customers, or middle managers who lack the internal networks needed to rise to executive jobs.

Dianna Booher coached an attorney several years ago whose bosses wanted to promote her but didn't trust her to socialize with clients. "She was sharp in her answers" to acquaintances' opening questions, giving dead-end or one-word replies that made her seem arrogant, says Ms. Booher, a Colleyville, Texas, communications consultant and author. Ms. Booher brought the attorney to her office for coaching and recorded her practicing warmer responses that revealed more about herself. She soon learned to start conversations on a more inviting note.

Among the tactics Ms. Booher suggests is giving mundane topics a serious twist. If an accountant or lawyer says she's just returned from vacation, ask, "Can someone in a stressful job like yours ever really get away totally and shut down?"

Learning to start deep con-

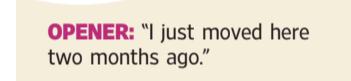
versations can be a relief to the people who dread networking the most. Pamela J. Bradley says she's an introvert. Meeting strangers used to touch off an anxious voice in her head. The voice would scream, "I have a terrible time networking, or I have a terrible time remembering names," says Ms. Bradley, human-resources manager for Keiter, a Glen Allen, Va., accounting and consulting firm. Asking probing questions turns down that voice and puts the spotlight on the other person, she says. Among her favorites is, "What's keeping you awake at night?" because it encourages clients to explain their most worrisome issues.

Such skills also make you happier. People who have more substantive conversations with others report a greater sense of well-being than those who engage in small talk, according to research led by Matthias Mehl, a psychology professor at the University of Arizona. Those findings, first reported in a 2010 study of 79 college students, have recently been replicated in a larger, unpublished study of 500 adults led by Anne Milek, a postdoctoral researcher working with Dr. Mehl.

It isn't clear whether people who are already happier have deeper conversations, or the conversations make people happier, but Dr. Mehl suspects each factor fuels the other.



...SMALL TALK



OPENER: "I just moved here two months ago."

SMALL TALK REPLY: "I've been here 10 years."

BETTER: "What has it been like getting used to a new city?"

OPENER: "I found the speaker so fascinating."

SMALL TALK REPLY: "Me, too."

BETTER: "Tell me more about what caught your attention."

OPENER: "I'm starting a new company."

SMALL TALK REPLY: "I work for XYZ Company."

BETTER: "What kind of people are you looking for to help you make a go of it?"

OPENER: "This hot weather is killing me."

SMALL TALK REPLY: "Me too, I can't wait until it cools off."

BETTER: "Do you think the weather affects people's moods or job performance?"

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SPORTS

SAILING

An America's Cup for the Masses

The new rules present fewer opportunities to exploit technological and financial advantages. Will mainstream sports fans care?

BY MATTHEW FUTTERMAN

Bermuda

THE 35TH EDITION of the America's Cup, which gets under way Friday on this mid-Atlantic island's Great Sound, figures to be a wide-open event with as many as four boats seen as possible winners.

That may be the strangest characteristic of what has long been one of the strangest competitions in international sports. The 166-year-old event traditionally allows the Cup's defender to effectively rig the rules in favor of his own boat. Not this time.

"The playing field has been completely leveled," said Russell Coutts, the most-decorated sailor in Cup history and now chief executive of the America's Cup Event Authority, which puts on the month-long regatta. "If you want to grow the sport you have to give new teams an equal chance of being able to compete and win."

That's blasphemy in traditional America's Cup circles. For decades, the whole point of winning was to gain the ability to control the next competition by choosing the location; determining the boat design; setting the rules; and selecting the people who would interpret those rules and rule on any protests.

These were the privileges guaranteed under the Deed of Gift, the document that has governed the regatta since 1852. They help explain the 24 consecutive successful defenses of the Cup that boats from the U.S. staged from 1870 to 1983. When a team led by Oracle founder Larry Ellison captured the Cup for the Golden Gate Yacht Club in 2010, most expected the world's ninth richest man to carry on the less-than-sporting behavior of previous winners.

Ellison is taking the opposite tack by attempting to make the America's Cup a legitimate and appealing modern sporting event. That's an especially surprising move considering his Oracle team needed to stage one of the great comebacks in sports history to retain the Cup by the narrowest of margins over New Zealand in 2013. After that scare, the likely next move for any Cup holder worth his docksiders would have been to make sure things didn't get that close the next time around.

But working with Coutts, formerly the chief executive of Team Oracle, Ellison and his sailing organization set up a competition that called for smaller, cheaper boats with fewer opportunities to exploit technological and financial advantages. They allowed teams to set up partnerships to share costs. They selected former America's Cup skipper Iain Murray to serve as the regatta director with full



Oracle CEO Larry Ellison, center, hoisted the Auld Mug after Oracle Team USA won the America's Cup in 2013.

authority over the competition.

"If you want to be known as the best team, you have to be able to race against the best teams," said Jimmy Spithill, Oracle's skipper.

Oracle even included the other teams and a television producer in the creation of the rules.

Organizers say the changes were essential to make the America's Cup competitive.

"The America's Cup should be the best sailors in the fastest boats," Murray said during a recent interview at his office overlooking the turquoise waters of the Great Sound. "I've watched every event leading up to this and I honestly can't tell you who is going to win. That's different."

The result is an America's Cup unlike any before. It will take place in a compact, natural amphitheater and likely offer the rare combination of steady breezes, from the surrounding Atlantic, and flat water only found in a largely enclosed bay.

Critics say the regatta, which was held in San Francisco Bay in

2013, should have stayed on the American mainland to expand its profile. But for fans watching on television or lucky enough to travel here, the race will be fairly easy to follow. About 5,000 fans will watch from the shore each day, with thousands more expected on the roughly 1,500 boats that have applied for permits to line the boundaries of the course. Another 845 will watch from aboard a spectator yacht.

Organizers say the changes, which have helped create one of the largest competitions in decades, were essential to make the America's Cup competitive. Oracle decided to use 50-foot catamarans in which the differences between the boats are limited to three areas: The design of the hydrofoils—the carbon fiber legs and feet that allow the hulls to fly several feet above the water so the boats to reach speeds of nearly 50 knots; the systems used to adjust the position of the hydrofoils and sails; and the power systems that generate the energy needed to operate those controls.

Crew sizes were cut from 11 to six to save payroll. Spithill said a team could now stage a legitimate America's Cup campaign for about \$40 million, a far cry from the nine-figure budgets that often dominate. Still, several teams, in-

cluding Land Rover BAR and Artemis, are spending more than \$100 million.

Oracle hasn't surrendered all its privileges. In keeping with tradition, it receives an automatic pass to the final match races in late June and can spend the month watching and learning as the challengers beat each other up.

Even that tradition has a new wrinkle, though. Oracle will take part in the initial round-robin phase during which all the boats race one another. The round-robin winner will enter the final first-to-seven match race with a one-point advantage.

The rules and the nature of the competition are also more modern and television friendly. Races will last about 22 minutes and are essentially two laps around a set of markers roughly 1.8 miles apart.

Penalties are assessed in real time. If Murray assesses a penalty, the team has to stop and let the opponent catch up.

The new rules may be in play awhile. Five of the six teams have signed on to stage the next two America's Cups in 2019 and 2021 under largely the same rules. The only holdout is Team New Zealand. The Kiwis won't say what their preference will be if they win, and they just might want to do things the old-fashioned way.

The Teams to Watch In the America's Cup

Oracle Team USA: Since they set the rules, the winners in 2010 and 2013 are the early favorites to retain the Cup.

Artemis Racing ►

The fastest boat in training, and arguably the world's top sailor in team manager and tactician Iain Percy.

Softbank Team Japan:

Led by Kiwi Dean Barker, who skipped the 2013 runners-up, Softbank has partnered with Oracle and serves as a kind of second boat for Larry Ellison.

Groupama Team France: Skipper Franck Cammas has set multiple open water records.

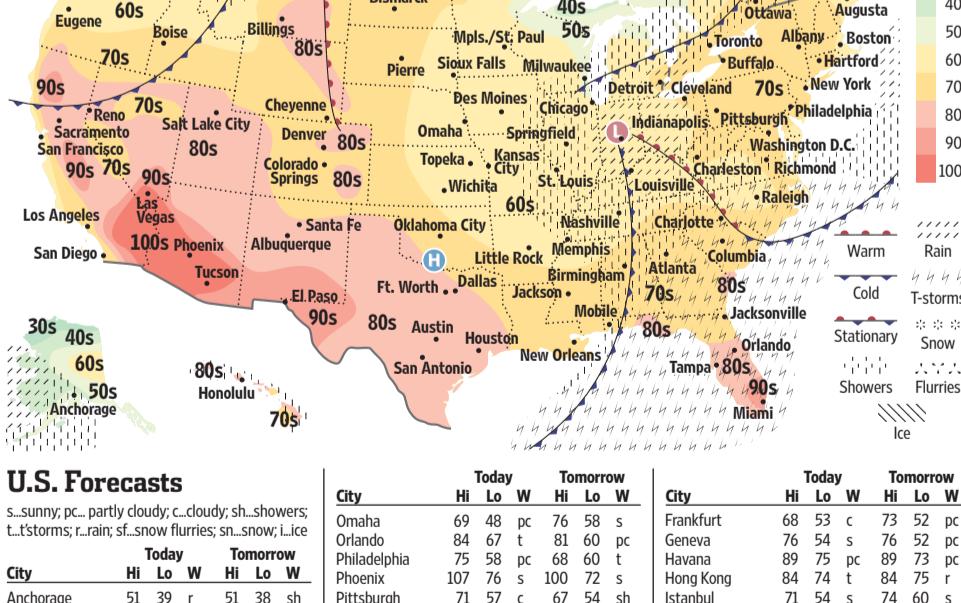
Land Rover BAR: England's boat, led by Sir Ben Ainslie, has been disappointingly slow in training.

Emirates Team New Zealand: The Kiwis are the only ones using bicycle pedals to turn the power cranks instead of handles.



(T-B) MARCO JOSE SANCHEZ/ASSOCIATED PRESS; JONATHAN DANIEL/GETTY IMAGES

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s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

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Austin 87 60 s 94 73 pc

Baltimore 72 58 pc 72 58 t

Boise 73 44 pc 68 46 pc

Boston 65 53 pc 59 53 r

Burlington 77 57 pc 71 53 r

Charlotte 71 59 t 71 57 t

Chicago 61 52 sh 66 51 pc

Cleveland 73 59 r 68 56 sh

Dallas 81 60 s 91 76 s

Denver 80 51 s 71 45 t

Detroit 71 58 r 67 55 sh

Honolulu 86 72 pc 85 69 sh

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Indianapolis 65 53 r 67 54 sh

Kansas City 64 48 pc 76 60 s

Las Vegas 102 76 s 95 69 s

Little Rock 68 50 sh 79 64 s

Los Angeles 75 57 pc 65 57 pc

Miami 93 77 t 89 76 t

Milwaukee 57 50 sh 62 50 pc

Minneapolis 66 52 pc 73 59 s

Nashville 69 54 sh 73 57 pc

New Orleans 77 60 pc 84 69 s

New York City 72 57 pc 63 58 r

Oklahoma City 71 50 s 84 65 s

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Bangkok 93 81 t 93 78 t

Beijing 92 63 s 86 58 s

Berlin 61 48 c 67 50 pc

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The WSJ Daily Crossword | Edited by Mike Shenk



NON-PUZZLE | By Pancho Harrison

Across

- 1 Worker's compensation
5 Company that bought about a million feet of blue ribbon in 1892
10 Frat vowels
14 Aphrodite's son
15 Lou who produced Carole King's "Tapestry"
16 Pluck
17 Siesta for a Panera employee?
19 Dreyfuss's "Close Encounters" wife
20 Hearst kidnap gp.

- 21 Sergeant Snorkel's dog
22 Swiss miss of literature
23 Nation on the Med.
24 Marriage-age Mumbai boy, maybe?
27 "The tiny little tea leaf tea"
29 Sleeper, e.g.
30 Saison avant l'automne
31 Facilitate
32 Romantic proposals
35 Diploma?
38 Constant

- 41 He fought Darth Sidious
45 Vatican vestment
46 Article written by Engels
47 Checked out
49 Result of van Gogh's depression?
53 Suffered from
54 Put your foot down, perhaps
55 Field (Shea Stadium's successor)
56 Be off
57 Initials of urgency
58 "That dress looks great on you," maybe?

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- 61 Downtime
62 2017 role for Emma Watson
63 Publican's stock
64 Grounded fleet
65 Meal at which the Haggadah is read
66 Pitch
Down
1 Surfer's destination
2 Its surface area is about 25% of what it was in 1960
3 Kids' racers
4 Jargon ending
5 Danish, e.g.
6 Supplement
7 Open, in a way
8 " who?"
9 Average of due and quattro
10 Spurred (on)
11 Movie promo
12 Show time
13 Progress
18 Weapon for Professor Plum
22 Budget alternative

- 25 Cupcake finishers
26 Draped dress
28 Longevity, so to speak
32 Ukrainian port, to Ukrainians
33 Corp. bigwigs
34 Road reversals, in slang
36 Gave a new look to
37 "Regrettably..."
38 Famed Vegas casino
39 Passes
40 Side by side
42 Fictional general in the Venetian army
43 Pets
44 Try to tackle
47 Restraint
48 Buffalo's county
50 Corp. divisions
51 Give the business to
52 Championship
58 Rather firm?
59 "Life of Pi" director
60 Collected dust

Previous Puzzle's Solution



OPINION

Ford's Turmoil Is Not About Tesla



BUSINESS WORLD

By Holman W. Jenkins, Jr.

Now let's consider the defenestration at Ford Motor Company of Mark Fields. Ford's stock price under his three-year leadership has been

down 37%. Tesla's is up nearly

50%. This has been all the ex-

planation the media needs.

A New York Times report lays the meme on thick, blaming the car efforts of "Google, Apple, Uber and not least Tesla, the electric-car maker now valued more highly than any of the Detroit giants. The upheaval at Ford, the nation's No. 2 auto maker by sales, after G.M., reflects the challenges that lie ahead for companies that cannot adapt to that new landscape fast enough."

Really? Is that really what's happening? Then why is Fiat Chrysler, a notable laggard compared with GM and Ford in all the gee-whiz categories, enjoying the best share performance of all—up 60% in the past year?

The theory falls even flatter with a simple thought experiment. Suppose GM or Ford burned cash the way Tesla does, putting off for the long-term any hope of profits. Would the market applaud and give either a Tesla-like multiple? Not in a million years. The people like Mr. Fields and GM's Mary Barra who run car

companies aren't dumb. If they could mint stock-market wealth by investing heavily and not worrying about profits, they wouldn't need to be asked twice.

To continue with the now-standard narrative, GM's stock price has held fairly steady while Ford's has dropped so this must mean GM is doing a better job of not falling behind Tesla, Google, etc.

Here's the truth about GM.

It's valued on the profits it generates from cars and trucks—mostly trucks. Its diversion of a few billion in capital toward autonomy, ride-sharing, electrification, etc., is looked on indulgently by investors because they see what's going on. Such investments are partly a brand-burnishing accompaniment to hardheaded business decisions to withdraw from unprofitable markets like India, Russia and Europe, and to minimize the burden of manufacturing profitless small cars for the domestic market under U.S. fuel-economy regulations.

It's the sense that GM's Ms. Barra is shedding unprofitable cost structures. It's the sense that she is focusing GM on those geographical and product markets (trucks, SUVs) that can provide acceptable returns. This is why GM is perceived as playing the underlying game better—the underlying game being all about capital efficiency and rationally maximizing shareholder value.

At Ford, Mr. Fields also tried to minimize small-car burdens, by shifting small-car production to Mexico. Alas, his plan ran into Donald Trump. And, like GM, he understood that Ford's profits and persistent competitive advantage come from SUVs and pickups, especially the F-150. Alas, its billion-dollar bet on aluminum for its best-selling pickup looked to many like a move to placate fuel-economy

GM doesn't kid itself that 'mobility' will be the salvation of car building.

regulators, not to create commensurate value for Ford pickup buyers in a time of cheap gas. Such choices on so crucial a product naturally give rise to doubts.

The real problem became glaring every time Mr. Fields and company chairman Bill Ford opened their mouths in the past year. They kept saying, in answer to investor worries about lagging profits and the company's long-term viability, just wait for the fat margins that our post-car businesses like "mobility" will generate.

When they heard this, shareholders were rightly terrified that Ford had lost the plot that GM leadership has been so undeludedly attuned to.

The new guy, former furniture executive Jim Hackett, gives mixed signals. His talk of faster decisions, attention to efficiency, and rethinking the small-car burden all sound good. But though he has been a director since 2013, his executive career at Ford only started a year ago as overseer of its mobility division—i.e., ride-sharing and all that.

It isn't that autonomous driving, battery technology and car-sharing won't affect the industry's future. But these new technologies will be available to everyone playing in the market. They won't be anybody's unique competitive advantage. Ford's meal ticket will remain its enduring strength in designing and assembling complex, consumer-ready machines. And its bread-and-butter trucks and SUVs will be the least affected. Yes, technology will transform even these vehicles. What boat owner won't want computerized help in keeping the trailer straight when backing up? But these will remain vehicles that suburban and exurban Americans will want to own and drive themselves (and cherish) for a long time to come.

GM's leaders don't kid themselves or their shareholders that profits from new "mobility" businesses will be the salvation of the old, metal-bashing business. Making vehicles needs to be profitable in its own right. Ford shareholders want to know that Ford's leadership understands this too.

BOOKSHELF | By William L. Hamilton

The Barber Will See You Now

Masters of Craft: Old Jobs in the New Urban Economy

By Richard E. Ocejo
(Princeton, 344 pages, \$29.95)

A sociologist walks into a bar . . . and discovers the soul of the new economy. That would be the short version of Richard E. Ocejo's "Masters of Craft." In his latest book, Mr. Ocejo, an associate professor of sociology at City University of New York, looks into four prosaic "blue-collar" trades—bartending, barbering, distilling and butchering—that are on the forefront of a transformation into poetic "white-collar" work.

You might well have noticed this change on a local level. Your butcher is no longer the wide, tall and red-faced man with the heavy finger on the scale but tattooed and taut, with the attentive demeanor of a country doctor. Your barber is not a white-jacketed stand-in for the tenor in

"Pagliacci" or Boris from Brighton Beach. Casually expensive in shirt and slacks, he or she, eucalyptus hot towel at the ready, is talking you into 60-proof hair wax and out of daily shampooing.

After observing, interviewing and interning for 10 years, Mr. Ocejo—the grandson of a barber—tries to determine how these occupations have transmuted alchemically from coarse work into well-considered careers. "Masters of Craft" argues that this trend—a curious kind of self-selected downward mobility by the

young and college-educated—is in fact a collaboration between a new type of tradesman and a new type of client. The two now enjoy a personal affinity: Both value esoteric knowledge, skill and transparency in the sourcing of products. The socioeconomic gap between server and served has narrowed, producing a comfortable kind of peership, like that between a craftsman and a connoisseur.

Mr. Ocejo calls the new clients "Cultural Omnivores"—hungry, thirsty urbanites who seek highbrow pleasure in paradoxically lowbrow places. This interpretation is a reprise of critical ideas floated in the 1990s, most prominently at the Museum of Modern Art's "High & Low" exhibition, where Picasso and other of the museum's masters shared the stage with graffiti and advertising. Mr. Ocejo's version—young, affluent consumers who enjoy hip-hop as well as classical music and beer as much as wine—doesn't ring true. The author's boundary-blind omnivores, I suspect, could tell you how many diss raps Nicki Minaj and Remy Ma have traded to date this year but might be unclear on the appropriate tempo for the opening bars of the overture to "Don Giovanni."

What does seem true, for Cultural Omnivores and the tradesmen who cater to them, is that demographics rather than social class now dictate discriminations between "good" and "bad." Today it is not an established "upper class," authorized for better or worse by the fact of being "well-born," that makes contemporary decisions on taste. Instead, your profile as a consumer, such as your age (under 35), your earning power and your professional clout (i.e., résumé), grants you the right to call the shots.

Hipster butchers and rock-star bartenders may teach customers to see tradesmen in a different light, as equals rather than as hired hands.

"Masters of Craft" contends that young professionals opt out of employment opportunities as "knowledge workers" or in the service industries and move into the manual trades in order to get a literal grip on their lives. The new work offers hands-on experience with a strong component of skill and often a philosophical mindfulness that other 21st-century jobs don't provide. Just as important, it gives them back their individuality, pride and self-respect. "I felt like I was accomplishing things," Rob, a barber, says of his previous information-technology job, "but I could not touch, see, or feel them." That lack of tangibility could well haunt the millennial generation like a phantom limb.

Given the book's sociological perspective, Mr. Ocejo's discussion of gender is necessary, to be sure. The new trades are indeed largely a boys' club. But is this because of a threatened masculinity seeking self-affirmation and inner sanctums? It is hard to know, and Mr. Ocejo's interpretation feels speculative. More than a few of the bartenders mentioned in the book are women, including Julie Reiner of the Flatiron Lounge and Audrey Saunders of the Pegu Club in New York—two very powerful people in their field. "Masters of Craft" would have profited from including the points of view of more women like these.

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That suspicion and sentiment, of something lost, lingers uneasily in "Masters of Craft." "I am aware that it is childish," Mitchell wrote, "but sometimes, leaning against the spick-and-span new bar, I am overcome by nostalgia for the gutter."

Mr. Hamilton is a journalist in New York.

Economics Alone Won't Save Democrats

POLITICS & IDEAS

By William A. Galston

Many Democrats, especially those who style themselves progressives, are hoping they can expand their appeal to white working-class voters by reorienting their economic program without changing anything else. As a recent report from the Center for American Progress puts it, progressives can never outflank President Trump's cultural appeal without contradicting their values and history. Thus their future strategy "requires more concentration—not less—on economic concerns."

Like center-left parties throughout the West, Democrats need new economic policies addressed to the people and places that have been excluded from the fruits of economic growth. But a mountain of data suggests that economics alone will not suffice.

A recent survey on European attitudes found that while 65% of the European Union's population viewed their economic prospects with confidence, 53% saw globalization as a threat to their country's identity. Antipathy to the free movement of labor was a major, if not decisive, factor in Britain's decision to leave the EU.

According to a recent survey of American attitudes conducted by the Public Religion Research Institute, 68% of the white working class think that the U.S. is in danger of losing

its culture and identity and that the American way of life needs to be protected from foreign influences. Sixty-two percent believe that newcomers from other countries threaten American culture. Forty-eight percent say that they often feel like strangers in their own country.

History helps explain these sentiments. Between 1870 and 1920, an immigration surge raised the number of foreign-born residents in the U.S. to a then-record 13.9 million, more than 13% of the population. Meantime, immigrants' national origins shifted from Northern Europe to Eastern and Southern Europe.

In the 1920s Congress reacted to these trends by enacting laws to reduce the overall number of immigrants and to alter the mix of countries they came from. The new system featured national quotas based on each country's share of the U.S. population prior to the influx of Slavs, Poles, Jews and Italians. These policies achieved their goals. By the mid-1960s, even as the size of the total population swelled, the number of foreign-born residents stood well below 1920s levels, and their share of the population had fallen by about two-thirds, to only 4.7%. Residents of only three countries—Ireland, Germany and the U.K.—received nearly 70% of the visas permitted under the national quota system.

In 1965, however, everything changed. A new immigration law abolished the national-origins quotas and established family reunification as the

principal purpose of immigration policy. This produced another surge of foreign-born residents: from 9.6 million in 1970 to 43.3 million in 2015. Immigration expanded much more rapidly than the native population grew, and the immigrant share nearly tripled, from 4.7% to 13.5%—slightly higher than the level that helped trigger a nativist reaction a century earlier.

The white-working-class reaction to these developments is politically significant. The PRRI survey found that cultural attitudes related to immigration

Smart immigration reform would boost the economy and heal a divided society.

were second only to party identification as the most powerful determinant of voter preference in 2016. Holding all other factors constant, white working-class voters who said they often feel like strangers in their own country and who believe that the U.S. needs protection against foreign influences were 3.5 times as likely to favor Mr. Trump as were those who did not share these concerns. By contrast, white working-class voters who rated their financial condition as fair or poor were 1.7 times as likely to support Hillary Clinton as were those who rated their financial condition more highly.

America's continuing failure to reform its immigration policy

has poisoned our politics, and long-established policies require updating to meet the needs of today's economy and society.

Nearly a decade ago I participated in a bipartisan commission on immigration reform. Our principal recommendation was to cut back family-reunification visas in favor of an emphasis on individuals with higher education or advanced technical skills. We also advocated enhanced temporary-worker programs coupled with rigorously enforced protections for wages and working conditions.

To ensure that these temporary workers legally enter the U.S., we agreed that Congress should authorize and fund a mandatory state-of-the-art electronic workplace verification system. We advocated a new partnership between government and community-based nonprofit organizations to accelerate immigrants' acquisition of English fluency as well as their civic integration. Immigrants present without legal authorization for five years or more would qualify for legal status and a path to citizenship contingent on paying a fine, demonstrating a commitment to work, passing a criminal background check, and studying English, U.S. history, and American government. According to the PRRI survey, this policy is now endorsed by 59% of white working-class voters.

If Congress can break the longstanding logjam on immigration reform, the U.S. can

boost its economy, reduce partisan polarization, and help heal a divided society.

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out of employment opportunities as "knowledge workers" or in the service industries and move into the manual trades in order to get a literal grip on their lives. The new work offers hands-on experience with a strong component of skill and often a philosophical mindfulness that other 21st-century jobs don't provide. Just as important, it gives them back their individuality, pride and self-respect. "I felt like I was accomplishing things," Rob, a barber, says of his previous information-technology job, "but I could not touch, see, or feel them." That lack of tangibility could well haunt the millennial generation like a phantom limb.

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What Germany Owes Its Neighbors

By Taylor Dinerman

President Trump was wrong to say Germany "owes" the U.S. for its defense. But Berlin is paying nothing like its fair share for the defense of Europe.

Last July, in response to Russia's aggressions in Ukraine, the North Atlantic Treaty Organization agreed to deploy four multinational mechanized battalions of roughly 1,000 men each to the Baltic states and Poland. These units—led in Estonia by the U.K., in Latvia by Canada, in Lithuania by Germany and in Poland by the U.S.—are "tripwire" forces. They'll be stationed in a forward area where Russia, according to one German expert, has a 5-to-1 military advantage. The idea is to reassure these four nations that NATO will protect them from attack.

Add the American brigade

now stationed in Poland on a rotating basis, and the U.S. is deploying four battalions in the region. The Western European NATO nations, including Britain, are deploying only two. That's the kind of imbalance Mr. Trump complains about. Why should the

Why should the U.S. bear a greater burden in Eastern Europe?

U.S. and Canada bear a greater burden for the security of Germany's neighbors than Germany does.

After the Soviet Union fell apart in 1991, European leaders were convinced that direct threats to their homelands were a thing of the past and that all they needed were "projection" forces. Countries like the Netherlands, Italy and especially Germany spent their reduced defense budgets

on forces designed to intervene in Third World nations. They built amphibious landing ships and heavy transport aircraft instead of tanks and self-propelled artillery.

As a result, the European military powers—which were all ready to support American, British, French and U.S. humanitarian interventions in Africa, or post-9/11 operations in Afghanistan and the Middle East—are unable to provide protection to their allies in Eastern and Central Europe.

Not only have these nations failed to reach the 2% of gross domestic product they'd agreed to spend on defense, but the money they allocated went to hardware irrelevant to Europe's needs.

Germany has recently

agreed to a slow buildup of its tank forces, but even that will still leave NATO with far too small an armored force to defend its Eastern European members. If, as seems likely,

Mr. Dinerman writes on space policy and national security.

OPINION

REVIEW & OUTLOOK

Trump's Bob Kerrey Budget

President Trump launched his first full budget proposal on Tuesday, and think of it as the vindication of Bob Kerrey. The former Nebraska Senator and a few other brave Democrats warned repeatedly in the 1990s that failing to reform entitlements would eventually squeeze other progressive programs. Well, here we are.

Mr. Trump is imitating Democrats in ducking Social Security and Medicare, which means that everything else the government does has to fight for what's left. Those two programs plus interest on the debt remove about \$1.9 trillion from political debate in the \$4.1 trillion spending outline for fiscal 2018. Mr. Trump wants to increase defense spending to more than \$600 billion, so that's \$1.6 trillion left for everything from education to veterans to Medicaid to Amtrak.

Democrats and the press claim to be shocked and appalled, but what did they expect? They had their free-spending way in 2009-2010, and voters quickly pulled their credit card by electing a GOP House. Now they are furious that a GOP President is asking them to make choices rather than assume automatic annual increases in everything. Maybe they should mull over what they really think government should and shouldn't do.

The strangest liberal critique is that the budget assumes an overly rosy growth projection of 3% for half of the 10-year budget period. Because Barack Obama never reached 3% in eight years—averaging a dismal 2.2% since the recession—they seem to have concluded that 3% is impossible.

But policies matter, and tax reform, deregulation and spending restraint have the potential to lift private growth out of its doldrums. Even with all that, the White House budget shop predicts a modest 2.4% GDP growth in 2018 and doesn't envision a 3% rate until 2021. If this is a rosy scenario, Democrats haven't begun to imagine the budget cuts that will come.

There is no way the U.S. can afford its entitlement commitments without 3% growth, much less balance the budget. Democrats should want faster growth to fund their other priorities, and they could contribute ideas to help Mr. Trump achieve it. The U.S. economy has averaged about 3% growth a year since World War II, and in the 1980s and 1990s the economy grew by 4% a year for several years.

Democrats are also upset that Mr. Trump puts a higher priority on defense than other domestic programs, but defense outlays have been falling as a share of GDP for years. The budget requests a \$49 billion increase for fiscal 2018 to \$643 billion. But that merely takes defense up to 3.2% of

GDP, before declining to 2.3% in 2027. This is hardly Ronald Reagan's defense buildup—which peaked at 6% in 1986—reflecting how entitlements now eat up so much more of the federal fisc.

The budget does propose to reform some smaller entitlements, notably Medicaid and ObamaCare. It incorporates the House GOP health-care reform's \$880 billion reduction in spending over 10 years, and saves \$616 billion more by assuming slower growth in overall health-care spending. We'd feel better about this estimate if House conservatives like Mark Meadows hadn't killed the cap on the tax subsidy for employer-provided health insurance.

The White House also wants to reform programs that have ballooned during the Obama years and effectively become a guaranteed national income. The budget cuts \$193 billion over 10 years from food stamps, mainly by letting states impose a work requirement; \$72 billion from the Social Security Disability Insurance program; and \$12.5 billion by requiring a Social Security number to receive the earned-income tax credit or child tax credits.

The left says this "guts the safety net," as if the measure of success is how many more people government can make dependent on government. Some 44 million Americans now receive food stamps, 16 million more than in 2008—despite eight years of economic growth and a 4.4% jobless rate. One reason the Obama economy grew so slowly is that millions of workers left the labor market, and getting them back and working would lift GDP.

Every White House budget proposal gets rewritten in Congress, and even Republicans are uneasy with many of Mr. Trump's proposed spending reductions. As always the Beltway interests will fight back.

Mr. Trump also hasn't helped his case for fiscal restraint by proposing his own new entitlement—or, shall we say, Ivanka's. The budget seeks \$25 billion for a new federal paid family-leave program that Democrats are sure to expand when they're next in power. There's also \$1.6 billion for a southern border wall that we heard Mexico was going to pay for. Congress should decline both offers.

For all the Washington moans and cries of doom, Mr. Trump is merely proposing to slow the rate of spending increases to achieve a gradual decline in the burden of government and reduce the chances of a future debt crisis. It's better than business as usual but far from revolutionary. That would require Washington to finally heed Bob Kerrey's fateful warning of so many years ago.

Ending North Korea's Cyber Impunity

The world will have to take Pyongyang's hackers as seriously as its nuclear weapons and missile programs. That's one conclusion from Monday's evidence from a private cybersecurity firm that North Korean hackers are behind the WannaCry ransomware that froze computers and encrypted data around the world on May 12.

Symantec says it found the digital footprints of the Lazarus Group, a hacking syndicate that took data from Sony Entertainment in 2014 and stole \$81 million from Bangladesh's central bank last year. While computer forensics can't finger hackers with 100% certainty, the code, techniques and servers point to Pyongyang.

The Symantec findings come as Reuters published new details this week about North Korea's growing cyberwarfare capabilities. According to a former computer-science professor who defected in 2004, a unit within the country's spy agency hacks into foreign financial institutions to steal cash. The WannaCry worm demands that

victims pay in Bitcoin to get their data back. So far it's extorted about \$100,000. But the North's hackers are capable and persistent.

Pyongyang has suffered little retaliation for its cyberwarfare, which includes the hacking of a South Korean nuclear plant. After the Sony attack three years ago, Barack Obama promised to retaliate: "We will respond proportionally, and we'll respond in a place and time and manner that we choose." But the follow-through was underwhelming: A few North Korean institutions and individuals were barred from doing business in the U.S.

Last year Congress passed Rep. Ed Royce's bill to sanction banks facilitating North Korea's finances, and the Trump Administration can move to implement it. This month a new bill from Rep. Royce to toughen sanctions on the North's shipping and exports of slave labor passed the House with bipartisan support. That would be another good way to make Pyongyang pay a price for its criminal acts.

Jihad in Manchester

British police on Tuesday identified the terrorist bomber who blew himself up outside Manchester Arena on Monday night as Salman Abedi, a 22-year-old born in Manchester. This means Britain has been terrorized again by a native-born Muslim who became radicalized while enjoying the freedoms of Western society.

Islamic State took credit for the attack, and we'll learn more in the days ahead about how Abedi turned to jihad. But the Manchester bombing follows the vehicular assault near Parliament in March that was also perpetrated by a native British Muslim.

This is the devilish challenge Western officials face as they attempt to stop attacks like Monday's on teenage and preteen girls attending a show by pop star Ariana Grande. At least 22 were killed and 58 wounded in the deadliest attack in Britain since the London Underground bombings of July 7, 2005.

British security forces have a better record than many European governments in foiling terror. Prosecutors convicted 264 people on Islamism-related terror offenses between 1998 and 2015, according to an open-source study by the London-based Henry Jackson Society. The figures don't include cases that don't end in convictions and often remain classified.

Yet the homegrown radical who is increasingly recruited by groups like Islamic State is hard to identify and stop. This is why governments must tackle the problem at its roots in Muslim communities that are isolated from

Muslim integration is central to Europe's counterterrorism agenda.

British opinion surveys consistently find gaps between the attitudes of Muslims and the liberal ethos of the wider culture, on everything from homosexuality to women's rights to anti-Semitism. One survey last year found that 7% of British Muslims support an Islamic caliphate while 4% believe terrorism is an acceptable form of protest—a large pool of potential jihadists. Promoting integration involves deeper questions about belonging and identity that don't have easy answers. But one way to start is to consistently enforce British laws in all communities.

Prime Minister Theresa May on Tuesday halted her re-election campaign and vowed "to take on and defeat the ideology that often fuels this violence." Speaking in the West Bank, President Trump condemned the "evil losers in life" who carry out such violence. That note about "losers" is welcome even as it's jarringly colloquial, since Islamists see themselves at the vanguard of a triumphant millennial ideology. Leaders should look for opportunities to undermine that narrative.

Muslims will have to take ultimate responsibility for rooting out radicals in their midst. British Muslim groups such as the counterterrorism Quilliam Foundation have made strides, but they are often in the minority among imams and community leaders. As long as that continues, the failure of integration will pose a mortal threat to Europe.

Without entitlement reform, everything else gets squeezed.

OPINION

LETTERS TO THE EDITOR

Robots Can Help, if Workers Are Well-Trained

In "Robots Aren't Killing Our Jobs Fast Enough" (U.S. News, May 11), Greg Ip argues that fear of mass-automation-driven job loss is largely unfounded and that less automation means a larger workforce, which drives up production costs and prices.

Mr. Ip posits that we spend too much on automation-resistant professions such as information technology, business services and health care. His solution is to invest more in labor-saving technology to boost productivity, drive down costs and improve living standards. But his analysis overlooks the enormous gap between productivity and median wage, which has grown steadily since the 1970s. The real problem then isn't low productivity, but our unyielding allegiance to such vague economic concepts, which disallows an accurate assessment of the value of low-skill workers and forestalls efforts to improve their standard of living.

Recent research on labor-saving technologies shows that there is cause for concern in many sectors, but this doesn't mean the end of work. Unless we are prepared to base all economic decisions on a potential "singularity" that will supplant humanity, it would be best to focus on

ensuring our workforce has the skills and protections necessary to navigate the contemporary economy. Increased public investment in infrastructure, education and health care would be a good start; concurrently shifting policy to encourage productive investment and hasten innovation would be even better.

ERIC HARRIS BERNSTEIN
Roosevelt Institute
New York

Virtually every college economics course begins with the proposition that people cannot command sufficient productive resources to satisfy unlimited consumption desires. This is the "scarcity proposition." Contrary to most economists, Greg Ip understands the flip-side of this proposition. Namely, unlimited consumption desires relative to productive resources means the number of jobs is also limitless. This is where robots enter the picture. Because a community's economic ladder always has more rungs to climb, robots enable the community to climb to higher rungs.

EM. PROF. T. NORMAN VAN COTT
Ball State University
Muncie, Ind.

Sure-Fire Way to Protect Data From Hackers

The "WannaCry" world-wide cyber attack caused 45% of Britain's National Health Service to be put out of service for lack of access to electronic medical records ("The 'WannaCry' Cyber Warning," Review & Outlook, May 16). The Centers for Medicare and Medicaid Services (CMS) will soon require that every hospital and every doctor's office be equipped with a very expensive computerized medical-record system, and that every computer be continuously left on and accessible to CMS so that it can rummage through patients' medical records 24 hours a day, 365 days a year to verify that a doctor is providing "quality care." Rest confidently that your records are secure, however, because CMS assures us that it has really smart computer guys. And if, by chance,

patients' private records are compromised, rest assured that it will be the doctors' liability and not CMS's.

WILLIAM D. STRINDEN, M.D.
Lufkin, Texas

While the malicious will hack hospital computers, my office medical records are absolutely unhackable. The reason? I use old technology. They are kept on paper, typed or hand-written, despite the penalties Medicare will impose for my failure to implement an electronic medical record. I will continue to keep paper charts until I am convinced that the electronic medical record improves my efficiency and the quality of care.

DANIEL ALLAN, M.D., FACS
Las Cruces, N.M.

Portland's Cop-Out on Investor Responsibility

Portland, Ore., Mayor Ted Wheeler and City Commissioner Dan Saltzman's May 17 letter responding to "Notable and Quotable: Divesting From Everything" (April 18) explains that the Portland City Council ended all city investments in corporate securities because the council was wasting too much time debating which companies were socially irresponsible and therefore ineligible for inclusion in Portland's portfolio.

The argument sounds reasonable on the surface, but what if all investment committees and fiduciaries responsible for, say, government pension plans took the same easy way out? Many today are besieged by groups with conflicting ideas of what constitutes a socially responsible business. Corporate securities, on average, outperform "safer" government securities over the long term and equities, on average, produce higher returns than bonds. Divestment from everything corporate might reduce the long-term annual return of a diversified institutional

portfolio by 3%. Each 1% drop in return for a government pension fund increases annual pension costs by 20%, and a 3% annual shortfall can be disastrous.

Any marginal reduction in return either requires more tax revenue, more borrowing or reduced spending on homelessness, road repairs, etc. Whether Portland's taxpayers are better off when city officials have more time to debate spending plans rather than how to maximize investment returns to pay for spending plans is debatable, but divesting from everything is a duck-and-cover strategy that would damage most institutional portfolios, most government budgets and, in aggregate, the overall economy.

BEN PATTERSON
Laurel, Md.

Cuts Increased Revenue, the Problem Was More Spending

Alan Blinder criticizes the use of "dynamic scoring" to justify reducing tax rates ("The White House Rejects Tax Reform for the Old Tax Cut Formula," op-ed, May 1).

While problems exist with the way dynamic scoring has been used "unscrupulous[ly]," economists can help to perfect our understanding of the dynamics and improve their application.

I suggest that Prof. Blinder research the change in federal revenue during the 10 years following the Kennedy, Reagan and George W. Bush tax cuts. If he holds spending flat, what was the actual budget consequence? Perhaps this research will suggest specific tax-rate reductions that would be especially productive today.

KENNETH L. AMYLOW
Bristol, R.I.

Pepper ... And Salt

THE WALL STREET JOURNAL



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ROBERT KORNFIELD
Chicago

OPINION

The Senate's Challenge in Trump's Washington

By Joseph Rago

It try to kind of ignore the noise and focus on the agenda," says Mitch McConnell during an interview last week. By nature the imperturbable Senate majority leader is as well equipped as anyone to maintain the appearance of political normality, though the permanent turmoil of the Trump presidency isn't making it easy.

Some of Mr. Trump's priorities—the plan to repeal and replace ObamaCare, tax reform, deregulation—are, Mr. McConnell says, "the kinds of things a conventional right-of-center Republican president would have done."

The FBI-Russia affair helped reflame health reform by distracting the president's critics.

This familiarity explains why "virtually all our members, from an agenda point of view, are very comfortable," the Kentuckian adds. "We could do with a lot less drama. It is distracting. But I try to put that aside and concentrate on what we are trying to achieve for the country."

Less conventional is Mr. Trump's firing the FBI director amid the investigation into the alleged Russian nexus. The irony is that the FBI-Russia affair helped reflame health reform in the Senate, by lending Mr. Trump's critics something to be outraged about other than the bill the House passed May 4. This breathing room officially ends on Wednesday—assuming no other Trump daily surprise emerges—when the Congressional Budget Office is expected

to publish its cost-and-coverage estimate for the House bill.

Background conversations over the past two weeks with senators, staffers and lobbyists suggest the health debate will test whether Congress can conduct business in the absence of traditional presidential leadership. Mr. Trump rarely practices persuasion, such as giving speeches that identify national problems and explain how better policies can fix them. Nor does he seem to conserve political capital or recognize the limits of a job-approval rating that's 15 points under water.

The GOP's 52 senators have their own difficulties, not least reconciling potentially irreconcilable differences that don't break on neat ideological lines. The Venn diagram for a compromise on, say, Medicaid doesn't leave a lot of overlap between an entitlement reformer like Pat Toomey of Pennsylvania and Tom Cotton of Arkansas, where ObamaCare's expansion increased enrollment by 64%—to nearly one of three Arkansans.

Same for insurance premiums: Everybody says they're unified around lowering consumer rates as the most important goal, though without reaching even a rough consensus about how to do so. One option would be to relax ObamaCare's regulations and mandates, as the House bill partly did, but the trade-off is reopening the emotional debate about pre-existing conditions.

The forum for accommodating these differences is a partnership between Ted Cruz and Lamar Alexander. The Texas controversialist and the Tennessee chairman of the Health Committee assembled a six-member working group seven or eight weeks ago. It has since grown to 13 members and is now open to all wings of the party. The group meets every Tuesday and Thursday and any GOP senator who wants to attend is welcome. Health care is



GETTY IMAGES

Majority Leader Mitch McConnell at the Capitol, April 7.

also the first item at Senate Republicans' three-a-week lunches.

The GOP's unlikely advantage is that focusing on health-care substance has become a reprieve from the latest Trump irritations. "We're working harder to educate ourselves than we ever have," says one senator, though grade that on the Capitol Hill curve.

Several lawmakers invoke the influence of a 3-by-8½-inch card that Mr. Alexander often hands out, which lists rudimentary facts about the U.S. insurance market, such as the share of Americans with employer-sponsored coverage (61%).

In public, senators claim they're putting the House bill aside and writing their own, but this is more a rhetorical reset to try to make a positive case for legislation that the House did a less than compelling job selling. If the Senate comes to an agreement, that will probably mean keeping the basic architecture of the House effort but allowing a longer transition period, as states wind down Medicaid to block grants, and making the tax credits more generous to less affluent, older and rural constituents.

Mr. Cruz and his allies don't have a reputation for working well with others. Attribute his new amiability, a colleague suggests, to a different political context from the Obama years: Mr. Trump's election meant "the entire universe changed." (Let's hope he's wrong about that.)

The other motivation—which applies beyond Mr. Cruz—is this once-in-a-generation legislative opportunity. Whatever Mr. Trump's flaws, he's a latecomer to politics and hasn't promised voters for seven long years that he'd repeal and replace ObamaCare. The Senate GOP did. Now the president will sign whatever bill Congress sends him, however imperfect. If 50 senators plus the vice president can't do their job, they'll look dishonest and feckless, and more to the point they'll waste the chance to improve the American health system.

The backstop, finally, isn't even the ObamaCare status quo. It's a bailout of the ObamaCare status quo.

Moderate Republicans, like Louisiana's Bill Cassidy, and Democrats from Trump states, like Indiana's

Joe Donnelly, have opened a back channel on a short-term stabilization bill. The idea is to dump a bunch of money onto the ObamaCare exchanges beset by rising premiums and fewer choices. Twelve states have one Republican and one Democratic senator, and they're likely to pull the trigger by July if repeal and replace fails.

Bipartisanship otherwise remains elusive. The Democrats' political gamble, Mr. McConnell says, is that "this issue will do for us what it did to them"—i.e., lead to electoral defeat. "They don't see any incentive in participating in anything that looks like a serious replacement."

As for the predictions of midterm doom, Mr. McConnell's theory is that voters are "very results-oriented." If so, then the solution is to power through the attacks and push through a bill that fixes the problem. "The hard left has done a good job of demonizing what's going on. You see that reflected in the polls, that people have decided by pretty significant margins that they don't like whatever it is we're doing—they're not sure what we're doing, but they don't like it," Mr. McConnell says.

"But when all the noise settles down, what's really going to make a difference is: Are there insurance options? What are the rates? And I think people will focus on whether they think we're in a better place than we were when we started."

So for all that, how much progress has the Senate made? "Steady," replies one senator. Forward progress? No, "steady," he repeats. Nobody would go on record reliably confident of an outcome.

And what about Mr. McConnell—is he optimistic? "Oh, I don't like using a word like that," he says. "This is a tough challenge, and we're going to keep working on it."

Mr. Rago is a member of the Journal's editorial board.

Trump Is More Optimistic Than Reagan, and That's Not Good

By Jason Furman

President Trump has outdone Ronald Reagan in at least one respect: unrealistically rosy forecasts for economic growth. In 1981, President Reagan's first budget predicted growth well above the consensus of private forecasters, in a bid to justify large tax cuts and increased defense spending. When the promised growth did not materialize, the deficit and debt ballooned.

His budget assumes 3% growth and includes a basic math error.

Now Mr. Trump is leading the economy down a primrose path that is even more unrealistic. The administration's budget, released this week, assumes long-run growth of 3%, a full percentage point higher than the Blue Chip consensus of professional forecasters and 1.1 percentage points above the prediction of the nonpartisan Congressional Budget Office.

Few will be surprised that Mr. Trump is a brash budgeter, but the magnitude of his stretching here is breathtaking. Under the 24 budgets produced by Presidents Bill Clinton, George W. Bush, and Barack Obama,

the long-run growth forecast never exceeded the Blue Chip consensus by more than 0.1 percentage point.

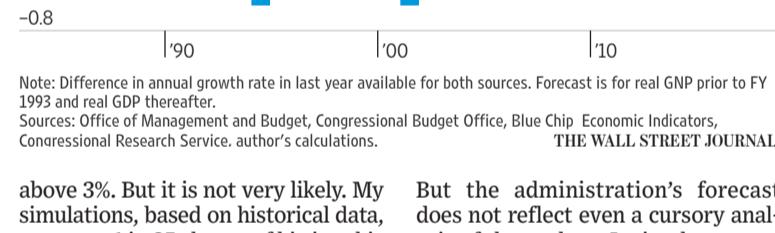
Defenders of Mr. Trump's optimism might argue that a continuation of 1.8% annual growth, the average since 2001, isn't inevitable. During the Reagan era, the economy grew 3.1% a year, purportedly spurred by tax cuts and regulatory reforms. A closer look, however, shows that the 1980s are not an argument for optimism—precisely the opposite.

There are two components to economic growth: adding more workers and increasing their productivity. Faster growth in the 1980s was the result of the former, an expanding workforce driven by two irreproducible demographic factors: the baby boomers' entering their prime working years, and women's continuing influx into the workforce. From 1980-90 labor productivity—the amount of goods and services the average worker can produce in an hour—grew only 1.6% a year, below the figure marked since 2001.

Today the baby boomers are hitting retirement. As a result, Reagan-era productivity gains of 1.6% a year would now generate economic growth of only 1.7%. It is certainly possible that productivity growth could soar even higher, or that workers who have dropped out of the labor force could rejoin it, driving growth up to or

Great Expectations

Percentage-point difference in long-run real output growth forecast, administration vs. Blue Chip consensus, FY1985-2018



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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, May 24, 2017 | B1

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U.S. Sues Chrysler Over Emissions Tests

Prosecutors say auto maker used software allowing vehicles to pollute beyond limits

By MIKE SPECTOR
AND ARUNA VISWANATHA

The U.S. Justice Department sued Fiat Chrysler Automobiles NV and alleged it used illegal software to cheat on government emissions tests, escalating a battle over the company's diesel engines.

In a civil lawsuit filed Tuesday in a Detroit federal court, U.S. prosecutors said the Italian-American auto maker used defeat-device software that allowed nearly 104,000 2014-2016 model-year Jeep Grand Cherokee sport-utility vehicles and Ram pickup trucks with diesel engines to pass government emissions tests and then pollute far beyond legal limits on the road.

The suit accuses Fiat Chrysler of violating the federal Clean Air Act and seeks injunctive relief and civil penalties.

The suit also named as a defendant VM Motori SpA, a company owned by Fiat Chrysler that designed the diesel engines.

Fiat Chrysler shares fell 4.1% to \$10.32 on the New York Stock Exchange on Tuesday.

Fiat Chrysler said it was "disappointed" the Justice Department filed the lawsuit and "intends to defend itself vigorously, particularly against any claims that the company engaged in any deliberate scheme to install defeat devices to cheat U.S. emissions tests."

A U.S. district judge is scheduled to hold a hearing Wednesday to consider widespread consumer lawsuits against Fiat Chrysler alleging emissions transgressions. They are consolidated in a San Francisco federal court as part of a multidistrict litigation case. The Justice Department plans to request its lawsuit be transferred to the California court so it can join those proceedings as a plaintiff alongside owners of Fiat Chrysler vehicles.

The Justice Department

proceeded with the suit even as the Trump administration has embarked on a significant rollback of former President Barack Obama's climate change agenda. That included reopening a review of stringent future U.S. car-emissions standards after auto makers decried the U.S. Environmental Protection Agency's decision to close it about a week before President Donald Trump's inauguration.

Fiat Chrysler Chief Executive Sergio Marchionne in January questioned the EPA's tim-

ing in accusing the auto maker of diesel-emissions violations so close to the end of Mr. Obama's second term.

The EPA in January accused Fiat Chrysler of using and failing to disclose software that allowed illegal excess emissions but stopped short of calling the technology a defeat device designed to dupe regulators. Still, the alleged transgressions carried potential collective fines of roughly \$4.6 billion, regulators said.

The Justice Department suit

Please see *SUIT* page B2



Glencore Pursues Bunge For Deal

Glencore PLC has approached grain trader Bunge Ltd. about combining, a deal that would give the Swiss miner a major presence in the U.S. agriculture market at a time when low crop prices

By Dana Mattioli,
Jacob Bunge
and Scott Patterson

have forced farming giants to scale up through mergers.

Glencore on Tuesday said its agriculture unit "made an informal approach to Bunge... regarding a possible consensual business combination." Discussions may or may not take place and there is no certainty there will be a deal, Glencore said. Earlier in the day, The Wall Street Journal reported news of the approach, which Glencore confirmed with its statement.

If a deal does emerge, it would be substantial. Bunge had a market capitalization early Tuesday of nearly \$10 billion. Including debt, its so-called enterprise value was about \$15 billion.

In a statement Tuesday, Bunge said: "Bunge is committed to continuing to execute its global agri-foods strategy and pursuing opportunities for driving growth and value creation."

Bunge shares surged on the news, closing 17% higher at \$81.70.

Glencore is a mining and commodity-trading powerhouse with a market value of \$55 billion. An acquisition of Bunge, one of the world's largest traders and processors of soybeans and corn, would vault Glencore into agriculture's global elite and give it a major presence in the U.S.—a long-held goal of Glencore Chief Executive Officer Scott Morrison.

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Humans Still Rule Machines in Insurance

THE QUANTS

Machines and their masters are the undisputed new kings of Wall Street

By LESLIE SCISM

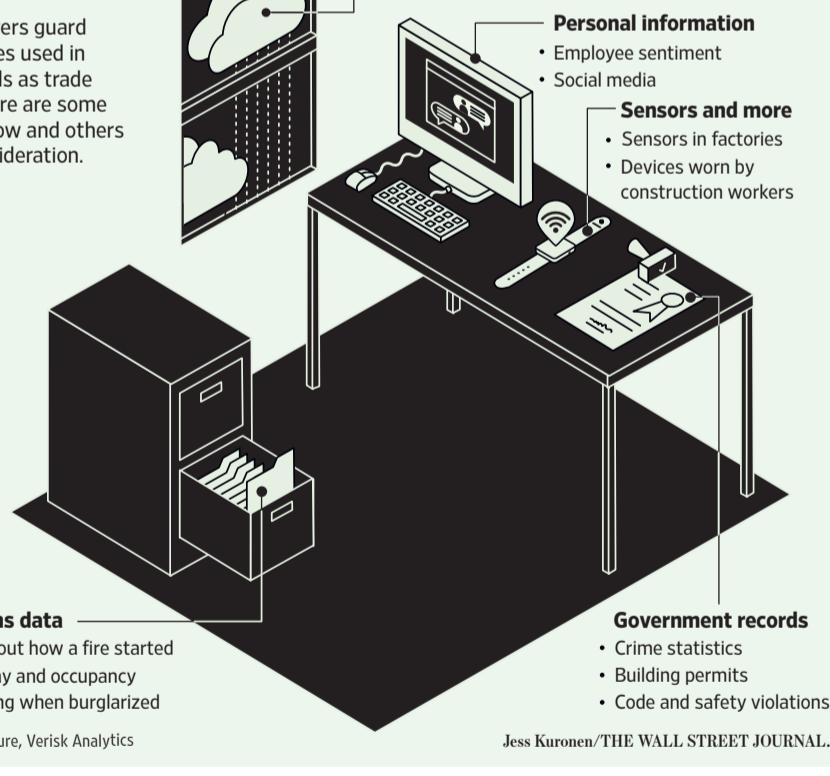
American International Group Inc. uses one of the industry's leading algorithmic models to determine how much companies should pay for insurance. It just doesn't trust what the model computes on its own.

As part of an approach it started rolling out last year, the global insurance conglomerate pairs its models with human underwriters. The approach reflects the company's belief that human judgment is still needed to size up most of the midsize to large businesses it insures. AIG even has a nickname for underwriters who keep the same price as the model every time: "flat liners."

Insurance companies such as AIG are among the original financial quants, from tracking ships to derive marine-insurance prices to using quantitative analysis to determine the likelihood of automobiles crashing, hurricanes wiping out beach towns and juries finding doctors liable for malpractice.

Predicting Disaster

Many insurers guard data sources used in their models as trade secrets. Here are some they use now and others under consideration.



Now, promising new techniques including algorithms can help carriers tap into a growing array of detail to price risk: sensors in factories, devices worn by construction workers, employee-sentiment data and sat-

ellite imagery, to name a few.

AIG's commercial-insurance unit alone pays \$75 million each business day in claims. The insurer is a major seller of policies that cover such diverse things as the cost of injured

workers, wrecks of corporate-owned vehicles, fire and other damage to premises, cyberhacking, contaminated products and offshore drilling rigs.

When an underwriter "turns off his or her brain, we're

done," said Madhu Tadikonda, chief underwriter for AIG's commercial unit. "The models by themselves are not perfect" for many of the risks posed by policyholders.

Still, in an example of how data analysis can make a difference, AIG recently informed a hotel client that it should mop its floors at 3 a.m. to reduce slips and falls. It also has advised clients that employees with carpal tunnel syndrome are at high risk of repeat injuries, so the customary push to quickly get a person back on the job can backfire.

Underwriters such as Matthew Lebron call on business clients keeping an eye out for characteristics that distinguish them, "so I can make the judgment call to go upward or downward" from the computer-generated average price. Among questions he asks: Is a business up to snuff with industry safety standards? Is it working with AIG's loss-control program to try to minimize the risk of claims?

"There's definitely an element of human touch," said Brett Herrman, who works as a "technical underwriter" at AIG, running the model when colleagues go out in the field. "We're diving in on detail and collaborating as a team."

The need to pair with hu-

Please see *INSURE* page B2

HEARD ON THE STREET | By Paul J. Davies

Why Europe Companies May Really Miss London

Most industries need access to raw materials. In finance and markets, that raw material is savings.

This simple observation is often overlooked, but it is a major reason why the U.S. has the biggest and most active capital market in the world, and why Brexit could make it harder for eurozone companies to get financing.

European policy makers are well aware they need

more financial integration as they prepare to wave goodbye to the U.K. as a member of the European Union. The eurozone still doesn't have a seamless banking union or single capital market.

But this is only half the story: Europe needs to change its savings habits, too. The total amount of the most readily available savings for companies and governments to tap in eurozone capital markets

Please see *HEARD* page B2

Do Dishes, Then Track Oil Data

By GEORGI KANTCHEV

On a recent Sunday evening, Samir Madani had dinner with his family in suburban Stockholm, did the dishes and put his two children to bed.

Then he opened his laptop and started crunching U.S. oil-import data late into the night.

Mr. Madani, a technology executive who trades and researches crude as a hobby, is part of a growing group of oil sleuths who have sprung up to sate the market's voracious appetite for data and intelligence.

"So much of oil data is hidden, and we're trying to make it accessible," said Mr. Madani, who runs a free oil-data web-

site from his house. "Besides, there's so much drama in oil."

Dramatic gyrations in the price of oil in the past three years have boosted demand for such services, intensifying competition in a market that for years had been dominated by governments, oil companies and a handful of big data providers.

The new entrants include both amateurs armed with an internet connection and a Twitter account, and professional services using shoebox-size satellites and sophisticated computer models. They are crunching data on everything from Middle Eastern exports to U.S. drilling. Such statistics often move oil prices as

they predict government releases on crude inventories or cover data black spots such as Chinese stockpiles and Iranian tanker movements.

With the proliferation of data sources, the oil industry is catching up to other sectors. Retail and commodity investors, for instance, have long had access to a wealth of sophisticated information on things such as store traffic and crop yields. But the free fall in the price of oil—from more than \$100 a barrel in 2014 to just a little over \$50 today—created new trading opportunities for

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FIDELITY'S CEO CHAMPIONS BITCOIN

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HEARD

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amounts to less than 150%

of the bloc's annual

economic output. That

counts all the money in

eurozone pensions,

insurance companies

and investment funds. The total

drops to less than 120% of

gross domestic product if

you exclude most assets of

funds in Ireland and

Luxembourg, which are

popular places to register

international investment

funds that take money from

the rest of the world and

invest it outside Europe.

For comparison, this same

institutional money pool in

the U.S. amounts to about

240% of annual GDP and in

the U.K. more than 250%.

European finance still

relies more on traditional

banking than capital

markets, but total household

deposits in the eurozone

aren't greater as a

proportion of GDP than

those in the U.K. either.

A big reason for the

differences is that eurozone

countries simply haven't

encouraged as much private

savings as the U.K. and U.S.

More Europeans rely on

public pensions funded by

current taxation.

This raw material is

important in the arguments

over Brexit and the location

of banks and things such as

clearing trades in euros. Yes,

losing access to the EU will

hurt Britain through lost

finance export revenue, but

European companies will

still have to find investors

for funding.

The biggest EU

companies that most

regularly need capital

markets might find it

cheaper and easier to raise

funding outside the EU,

even when that means

setting up new overseas

subsidiaries and meeting

foreign reporting standards.

London works because

companies looking outside

the eurozone for funding and

investors can meet and deal

under a single set of laws,

standards and regulations.

The trouble within the EU

is that the pools of capital

and the rules governing

them are still national, not

European. Vítor Constâncio,

vice president of the

European Central Bank, said

in a speech Friday that

national supervision of

securities markets

fragmented the application

of EU laws.

Other issues that

perpetuate financial borders

within the EU include the

different national bankruptcy

rules and procedures.

These financial borders

are what make it expensive

and difficult for a company

to raise equity or debt in,

say, Germany and Italy at the

same time, whereas now

such deals are done where

the money is in London.

The biggest globally

active EU companies might

find it simplest to go

straight to the U.S. capital

markets, while smaller firms

will be stuck with more

expensive local markets or

old-fashioned borrowing

from banks.

The eurozone needs more

savings that companies can

access more efficiently if it

is going to cut London off.

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BUSINESS NEWS

Havas Portal Can Track Ad Budgets

BY LARA O'REILLY

Advertising agency group **Havas** on Tuesday launched a platform that will let its clients see exactly how much money they are spending with different vendors online and how those ads are performing in real time.

The company hopes the Client Trading Solution portal will enable marketers to have more trust in programmatic advertising, in which automated systems are used to decide where online ad budgets are spent.

While those systems are meant to be efficient in terms of audience targeting and measurement, the programmatic ad sector has been plagued with issues such as fraudulent traffic from software programs known as "bots," vendors taking hefty and often nontransparent fees, and ads appearing in unsuitable places.

The Client Trading Solution was developed by MFG Labs, the France-based data specialist founded by a team of mathematicians that Havas Group acquired in 2013.

The new platform will plug into a variety of players who are conduits for online ad placements—including demand-side platforms, ad exchanges and agency trading desks. That includes Google's DoubleClick Bid Manager, MediaMath and Havas's own trading desk, Affiperf.

It will allow marketers to view the pricing negotiations Havas's traders are having with each vendor, itemize the tech fees and agency fees they are being charged and compare performance among vendors. Sometimes the Client Trading Solution will inevitably show Affiperf isn't the best performer on certain campaigns.

Advertisers are increasingly demanding that sort of transparency, and other ad companies have been taking similar steps to disclose various fees that were previously bundled, as The Wall Street Journal re-

The portal will allow marketers to view Havas traders' pricing negotiations.

cently reported. Havas says its platform is the first to give clients full visibility of their programmatic ad buying in real time.

Havas Group Global Managing Director Dominique Delport said tracking "literally every penny" of online ad buys will help instill confidence in marketers about the effectiveness of their digital spending.

"Clients today know exactly how to manage TV, they have a deep conviction about outdoor, they understand the print industry perfectly," Mr. Delport said. "But they are still confused with the programmatic world, and our duty is to make that industry much clearer and build on that learning curve the conviction our clients need to have if they really want to master that discipline."

Mr. Delport said a combination of big events over the past year have led to advertisers becoming skeptical about the programmatic ad-buying space.

Last summer, the Association of National Advertisers, a trade body that represents big advertisers including Procter & Gamble Co., AT&T Inc. and General Motors Co., released a bombshell report saying rebates and other nontransparent practices were "pervasive" in the U.S. media-buying sector. A separate study commissioned by the ANA that was published this week said that on average, 42 cents of every dollar spent on programmatic advertising goes to data and transaction fees, with just 58 cents actually going to the online publisher housing their ad placement.

CMO TODAY

Get the latest news and analysis on media at WSJ.com/CMO

Chevron in Big-Stakes Tax Fight

Billions of dollars are at risk as Australia disputes how oil major lowers unit's income

BY BRADLEY OLSON
AND ROBB M. STEWART

A contentious tax dispute between Australia and **Chevron** Corp. could cost the company billions of dollars and open a new front in global efforts to crack down on the aggressive tax strategies used by many multinational firms.

The case deals with Chevron's practice of financing its Australian operations by providing loans to its in-country subsidiary at interest rates much higher than market benchmarks, even though the company pays less to raise capital.

The arrangement boosts the Australian unit's costs, in turn reducing taxable profit. In some cases, the difference in rates was almost 7 percentage points, according to reports released as part of a court case in Australia.

Chevron, which says its tax strategies are legal, last month lost an appeal of a 2015 ruling in favor of the Australian Taxation office and said Friday that it plans an appeal to the country's highest court.

The case is limited to Chevron's business dealings in Australia, and means the



A shipment of liquefied natural gas from an Australian Chevron project. A tax ruling, if applied to natural gas, would prove costly.

company owes a tax bill of about \$250 million, including penalties, for the tax years from 2004 to 2008.

But the ruling could cost Chevron far more if the same principles are applied to the company's massive natural-gas export projects in the country, which it and several partners have spent more than \$80 billion since 2009 to build. Australia's tax office is auditing Chevron over

similar issues during that later period.

Should the same principles apply in more recent years, Chevron's tax bill could jump by about \$150 million to \$300 million a year, according to a Wall Street Journal analysis of company interest rates in both jurisdictions. Over a decade, that would amount to as much as \$3 billion, although the exact figure would depend on a number of factors, including

oil and natural-gas prices and how long Chevron takes to repay the loans.

"There's an awful lot at stake with this ruling, not just for Chevron but for any inter-company lending in Australia and, more broadly, around the globe," Pat Yarrington, Chevron's chief financial officer, told investors in a conference call last month. "If the ruling stands, it's certainly going to affect any future investment

in Australia."

The stakes go beyond Chevron. Regulators in the U.S., European Union and elsewhere have acted on what tax professionals call an aggressive use of transfer pricing—setting payments to subsidiaries for services in order to shift profits to low-tax jurisdictions and expenses to high-tax areas. Such practices can save billions of dollars across industries, tax experts say.

Honeywell to Decide on Spinoff by the Fall

BY THOMAS GRYTA

Honeywell International Inc. will decide whether to break off its aerospace division by the fall, the company said, and it continues to work with advisers after activist **Third Point** LLC made a public push last month for a spinoff.

The division, Honeywell's largest, supplies parts for **Air-**

bus SE and **Boeing** Co. jets along with engines for aircraft made by **Bombardier** Inc., **Textron** Inc. and others. In a letter to investors a month ago, Daniel Loeb's Third Point wrote that the business has lagged behind its peers and separating it "would result in a sustained increase in shareholder value in excess of \$20 billion."

At a presentation Tuesday

at the Electrical Products Group conference in Florida, Honeywell said it is "modeling various scenarios" as part of the review. Separately, it highlighted that Honeywell shares have outperformed rivals and the aerospace division is positioned for sustainable growth and margin expansion.

Darius Adamczyk, Honeywell's chief executive, called the prospect of a spinoff "an

intriguing concept" at the conference, adding, "I'm personally looking at the entire portfolio."

The Third Point letter came just a few weeks after Honeywell switched leaders. Mr. Adamczyk took over as Honeywell's CEO, succeeding longtime leader David Cote, who remains chairman.

Mr. Adamczyk said there would be one of three re-



The retailer will pay \$18.5 million related to a 2013 data breach.

Target Settles Probe Into Its 2013 Hack

BY NICOLE HONG

Target Corp. on Tuesday agreed to pay \$18.5 million to resolve an investigation by state prosecutors into its massive 2013 hack, a deal that represents the largest multi-state data breach settlement in history.

The investigation, led by the attorney generals in Connecticut and Illinois, focused on allegations that more than 40 million customers had their credit or debit card information compromised in 2013 after Target failed to provide reasonable data security.

The money will go to 47 states and the District of Columbia, with California receiving the largest share, more

than \$1.4 million.

"Millions of consumers...across the country were impacted by this data breach and by what we believe, through our multistate investigation, were Target's inadequate data security protocols," said George Jepsen, Connecticut's attorney general.

A spokeswoman for Target said the company is "pleased to bring this issue to a resolution." Target has been working with states for several years to address claims from the 2013 breach, and the costs with this settlement are already reflected in reserves that the company has previously disclosed, the spokeswoman said.

—Khadeeja Safdar contributed to this article.

Sears in Debt Accord

BY AUSTEN HUFFORD

Sears Holdings Corp. said Tuesday that it had reached an agreement to extend the maturities for some of its debt.

Sears said it would pay \$100 million of a \$500 million loan at the original maturity in July and would extend the maturity of rest of the loan until January.

The loan is held by Bill Gates's **Cascade Investment** LLC and by companies controlled by Edward Lampert, Sears's chief executive and

controlling shareholder.

In March, Sears raised doubts about its ability to keep operating after seven years of losses.

Sears said Tuesday it would transfer pension liabilities to **Metropolitan Life Insurance** Co., which would be responsible for paying \$515 million of liability. The move reduces the size of the pension plan, cost volatility and administrative expenses but has immaterial impact on the company's total pension-funded status.

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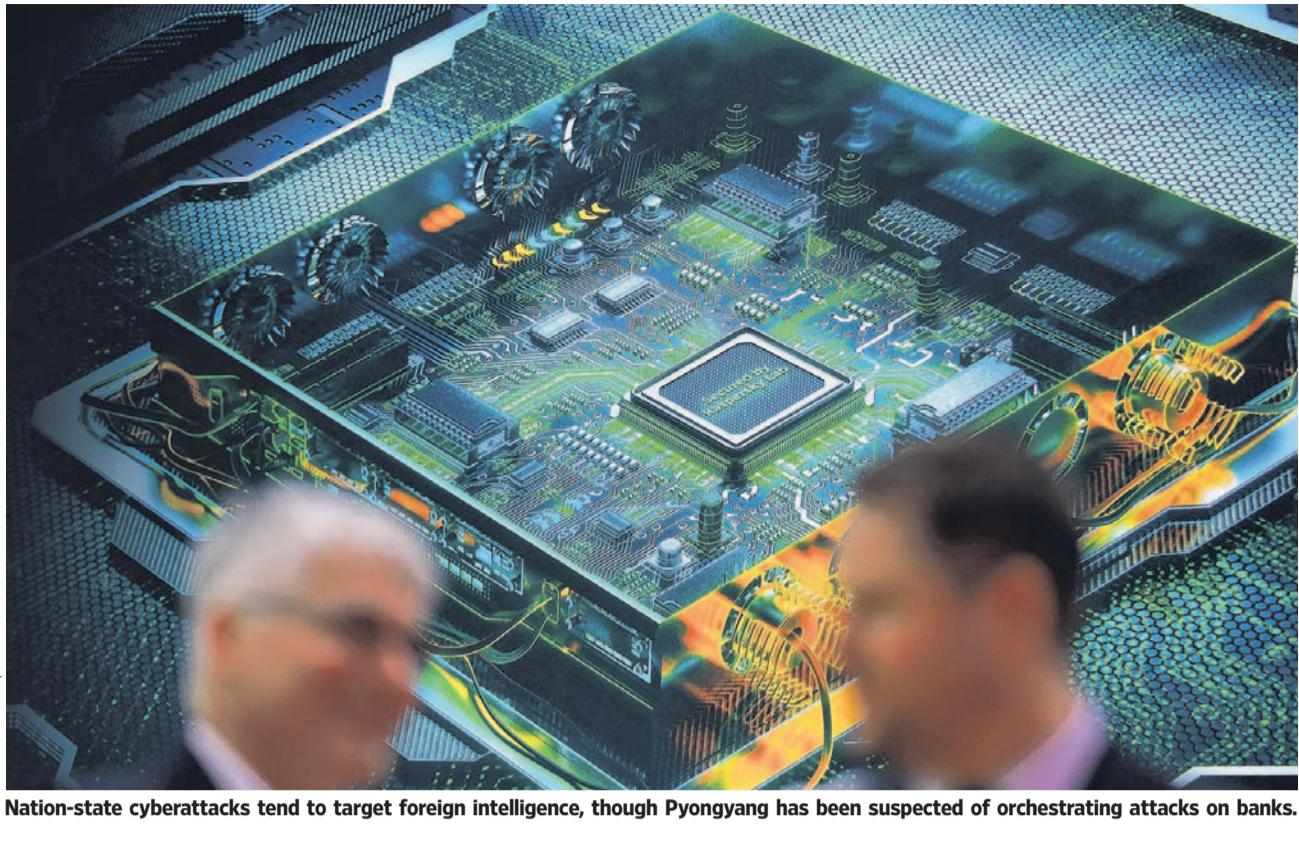
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Nation-state cyberattacks tend to target foreign intelligence, though Pyongyang has been suspected of orchestrating attacks on banks.

Hack Shows Telltale Signs

Cybersecurity firm says group linked to North Korea likely behind recent attack

By TIMOTHY W. MARTIN

A group linked to North Korea is highly likely behind this month's global ransomware assault, though the attack more closely resembles the behavior of a crime ring than a government-orchestrated campaign, a cybersecurity researcher said.

Cybersecurity firm Symantec Corp. said in a blog post that the WannaCry ransomware carried "strong links" to Lazarus, a group security experts suspect was behind last year's theft of \$81 million from the Bangladesh central bank and a 2014 hack of Sony Pictures Entertainment. U.S. officials have said they believe North Korea

orchestrated the Sony attack—which North Korea has denied—and federal prosecutors are building cases that would accuse Pyongyang of involvement in the Bangladesh heist.

Cybersecurity researchers, including Alphabet Inc.'s Google unit, Kaspersky Lab ZAO and Comae Technologies, had previously drawn parallels between a variant of WannaCry and code used in previous attacks attributed to Lazarus. But those initial reports were cautious about drawing deeper conclusions about how the digital clues related to Lazarus or North Korea.

Little is known about Lazarus, though cybersecurity researchers say the group has been active since 2009. Its initial efforts were focused on Asia, but the group has begun targeting global banks.

Symantec's new analysis showed "substantial commonal-

ities" with prior Lazarus attacks and WannaCry's tools and techniques, as well as network infrastructure used in the attack. That makes it "highly likely that Lazarus was behind the spread of WannaCry," Symantec said. There was also a series of smaller attacks using the WannaCry software in February, March and April, before a widespread assault this month that hit computer networks around the world.

Symantec didn't address whether North Korea was directly involved with the latest WannaCry assault. Cybersecurity experts have said the code in question could have been copied by various hackers, meaning the WannaCry malware could have originated from groups other than Lazarus. And even if Lazarus were the culprit, the group could have unleashed the malware without North Korean orders,

they say. It is unclear who leads or funds Lazarus.

North Korea's official state media on Monday denied that Pyongyang had a hand in the WannaCry attack, lambasting South Korean press reports suggesting North Korean involvement as "misinformation" and a "dirty and despicable smear campaign."

Security researchers say nation-state cyberattacks tend to target foreign intelligence, though North Korea has been suspected of attacks on banks.

The WannaCry attack, which began on May 12, ultimately infected more than 200,000 computers in more than 100 countries. The malware worm exploited vulnerabilities in Microsoft Corp.'s Windows systems, attacking machines that didn't have up-to-date security patches.

—Robert McMillan contributed to this article.

Uber Mistakenly Shortchanged New York Drivers

By GREG BENSINGER

Uber Technologies Inc. on Tuesday said it mistakenly underpaid New York City drivers for the past 2½ years, an error that will likely cost it tens of millions of dollars. It is the second time in three months the ride-hailing company has acknowledged it deprived workers of their proper earnings.

Under the terms of its November 2014 nationwide driver agreement, Uber was meant to take its commission, generally 25%, from U.S. drivers based on fares after any taxes and fees were deducted. Uber said that, instead, in New York City it calculated a higher cut using the full fare before accounting for sales tax and a local injury-compensation fund fee.

Uber told The Wall Street Journal it would refund the money plus interest, which comes to an average of about \$900 per driver. The San Francisco company declined to say how much the mistake would cost, but it could total at least \$45 million, based on an estimate of 50,000 drivers from the New York-based Independent Drivers Guild. All New York City drivers, whether still active or not, are eligible for a refund as long as they completed a trip since signing the 2014 agreement.

Uber, already reeling from a series of stumbles this year, said it discovered the error while it was creating a more detailed receipt for its drivers.

"We made a mistake and we are committed to making it right by paying every driver every penny they are owed, plus interest, as quickly as possible," Rachel Holt, regional general manager of Uber in the U.S. and Canada, said in a statement. "We are working hard to regain driver trust, and that means being transparent, sticking to our word, and making the Uber experience better from end to end."

The accounting error—and a similar one in Philadelphia earlier this year—is striking for a company whose business hinges on complex mathematical formulas that match drivers with riders and that crunch fares by the millisecond based on traffic, demand and other factors.

Technology giants like Uber employ armies of engineers and data scientists that develop sophisticated algorithms, but their ambition can some-

times cause them to gloss over basic-level concerns for their customers. Last week, Facebook Inc. acknowledged it misstated advertising impressions for the fifth time since September and would refund some marketers' money.

Uber is grappling with a number of controversies, including investigating charges of sexual harassment and sexism by a former worker, contesting a lawsuit from Google parent Alphabet Inc. alleging the theft of trade secrets and facing potentially two criminal probes into its operations. The company is expected to soon release results of an internal investigation into its workplace culture and name a deputy for its pugnacious chief executive, Travis Kalanick.

The Independent Drivers Guild, which represents ride-hailing workers in New York and has been pressing for benefits like a tipping option, criticized Uber's gaffe. "This is exactly why we have been calling for industrywide pay protections to stop the exploitation of New York's drivers once and for all," said IDG founder Jim Conigliaro Jr.

The accounting error marks the latest turn in the company's contentious relationship with its 1.5 million contract drivers, many of whom have fought for greater benefits and wages, including through lawsuits and union affiliations.

Pay Stub

Uber underpaid its NYC drivers by miscalculating commissions

Sample fare

PICKUP LOCATION	One World Trade Center
DROPOFF LOCATION	Empire State Building
uberX	
Fare (estimate)	\$18
Black Car Fund*	-\$0.45
Sales Tax	-\$1.60
Net fare	\$15.95
PREVIOUS	CORRECTED
Uber [†]	\$4.50
(\$18 x 25%)	(\$15.95 x 25%)
Driver	\$11.45
	\$11.96

*Drivers' injury compensation

†Commissions are 25% for most drivers, but can vary

Source: WSJ analysis of Uber data

THE WALL STREET JOURNAL.

Facebook Tests Video Ad-Sales Tool

By JACK MARSHALL

Facebook is testing a tool designed to help media companies sell video advertising on their own websites, apps and other digital properties in a more automated fashion, the company said Tuesday.

The new ad offering, called Audience Direct, will invite publishers to list video ad inventory for sale from across their properties, and to specify pricing.

Marketers will then have the ability to log on to the system and to purchase ad space from specific publishers on a self-service basis, potentially streamlining the buying and selling process for both parties.

Marketers can also specify which types of users they wish to display ads to, based on Facebook's user data. For example, an advertiser might purchase video ads on a specific TV network's website or app, but tar-

gets only to women in a specific city.

Video publishers including Hearst, A+E Networks and Scripps Networks Interactive are currently testing the system with their advertising clients, according to Facebook. It is unclear how much ad inventory they will make available.

Business terms are still evolving, but it is likely Face-

book will take a cut of revenue from the transactions it helps facilitate. That could be a welcome revenue stream for the company as it begins to reach capacity in the number of ads it can squeeze into users' news feeds.

Separately, the company is working to license TV-like original programming and sports rights, to be featured in a video tab separate from users' feeds, and is also beginning to introduce advertising within videos across its platform.

Unity Technologies In Financing Round

By ROLFE WINKLER

Unity Technologies is putting the finishing touches on a \$400 million round of financing that values the videogame technology company at about \$2.8 billion, according to people familiar with the matter.

Private-equity firm Silver Lake is leading the round as a new investor, these people said. Previous investors include venture firms such as Sequoia Capital and Draper Fisher Jurveston.

The 12-year-old San Francisco company, which makes software tools for videogame developers, raised capital last summer at a \$1.5 billion valuation.

Apple Agrees to Pay Nokia in Patent Fight

By DOMINIC CHOPPING AND SAM SCHECHNER

Apple Inc. and Nokia Corp. settled dueling lawsuits over what Apple should pay for intellectual property used in its iPhone, a surprisingly quick end to a dispute analysts thought could last for years.

The companies didn't disclose financial details but said Tuesday that Apple agreed to make an upfront cash payment to Nokia, with additional payments over the term of the "multiyear" deal. The companies also said that Apple will resume selling Nokia's digital

health products—which include Withings-branded connected objects—in Apple retail and online stores. Nokia has said it is devoting considerable investment in that product line.

The deal could help cash flow and product sales for Nokia, whose stock rose more than 6% in Tuesday trading.

Analysts said the agreement frees up legal resources for Apple, which is locked in an intensifying patent fight with Qualcomm Inc. over how much Apple should pay for intellectual property used in Apple products.

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BUSINESS NEWS

Merck Cancer Drug Approved

BY PETER LOFTUS

The U.S. Food and Drug Administration on Tuesday approved **Merck & Co.'s** Keytruda drug to treat tumors with a certain genetic defect—the first time the agency has cleared a cancer drug for a use not tied to the site of a tumor.

Keytruda was approved to treat tumors with genetic defects known as “microsatellite instability” or “mismatch repair” deficiencies, which are present in an estimated 4% of cancers. Studies showed the drug shrank tumors in a significant number of patients with colorectal and 14 other cancer types that had the genetic defect.

The FDA's “site-agnostic” approval signals a potential shift in cancer treatment. For decades, cancer drugs have typically been approved and used to treat site-specific tumors like those of the brain or breast. With the site-agnostic approach, “you treat based on a genetic alteration,” said Bert Vogelstein, co-director of the Ludwig Center at the Johns Hopkins Kimmel Cancer Center. Dr. Vogelstein's research linked mismatch-repair defects to cancer in the 1990s.

The approach holds promise to improve treatment for patients whose tumors have less common molecular traits, and who might not benefit from standard treatments approved for specific tumor sites.

Merck's Keytruda costs about \$13,000 a month per patient. The drug, which works by harnessing the body's immune system to attack tumors, has previously been approved to treat several site-specific tumors such as those of the skin and lung. Last year Keytruda generated global sales of \$1.4 billion.

The new FDA approval allows Keytruda's use in tumors with the genetic defect that have progressed following prior treatment with other drugs and have no satisfactory alternative treatment options.

Activist's Targets Test Arconic

By BOB TITA
AND DOUG CAMERON

The settlement reached between **Arconic** Inc. and activist investor **Elliott Management Corp.**, over board seats this week puts to an end a big distraction for the embattled aluminum-products manufacturer.

But it doesn't change the tough task of meeting aggressive sales and profit goals set by Elliott given the challenging market conditions in its key aerospace and automotive markets.

Auto sales have plateaued and while **Airbus SE** and **Boeing Co.** are working through

a record backlog of aircraft orders, they and engine makers like **General Electric Co.** are pressuring suppliers for ever-better terms.

“We believe this is an especially difficult time for suppliers to push back on [plane makers'] price pressure, particularly for Arconic, which is trying to take share,” Seth Seifman at J.P. Morgan wrote to clients Tuesday.

Arconic, one of the biggest suppliers in the aerospace industry, split from raw aluminum maker **Alcoa Corp.** late last year, and is trying to extract better profit margins from its businesses as it inte-

grates a series of recent acquisitions.

Elliott, which owns close to 12% of Arconic, has been pushing the company to ac-

The aerospace industry is highly cyclical and tied to economic growth.

celerate cost cutting and eliminate what it considers a bulky management structure that discourages factory-level efficiency and production im-

provements. It ran a heated, five-month campaign to oust longtime Chief Executive Klaus Kleinfeld and get its nominees installed on the board.

Following Thursday's shareholder vote on nominees to the company's board, six of the company's 13 directors will be Elliott picks, giving the hedge fund some responsibility and significant influence over Arconic's operations as well as the search for a permanent chief executive. Elliott declined to comment.

Arconic, which provides complex parts for engines as well as the fasteners used to

hold aircraft together, said it can produce 90% of the structural and rotating parts on a jet engine.

The aerospace industry is highly cyclical and tied to global economic growth. After an extended seven-year boom in sales, deals for the widebody jets that are the most profitable for suppliers have stalled, and investors remain concerned that airlines may not take all of the thousands of smaller single-aisle jets they have ordered.

“Nobody really knows how long it's going last,” said Luigi Peluso, an aerospace and defense analyst for consulting firm AlixPartners LLP.

purchase of Monsanto Co., the world's largest crop-seed supplier. Canadian fertilizer giants Agrium Inc. and Potash Corp. of Saskatchewan Inc. are pursuing their own combination.

Glencore's agriculture business posted \$22 billion in revenue in 2016, compared with \$66.3 billion for its metals and mining operations. It is already one of the world's biggest marketers of wheat, feed barley, canola and sunflower products.

Glencore's Mr. Glasenberg is a prolific deal maker. The former coal trader was part of a team that ousted founder Marc Rich in 1994. In 2002, Mr. Glasenberg became the company's CEO and later took Glencore public. In 2012, Glencore agreed to buy Canadian grain-marketing and distribution company Viterra Inc. for about \$6 billion. The next year, Glencore merged with Xstrata PLC, a diversified mining giant. In 2014, Glencore approached Rio Tinto about a merger that could have created the world's biggest publicly traded miner, but was rebuffed.

A world-wide slide in commodity prices forced Glencore to sell a 40% stake in its agricultural business to the Canada Pension Plan Investment Board last year, among a range of moves to raise money and reduce a heavy debt burden. Since its shares plummeted in late 2015, Glencore has returned to profit thanks to surging prices for copper, coal and zinc. Its debt load has fallen, and the stock has recovered.

—Ben Dummett contributed to this article.

BUNGE

Continued from page B1

ecutive Ivan Glasenberg.

Buying Bunge would represent a long-term bet by Glencore on a growing and more-affluent global population, which will require 48% more grain and oilseeds by the year 2050, according to United Nations estimates. Bunge's position in the U.S. and Brazil would hand Glencore a major presence in the two largest soybean-producing countries—and the respective No. 1 and No. 3 in corn, according to U.S. Agriculture Department. Bulking up in agriculture would further diversify Glencore's operations and possibly help it weather the price swings that make mining a notoriously volatile business.

It would also be a sign Glencore has recovered from a period two years ago when the company faced questions about its solvency.

With \$42.9 billion in sales last year, Bunge is among the biggest of the grain-trading giants that control the flow of crops from farmers' fields to food plants and livestock operations, using an armada of grain terminals and processing plants throughout the Americas. Along with Archer Daniels Midland Co., Cargill Inc. and Louis Dreyfus Co., Bunge is a member of the so-called “ABCD” club that dominates global agribusiness.

Bunge, which is based in White Plains, N.Y., traces its



Wheat outbound from Ukraine last year. U.S.-based Bunge is one of the world's biggest grain traders.

VINCENT MUNDY/BLOOMBERG NEWS

roots to a Dutch firm founded in 1818. Its controlling families, the Bunges and Borns, moved the company to South America and eventually the U.S. The company went public in 2001 and rode a commodity boom that ran from 2007 to 2013.

Since then, a string of record-breaking harvests in North and South America has filled farmers' storage bins and sent grain prices plunging. Corn futures are down 55% since peaking in August 2012. The glut has driven some U.S. farmers

out of business and pressured profits at the companies that supply seeds, pesticides and fertilizer. It has also hurt companies like Bunge that purchase crops and process them into food, fuel additives and industrial products. Bunge in February reported a 6% decline in profit for 2016 and, in May, cut its projection for this year.

Soren Schroder, Bunge's CEO, has said the grain business is ripe for consolidation, given the industry's struggles to translate a historic flood of

crops into consistent profit growth. “It is very clear that there are too many, too many trying to do the same thing with a small margin,” Mr. Schroder told investors at a recent event.

The crop boom has already helped realign the seed and chemical industry. Dow Chemical Co. and DuPont Co., which both sell pesticides and develop genetically engineered seeds, are seeking to combine, and German conglomerate Bayer AG is pursuing regulatory approvals for its planned \$57 billion

BUSINESS WATCH

ALEXION PHARMACEUTICALS

CEO Shuffles Top Ranks

Alexion Pharmaceuticals Inc.'s new chief executive is reshaping the top ranks of the organization following an internal investigation into sales practices prompted by a former employee.

Ludwig Hantson, who was named Alexion's chief executive in March, will have a new chief financial officer because Dave Anderson, who joined the company in December after more than a decade as CFO at **Honeywell International** Inc., plans to leave in August. Mr. Anderson had replaced Vikas Sinha, who resigned last year along with CEO David Hallal during the sales practices investigation.

Three other company executives—Alexion's chief commercial officer, its head of research and development, and its chief human resources officer—are also leaving, Alexion said Tuesday.

Earlier this year, Alexion said it found senior management staff had pressured employees to get customers to order its flagship drug, Soliris, earlier than needed to meet financial targets.

—Bowduya Tweh

and Jonathan D. Rockoff

AUTOZONE

Stock Plummets On Sales Weakness

AutoZone Inc. posted its worst stock performance in nearly a decade, closing down nearly 12% following a disappointing financial report Tuesday.

The parts retailer, which booked a retreat in same-store sales and misses on earnings and revenue, was the worst performer in the S&P 500 for the day, down \$78.09, to \$581.40, in 4 p.m. New York Stock Exchange composite trading. That was its biggest stock drop since November 2008, in the middle of the financial crisis.

—Nathan Becker

Earlier this year, Alexion said it found senior management staff had pressured employees to get customers to order its flagship drug, Soliris, earlier than needed to meet financial targets.

—Bowduya Tweh

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THE PROPERTY REPORT

Blackstone Leads the Way

Asset manager is raking in the cash as it markets nontraded REIT to small investors

By PETER GRANT

Blackstone Group LP amassed one of the world's largest real-estate portfolios by pulling in much more capital than competitors from big institutions such as pension funds, insurers and university endowments.

Now, it is taking its show to mom-and-pop investors and again blowing away its competition.

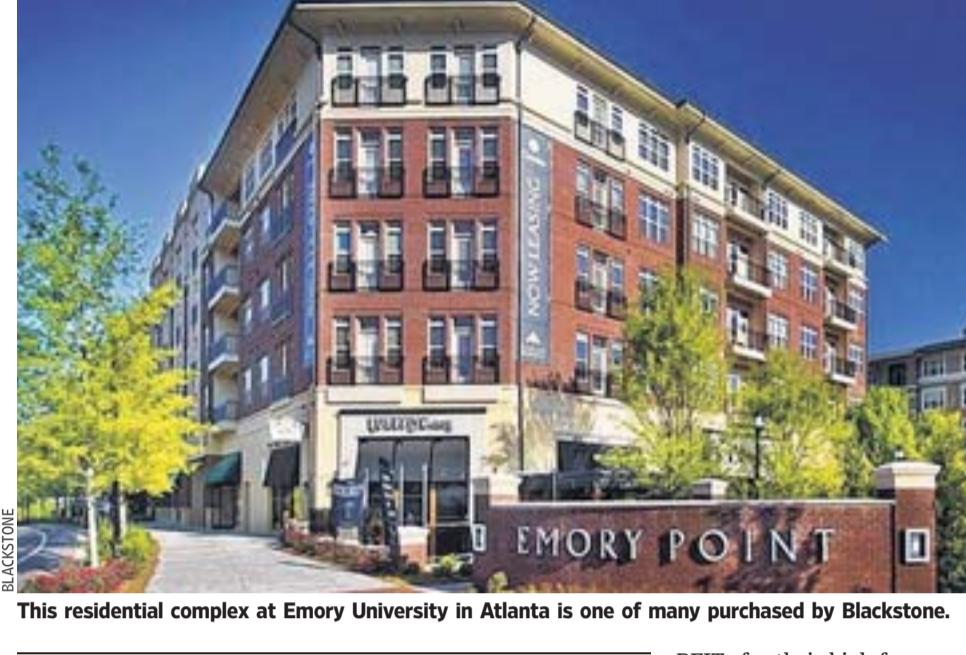
Blackstone in January launched its first nontraded real-estate investment trust, or REIT, a vehicle marketed to small investors as a way to participate in the commercial real-estate industry without the volatility of traded REIT. Such vehicles have faced mounting criticism in recent years over high fees, poor disclosure and other problems.

Yet as of April, Blackstone Real Estate Income Trust Inc. had raised \$755.4 million, about 41% of all the funds the entire industry raised in 2017, far more than any competitor, according to Robert A. Stanger & Co., an investment bank that specializes in nontraded REITs.

"Blackstone burst out of the gate," said Kevin Gannon, a managing director at Stanger. "They became No. 1 in the space in short order."

Blackstone also has become a closely watched agent for change in an industry that is trying to move away from a past that is tangled up in scandal and regulatory criticism. Like many of the new breed of nontraded REITs, Blackstone's vehicle is structured to align the interests of investors and management better than those of the past.

"This product...is about the right fees and structure and



This residential complex at Emory University in Atlanta is one of many purchased by Blackstone.

Nontraded REITs: How They Work

Nontraded real-estate investment trusts have had a roller-coaster history. Here is a summary of how they work:

What are nontraded REITs?

They are investment vehicles that raise money from small investors and use funds to buy commercial real estate.

How are nontraded REITs different from traded REITs?

The main difference is that the shares of traded REITs are bought and sold on stock exchanges.

When did nontraded REITs become popular?

They attracted tens of bil-

lions of dollars of investments in the early years of the economic recovery, partly because they offered high dividends in a low-interest-rate environment.

But fundraising efforts have been hampered by criticism and regulatory investigations.

Why the criticism?

More than five years ago, the Securities and Exchange Commission and the Financial Industry Regulatory Authority increased scrutiny of the industry because they believed nontraded REITs might not be adequately disclosing risks and costs.

What was the upshot?

Finra adopted new rules designed to improve disclosure. Most new nontraded REITs have adopted new structures.

alignment," Jonathan Gray, Blackstone's head of real estate, said on a video on the REIT's website. He declined to comment because the REIT is in fundraising mode.

Some traditional nontraded REITs were excoriated because managers wouldn't be penalized for making bad invest-

ment decisions. That isn't the case with the Blackstone REIT.

"If things don't go well, Blackstone won't make as much," said Phil Owens, managing director of **Green Street Advisors**' consulting unit. "If things go really well, they make more." Green Street has been a critic of nontraded

REITs for their high fees, weak disclosure and lack of alignment. Mr. Owens said the Blackstone structure represents a big shift.

But Mr. Owens stopped short of backing away from Green Street's longstanding position that investors are better off buying traded REITs, which are listed on public stock exchanges, than nontraded ones. Green Street has calculated the overhead of the Blackstone REIT will be about twice as much as a "large, blue-chip publicly traded REIT" if it performs as expected.

Blackstone has gotten a boost in its fundraising efforts because some of the biggest financial-services firms in the country, including **UBS Group AG**, **Morgan Stanley** and **Bank of America Corp.'s** Merrill Lynch brokerage, are marketing it through their sales forces. Properties its REIT has purchased include a residential complex at Emory University in Atlanta, the Sonora Canyon Apartments complex in Mesa, Ariz., and Bakers Centre, a shopping center in Philadelphia.

Ratings Companies Give Closer Scrutiny To Shopping Malls

By ESTHER FUNG

Bond rating companies are looking closer at securities tied to shopping mall debt as concerns intensify about mall owners' ability to repay their mortgages amid closures of anchor stores.

The ratings firms in some cases are issuing downgrades on securities backed by malls suffering from an anchor store closure and putting on watch malls with large stores such as **Macy's Inc.**, **J.C. Penney Co.** and **Sears Holdings Corp.**, even if the places remain open.

While anchor stores might not be part of the collateral of the mall loan or contribute much rent to the property owner, fluctuations in occupancy rates raise the probability of losses. Ratings firms also look at clauses that allow tenants to renegotiate for concessions such as early lease termination or rent relief from the landlord.

The moves come amid a rapid pace of store closures this year, more than 3,000 to date. The overbuilt retail real-estate market and the rising popularity of e-commerce have clouded prospects for many middling malls.

Cottonwood Mall based in Albuquerque, N.M., is losing its Macy's anchor store. Fitch Ratings applied a 50% haircut to the most recent reported property cash flow to account for co-tenancy clauses and predicted a 29% loss on the \$101 million loan.

The loan, which was earlier bundled into a commercial mortgage-backed security deal, is still performing, but Fitch recently issued negative ratings outlooks on two parts of the deal.

During the last recession, retail landlords struggled as

people curbed spending and unemployment rates shot up. Now, while consumer spending is much stronger, e-commerce and the oversupply of retail space are disrupting retail real estate, analysts said.

Since last August, Macy's, J.C. Penney and Sears have said they are closing as many as 390 stores in all, with Sears recently saying that it would shut pharmacies and auto centers.

Apart from metrics such as sales a square foot, the mix of anchor stores, and its co-tenancy clauses, credit analysts also scrutinize a mall's performance compared with its competition, whether it is dominant mall in the market, and tenants' occupancy costs as a percentage of sales.

390

Planned store closures by Macy's, Sears and J.C. Penney

Kroll Bond Rating Agency recently revised the performance outlook of the loan of Oglethorpe Mall in Savannah, Ga., to underperform from perform.

While the mall is 97% occupied and the loan remains above water, the lowered performance outlook has more to do with its exposure to the three department stores owned by J.C. Penney, Sears and Macy's.

"We are being proactive given the current volatility in the retail sector as well as the fact that there is a possibility of additional store closures in the future," said Keith Kockenmeister, managing director in the CMBS Group of Kroll.

T
TRANSWESTERN®



Simon has been renovating its malls and other properties across the U.S. over the past five years.

Simon to Fund More Upgrades

By ESTHER FUNG

Shopping mall landlord **Simon Property Group** Inc. plans to invest an additional \$1 billion to redevelop its properties for the modern retail age.

The Indianapolis-based real-estate investment trust, one of the largest shopping mall developers and owners in the world, has been renovating its malls and mixed-use assets across the U.S. It had spent \$5 billion over the past five years on efforts such as interior enhancements; upgrades to tile, lights and furniture; and redeveloping former department store locations for

other tenants.

"Our primary focus continues to be investments in our physical product to enhance our guests' experience," said David Simon, chairman and chief executive of Simon Prop-

erty.

Shopping mall owners have been compelled to reinvest in their portfolios to bring in more restaurants and entertainment tenants and ensure they remain appealing as consumers' shopping preferences change.

Owners with stronger balance sheets have more resources to improve their assets, which in turn helps attract retailers and shoppers.

Green Street Advisors, a

real-estate research firm, conducts an annual review of 1,400 malls, outlets and other retail real estate that includes updates to estimates on their operating metrics as well as their grades.

Roughly 200 malls saw changes in grades, of which 85% went down the spectrum, not up, said Green Street Advisors.

"Discussions with market participants suggest the criteria for mall quality has become more stringent, which coupled with a tumultuous retail environment, has caused us to become more rigid when grading malls," Green Street said.

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Plots & Ploys

REITS

Sector's Rally Fizzles

Shares of real-estate investment trusts have slumped this year as a postelection sugar rush wears off.

The S&P U.S. REIT Index has fallen 1.3% this year. It rose 4.2% last year. Meanwhile, the S&P 500 stock index has risen 7.1% this year, after a 9.5% increase in 2016.

REITs have had a tough time for most of the past two years as investors worried about rising interest rates, which make it more expensive for REITs to borrow.

After the election, the sector bounced higher over the prospects of a looser regulatory environment and fiscal stimulus. But the rally fizzled amid worries about rising interest rates. What's more, concerns are increasing that the commercial real-estate market might have peaked, given that the sector had been a beneficiary of easy monetary policy for the past several years.

—Esther Fung

CHINA LIFE

Insurer Targets U.S.

China Life Insurance Group is buying a 95% stake in 48 commercial properties scattered throughout the U.S. in a deal

that values the portfolio at \$950 million and highlights the appetite among foreign investors for real estate in markets they mostly have ignored.

The company, one of China's largest insurers, is buying the majority stake in the 5.5-million-square-foot portfolio from **ElmTree Funds** LLC, a private-equity firm based in St. Louis, ElmTree said. It will keep a 5% stake.

Foreign investors used to focus almost exclusively on trophy properties in major cities. But lately, prices in those markets have gotten so high that foreign investors have started scouting less-popular locations.

—Peter Grant

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MANAGEMENT



A Trick to Sell an Idea To the Boss

By JOANN S. LUBLIN

How do far-flung employees win support for their projects from bosses at company headquarters? Well-timed travel may be the key.

A new analysis of business trips by 238 India-based inventors to their employer in the U.S. found those staffers were twice as likely to get the idea patented if they visited headquarters just before or during the Fortune 50 software concern's fiscal fourth quarter. That is when product managers were eager to finish spending their annual budgets. The study didn't identify the firm.

Multinationals with research centers far from their home countries don't always see significant payoffs from their investment because businesses lack efficient ways to fund innovative projects at those facilities, says Prithviraj "Raj" Choudhury, an assistant professor at Harvard Business School who conducted the research.

Visiting inventors tracked for his study needed to confer informally with product managers at headquarters to stoke interest in innovative projects.

This software company now encourages U.S. product managers to visit its India R&D facility ahead of budget decisions, though there still is no formal mechanism, Mr. Choudhury says.

Cisco Systems Inc. takes a different approach. The Silicon Valley company gives its product-development center in Bangalore, India, millions of dollars a year to spend on research, a spokeswoman says. Some of the nearly 10,000 center staffers designed the ASR 901, network equipment for cellphone carriers that has become one of Cisco's fastest-selling products since its 2012 launch, she says.

Carolyn Hayes, left, and fellow 19-year-olds Jay Capodannu and Jessica Mahanna landed jobs at Massachusetts-based supermarket chain Roche Bros.

Teens Miss Out on Summer Jobs

A struggling retail sector isn't the employer it once was; plus, teenagers themselves are forgoing work

BY IMANI MOISE

ket entirely.

Though the numbers of working teens has risen slightly in the past few years, overall teen employment has steadily declined for nearly 40 years, according to the U.S. Bureau of Labor Statistics. The rate of teen participation in the labor force during the month of July peaked in 1978 at 72%, falling to 43% last year. The bureau links the decline to increased enrollment in summer school and heightened emphasis on extracurricular activities. In the bureau's most recent survey, less than 9% of teens who didn't have a job said they were interested in finding one.

The trend is setting off alarm bells for many who believe that teens are missing out on opportunities to learn the soft skills needed for their adult careers.

Hoping to save up money for a car, Danei Wesley applied for summer jobs at

Not Working

Rate of teenage participation in the labor force, July of each year



Source: Labor Department

THE WALL STREET JOURNAL

Wal-Mart, Forever 21 and Charlotte Russe stores near her hometown of Gary, Ind.

The 18-year-old, a rising sophomore at Indiana University Bloomington, followed up on each of her ap-

plications online, by phone or even in person, but was told in each case the position was already filled.

Looking closer to home has proven successful for Ms. Wesley. A member of her church offered her a job for \$8 an hour at an Italian-ice store, and not long after, she found another job through the father of a cheer-squad teammate, tutoring children in math and science for \$9 an hour.

Large employers often assume teens lack the punctuality and professionalism needed on the job, said Nancy Snyder, chief executive of Commonwealth Corp., a Massachusetts-based nonprofit that helps find employment for teens. Ms. Snyder recommends that young job seekers follow Ms. Wesley's lead and try grocery stores or local mom-and-pop stores.

"Main Street businesses' hiring practices change with

the economy," she said. "During the recession, they could hire more adults and probably did so. As the economy has recovered and the labor market has tightened, they are having a harder time finding adults and, therefore, more open to hiring teens."

In some cases, companies are struggling to attract the teen workers they need.

Roche Bros., Inc., a regional supermarket chain in Massachusetts, is well known for hiring teens and starts its summer hiring process in March, months before school lets out. Lately, the chain has had to compete with summer enrichment programs or extracurricular activities like sports and clubs. Teens comprise 25% of the grocery chain's workforce. John Melo, the company's vice president of human resources, said the number of job applications from teens has gone down slightly in the last decade.

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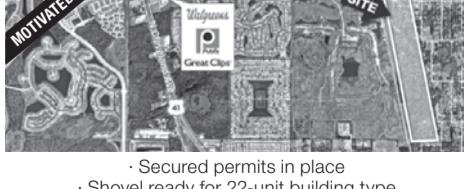
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BUSINESS NEWS



CEO Randall Stephenson says he wants mobile-friendly programming and targeted advertising.

AT&T Chief Outlines Plans For Running Time Warner

BY DREW FITZGERALD

AT&T Inc.'s boss plans to take a hands-on role running **Time Warner** Inc., giving his executive team broad influence over the sports and entertainment company that the telecommunications provider hopes to acquire.

Speaking to investors at a **J.P. Morgan Chase & Co.** conference in Boston Tuesday, AT&T Chief Executive Officer Randall Stephenson said his company could help make Time Warner programming more phone-friendly and boost its advertising rates above where they would be for both stand-alone companies.

"We have a significant amount of unique viewership data on our customers," Mr. Stephenson said, noting that the company already uses information from about 150 billion to 200 billion impressions—ad spots viewers are exposed to—from phone and satellite subscribers to sell more expensive ads. "You put

the two companies together, it's bordering on one trillion impressions per year."

The money made from more targeted advertising could free AT&T to run fewer commercials, Mr. Stephenson added, and make Time Warner's content stand out in a crowded media field.

AT&T last year offered to buy the parent of CNN, HBO and Turner's cable broadcast channels in an \$85.4 billion cash-and-stock deal. The combination, which awaits regulatory approval, was designed to diversify the telecom company's revenue as growth slows in the wireless and satellite TV businesses.

Time Warner raked in more than \$29 billion of revenue last year, though much of it came from a pay-TV business under pressure from cost-conscious viewers dropping cable plans.

Phone users, on the other hand, are spending more time than ever watching video on small screens, a trend AT&T executives have used to

justify the purchase, along with the ad revenue it would bring. But the company would use its user data for more than just ads. Mr. Stephenson said Tuesday that knowledge of what people are watching could help executives make smarter decisions about which movies and TV shows to approve.

"I'll cause Plepler at HBO to panic when I say this," Mr. Stephenson said, referring to HBO CEO Richard Plepler, "but can you begin to think about things like 'Game of Thrones' as an example, where in a mobile environment, a 60-minute episode may not be the best experience. Should you think about 20-minute episodes?"

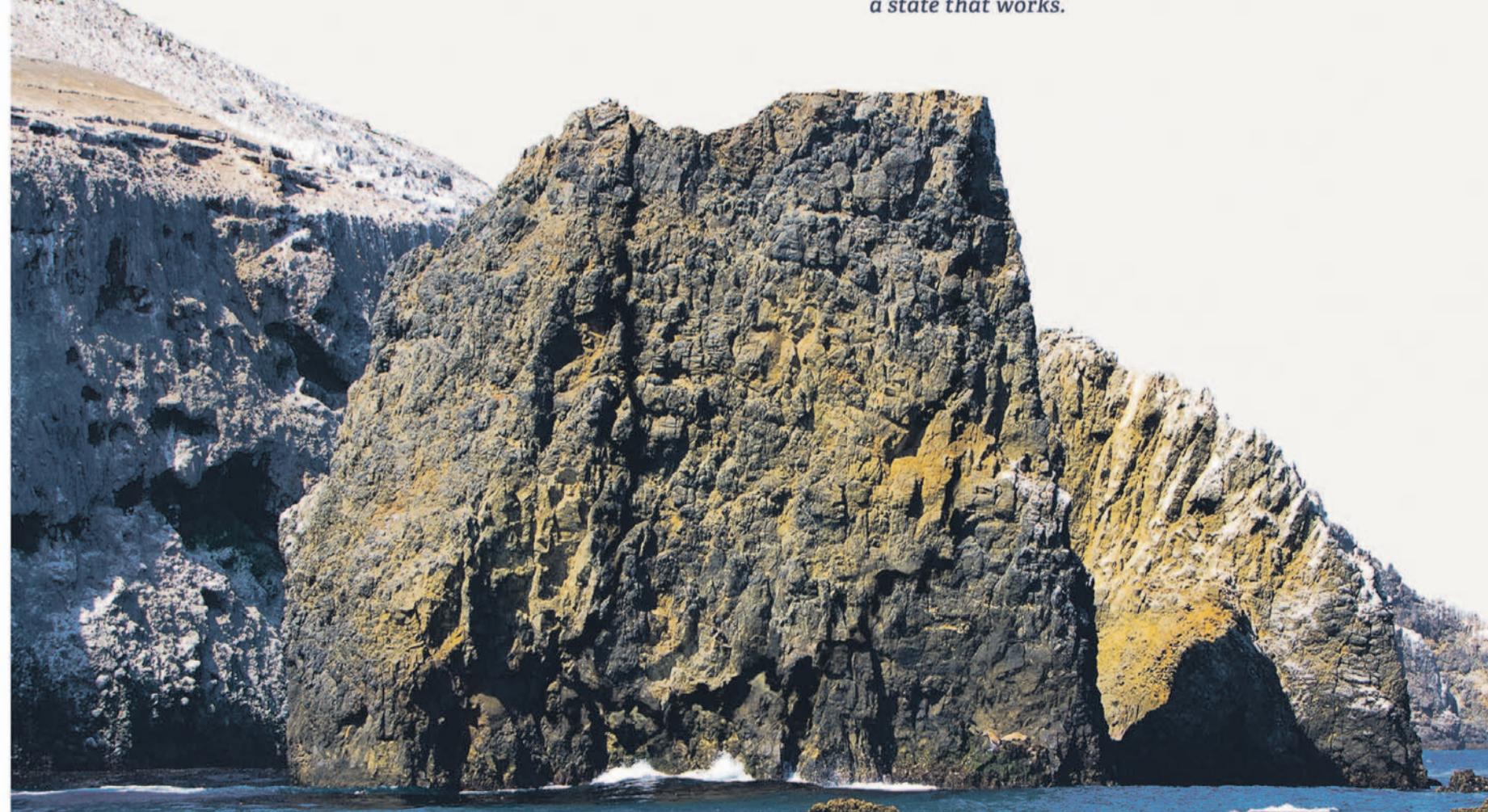
At the same time, the AT&T chief dismissed the idea that the company cut off other TV distributors' customers from Time Warner's hit shows.

"You can't think about taking 'Game of Thrones' and you're only going to make it available to AT&T customers," he said. "That's crazy."

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	Open	High	Low	Settle	Chg	Open	
Copper-High (CMX)	25,000 lbs.; \$ per lb.						
May	2,576.00	2,590.00	2,575.00	2,590.05	0.0015	1,455	
July	2,601.50	2,601.50	2,575.00	2,596.00	0.0005	122,796	
Gold (CMX)-100 troy oz.; \$ per troy oz.							
May	1,261.50	1,261.60	1,250.60	1,254.80	-5.90	25	
June	1,260.40	1,263.80	1,250.50	1,255.50	-5.90	177,422	
Aug	1,263.20	1,267.10	1,254.00	1,258.90	-5.90	169,383	
Oct	1,269.10	1,270.30	1,257.70	1,262.30	-5.90	7,283	
Dec	1,270.60	1,273.40	1,260.80	1,265.70	-5.90	65,989	
Feb'18	1,276.00	1,277.00	1,264.40	1,269.00	-5.90	8,724	
Palladium (NYM)-50 troy oz.; \$ per troy oz.							
May	812.80	812.80	812.80	772.20	13.25	1	
June	767.90	776.80	765.80	772.35	13.25	18,516	
July	774.60	778.40	769.50	772.30	13.40	27	
Sept	766.90	775.70	765.00	771.80	13.60	15,694	
Dec	768.90	769.50	768.90	771.35	13.55	299	
Platinum (NYM)-50 troy oz.; \$ per troy oz.							
May	930.70	930.70	930.50	946.90	-0.90	1	
July	949.80	959.40	944.60	949.40	-0.90	61,140	
Silver (CMX)-5,000 troy oz.; \$ per troy oz.							
May	17,080	17,230	17,010	17,091	-0.052	79	
July	17,165	17,305	17,030	17,139	-0.052	151,088	
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.							
July	51.04	51.79	50.57	51.47	0.34	631,530	
Aug	51.29	52.04	50.85	51.72	0.30	190,406	
Sept	51.60	52.21	51.08	51.92	0.29	186,073	
Dec	52.01	52.55	51.54	52.30	0.25	322,500	
June'18	51.86	52.20	51.44	52.02	0.16	111,283	
Dec	51.41	51.68	50.98	51.51	0.07	157,041	
NY Harbor UlSD (NYM)-42,000 gal.; \$ per gal.							
June	1,600.4	1,616.4	1,585.1	1,606.7	0.0046	47,044	
July	1,607.9	1,622.0	1,591.2	1,612.3	0.0041	108,442	
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.							
June	1,662.9	1,669.1	1,643.4	1,661.4	-0.0012	47,856	
July	1,657.7	1,664.8	1,638.5	1,656.0	-0.0023	134,285	
Natural Gas (NYM)-10,000 MMBtu.; \$ per MMBtu.							
June	3.325	3.333	3.211	3.219	-0.11	46,470	
July	3.422	3.426	3.303	3.312	-0.12	287,111	
Aug	3.457	3.460	3.344	3.352	-0.107	147,624	
Sept	3.434	3.438	3.325	3.333	-0.103	147,024	
Oct	3.456	3.459	3.347	3.357	-0.100	200,235	
Jan'18	3.691	3.693	3.594	3.607	-0.084	103,038	

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Corn (CBT)-5,000 bu.; cents per bu.							
July	374.75	375.75	369.00	369.50	-5.50	718,167	
Dec	392.50	393.25	387.00	387.75	-5.00	287,493	
Oats (CBT)-5,000 bu.; cents per bu.							
July	246.75	247.50	241.00	241.25	-5.50	4,952	
Dec	227.75	227.50	225.00	225.25	-1.25	1,125	
Soybeans (CBT)-5,000 bu.; cents per bu.							
July	952.56	959.25	947.00	948.25	-8.25	364,172	
Nov	956.25	958.50	947.50	948.50	-7.75	192,217	
Soybean Meal (CBT)-100 tons; \$ per ton.							
July	307.50	308.90	306.00	306.30	-1.50	199,714	
Sept	311.80	313.70	310.50	311.10	-1.00	86,758	
Soybean Oil (CBT)-60,000 lbs.; cents per lb.							
July	32.94	33.12	32.30	32.34	-0.60	203,603	
Dec	33.48	33.61	32.83	32.86	-0.59	97,878	
Rough Rice (CBT)-2,000 cwt.; \$ per cwt.							
July	110.00	111.50	109.00	109.10	-14.50	8,022	
Sept	112.00	113.50	112.50	116.50	-14.50	907	
Wheat (CBT)-5,000 bu.; cents per bu.							
July	433.50	435.75	428.00	429.50	-4.75	269,752	
Sept	447.25	449.50	442.25	444.00	-4.00	77,400	
Wheat (CBT)-5,000 bu.; cents per bu.							
July	435.00	436.00	429.50	430.50	-5.50	160,004	
Dec	477.75	478.25	472.75	474.00	-4.50	42,157	
Wheat (MPLS)-5,000 bu.; cents per bu.							
July	557.75	559.25	552.50	554.25	-5.00	28,790	
Sept	565.00	565.50	558.50	560.25	-2.25	11,815	
Cattle-Feeder (CME)-50,000 lbs.; cents per lb.							
May	144.200	144.800	144.200	144.250	...	2,607	
Aug	153.100	153.700	151.275	151.500	-1.275	33,697	
Cattle-Live (CME)-40,000 lbs.; cents per lb.							
June	123.825	124.350	122.600	123.075	-0.850	52,189	
Aug	121.950	122.650	120.750	121.325	-0.700	189,397	
Hogs-Lean (CME)-40,000 lbs.; cents per lb.							
June	78.925	80.275	78.900	80.150	.800	29,590	
Aug	79.400	80.000	79.225	79.900	.225	48,312	
Lumber (CME)-110,000 bd. ft.; \$ per 1000 bd. ft.							
July	362.90	364.30	361.30	362.70	-.60	3,579	
Sept	358.30	360.40	357.60	358.20	-.50	785	

Interest Rate Futures

Treasury Bonds (CBT)-\$100,000; pts 32nds of 100%							
June	153-250	154-120	153-050				

BIGGEST 1,000 STOCKS

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISYE and BATS.

The list comprises the 1,000 largest companies based on market capitalization.

Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.

Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, May 23, 2017

Net

Stock Sym Close Chg

FINANCE & MARKETS

Treasurys Hit by Sales of New Debt

By MIN ZENG

A bout of selling hit the U.S. government-bond market Tuesday, reversing earlier gains following the deadly U.K. terrorist attack in Manchester.

The yield on the benchmark

CREDIT MARKETS 10-year Treasury note settled at 2.285%, up from 2.254% Monday.

Yields rise as bond prices fall.

Traders said new debt sales from both the Treasury and the private sector chipped away at the haven flows in the bond market. The Treasury on Tuesday auctioned off \$26 billion of two-year Treasury notes, which will be followed by a \$34 billion sale of five-year notes Wednesday and a \$28 billion sale of seven-year notes Thursday.

In addition, corporate-bond supply has been robust this week as the political jitters surrounding the Trump administration that rattled markets last week have eased, said analysts. Firms and banks that underwrite new corporate debt typically sell Treasurys to hedge against unwanted interest-rate swings, reflecting the Treasury bond market's role as a bedrock for global finance.

"We see a rush of corporate issuance to squeak through the pre-Memorial day spigot," said Russ Certo, managing director of rates trading at Brean Capital LLC.

Also driving Treasury yields higher Tuesday afternoon, said some traders, was a report from Reuters that hearings in the Senate and House of Representatives on Tuesday showed there is no evidence of collusion between Trump's presidential campaign and Russia. Reuters cited a White House spokesman as saying that President Donald Trump never jeopardized intelligence sources.

The bright side of higher yields is that they attracted buyers to the two-year note auction. Overall demand for the sale reached a one-year high.

The outcome surprised some traders given the high expectation that the Federal Reserve will act in a few weeks.

U.S. stocks have rebounded from last Wednesday's big selloff, while the U.S. dollar has been weakening this year, which gives the Fed some room to tighten monetary policy.

The minutes of the Fed's May 2-3 meeting are due Wednesday. Investors will zero in on clues about the pace of interest-rate increases as well as discussions about how to wind down the large balance sheet that includes more than \$2 trillion worth of Treasury debt holdings.

Bill Northey, chief investment officer at the private client group of U.S. Bank, said he still expects the 10-year Treasury yield to rise to between 2.75% and 3% by year-end. Mr. Northey said he believes that the soft patch in the first quarter won't derail U.S. growth momentum. He added that he doesn't expect a recession to hit the U.S. economy over the next 18 to 24 months, which supports his case to favor stocks over bonds.

AUCTION RESULTS

Here are the results of Tuesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

FOUR-WEEK BILLS

Applications	\$156,761,921,300
Accepted bids	\$55,000,121,300
"noncompetitively"	\$446,549,300
"foreign noncompetitively"	\$100,000,000
Auction price (rate)	99.942833 (0.735%)

Coupon equivalent

Bids at clearing yield accepted

Cusip number

912796JX8

The bills, dated May 25, 2017, mature on June 22, 2017.

52-WEEK BILLS

Applications	\$56,743,492,500
Accepted bids	\$20,000,017,500
"noncompetitively"	\$217,492,500
"foreign noncompetitively"	\$0
Auction price (rate)	98.842278 (1.145%)

Coupon equivalent

Bids at clearing yield accepted

Cusip number

912796MB2

The bills, dated May 25, 2017, mature on May 24, 2018.

TWO-YEAR NOTES

Applications	\$78,623,221,000
Accepted bids	\$29,127,946,000
"noncompetitively"	\$123,580,600
"foreign noncompetitively"	\$100,000,000
Auction price (rate)	99.870143 (1.316%)

Bids at clearing yield accepted

Cusip number

912828X54

The notes, dated May 31, 2017, mature on May 31, 2019.



The S&P 500's consumer-discretionary sector fell 0.4%, with Advance Auto Parts declining 4.6%.

Bank Bump

The financials sector outperformed the broader market Tuesday.

1.0%

0.5%

-0.5%

Source: FactSet

LUKE SHARRETT/BLOOMBERG NEWS



THE WALL STREET JOURNAL.

Stocks Extend Winning Streak

By AKANE OTANI
AND CHRISTOPHER WHITTALL

Shares of financial companies lifted major U.S. stock indexes to their fourth consecutive session of gains.

U.S. stocks have been resilient in recent months, despite some investors' concerns that the Trump administration could struggle to push through plans for policy changes like tax cuts and fiscal stimulus.

A strong corporate earnings season and a largely stable

economy are helping major indexes stay buoyant, investors and analysts say, despite lingering uncertainty over the scale and timing of the administration's policies.

"Yes, we have some political noise, but the company fundamentals remain pretty supportive," said Jean Medecin, a member of the investment committee at Carmignac.

The Dow Jones Industrial Average rose 43.08 points, or 0.2%, to 20937.91 on Tuesday. The S&P 500 added 4.4 points, or 0.2%, to 2398.42 and the Nasdaq Composite edged up

5.09 points, or less than 0.1%, to 6138.71.

Financial stocks in the S&P 500 rose along with U.S. government bond yields, and the sector finished as the best performer in the broad stock index for the day.

Morgan Stanley added 76 cents, or 1.8%, to \$42.42 and Goldman Sachs Group rose 3.62, or 1.7%, to 219.64.

Government bonds fell, with the yield on the 10-year Treasury note rising to 2.285% from 2.254% on Monday. Yields rise as bond prices fall.

The consumer-discretionary

sector fell 0.4% in the S&P 500, dragged lower by shares of auto-parts companies.

AutoZone lost 78.09, or 12%, to 581.40—it's biggest one-day percentage decline since 2008—after the company reported a slide in same-store sales and earnings that missed analysts' expectations.

Advance Auto Parts fell 6.71, or 4.6%, to 140.66.

U.S. crude oil for July delivery rose 0.7% to \$51.47 a barrel, posting its fifth consecutive session of gains, as investors have become increasingly optimistic that the Organization for

the Petroleum Exporting Countries will agree to extend output cuts at a meeting this week. It was crude's highest settlement since April 18.

Elsewhere, the Stoxx Europe 600 rose 0.2% as investors looked past a deadly blast at a concert hall in Manchester, England, late Monday.

Early Wednesday, the Shanghai Composite was down 0.9% and Hong Kong's Hang Seng Index was down 0.3% after Moody's downgraded China's credit rating. Japan's Nikkei Stock Average was up 0.5%.

Aramco IPO Propels Extension of Oil Cuts

VIENNA—The timing of the blockbuster IPO of Saudi Arabian Oil Co. has prodded Saudi Arabia to push big oil-producing nations gathered here this week to extend crude-output cuts a further nine months, people familiar with matter said.

By Summer Said,
Benoit Faucon
and Sarah McFarlane

The Saudis want higher oil prices well into 2018 to support the initial public offering of their state-owned oil company, Aramco, the people said. The initial offering of 5% of the company is being timed for some time in 2018 and has been billed

COMMODITIES as the biggest ever, with valuations reaching over \$2 trillion.

But the IPO's value will largely be determined by oil prices, which have yet to recover fully from the 2014 price crash. National oil ministers from the 13 countries in the Organization of the Petroleum Exporting Countries began arriving in Vienna Tuesday and said they were on board with the Saudi plan for a nine-month extension of production cuts agreed to last December. That six-month agreement between OPEC and 11 heavyweight producers outside the cartel was meant to drain 2% of global oil production from the market and start bringing supply back in line with demand.



An oil field in Saudi Arabia. The Saudis want higher oil prices into 2018 to support Aramco's initial public offering next year.

Ecuadorian Energy Minister Carlos Perez said most OPEC members support a nine-month extension of cuts at current levels of about 1.8 million barrels a day. Russia, the largest of the non-OPEC producers in the agreement, has said it supports a nine-month extension. The ministers meet Thursday to decide. "We will support the majority," Mr. Perez said.

The price of Brent crude, the international oil bench-

mark, rose for a fifth day in a row Tuesday, by 0.5% to \$54.15 a barrel on optimism about a new production deal. U.S. crude rose 0.7% to \$51.47.

The Saudis have been trying to push oil higher since January 2016, when prices hit a 12-year low of less than \$28. Earlier that month, Saudi Deputy Crown Prince Mohammed bin Salman had announced the IPO.

Saudi officials say they want to get oil prices above

\$60 a barrel. They need oil prices much higher to balance their war-strained budget, to as much as \$80 this year and \$75 next year, said Bjarne Schieldrop, analyst at Sweden's SEB bank. "It's hugely important for Mohammed bin Salman," Mr. Schieldrop said. "He cannot slip now. He needs the IPO to be successful as he has a lot at stake. An oil price of \$50 will not do it in the longer term."

Russia issued a rare joint statement with Saudi Arabia calling for a nine-month extension last week. Russian President Vladimir Putin is heading into an election in 2018 with a budget strained by low oil prices, said Robert McNally, president of energy consultancy Rapidan Group. "If they abandoned their restraint and returned to an all-out market share policy, prices would plunge into the \$30s."

Fidelity CEO Cites Bitcoin's Appeal, Hurdles

By SARAH KROUSE

Fidelity Investments Chief Executive Abigail Johnson championed the growth of bitcoin and other alternative currencies in a speech Tuesday, a rare vote of confidence by a major player in the financial world.

Her remarks at a conference in New York set her apart from other CEOs of large banks and financial-services companies who have been cautious and even skeptical of bitcoin's benefits. Fidelity first began exploring the possibilities of bitcoin and other digital currencies roughly three years ago.

"Some of you might be wondering: Why am I here today?" Ms. Johnson said at the digital-currency news service CoinDesk's Consensus conference. "I'm here because I love this stuff...all that the future might hold."

Bitcoin, introduced in 2008 by an anonymous creator, is a digital currency that operates online and is designed to allow users to transact with each other directly, bypassing governments and banks that normally act as middlemen in financial transactions.

Ms. Johnson, whose family owns 49% of Fidelity, is an un-



Abigail Johnson acknowledges problems of digital currencies.

Blockchain Firm R3 Raises \$107 Million

R3 CEV, one of many firms trying to capitalize on the technology behind the digital currency bitcoin, said Tuesday that it had raised \$107 million from a group of 40 global banks, including **Citigroup** Inc. of the U.S., France's **Société Générale** SA, and **Mitsubishi UFJ Financial Group** of Japan.

The fundraising is one of the largest rounds for a firm developing so-called blockchain technology and trails only the \$116 million raised by 21 Inc. in 2015. It occurred amid a burst of new interest this spring in bitcoin, alternative cryptocurrencies and the technology behind them. The price of bitcoin

likely proponent of digital currency. Her views are notable not only because she gives public speeches rarely but also because her firm is a major provider of 401(k) services and other savings products to millions of Americans. Fidelity had \$2.13 trillion in assets under management and \$5.7 trillion in assets under administration at the end of last year.

Ms. Johnson on Tuesday acknowledged digital currencies' problems, laying out in detail the obstacles that bitcoin, and the blockchain technology that underpins it, face in moving from a slow start to widespread adoption.

"It's no accident that I'm one of the few standing before you today from a large financial-services company that hasn't given up on digital currencies," she said. "I am still a believer."

Fidelity has worked with bitcoin platform Coinbase Inc. to allow charitable giving in bitcoin and enabled bitcoin pay-

ments in its cafeteria. Ms. Johnson said the firm will soon make it possible to display bitcoin assets held through Coinbase on Fidelity.com.

Yet fewer than 100 employees at the firm have completed bitcoin transactions, she said. Potential users of the technology, she said, are also confused

or frustrated by it. Ms. Johnson's speech stopped short of making firm recommendations on ways to make the currency more mainstream.

Regulatory, security and risk-related issues are major barriers to broader adoption of bitcoin and related technology after a string of headlines related to the cryptocurrency. Hackers behind the WannaCry cyberattack this month, which held for ransom the computer files of hundreds of thousands of victims, demanded payment in bitcoin.

"I'd like to think that huge new markets and products are going to be built on these open platforms," Ms. Johnson said. "Blockchain technology isn't just a more efficient way to settle transactions, it can fundamentally change market structures and perhaps even the architecture of the internet itself."

Ms. Johnson urged the audience to make cryptocurrency and related technology more accessible for individuals and large institutions. "Too often, we see bitcoin and blockchain technologies as solutions in search of a problem," Ms. Johnson said. "We don't just need these systems to be technically better, we need them to be more user-friendly."

MARKETS

Greek Debt Proves a Tough Sell, and Buy

Investors shy away from nation's bonds, even as prices sink, due to thin trading

By JON SINDREU

Greek debt has been a great investment this year, in theory.

The reality is that almost nobody trades it, even with yields at a three-year low, so actually making significant money is all but impossible. The tiny volumes are also a sign that Athens has a long road ahead before it can borrow from investors again.

On Tuesday, yields on 10-year Greek government debt rose to 5.751% from 5.549% the previous day. The move higher comes after eurozone finance ministers failed to agree on the release of another round of bailout cash that Greece needs to keep paying bondholders this summer. Yields rise when bond prices fall.

Yet, there are few people trading these bonds.

Only €160 million (\$180 million) of Greek government bonds has changed hands on the country's HDAT electronic-trading platform this year, according to figures from the **Bank of Greece**. That is a fraction of the levels before Greece ran aground in a decade-long economic crisis. All of the debt traded this year is about as much as was traded in half an hour, on average, from 2001 to 2007.

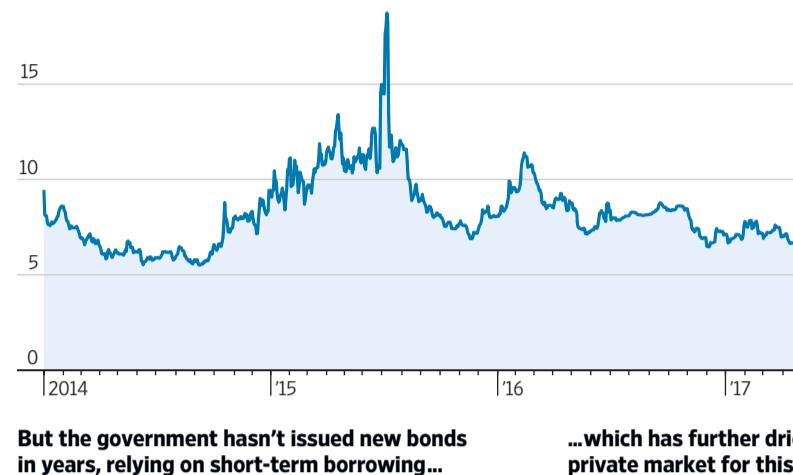
Moreover, trading volumes are lower this year than they were in 2016, underscoring the challenges the Greek government will face to stage a return to financial markets, even as officials plan the first bond issue in three years for as early as this summer.

J.P. Morgan Asset Management, a \$1.7 trillion money manager, is confident that Athens will ultimately get the funds, and it doesn't believe

Low Interest

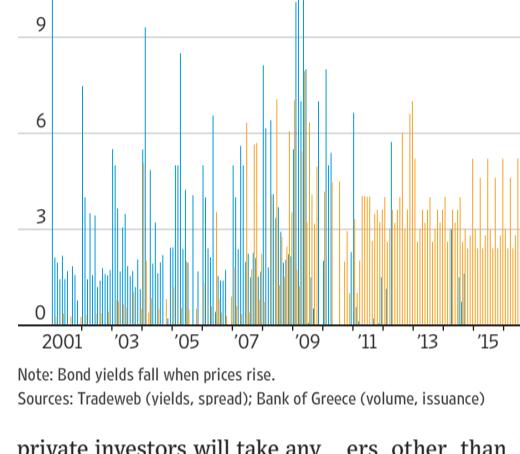
Greece's government debt has been on a roll since 2015 but, with most of the paper owned by international bodies, few bonds ever change hands.

Yields on 10-year Greek government debt are at their lowest since 2014...

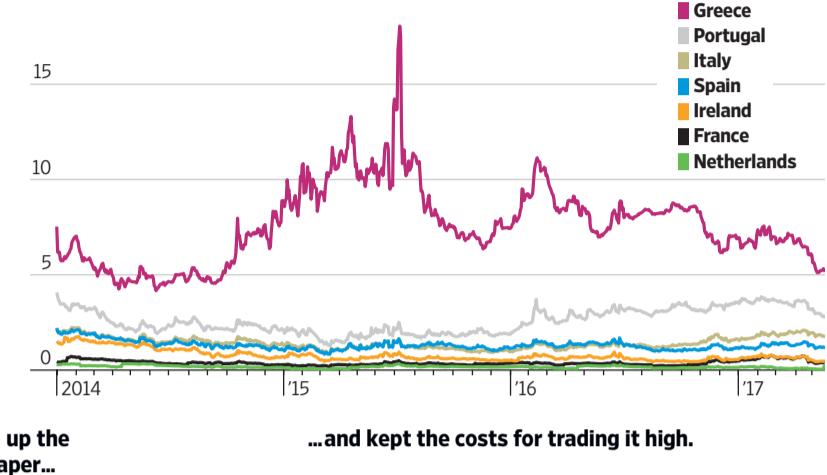


But the government hasn't issued new bonds in years, relying on short-term borrowing....

Gross monthly issuance of securities by the Greek government

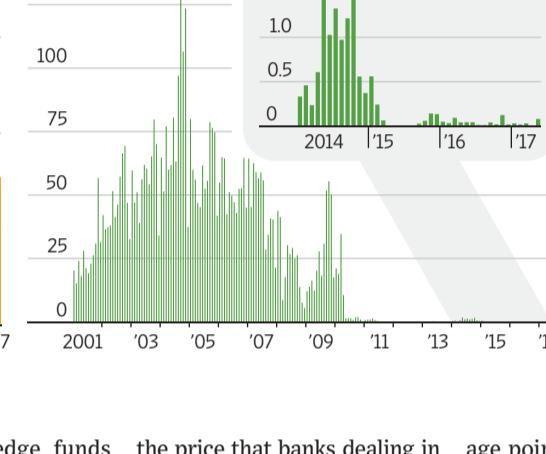


...and spreads over ultrasafe German bonds have also narrowed.



...which has further dried up the private market for this paper...

Monthly volumes of Greek government bonds traded in the HDAT electronic platform



THE WALL STREET JOURNAL.

private investors will take any write-downs. But it doesn't own any Greek bonds.

"It's not really in the universe for us," said Mike Bell, the company's global market strategist.

One problem is that ratings firms still rank Greek debt as junk. This means it is off the radar for most money manag-

ers other than hedge funds and some domestic investors, said John Stopford, head of multiasset income at Investec Asset Management.

"There may be opportunities. But we're looking at 70 to 80 different countries and, for the moment, Greece isn't one of them," he said.

Indeed, the spread between

the price that banks dealing in Greek bonds are willing to buy the debt and the price at which they are willing to sell it is the widest among eurozone bonds, which is a further indication of a thin market.

This spread was 0.2 percentage point at Tuesday's close, according to Tradeweb, compared with 0.061 percent-

age point for Portugal.

There isn't much to buy and sell in the first place, because most of Greece's debt is in the hands of international public institutions. Out of more than €300 billion in government debt, private investors hold only €36 billion of bonds. It's sort of a Catch-22: The market is shallow because there aren't

any new bonds, but selling new bonds into a thinly traded market is hard for Greece.

"The market just isn't big enough and there isn't really any issuance," said Patrick O'Donnell, senior investment manager at Aberdeen Asset Management.

—Christopher Whittall contributed to this article.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

Europe Still Runs With The Bulls

If the reflation theme has taken a knock in recent months, nobody told Europe. A rush of eurozone data released Tuesday points to an economy that hasn't stopped surprising to the upside.

The clearest sign of that came from the eurozone's biggest economy, as Germany's widely followed Ifo Business Climate Index rose to 114.6 in May, the highest figure since 1991. The flash IHS Markit composite purchasing managers' indexes for France and Germany also rose; the eurozone indicator came in at 56.8, unchanged from April but holding its highest level since 2011.

The good news is that there are some homegrown reasons for continued solid growth. The PMI surveys noted strong job creation, supporting consumption, and rising backlog of work in both services and manufacturing. Consumer confidence is at a 10-year high.

Despite stronger growth, underlying inflation has yet to show convincing signs of life, which happily for investors means the European Central Bank will only move very gradually. There are risks, of course. The euro has risen nearly 5% against the dollar in the past month, a sharp move that might raise concerns about the currency becoming a headwind. The eurozone has still to find a lasting solution to Greece's problems, with ministers postponing a decision regarding debt relief at a meeting Monday. External risks remain a threat: The eurozone is a rider on global growth, not its engine.

But then there are always long-term reasons to worry. It might be unusual, but Europe is a source of surprising stability.—Richard Barley

Noble Has Only One Option Left

Commodities trader **Noble Group**'s long demise is entering a critical stage. The wonder is that this has come as a surprise to so many.

The Singapore-listed company's latest travails are the culmination of a yearslong struggle to shore up its financial position that began after a former employee criticized its accounting in early 2015. The latest shock has snowballed since the company posted a \$130 million first-quarter loss, blaming misplaced coal-market trades, supposedly Noble's bread and butter.

Overnight, S&P downgraded the company's debt to triple-C-plus: Noble's bonds now trade at 30 cents to 40 cents on the dollar, which is deeply distressed territory.

The company's shares dove 30% Tuesday before being suspended. A Chinese white knight is no longer interested in taking a stake.

It is a sorry mess, made all the more galling by the fact that bankers, bondholders,

ers and ratings firms have been loath to recognize Noble's parlous position.

As recently as March, the company was able to raise \$750 million from fresh bonds. Coincidentally—or not—it was as bankers were trying to sell those bonds that talk of China's

Sinochem International investing in Noble first emerged.

In another notable coinci-



Noble Resources' bonds trade in distressed territory.

dence, much of the money raised from bondholders has gone toward paying down loans owed to some of the banks involved in the bond underwriting.

The underlying truth is that Noble now seems to exist merely to raise money from one set of lenders to pay off another.

The company bled some \$300 million of cash flows from operations in the first

quarter. Having spent the past year or so selling most of its assets, Noble has few other options to raise new capital. And it now faces diminished cash-generation prospects.

Yet it faces three large debt maturities, including \$656 million due in June and a further \$1.5 billion next year.

There will be pain to come.

Hedge funds in Hong Kong that have sold reams of protection via credit-default swaps on Noble's debt are now sitting on large mark-to-market losses: The cost to insure against \$10 million of Noble's debt for five years having risen from \$626,000 earlier this month to \$5.2 million.

Without a miraculous improvement in commodity prices or a new strategic investor, Noble now seems likely to have to restructure its debt if it is to survive.

Rolling over is no longer the solution.

—Anjani Trivedi

OVERHEARD

It is common for journalists to move into public relations roles late in their careers. Movement in the other direction is less common. And moves involving fishing journalism are rarer still.

But **Jon Diat** will prove to be an exception. Mr. Diat is preparing to retire after a nearly five-year stint as head of external communications at **American International Group**.

He is a true industry veteran, having previously worked at Citigroup through the 2008 financial crisis, and before that in various media relations roles at **J.P. Morgan Chase, Morgan Stanley, Standard & Poor's** and more.

Mr. Diat will now start writing a weekly column on commercial and recreational fishing for the East Hampton Star. His first column comes out on Thursday.

Representing financial companies during their tough times will help Mr. Diat with the most important trait of a good fisherman, patience.

Outlook for Semiconductor Maker Xilinx Remains Cloudy

Semiconductor companies that have stacked their chips in the cloud have been rewarded well by investors. But sometimes those piles come up a bit short.

Consider **Xilinx**, which makes chips known as field programmable gate arrays, or FPGAs, that have turned out to be useful in the mammoth data centers built by companies such as **Amazon.com** and **Microsoft**. Amazon, in fact, recently began selling specialized services powered by Xilinx chips to customers of its AWS cloud-computing service.

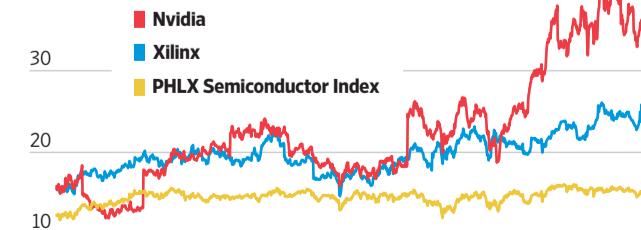
That is a good spot for Xilinx to be in considering the fact that AWS is still far and away the leader in the

rapidly growing business of cloud services. But so far it isn't translating to big numbers for the chip maker. The segment that contains Xil-

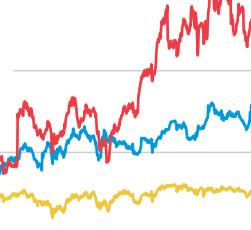
inx's data-center business generated about \$987 million in revenue for the fiscal year ended April 1. Much of that comes from chips used

sidered one of the few remaining acquisition targets left in semiconductors. Investors recall that Intel paid 43 times forward earnings to take over **Altera** in mid-2015. Such an option for Xilinx seems less likely, given that few big buyers remain and the company recently instituted a multiyear leadership succession plan. At around 25 times forward earnings, Xilinx is priced dearly compared with other chip stocks, yet it fetches only around half of Nvidia's current multiple. That still makes for a manageable price for a solid foothold in the cloud, but the company will need to show it can bring more rain soon.

—Dan Gallagher



Source: FactSet



xinx's data-center business generated about \$987 million in revenue for the fiscal year ended April 1. Much of that comes from chips used