

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

**A**mazon said 238 cities and regions had bid to be the site of the company's second headquarters, a project expected to be worth \$5 billion over nearly 20 years. **A1**

◆ **GE shares took** another pounding, reflecting fears that the firm may be forced to cut dividends. **B1, B6, B11**

◆ **U.S. stocks fell.** The Dow shed 54.67 points to finish at 23273.96, with GE its worst performer. **B12**

◆ **Arconic named** a former GE executive as CEO, as the aerospace parts firm missed earnings expectations. **B1**

◆ **Sears will stop selling** Whirlpool appliances, following a pricing dispute. Separately, Whirlpool issued a profit warning. **B1, B3**

◆ **Hartford agreed** to acquire Aetna's group life and disability-insurance unit for \$1.45 billion. **B11**

◆ **The Treasury criticized** a CFPB rule that makes it easier to bring class-action suits against financial firms. **B11**

◆ **Russia's Kaspersky Lab** pledged to turn over the source code for its antivirus software for review. **B4**

◆ **Cisco said** it would pay \$1.73 billion for BroadSoft, a maker of cloud-based communications software. **B4**

◆ **Potlatch intends** to combine with Deltic Timber in an all-stock deal. **B3**

◆ **T-Mobile said** it added 817,000 postpaid customers. **B3**

### World-Wide

◆ **Green Berets fought** Islamic State militants in Niger for two hours before air support arrived, much longer than the Pentagon previously reported about the deadly Oct. 4 ambush, the Joint Chiefs chairman said. **A1**

◆ **Trump pledged** to protect 401(k) plans, shooting down a proposal to cap contributions to the retirement-savings program. **A4**

◆ **Tillerson met** with the leaders of Iraq and Afghanistan on his first trip as secretary of state to those two countries. **A7**

◆ **Antiregime activists** posted photos of two malnourished children who died in a besieged suburb of Syria's capital. **A7**

◆ **Bergdahl's lawyers** said Trump's comments on his case make it impossible for the former Taliban captive to receive a fair sentence. **A3**

◆ **Catalan separatists** called for civil disobedience amid the prospect of Madrid's temporary takeover of the regional police force. **A8**

◆ **Abe said** he would tackle the Japanese economy's structural problems following his election victory. **A6**

◆ **Japan's defense minister** said the threat from North Korea has reached a "critical and imminent level." **A6**

◆ **Iowa is withdrawing** its application to alter the health-care law after federal officials laid out tough conditions for its approval. **A5**

### Journal Report

A spotlight on media and technology. **WSJ.D.Live**

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## Tillerson Travels to Iraq, Afghanistan to Shore Up Ties



ON THE ROAD: Secretary of State Rex Tillerson Monday made unannounced visits to Afghanistan and Iraq, where U.S. troops and local forces are trying to stop militant groups. He met with Afghan President Ashraf Ghani, top, and Iraqi Prime Minister Haider al-Abadi. **A7**

## U.S. Revises Niger Timeline

**Ambushed Army**  
Green Berets unit took hour to call for help, top military official says

By BEN KESLING

WASHINGTON—A U.S. Army Green Berets patrol, outnumbered by suspected Islamic State militants, fought for two hours in Niger before air support provided by French military jets arrived, a top U.S. official said Monday, much longer than previously reported by

Pentagon officials.

The Special Forces unit didn't call for help for an hour after shooting started, and French Mirage jets didn't arrive for another hour after that, said Gen. Joe Dunford, chairman of the military's Joint Chiefs of Staff. By that time, the Army would determine later, four U.S. soldiers had been killed and two others wounded.

Gen. Dunford, speaking at a hastily convened Pentagon news conference, provided the most detailed public accounting to date of what happened in the Oct. 4 ambush of 12 U.S.

and 30 Nigerian troops, which marked the single deadliest American toll resulting from military combat so far during the Trump administration.

But his description also reflected the depth of the mystery still surrounding the incident in remote West Africa, where the U.S. has a force of about 800 troops and relies on Nigerian forces, French deployments and contract support to function.

For instance, officials want to determine why it took the U.S. force an hour to call for air support, Gen. Dunford said.

"My judgment would be

that the unit thought they could handle the situation without additional support," Gen. Dunford said.

"I have been in these situations myself where you're confronted with enemy contact, your initial assessment is you can deal with that contact with the resources that you have, and at some point in the fire fight, they concluded they then

Please see NIGER page A7

◆ Bergdahl lawyers fault president for remarks..... A3

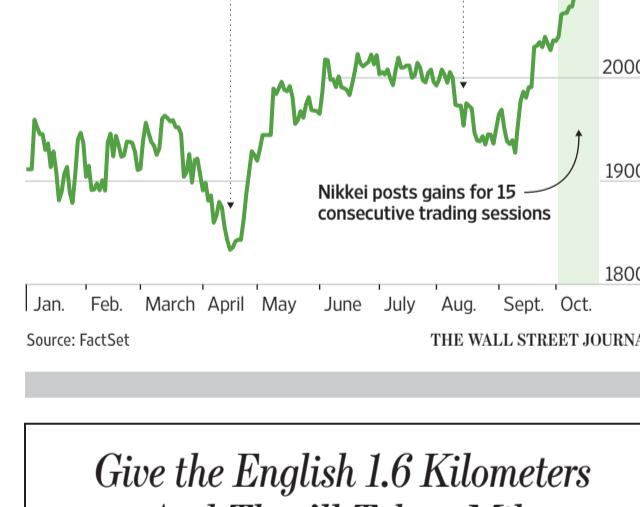
◆ Gerald F. Seib: Where unpredictability could hurt... A4

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## Japan Stocks Stage a Record Run

Japanese investors celebrated the election victory of Prime Minister Shinzo Abe, driving the country's benchmark stock index to its 15th straight gain on Monday, a record streak. **A6, B12**

### Japan's Nikkei Stock Average, year-to-date performance



## Supersized Family Farms Transform U.S. Agriculture

Big growers, with scale and clout, squeeze struggling smaller outfits

By JACOB BUNGE

COLBY, Kan.—Lon Frahm may represent the future of farming. Inside a two-story office building overshadowed by 80-foot steel grain bins, he points to a map showing the patchwork of square and circular fields that make up his operation. It covers nearly 10% of the county's cropland, and when he climbs into his Cessna Skylane to check crops from the air, he can fly 30 miles before reaching the end of his land. At 30,600 acres, his farm is among the country's vastest, and it yields enough corn and wheat each year to fill 4,500 semi-trailer trucks.

Big operations like Mr. Frahm's, which he has spent decades building, are prospering despite the deepest farm slump since the 1980s. Years of low prices for corn, wheat and other commodities brought on by a glut of

grain world-wide are driving smaller American farmers out of business.

Farms with \$1 million or more in annual sales—only 4% of the total—now produce two-thirds of the country's agricultural output, the largest portion since the U.S. Agriculture Department's census began tracking the statistic in the '80s.

The shift means food production is being increasingly handled by larger farms, which can be more financially secure. It also fuels a cycle in which size begets size, further transforming the rural economy. Smaller-scale farmers struggle to expand their operations to become profitable. Work becomes more scarce. Farm-supply retailers and grain companies are pressured, since larger farms use their size to wrangle better deals.

Owners say the big operations—which are

Please see FARM page A10

## Give the English 1.6 Kilometers And They'll Take a Mile

\* \* \*

Brexit-inspired vigilantes use ladders, sticky letters to eradicate metric system

By JENNY GROSS

BURNLEY, England—Tony Bennett took Brexit preparations into his own hands at dusk one Friday this month, defying authority to reinstate a venerable element of British culture.

All it took was glue and stick-on numerals.

The retired lawyer crept through a park, he said, and up to a footpath sign. It read "1.5km."

Unacceptable!

He took a numeral and pasted it on to make the sign read, simply, "1." That's one mile, one glorious British imperial mile, rounding up a bit. No need to add an "m," Mr. Bennett said, because Britons would know what it meant.



Converted sign

"We have our own very excellent system of weights and measures," said Mr. Bennett, 70 years old and not the American crooner. "We don't need big institutions in Europe telling us what to do."

Mr. Bennett is a member of Active Resistance to Metrication, a tiny group that has for years been pushing England to go back to its old weights and measures. Britain's planned exit from the European Union has breathed new hope into his campaign.

By the end of the night's "raid," as Mr. Bennett called it, he had plastered miles over kilometers—a mile is 1.6 kilometers—on three signs in the park. He said he fixed 10 more

Please see METRIC page A10

## INSIDE



### DIVIDEND FEARS TAKE TOLL ON GE

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### ET TU, STEVE BANNON?

OPINION, A15



### HALLOWEEN DECOR GOES OUT ON A LIMB

LIFE & ARTS, A11

## Uber Investment Jolts Saudi Fund

By JUSTIN SCHECK AND MAUREEN FARRELL

RIYADH—Saudi Arabia's state-owned Public Investment Fund is poised to become one of the world's biggest investors. But the fund is troubled by disappointing investments, including in Uber Technologies Inc., and has struggled to calculate its own value.

This week, investing luminaries including chief executives of BlackRock Inc. and Blackstone Group LP and leaders from Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. are descending on a Riyadh palace for a conference where the fund is expected to discuss its strategy, among other topics. Attendees are calling it "Davos in the desert."

The fund plans to detail its central role in efforts to break Saudi oil dependence. The fund, which already is making large investments, has allocated about \$50 billion to tech alone. It is now preparing to make new investments that could grow much larger after a cash infusion from a planned offering of stock in the state.

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## U.S. NEWS

# After Harvey, a Rush to the Courthouse

BY SARA RANDAZZO

The plaintiffs' lawyers lined up shoulder to shoulder on a recent Friday in a Houston courtroom, filling every available bench, jury box and table. All had come to hear how they could get a piece of sprawling litigation emerging from the devastation wrought by Hurricane Harvey.

"I've never seen so many suits in the same room, unless it was in church," said Chris Johns, a Texas lawyer in attendance at the Oct. 6 hearing.

The lawyers have coalesced around a corner of eminent-domain law they hope will lead to big payouts from the federal government. Dozens of lawsuits filed so far seek compensation for the damage homeowners say was caused when the U.S. Army Corps of Engineers released water from two area reservoirs in the days after a Category 4 hurricane and historic rainfall flooded Houston in late August.

With an estimated 10,000 homes or more affected by the reservoirs, the litigation has the potential to reach into the billions of dollars. But convincing a judge the controlled release counts as an improper "taking" of private property under eminent-domain law could face challenges in court, and a payout isn't a sure thing.

The Addicks and Barker dams were built in the 1940s to reduce the risk of flooding in Houston. By ordering the controlled release, the Army Corps alleviated water levels that could have poured over or around the two earthen dams, potentially rupturing them and causing significant damage.

The government said in a court filing that the flooding was a 1,000-year event, and that the release of water to relieve the Addicks and Barker dams doesn't qualify as a taking under the Constitution's Fifth Amendment. A "single flood—as opposed to an inevitably recurring flooding caused by the Government—is not a taking as a matter of law," the filing said.

The Justice Department didn't respond to a request for comment.

Affected homeowners and their lawyers are referring to



Water released from Addicks Reservoir flowed into Houston neighborhoods on Aug. 29 in the aftermath of Hurricane Harvey. The release has sparked suits by residents.

### Lawyers Vie to Lead Dam-Release Cases

The flooding litigation has attracted the attention of plaintiffs' lawyers from across Texas and other states, including those who typically specialize in personal-injury and privacy cases, as well as other unrelated specialties.

People at the introductory hearing in Houston estimate at

least 100 attorneys filled the room. Now, many of them are forming coalitions and vying for a leadership position in the cases, which would position them to help steer the direction and potentially be in line for extra compensation.

Houston attorney Derek Potts said he has hosted in his office two meetings of lawyers from between 40 and 50 area firms to try to create a cohesive plan for the litigation. "This is a very high-profile case that

strikes close to home for all of us," he said.

Judge Susan Braden with the U.S. Court of Federal Claims, a specialized court used for claims against the federal government, set an Oct. 20 deadline for applications for lead counsel.

The judge has also asked for input on the best way to consolidate the more than 50 cases that have been filed so far, some as proposed class actions and others on behalf of

individuals or groups.

Lawyers involved say it looks like the court wants to avoid a repeat of the prolonged litigation against the federal government that followed Hurricane Katrina in 2005. Some of those cases are still on appeal.

The Justice Department, meanwhile, has proposed a timeline that wouldn't determine if the case is a class action until 2018, with discovery starting after that.

—Sara Randazzo

the government's position as the "one flood free" rule.

"I figured, they know what they're doing, and are releasing water only when it won't cause harm to everybody else," said Jennifer Arriaga, 44 years old, whose home in Houston's Memorial Bend neighborhood largely survived the storm be-

fore being flooded with 18 inches of water from the Addicks dam release. Her family faces an estimated \$220,000 in damage in the house they built a year ago, and is pursuing litigation.

Val Aldred, 65, a retiree who is a plaintiff in the litigation, said he was shocked to

see water inching closer to his Memorial Bend home that Tuesday after the storm when the rain had already stopped. "They didn't even give me notice," he said. "If they said look, we're going to release the water, and you've got...even three hours to get out, I would have at least ap-

preciated that. That angers me like you can't believe."

In 2012, the U.S. Supreme Court ruled that temporary flooding could qualify as a taking eligible for compensation, in a case brought by the Arkansas Game and Fish Commission against the U.S. government over the flooding of a

## U.S. WATCH

### JUSTICE DEPARTMENT

#### U.S. Will Now Target MS-13 Street Gang

Attorney General Jeff Sessions on Monday designated MS-13, the violent gang, a target for a Justice Department task force that has traditionally attacked drug kingpins and cartels.

The designation will allow the Justice Department to more aggressively go after the gang for violating racketeering, gun and tax laws, Mr. Sessions said in a speech in Philadelphia.

MS-13, short for Mara Salvatrucha, is comprised mostly of immigrants from El Salvador and their offspring. Mr. Sessions' move has designated it a priority for the Justice Department's Organized Crime Drug Enforcement Task Forces.

Justice Department officials said the designation would allow a variety of law-enforcement agencies to better coordinate and target the gang.

MS-13 has focused most of its energy on such activities as human trafficking, prostitution and extortion, rather than drug dealing.

But Mr. Sessions said he believed the gang's willingness to engage in extreme acts of violence and retaliation justified designating it a priority for the drug-enforcement task forces.

—Del Quentin Wilber

### CALIFORNIA

#### State Senate Orders Harassment Probe

California's Senate is taking steps to address reports of a culture of sexual harassment within the Sacramento capital community, a move that highlights the ripple effects of the sexual-harassment allegations that have engulfed Hollywood.

The Senate has hired Law Offices of Amy Oppenheimer, which specializes in workplace investigations, to probe allegations of sexual harassment and assault, Senate President Kevin de León said Monday.

The Senate also hired a workplace-consulting firm, CPS HR Consulting, to review Senate policies and practices against "harassment, discrimination and retaliation," it said.

More than 140 women in Sacramento's political community last week signed a letter, first published in the Los Angeles Times, outlining what they called a pervasive culture of sexual harassment and intimidation in California's state capital.

The letter came amid the fallout from sexual-harassment and assault allegations against film mogul Harvey Weinstein, who was fired earlier this month from the company he co-founded after the allegations became public.

—Nour Malas

## FUND

Continued from Page One  
owned Saudi oil company.

Behind the scenes, however, it faces turmoil.

After the Saudi fund invested \$3.5 billion in Uber last year, the car-hailing company's fortunes dimmed when its chief resigned under misconduct allegations. At the same time, the investment gave Uber help in trying to undercut a local company that was a successful investment for the fund.

More recently, the fund's chairman has been pushing back against parts of a deal with the biggest PIF partner, SoftBank Group Corp., that could cut Uber's value, which would force the Saudi fund to take a loss.

A spokesman for the fund didn't respond to specific questions about its investments.

The move into startups is a shift for a fund that spent four decades backing only domestic interests including banks and a money-losing fish farm.

That changed in 2015, after Saudi King Salman charged his then-30-year-old son, Prince Mohammed bin Salman, with weaning the country off oil. The prince led a strategy that would sell stock in the Saudi state oil company to fund investments in nonoil sectors.

Saudi Arabia's broader shift from petrostate to a high-tech

company. It recently started shipping, but the delay allowed Amazon.com Inc. to beat it into the Gulf market. Representatives for Noon didn't respond to requests for comment.

BANDAR AL-JALOUD/AGENCE FRANCE PRESSE/GTY IMAGES

Prince Mohammed last year also met with Uber's then CEO Travis Kalanick—whom he subsequently called "a friend"—and this led to another big deal for the fund.

Talks originally involved the fund investing \$1.5 billion in Uber, said people familiar with the matter. But Prince Mohammed wanted control and information, so demanded a board seat.

In exchange for a \$3.5 billion investment, Uber agreed to put the fund's chief, Yasir al Rumayyan, on its board, according to the people.

Mr. Kalanick later came under fire for Uber's flouting of local regulations and for employees' claims he fostered a culture that allowed men to harass women. Mr. al Rumayyan pushed to keep the CEO, said people familiar with the matter, but investors forced him to resign.

At the time of his resignation, Mr. Kalanick said he accepted the investors' request to put aside so Uber could "go back to building."

The Uber deal also worked against the kingdom's most successful homegrown tech firm, which the fund backed before Prince Mohammed's Uber splurge. Taxi-app maker Careem, started in Saudi Arabia in 2013, was on its way to generating paper returns in excess of 50 times the initial investment for the venture capital arm of Saudi Telecom, which is majority owned by the fund.

Careem had little competition until 2014, when Uber launched in Riyadh. Uber, willing to lose money to take market share, undercut Careem on price, according to people familiar with the situation. Uber also announced that it hired a Saudi princess as an adviser, then received the \$3.5 billion Saudi investment. Careem officials remain disappointed—and "baffled," one executive said—that the fund would tilt the scales in favor of its rival.

economy is also untested, amounting to a bet that Saudi money managers can get better returns than the world's most productive oil fields.

Prince Mohammed began making investments soon after unveiling his 2015 plan—before hiring experienced international investors, and before the fund determined its holdings' value. Poor accounting made it difficult for Saudi officials and foreign consultants to calculate

the fund's value, according to a fund official and a person briefed on the effort to audit it.

"More than \$200 billion and less than \$300 billion," said one senior official at the fund earlier this year.

"One-hundred-eighty to \$200 billion," estimated a government minister involved in the fund's oversight.

A person briefed by the fund said it recently determined a "fairly definitive" value, but declined to detail it.

Some holdings lacked Western governance standards, said a person briefed on an audit of the fund by Ernst & Young. "Although they do have audited financial statements, they're not necessarily the right figures," this person said.

The accounting challenge stems from rapid growth in the fund, said officials with the fund. But others trace it to the central decision-making role of Prince Mohammed, rather than professional investors.

A spokesman for the Saudi royal court didn't respond to questions about the fund and the prince's role in it.

The fund committed \$500 million last year to Dubai-based e-commerce startup Noon.com, which promised to offer 20 million products by last January.

By May, when Noon still hadn't launched, it fired most staff including its CEO, said people familiar with the com-

## CORRECTIONS & AMPLIFICATIONS

A photo of Merck KGaA headquarters incorrectly accompanied a Business & Finance article Monday about Merck & Co. layoffs.

The U.S. dollar conversion for €60 billion was \$70.9 billion, using data from late New York trading on Friday, Oct. 13.

A Page One article on Monday, Oct. 16 about central bankers'

concerns about inflation incorrectly stated the conversion as \$79.7 billion.

Archer Daniels Midland Co. is 115 years old. A Journal Report article on Oct. 16 about the global food sector misquoted the company's CEO, Juan R. Luciano, as saying the company had been around for 150 years.

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## U.S. NEWS

# Hackers Target Schools

Some districts bet it is cheaper to surrender and pay up, going against FBI advice

BY TAWNELL D. HOBBS

Hackers looking to exploit sensitive information for profit are increasingly targeting the nation's schools, where they are finding a relatively weak system to protect a valuable asset: student data.

Cyberthieves have struck more than three dozen school systems from Georgia to California so far this year, stealing paychecks and data or taking over networks to extort money. The thefts have prompted many school officials to hire cybersecurity consultants to fight back against a trend that experts say is growing fast.

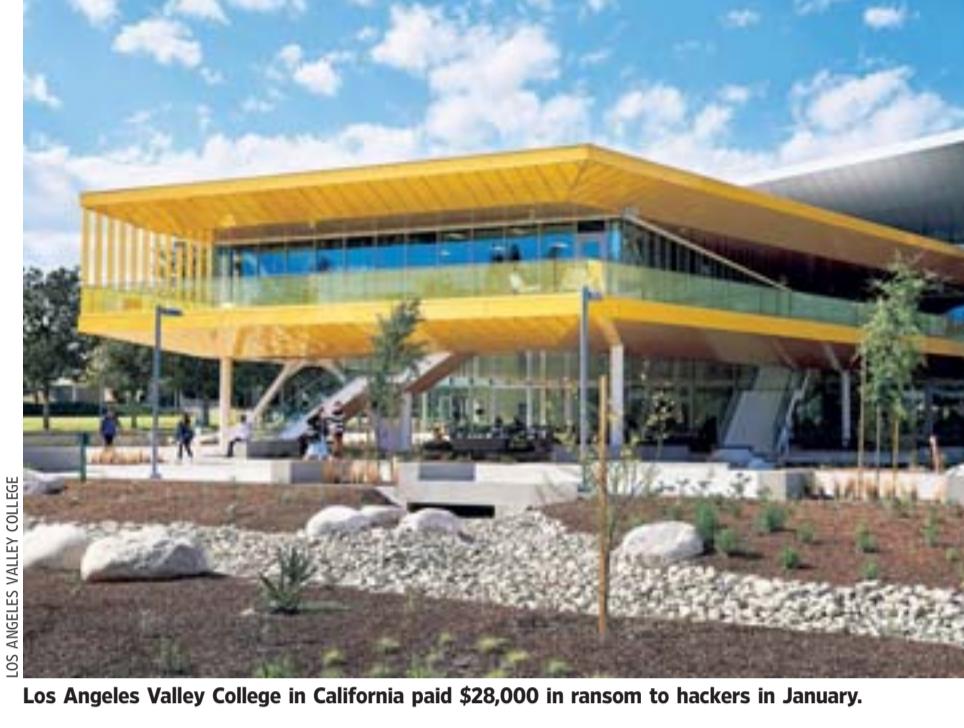
The attackers have gained access to servers containing student names, addresses, Social Security numbers, birth dates, academic performance, phone numbers and medical and discipline records—in some cases releasing data in an escalating series of demands and actions. A few districts, betting that surrender would be cheaper and easier than defeating a hack, have gone against Federal Bureau of Investigation advice and paid off the hackers.

"They know that cyber craziness is not our game, and they are winning," said Laura Sprague, a spokeswoman in the Johnston Community School District in Iowa, where hackers this month publicly released student information. "These groups are targeting some of the most vulnerable people in the nation—kids."

Cyber experts say as schools rush to ramp up the use of technology in the classroom, they haven't done enough to protect an easily monetized trove of data on students.

"Bad guys can use that information to create fake identities and things like that, and that information can be sold on the black market for a lot of money," said Zuly Gonzalez, a former cybersecurity expert with the National Security Agency and chief executive officer of Light Point Security in Maryland.

In 2016, the FBI's Internet Crime Complaint Center received 2,673 complaints from various entities including schools for ransomware, which locks up networks, with victim



Los Angeles Valley College in California paid \$28,000 in ransom to hackers in January.

### Districts Bolster Their Defenses

School districts are responding to the increase in hacks by bringing in security experts, investing in cyber insurance and getting employees trained in computer security.

Dorchester School District Two in South Carolina beefed up schools' security after being hacked. The district paid a \$5,000 deductible in an insurance claim, which covered the \$2,900 ransom and just over \$150,000 for legal fees, consulting costs and personnel costs to

rebuild some databases destroyed in the hack.

Some school districts have spent thousands to reimburse employees whose direct deposits were rerouted by hackers, including Atlanta Public Schools where 27 employees had a combined \$56,000 stolen in such a scheme last month.

At Fulton County Schools in Georgia in August, thieves tricked 46 employees into providing login credentials via phony emails and then used that information to route direct deposits onto reloadable money cards. About \$75,000 was lost, with the district recouping about \$3,400 by reversing some transactions. The

district reimbursed its employees.

Cyber experts say schools need to be proactive in the rush to go digital, such as having antivirus software up-to-date, backup files, and providing computer security training.

"We're rushing to connect everything while we know that even for the most sophisticated technology companies in the world that they're vulnerable, and schools don't have a chance in that context," said Douglas A. Levin, president of EdTech Strategies LLC, a Virginia-based research and consulting company focused on education and technology. "It's really a nightmare."

—Tawnell D. Hobbs

losses of \$2.43 million—up from \$1.62 million in 2015. For extortion cases, where thieves target sensitive information for payment, losses increased by 7% to \$15.8 million last year.

Hackers gain access in various ways, including from users opening infected emails, links or programs. Affected schools have lost tens of thousands of dollars either by fighting back against attacks, reimbursing stolen paychecks, providing credit-monitoring services for victims, or paying the hackers.

Los Angeles Valley College in California paid \$28,000 in ransom to hackers in January. Dorchester School District Two in South Carolina paid \$2,900 in July. In 2016, Horry County Schools in South Carolina paid nearly \$10,000.

School districts in Atlanta, Boston and Georgia's Fulton County each had payroll checks stolen this year after hackers rerouted employee direct-deposits into unauthorized accounts.

The FBI warns against paying ransom, saying it is a risky strategy that could encourage future attacks.

"We don't condone the payment of ransom. However, we understand that certain business decisions have to be made," said Lauren Hagee, a spokeswoman with the FBI's Dallas division.

School officials who paid up say they had little choice.

"If we decided not to pay, it would virtually guarantee our data would be lost," said Los Angeles Valley College spokesman Jennifer Fong Borucki.

After paying, "we're back up and running," she said.

Charles Hucks, Horry County's executive director of technology, said its nearly \$10,000 payment to hackers pales in comparison to each day it didn't have access to files and content created by 43,000 students and 4,000-plus faculty and staff.

In the Splendora Independent School District in Texas, where hackers are threatening to release student information, physical security has been beefed up but parents are on edge.

"My kid has to go there," said parent Tiffany Autrey. "I'm just trying not to think about it too much. If I do, I'll just start to worry."

# Trump's Remarks Forestall Fair Hearing, Lawyers Argue

BY NANCY A. YOUSSEF

FORT BRAGG, N.C.—Defense lawyers for Army Sgt. Bowe Bergdahl argued Monday that he shouldn't be sent to prison because President Donald Trump's latest comments on the case make it impossible for the former Taliban captive to receive a fair sentence.

Army Col. Jeffrey Nance, the military judge handling Sgt. Bergdahl's court-martial and now sentencing phase, said he would rule on whether the president's latest statements about the case could be seen as "undue command influence."

Military law defines undue influence as occurring when a commander exerts influence over the action of a court in reaching the findings or the sentence in any case. That definition encompasses the U.S. president, who is commander-in-chief of the U.S. armed forces.

Col. Nance previously has ruled that Mr. Trump's comments during the presidential campaign—when he called Sgt. Bergdahl a traitor—didn't constitute undue command influence. On Monday, he noted that Mr. Trump's statements during an Oct. 16 news conference were made while president, not as a candidate. Because of that, the public could conclude that Sgt. Bergdahl can't get a fair sentence, Col. Nance said.

During the Oct. 16 Rose Garden news conference with Senate Majority Leader Mitch McConnell (R., Ky.), Mr. Trump was asked whether he believed his past comments affected Sgt. Bergdahl's ability to receive a fair trial.

Mr. Trump, a Republican, said he couldn't comment on



U.S. Army Sergeant Bowe Bergdahl, right, arrived at the courthouse at Fort Bragg, N.C., on Monday.

the case, then added: "But I think people have heard my comments in the past."

Sgt. Bergdahl, 31 years old, had pleaded guilty that day to misbehavior before the enemy and desertion when he walked away from his post in Afghanistan on June 30, 2009. The misbehavior charge carries a

get in, I will review his case."

Sgt. Bergdahl has said he left his post in 2009 to go to another outpost, where he wanted to raise concerns about his chain of command. He was captured by militants and held more than five years, suffering repeated torture.

Col. Nance spent most of an hour-long hearing Monday questioning the prosecution about whether Mr. Trump's assertion that the public knew his position on the case would affect views of Sgt. Bergdahl's ability to receive a fair sentence.

The prosecutor, led by Army Maj. Justin Oshana, argued that Mr. Trump's latest comments on the case shouldn't lead the judge to reconsider his previous rulings and that there was no way to draw a definitive conclusion from Mr. Trump's latest comments.

"It's not as simple as, 'Can we figure out what Donald Trump thinks?'" Maj. Oshana said.

maximum life sentence; desertion brings a maximum five-year sentence.

During Monday's session, the defense played a video clip of Mr. Trump's news conference, followed by a second clip of Mr. Trump, when he was a candidate, calling Sgt. Bergdahl a traitor and vowing: "If I

### Wisconsin Eyes Halting M.B.A. Program

BY KELSEY GEE

Officials at the Wisconsin School of Business have proposed suspending admissions to its full-time master's in business administration program for a year.

At a time when students want shorter, more targeted degrees, the school at the University of Wisconsin-Madison may become the latest to discontinue its flagship M.B.A. program. The University of Iowa's Tippie College of Business and Wake Forest University's business school have also ended their full-time M.B.A. programs recently, citing flagging student demand.

The proposal has touched a nerve with students and alumni, who say a vote to halt M.B.A. admissions at Wisconsin, one of country's oldest business schools, could effectively end the program.

Hundreds of the business school's students and staff assembled Monday for a town-hall meeting with Dean Anne Massey, attendees said. Originally scheduled for 45 minutes, the meeting stretched to nearly two hours as students questioned the dean about potentially cutting the program.

Faculty are scheduled to vote on whether to halt M.B.A. admissions in early November as part of a wider review of the school's programs.

In a posting on its website Monday, the school said its portfolio review was prompted by competing demands for resources and "a changing market for graduate business education."

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## U.S. NEWS

# Where Unpredictability Could Hurt Trump



### CAPITAL JOURNAL

By Gerald F. Seib

Donald Trump warned us. During the 2016 presidential campaign, then-candidate Trump advertised that he would be unpredictable, and, in fact, saw unpredictability as a strategic asset. In his campaign-season book "Crippled America," he wrote: "I don't want people to know exactly what I'm doing—or thinking. I like being unpredictable. It keeps them off balance." He said a business associate described unpredictability as "one of my better qualities."

Later, in a television interview, he went further. He was asked whether voters had a right to know whether he would go so far as to bomb Iran's nuclear facilities. "No, they don't," Mr. Trump replied. "The voters want unpredictability."

Now the more pertinent question is this: When does unpredictability serve a president, leaving him flexibility while keeping his opponents off guard, and when does it turn into a liability, leaving friends convinced they can't count on him and enemies potentially miscalculating his true intentions?

"Unpredictability can be occasionally helpful," says Kenneth Duberstein, who



ELIAN VOLICER/ASSOCIATED PRESS

President Donald Trump waves after signing an executive order on health care in the White House's Roosevelt Room this month.

served as Ronald Reagan's White House chief of staff. "But it can't be an operating management style."

The question arises most immediately because of Mr. Trump's U-turns in the past two weeks on health care, which has left fellow Republicans baffled about his bottom line. Two weeks ago, he ended subsidies the federal government had been paying to insurers to help them absorb the cost of policies for low-income Americans.

Then, last Tuesday, he appeared to support a biparti-

san deal being worked out by Republican Sen. Lamar Alexander and Democratic Sen. Patty Murray that would continue those subsidies. Mr. Trump said the White House was involved in the negotiations, and he seemed to bless the compromise, saying "they're coming fairly close to a short-term solution."

Finally, 24 hours later, Mr. Trump pulled the plug on his backing of the deal, saying in a tweet: "I can never support bailing out insurance companies that have 'made a fortune' under Obamacare."

Lawmakers in both parties are perplexed. Could the

president accept a plan that continues the insurance subsidies or not? Is it worthwhile for Sens. Alexander and Murray to continue their efforts, or would the president try to block Republican backing and ultimately veto a deal?

One guess among Republicans is that Mr. Trump simply misread the situation and didn't realize Alexander-Murray was hitting a lot of resistance from conservatives, whose support is going to be crucial for getting a tax-cut plan across the finish line. Mr. Trump badly wants a health deal but not at the

price of jeopardizing his cherished tax overhaul.

It was left for White House budget director Mick Mulvaney to say over the weekend that the Alexander-Murray effort doesn't go "far enough yet" in making other changes Republicans

want. One Republican veteran described the back-and-forth as an example of "unplanned unpredictability."

It's clear that Mr. Trump thinks that, in most cases, being unpredictable is better than being transparent, especially when trying to keep enemies abroad guessing about American intentions.

At home, it's harder for his opponents to work around him if they aren't sure exactly where he will plant his flag, and less likely they'll try to bulldoze over him if they think there's a chance he'll shift to their side.

Because Mr. Trump has no fixed ideology, he sees no need to defend a position simply on philosophical grounds. Instead, he maintains maximum flexibility to close a deal in the end.

"He has a lot of flexibility in his own mind," says John Feehery, who served as a top aide to former House Speaker Dennis Hastert.

"There's a lot of ideological flexibility there. But the American people have a lot of ideological flexibility too."

Domestically, the danger is that lawmakers start to simply ignore what Mr. Trump says because they don't think they can count on it. Internationally, the danger is that opponents miscalculate because they don't know where bluster ends and bottom-line reality begins. That seems a real danger right now in the tensions with North Korea.

President Barack Obama learned the price of unpredictability in foreign policy in at least one important case. He warned publicly that Syria's use of chemical weapons in its civil war would cross a red line for him, prompting retaliation. When that red line was crossed, Mr. Obama failed to act, creating doubts about American reliability that lingered through his presidency.

As that suggests, in national security, steady-as-she-goes may be preferable to you-never-can-be-sure.

## WASHINGTON WIRE

### DISASTER RELIEF

#### Senate Bill Would Assist Puerto Rico

The Senate pressed ahead on a \$36.5 billion hurricane-relief package that would give Puerto Rico a much-needed infusion of cash.

The measure also would replenish dwindling emergency disaster accounts and provide \$16 billion to permit the financially troubled federal flood-insurance program to pay an influx of Hurricane Harvey-related claims.

The bill rejects requests from the Texas and Florida congressional delegations for additional money to rebuild after hurricanes Harvey and Irma. After a procedural vote Monday a final vote on the bill is expected no later than Tuesday.

—Associated Press



DECORATED: Retired U.S. Army Capt. Gary M. Rose, a Special Forces combat medic during the Vietnam War, received the Medal of Honor from President Trump at the White House on Monday.

imposed travel bans on, and froze assets of, dozens of Russian officials. Mr. Magnitsky died in jail after accusing Russian officials of stealing government money in a tax-fraud scheme.

Mr. Browder said on Monday he was checking in for flight to the U.S. on Sunday when he discovered his visa had been revoked. He said it was denied because Russian President Vladimir Putin had issued "an abusive Interpol arrest warrant for me."

Mr. Browder said he believed his visa was revoked by "an au-

tomatic process" in the U.S., and he didn't think this was an active attempt by President Donald Trump's administration to bar him from entering the U.S.

Senate Armed Services Committee Chairman John McCain (R., Ariz.) and Maryland Sen. Ben Cardin, the top Democrat on the Foreign Relations Committee, said Mr. Browder was a "strong advocate for anticorruption efforts" and Homeland Security should immediately review the decision.

—Associated Press

## Trump Promises 'No Change' To 401(k) in Big Tax Overhaul

BY RICHARD RUBIN

WASHINGTON—President Donald Trump pledged Monday to protect a popular retirement-savings program, promising to leave it untouched in the forthcoming GOP plan to overhaul taxes.

Mr. Trump, in a tweet, shot down an idea that had been circulating in Washington policy circles and worrying the retirement-savings industry: limiting pretax contributions to retirement accounts.

"There will be NO change to your 401(k)," the president wrote on Twitter. "This has always been a great and popular middle class tax break that works, and it stays!"

Mr. Trump's comments point to a challenge he and fellow Republicans face as they race to write and pass a tax plan: They have ambitious targets for rate cuts and a self-imposed \$1.5 trillion limit on the size of the tax cut over the decade.

Those guidelines have propelled them to look for large tax breaks they can limit or repeal and to seek budgetary maneuvers that shift the timing of tax revenue into the period measured by congressional scorekeepers.

The proposal to cap 401(k)

contributions at as little as \$2,400 a year and push additional savings into so-called Roth-style accounts where posttax dollars go in and money comes out tax-free in retirement was a combination of both. Much of the revenue it generated would have come from accelerating tax collections from the future into the near term.

*This has always been a great and popular middle class tax break that works.*

But even a few days of chatter showed the concept's unpopularity, especially at the \$2,400 level. By foreclosing changes to 401(k) plans, Mr. Trump again positioned himself in favor of a broadly enjoyed tax break.

Mr. Trump's decision to weigh in on a still-forming proposal showed how he can alter the legislative process, but it is Congress, not the president, that is putting the details together.

Presidents have a right to

make determinations and we ought to pay attention to it, but there are some things he shouldn't be shooting down," said Senate Finance Chairman Orrin Hatch (R., Utah), who said he didn't like the potential 401(k) limits. "He can make his moves, but we're going to do things up here that might be a little bit different and that might be one where we have to say we disagree."

Other parts of the tax plan that the president and congressional Republicans support would deliver significant benefits to households at the top of the income scale.

"I plan to hold President Trump to his word that he and congressional Republicans will not put forward any plan that taxes the retirement savings of American families," Rep. Richard Neal of Massachusetts, the top Democrat on the House Ways and Means Committee, said.

Lobbyists and others in the retirement and financial-services industries who had spoken to congressional staff said last week that lawmakers are looking at proposals that would allow 401(k) participants to contribute significantly less before taxes than what is currently allowed.

## AMAZON

Continued from Page One  
ments, credits and rebates.

"Few companies have the swagger, the wherewithal to do a high profile site selection like this," said John Boyd, principal and site-selection expert at The Boyd Co. Inc.

"Clearly, this is a very special, special case."

The last time site selection has seen something remotely comparable to this process was in the late 1980s, when General Motors Co. had governors going on TV to market their states for a car-manufacturing plant, Mr. Boyd added.

Massachusetts released a proposal last week separate from Boston's, touting the state's higher education network—125 colleges and universities—and Amazon's existing operations there, which include warehouses and an office focusing on robotics.

New York City said that it

was proposing four different locations: Midtown West, Long Island City, the Brooklyn Tech Triangle and lower Manhattan, all of which meet Amazon's prerequisites.

"We see this as a competition for 50,000 new job openings—jobs we want New Yorkers to land," Mayor Bill de Blasio said in a statement last week.

Washington, D.C., in comments released last week, proposed four sites, touting last year's No. 1 restaurant-city ranking in Bon Appétit, as well as its 2014 "Coolest City" title from Forbes. Amazon founder and Chief Executive Jeff Bezos, who also owns the Washington Post, bought a home there last year for \$23 million.

In recent weeks, would-be competitors have tried to grab Amazon's attention with stunts including New York lighting up its iconic buildings in the company's signature orange and southern Arizona attempting to send Mr. Bezos a 21-foot cactus. (Amazon ar-



Cities including New York, Boston, Atlanta, Nashville, Tenn., and Austin, Texas, have applied for the new corporate site for Amazon.

ranged for it to be donated.)

Some cities and states are proposing big incentives. Newark, N.J., last week said it would offer a potential package of \$7 billion over a decade.

Still, it is unclear where Amazon might land. "I don't think any one market fits everything. It's going to be a balancing act of the various attributes," said Dave Bragg, a managing director at Green Street Advisors, a Newport

Beach, Calif., firm that conducts real-estate research.

Amazon has increased its workforce from a few thousand to more than 40,000 over the past decade. And it is still planning to add 2 million square feet and 6,000 people in Seattle in the next 12 months.

While Amazon continues to grow in Seattle, experts say it would be difficult for the company to essentially double its footprint there. In addition,

hiring thousands more software developers will almost certainly be cheaper and easier in a different city, they say.

Amazon has said that it will give its team leaders the choice of staying in Seattle, relocating or being based out of both locations.

The weeks leading up to the deadline included some applications from potentially unlikely candidates. Puerto Rico bid even as much of the island remains without electricity following Hurricane Maria. Some Native American reservations also applied.

Nearly a dozen Canadian cities have submitted bids, including a joint effort from Toronto and Waterloo as well as bids from Hamilton, Vancouver and Ottawa.

While the Toronto-led bid didn't include any tax incentives, it appears to be Canada's best bet in landing the tech giant's second headquarters, highlighting the region's access to local talent, a strong immigration policy and how

the country's health-care system could save Amazon another \$600 million a year.

According to Amazon's map, bids came from three Mexican states: Chihuahua, which borders Texas and New Mexico, Hidalgo and Querétaro.

Four of the U.S. states that didn't bid—North and South Dakota, Wyoming and Vermont—don't have one million people. Two more that didn't bid, Montana and Hawaii, aren't far above that mark.

Arkansas, home to Amazon's biggest competitor, Wal-Mart Stores Inc., was also absent from bidding. Little Rock last week launched a new, economic-development campaign with an ad and a banner over Seattle that said, "Hey Amazon, it's us, not you."

"We decided that we would break up with them before they broke up with us," Little Rock Mayor Mark Stodola said in an interview last week.

—David George-Cosh and Robbie Whelan contributed to this article.

## U.S. NEWS

# Iowa Won't Redo Health Law After Federal Demands

BY ANNA WILDE MATHEWS

Iowa is withdrawing its application for an ambitious program to reshape the Affordable Care Act after federal officials laid out tough conditions for its approval, a decision that signals limits to states' efforts to alter parts of the health law.

Iowa had applied for federal permission to move forward under a provision of the ACA that allows states to waive certain parts of the law. Though the Trump administration initially signaled it welcomed such initiatives, states have recently gotten mixed results for their applications. The founders of Iowa's much-watched effort will likely be seen as another caution flag as other states consider their own future proposals.

Separately, federal officials said a Massachusetts waiver application was incomplete and couldn't be approved fast enough.

Iowa officials had said they wanted to repair an ACA exchange that is down to just one insurer next year, Medica. The company is increasing average premiums by around 57%, due partly to the Trump administration's cutoff of federal cost-sharing payments to insurers.

Iowa's governor, Republican Kim Reynolds, faulted the 2010 health law for Iowa's individual insurance market problems and the failure of the waiver application, and she called the ACA "unworkable."

Around 72,000 Iowans currently buy individual plans, either through the exchange or outside it. The state's waiver application suggested that as many as 22,000 might drop out of the market if the status quo continued. However, patient groups said the Iowa program, if implemented, could

hurt lower-income ACA enrollees.

The Centers for Medicare and Medicaid Services, a federal agency, in a letter on Thursday to Iowa officials detailed limits on the federal funding that could be available to support the state's program, based on the ACA's rules. Iowa would have to "ensure sufficient funds, on an annual or other appropriate basis," according to the letter.

The response came days before enrollment for 2018 plans is set to start, on Nov. 1. Iowa Insurance Commissioner Doug Ommen, a Republican, said Monday that the Treasury Department signaled it couldn't give the state a final projection on the money available for several more weeks.

A spokesman for the Department of Health and Human Services responded to a request for comment by referring to a joint statement criticizing the ACA that was attributed to both Gov. Reynolds and CMS Administrator Seema Verma.

A bipartisan bill that has been introduced in the Senate would somewhat bolster the flexibility of the waiver review process, but the fate of that bill is uncertain amid mixed signals from the Trump administration.

The Iowa setup would have offered just one type of insurance plan in the individual market and reshaped the subsidies that help people buy coverage, among other big alterations to the infrastructure of the ACA. Iowa's largest insurer, Wellmark Blue Cross and Blue Shield, had said it would reverse its plans to exit from the state's individual market and would instead sell plans in every county next year if the state won approval for its proposal.



Sens. Patty Murray, left, and Lamar Alexander, architects of the bill, on Capitol Hill last week.

# Pence Vets Warsh as Potential Fed Chief

BY PETER NICHOLAS AND KATE DAVIDSON

Kevin Warsh, a candidate for the Federal Reserve chairmanship, met with Vice President Mike Pence last week to talk about the central-bank job, according to a White House aide.

Mr. Warsh visited Thursday—the same day Fed Chairwoman Janet Yellen was in the Oval Office interviewing for the same job with the president. Ms. Yellen's term as Fed chairwoman expires in early February.

Mr. Warsh has been part of a small group of senior White House officials who have been vetting candidates for the world's most powerful central-banking job.

The president has narrowed his search to five candidates, telling reporters Monday he is "very, very close" to a decision. In an interview with Fox News on Friday, he named Ms. Yellen, Fed governor Jerome Powell and John Taylor, a Stanford University economics professor, as favorites.

Mr. Trump has talked to all five about the job, interviewing Mr. Warsh last month. Mr. Pence also has interviewed Messrs. Taylor and Powell, a White House official said. Mr. Trump's top economic adviser, Gary Cohn, is also a candidate.

Mr. Warsh is a former Morgan Stanley executive who served on the Fed board from 2006 to 2011.

Advocates say Mr. Warsh would tolerate the faster economic growth Mr. Trump has promised to achieve through tax cuts and looser regulation without raising rates too quickly, though as a Fed governor after the financial crisis he argued against easy-money policies that were meant to support growth.

## GOP Faces Decision on Backing Bipartisan Senate Health Deal

BY STEPHANIE ARMOUR

Republicans returning to Washington will decide in coming days whether to embrace or set aside a bipartisan health bill that has gained traction in Congress, a decision potentially made harder by President Donald Trump's statements praising the effort but opposing the bill itself.

Senate Minority Leader Chuck Schumer (D., N.Y.) said on Sunday the bipartisan bill's support includes all 48 Senate Democrats as well as the 12 publicly committed Republicans, enough to overcome any filibuster. Senate Majority Leader Mitch McConnell (R., Ky.) said he would bring the bill to a vote if it is clear Mr. Trump will sign it.

But that remains far from certain, given Mr. Trump's recent comments on the plan from Sens. Lamar Alexander (R., Tenn.) and Patty Murray (D., Wash.). The proposal would bolster the Affordable Care Act by providing payments to insurers to help off-

set the costs of providing subsidies to some low-income consumers, while giving states more flexibility in implementing the 2010 health law.

Some GOP lawmakers have been talking with Mr. Trump in hopes he will decide to support the proposal, likely in exchange for some tweaks. On Tuesday, Mr. Trump is sched-

*Bill has the support to pass, but Trump's opposition could prevent a floor vote.*

uled to appear at Senate Republicans' weekly luncheon.

Mr. Trump sounded supportive of the deal initially but later signaled opposition. A White House spokesman has since said the president could only support a bipartisan agreement if it includes a series of conservative provisions.

A new one-page paper from

the White House, circulating on Capitol Hill on Monday, outlined administration demands such as ending, this year, the requirement that most people have health insurance or pay a penalty, as well as halting penalties on larger employers who don't provide health coverage.

The administration is also demanding that Americans have more access to short-term insurance plans that offer fewer benefits, as well as so-called association health plans that can be exempt from some ACA requirements.

It is unlikely Democrats would support significant changes that further roll back the ACA. Democrats have said such actions would erode the main goal of the ACA of expanding insurance coverage. Ending the requirement people have insurance would likely raise premiums for older and sicker consumers, they say.

Many Democrats are pressuring Mr. McConnell to bring the bill to the floor quickly in its current form.

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# WORLD NEWS

## After Win, Abe Turns to Economy

Victory at polls puts Japanese leader in position to tackle long-term challenges

By PETER LANDERS  
AND STEVEN RUSSOLILLO

TOKYO—Prime Minister Shinzo Abe said he would tackle some of the Japanese economy's deeper structural problems after his coalition scored a convincing victory in parliamentary elections.

A relatively strong economy and higher stock prices helped Mr. Abe's ruling coalition win more than two-thirds of Parliament's lower house in Sunday's voting. Investors cheered the result by driving Tokyo's benchmark stock average on Monday to a record 15th straight day of gains.

But Mr. Abe faces longer-term challenges for Japan's economy, including an aging society and productivity that trails other leading nations.

Mr. Abe said on Monday that he would push to make preschool education free for all families and higher education free for all who need it, lifting a page from the policies pushed by his left-leaning opponents in a bid to encourage larger families.

"The key to sustainable growth in our country is our response to aging and the low birthrate," he said. "It is the biggest challenge for Abenomics."

Mr. Abe is also likely to move ahead with labor legislation that was delayed by the election. The package of bills aims to reduce excess overtime and encourage equal pay for temporary workers who often receive less than full-time counterparts for doing similar work.

One of the proposed changes would eliminate mandatory overtime pay for certain professional workers. Officials in Mr. Abe's government say it would make it easier for people like con-



Prime Minister Shinzo Abe, above in Tokyo on Saturday, said Monday that the biggest challenge to Abenomics is Japan's aging.

sultants and financiers to be paid as they are in the U.S.

Opponents, including labor unions, say it could pave the way for long work hours without compensation, running counter to the aims of Mr. Abe's overhaul.

The election also pointed to one of the areas where Mr. Abe has fallen short on an oft-stated promise of Abenomics. He has said he wants women to occupy 30% of positions of responsibility in Japanese organizations, but only 47 women were elected to the 465-seat lower house, with a handful of seats left to be determined, according to public broadcaster NHK.

Mr. Abe said he would go

ahead with an increase in the national sales tax to 10% from 8% planned for October 2019. While that is likely to reassure fiscal hawks, the additional spending on education left some concern, said Morgan Stanley MUFG Securities economist Robert Feldman.

Mr. Abe's election stance "represented a modest shift toward larger government, with no clarification of how fiscal reform would be achieved," said Mr. Feldman in a note to clients. "Investors will be left confused on the direction of economic policy until the new government clarifies its stance."

Another concern hanging over the market is tension

with North Korea, which has fired two missiles over Japanese territory in recent months. Mr. Abe on Monday spoke by phone with President Donald Trump, who is visiting Japan as the first stop on his Asian tour next month.

The two leaders plan to play golf with Japanese professional Hideki Maruyama before turning to intensive talks on North Korea, officials in Tokyo said.

Mr. Abe will soon have to decide whether to reappoint Bank of Japan Gov. Haruhiko Kuroda or name a successor when Mr. Kuroda's term expires in April. Either way, markets expect the major portions of the central bank's ul-

tra-easy monetary policy, including its annual ¥6 trillion (\$53 billion) of purchases in exchange-traded stock funds, to continue.

Takahiro Sekido, Japan strategist with Bank of Tokyo-Mitsubishi UFJ, said he believed the BOJ would continue its stock-fund purchases, "which will be a big supporting factor."

Recent moves suggest the BOJ has begun to taper its purchases of Japanese government bonds, and Mr. Kuroda or his successor will have to determine how far to lag the Federal Reserve in tightening policy.

—Suryatapa Bhattacharya contributed to this article.

RODRIGO REYES MARIN/AFLO/ZUMA PRESS

## WORLD NEWS

# Tillerson Visits Afghans, Iraqis To Bolster Ties

Rex Tillerson made his first trip as secretary of state to Iraq and Afghanistan, secretly jetting in and out of countries where U.S. troops and local forces are trying to stop Sunni Muslim militant groups threatening beleaguered governments allied with Washington.

By Paul Sonne in Doha, Qatar, and Craig Nelson in Kabul

Mr. Tillerson met the leaders of both nations, including Iraqi Prime Minister Haider al-Abadi and Afghan President Ashraf Ghani, on Monday during a broader tour through the Middle East and South Asia, which has included stops in Saudi Arabia and Qatar and will take him to Pakistan and India this week.

Mr. Abadi's government in Iraq and Mr. Ghani's in Afghanistan are relying on U.S. troops and aid to help them reassert control amid militant threats. In recent years, attacks by Islamic State in Iraq and the Taliban and Islamic State in Afghanistan have weakened governmental authority, leaving swaths of territory in the two countries outside government control.

At the same time, both coun-

tries are suffering from severe political divisions. An independence bid by the Kurds in Iraq has sparked tensions with Baghdad, while political discord in Afghanistan has undermined the effectiveness of Kabul's government amid heightened violence.

In Baghdad, Mr. Tillerson said the U.S. is "concerned and a bit saddened by the recent differences that have emerged between the Kurdistan Regional Government and the Iraqi government."

During his meeting with Mr. Tillerson in Baghdad, Mr. Abadi vowed to complete the liberation of Iraq from Islamic State and secure the country's borders, the Iraqi prime minister's office said.

Mr. Abadi also addressed his government's dispute with the Kurds, describing his recent decision to reassess control over disputed areas of the Kirkuk province by force as a necessary reimposition of state authority. He said Baghdad didn't want to go to battle with any component of the country "since all of them are our sons."

Mr. Tillerson's trip has focused heavily on marshaling support from others in the region to help stabilize Iraq and Afghanistan. Western officials



Secretary of State Rex Tillerson, center, on Monday stepped off a plane in Baghdad, where he met with Iraqi Premier Haider al-Abadi.

see improving ties between Iraq and Gulf Arab neighbors as a way to hedge against Iranian influence in the region.

The secretary of state met on Sunday in Riyadh with Saudi Arabia's King Salman and Iraq's Mr. Abadi, encouraging Saudi Arabia to play a bigger role in Iraq to counter Iran's growing influence there. On Tuesday, he is going to Pakistan and India, where he will outline ways they can play a more constructive role in Afghanistan.

Mr. Tillerson, speaking from

Bagram Air Field north of Kabul on Monday, where he touched down for meetings with top U.S. and Afghan officials for just under three hours, called Pakistan's cooperation in the fight against the Taliban critical to achieving stability in neighboring Afghanistan.

The U.S. has made "some very specific requests of Pakistan" to erode the Taliban's support, Mr. Tillerson said. He said the future of the U.S.'s relationship with Pakistan would be based on whether Islam-

abad takes the steps Washington has requested.

"In our conversations with Pakistani leadership, we are as concerned about the future stability of Pakistan as we are in many respects here in Afghanistan," he said. "Pakistan needs to I think take a clear-eyed view of the situation that they are confronted with in terms of the number of terrorist organizations that find safe haven inside of Pakistan."

Islamabad insists there are no remaining havens for Tali-

ban and other militants on its territory, and it calls for action against terrorists based in Afghanistan that attack Pakistan.

Mr. Tillerson said the U.S. would stay in Afghanistan until securing reconciliation and peace in the country, but he cautioned the Trump administration's approach didn't amount to an unlimited commitment.

—Isabel Coles in Baghdad  
and Felicia Schwartz  
in Washington  
contributed to this article.

# Infant Deaths Signal Worsening Aid Crisis in Syria

By RAJA ABDULRAHIM

Two malnourished children died over the weekend in a suburb of Syria's capital under government siege, and anti-government activists circulated photos showing their emaciated bodies near death, underlining the toll of the yearslong conflict.

One-month-old Obeida died of malnutrition on Saturday in the Damascus suburb of Eastern Ghouta, according to activists and a humanitarian group. Photos before his death showed his skin wrinkled around emaciated legs.

The next day, 1-month-old Sahar died from an infection and malnutrition, said Mohamad Katoub, advocacy manager with the humanitarian group, the Syrian American Medical Society.

Photos showed her with sunken eyes and visible ribs. The last photo posted was of her tiny grave.

The organization, founded by Syrian-Americans, supports hospitals and clinics in opposition-held parts of Syria, including Eastern Ghouta, as well as neighboring countries with large refugee populations.

Residents of the suburb say stockpiles of food and medicine have begun to run out as regime forces have tightened the siege in recent months and commercial shipments and aid convoys have become rare.

Residents said they fear the situation will worsen as government forces making steady gains against Islamic State elsewhere in Syria turn attention back to conquering the few areas still under opposition control.

"In another month or two we will see even more of an impact," said Nizar Madani, a surgeon in Eastern Ghouta.

Since 2016, antigovernment rebels have been forced to surrender many areas they once controlled—often through sieges and bombardments like the ones Eastern Ghouta is under.

In many places, such as the eastern half of the city of Aleppo, the areas were retaken by regime forces, and rebel fighters and tens of thousands of civilians were sent to northwest Idlib province, one of the last opposition strongholds in Syria.

Though a recent cease-fire



One-month old Sahar died on Sunday of malnutrition in a Damascus suburb, an aid group said.

deal was reached between rebels in Eastern Ghouta and the Syrian regime of President Bashar al-Assad, government forces continue to launch airstrikes on the suburb, local activist Anas Dauod said.

There are 68 other cases of severe malnutrition in the suburb, all in children under 5 years of age, said Mr. Katoub.

In a report released last month, the medical group said

there are at least 243 critical medical cases in need of evacuation from the suburb.

In addition to the two latest deaths, three other children have died while awaiting evacuations and a 9-year-old girl died while negotiations were under way, according to the report.

"Medicine has begun to run out," said Dr. Madani, who added that with the coming

winter the situation could become even more dire. "We are entering a very, very dangerous phase with regards to the hunger and siege."

The yearslong siege coupled with continuing clashes and airstrikes carried out by regime and Russian warplanes have crippled the economy of the farming suburb, once known as the capital's food basket.

## Damascus Suburb Has Been Under Siege Since 2013

Eastern Ghouta, home to nearly 400,000 people, has been under siege by Syrian regime forces since 2013.

Aid deliveries or medical evacuations to the area must be approved by the regime. The United Nations has previously said requests for access to certain besieged areas have been denied or blocked.

The last convoy to reach Eastern Ghouta, in September, included food and nutritional packets for 25,000 people for one month, said Ingry Sedky, a spokeswoman for the International Committee of the Red Cross.

Before that was another limited aid convoy in August. Each month, ICRC requests access to the suburb, but it isn't always granted. Both sides—the rebels and the regime—must agree to allow access and the safe passage of the aid convoy, she said.

—Raja Abdulrahim



Myeshia Johnson, the widow of Army Sgt. La David Johnson, at a graveside service on Saturday in Hollywood, Fla.

calling her late husband's name. Rep. Wilson has backed Ms. Johnson's statement.

Mr. Trump posted a Twitter message afterward, saying: "I had a very respectful conversation with the widow of Sgt. La David Johnson, and spoke his name from beginning, without hesitation!"

Gen. Dunford's meeting with reporters Monday also came against the backdrop of repeated complaints by lawmakers that the Trump administration hadn't been forthcoming about the incident. Sen. John McCain (R., Ariz.), chairman of the Senate Armed Services Committee, last week threatened to subpoena information, prompting Defense Secretary Jim Mattis to travel to the Capitol to brief Mr. McCain and Sen. Lindsey Graham (R., S.C.).

Lawmakers as well complained they didn't know about

the 800 U.S. troops in Niger, although American forces have been there for many years, and more steadily since a flare-up of extremist violence in neighboring Mali and Algeria in 2013.

Gen. Dunford disclosed Monday that an estimated 6,000 troops are engaged in missions in 53 African countries.

The 12-member patrol made up primarily of Army Special Forces, or Green Berets, accompanied 30 Nigerian troops on what Gen. Dunford said was a "simple reconnaissance mission" from the country's capital of Niamey to a village about 50 miles north. Two of the Americans killed were not Green Berets, but were attached to the unit.

The troops began their mission on Oct. 3, spent the night in the village, and were on their way back to their base the next day when the firefight

began in the middle of the morning, Gen. Dunford said. The troops came under fire from a variety of weapons including small arms and rocket-propelled grenades, he said.

It took an hour for the Americans to first request air support, according to initial investigations, Gen. Dunford said. Within minutes of that call, an American drone arrived on scene. The drone didn't fire at the militants, and Gen. Dunford declined to comment on whether the drone was armed or if it simply didn't fire and just provided intelligence and surveillance.

French pilots took 30 minutes to begin to respond to the emergency call and were on the scene another 30 minutes after that, he said. That put French jet fighters overhead some two hours after the first shots were fired, according to Gen. Dunford. The Pentagon previously said air support arrived in half an hour.

Once in the area, the French jets apparently didn't launch airstrikes against the dozens of suspected Islamic State fighters, although Gen. Dunford said there were no known limitations against action by the planes.

"I don't know why the Mirages didn't drop bombs during those initial passes," he said. "I don't know if the unit on the ground asked them to do that. Those are things we'll find out in the investigation."

French officials weren't immediately available for comment. The French pilots may not have felt they had adequate communication with ground forces in a chaotic setting, officials have said.

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## WORLD NEWS

# Catalonia Tensions Ensnare Police

By JEANNETTE NEUMANN  
AND GIOVANNI LEGORANO

BARCELONA—Catalan separatists on Monday called for massive civil disobedience amid the prospect of Madrid's temporary takeover of a police force and other institutions that are potent symbols of the region's autonomy.

Prime Minister Mariano Rajoy is set to deploy never-used constitutional powers in a bid to halt Catalonia's drive for independence. The prospect of unauthorized, prolonged protests in the region could provide an early test of whether Catalonia's police force, the Mossos D'Esquadra, would obey Madrid's orders after many of its officers resisted an order from a Spanish court to stop voters from participating in an independence referendum on Oct. 1.

"There is lot of respect for [the Mossos] in Catalonia," said Siân Edwards, a professor at Cardiff University in Wales. Control from Madrid "will be seen as an attack on Catalan institutions."

Lawmakers in Catalonia's regional parliament, where separatists hold a majority of seats, are set to meet on Thursday and some are calling for officials to unilaterally declare independence.

This Friday, Spain's Senate



Catalan President Carles Puigdemont, center, and police chief Josep Lluis Trapero review Mossos forces.

LUIS GEN/AGENCE FRANCE PRESSE/GTY IMAGES

will vote on Mr. Rajoy's request to remove Carles Puigdemont, the president of Catalonia and leader of the separatist movement, and his 13 cabinet members, including the Mossos leadership. Mr. Rajoy's center-right Popular Party has a majority in the upper house, so approval is widely expected. Madrid would start to administer Catalonia's institutions as soon as Monday, although it remains unclear how such a transition would occur. The premier

will seek to convene regional elections within six months and hand back control to a new Catalan leadership.

Such a move would be a blow to a region that enjoys significant power over its own institutions, controlling its education and health systems, as well as the Mossos.

The 17,000-strong Mossos force has risen in the estimation of some Catalans after the Barcelona terrorist attacks in August, when locals cheered its

work in tracking down several terrorists.

Pro-independence Catalans also cheered the Mossos over how they handled the referendum. Officials said the force would have caused more harm if it tried to use force to prohibit hundreds of thousands of Catalans from entering polling stations, pointing out that Mossos officers did seize ballot boxes and closed some voting places.

Indeed, Spanish national police clashed with voters, injuring

hundreds, regional officials said.

The contrasting views came into sharp focus Saturday, when protesters in Barcelona demonstrating in support of Catalan independence booted and made obscene gestures at a national police helicopter, then greeted officers from the region's local police with applause, friendly banter and requests for selfies.

Last week, a Spanish judge seized the passport of Mossos Chief Josep Lluis Trapero as the courts investigate him and another Mossos official on allegations of sedition during a pro-independence rally in September. Mossos spokesmen say the allegations Mr. Trapero tried to hinder an investigation by national police are false.

Catalonia's foreign-affairs chief on Monday said he expected officials in the region to disobey Madrid. "I have no doubt that all civil servants in Catalonia will keep following the instructions provided by the elected and legitimate institutions that we have right now in place" in Catalonia, Raul Romeva told BBC radio.

Mr. Rajoy demurred on Saturday when asked how the government would respond if Catalan civil servants ignored orders. A Mossos spokesman said the force is awaiting details on the powers Madrid will assume.

## WORLD WATCH

### PHILIPPINES

#### Marawi Is Declared Clear of Militants

The Philippine government said it had broken the final stand of Islamic State-linked militants in the southern city of Marawi, killing all remaining combatants exactly five months after the bloody battle began.

"We have successfully concluded what has been, so far, the most serious threat of violent extremism and radicalism in the Philippines and in Southeast Asia," presidential spokesman Ernesto Abella said.

Mr. Abella said the government would shift its focus "to the enormous and challenging task of rebuilding, reconstruction and rehabilitation of the Islamic City."

Separately, at a meeting of defense ministers from Southeast Asia in the northern city of Clark, Defense Secretary Delfin Lorenzana said there were no more militants in Marawi and that combat was over, local media reported.

The battle for Marawi, once a relatively prosperous Muslim trading town of 200,000, has stoked concern about the spread of Islamic State-inspired violence into other parts of the world, including Southeast Asia, as the terror group loses its traditional strongholds in the Middle East.

—Jake Maxwell Watts

### EUROZONE

#### Consumers Express Greater Confidence

Eurozone consumers continued to gain confidence in October.

The European Commission said Monday its monthly measure of sentiment rose to minus 1.0 from minus 1.2 in September, its highest level since April 2001.

The steady rise in confidence over the past 12 months has been driven by greater optimism about the outlook for the euro-zone economy, which has experienced a tumultuous decade as the global financial crisis and the currency area's debt troubles caused two periods of contraction.

The economy has been growing since mid-2013 and the pace of its recovery has picked up in 2017.

—Paul Hannon

## Argentine Leader Pushes Deficit Cuts

By TAOS TURNER

Buenos Aires—President Mauricio Macri, buoyed by a sweeping nationwide victory in midterm congressional elections on Sunday, vowed to push ahead with tax cuts and austerity measures aimed at overhauling Argentina's economy.

Mr. Macri, speaking at a news conference, defended a decision to lift gasoline prices about 10% on Monday, just hours after the election, saying it was necessary to reduce a bloated fiscal deficit and curb

double-digit inflation.

Mr. Macri said that his top priority is to reduce a 28.6% poverty rate, and that this requires lowering inflation and cutting costly government subsidies for some public services.

The president plans to submit bills to Congress soon to overhaul the tax code, cut the deficit and make it less expensive to hire and employ workers, officials say.

Mr. Macri was elated by the election results. His ruling Let's Change coalition won more than 40% of the vote na-

tionwide, almost unprecedented for a new political movement in a country long dominated by Peronism, an ideologically diverse platform loyal to big labor unions. His coalition picked up 21 seats in the Lower House of Congress and nine in the Senate, winning elections in Argentina's five most populated districts.

"Macri's electoral sweep in the regions solidify his ability to drive through further economic reforms in the next two years and enhance his chances in the 2019 presidential elec-

tions," Exotix Capital said in a report on Monday.

Mr. Macri's top Senate candidate in Buenos Aires province, Esteban Bullrich, outpolled former President Cristina Kirchner by about 41% to 37%, potentially weakening her hopes of regaining control over the Peronist movement.

Although she won one of three seats at stake in the province, her failure to beat Mr. Bullrich could embolden her Peronist rivals, many of whom support Mr. Macri and don't want her in the presidency again.

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MARCELO SAYAO/EPA/SHUTTERSTOCK

## Officers Shoot Tourist Dead In Rio Amid Rising Violence

By PAUL KIERNAN

RIO DE JANEIRO—Police shot and killed a foreign tourist visiting a slum here on Monday, underscoring a sharp rise in police violence that is on pace to claim more than 1,000 lives this year in Rio state.

Police said officers opened fire on a vehicle in Rocinha, one of the city's largest so-called favelas, or slums, hitting a passenger in the neck. The victim, whom police identified as 67-year-old María Esperanza Jiménez Ruiz of Spain, was taken to a nearby hospital but couldn't be revived. After the shooting, police determined that the vehicle was providing an organized tour of the community.

Rio's state government said it "laments the death...and is following the investigation" by police. Local media reported the officer who did the shooting was detained. He couldn't immediately be reached for comment.

The incident is likely to deepen public concern over the tactics of Rio's police force, regarded by human-rights organizations as one of the world's most violent. In the first eight months of 2017, Rio

state police killed 712 people, 30% more than a year earlier and the most since 2009, according to official statistics. Rio's overall homicide rate also rose 8%.

A police official said Ms. Jiménez was in the back seat of a sport-utility vehicle with tinted windows of the sort often used by drug dealers. Police alleged that the driver, whose identity they didn't re-

lease, disobeyed an order to stop at a checkpoint that authorities had set up following a shootout with suspects about an hour earlier that left two officers wounded. The driver, who was identified in local media reports, couldn't immediately be reached for comment.

Brazil's Globo News reported that the driver and at least one other passenger denied the police's account that they ordered the vehicle to stop.

The surge in police violence has come amid severe budget problems in Rio following the Olympics last year. Police officers, like other civil servants, aren't receiving their salaries on time, let alone sufficient funding for equipment ranging from office supplies to patrol cars. A touted initiative to introduce community policing to troubled neighborhoods like Rocinha has fallen into disarray.

Some experts blame leadership for the crisis, saying the state government's head of public security since last October, a former SWAT commander named Roberto Sá, has been lenient toward violent officers.

"The criminals are armed, bellicose and aggressive, and the police are out of control," said Silvia Ramos, head of the Center for Security and Citizenship Studies at Rio's Candido Mendes University.

Mr. Sá didn't immediately respond to a request for comment.

Ms. Jiménez is at least the fourth foreign tourist killed in Rio since December, though she is the first to die at the hands of authorities. A Spanish diplomat said she was with her brother and his wife at the time of the shooting.

*The surge in police violence comes amid severe budget problems in Rio.*

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## WORLD NEWS

# Indonesia Pilgrimage Scam Turns Political

Islamist opposition to President Joko Widodo embraces cause of thousands who paid for trips they didn't receive

BY ANITA RACHMAN

JAKARTA, Indonesia—An alleged travel scam that police describe as one of the biggest frauds in Indonesia's history has put new scrutiny on the country's billion-dollar pilgrimage industry and forced the government to rethink how it regulates trips to Islam's holiest site.

More than one million Indonesians traveled to Mecca in the last Islamic year, a significant increase as conservative Islam gains ground in the population and politics of the largest Muslim-majority nation.

President Joko Widodo's hard-line Islamist opponents have seized on the rising number of allegations of fraud by companies that organize trips to Mecca on the umrah, which is known as the minor pilgrimage in comparison with the hajj.

The Islamic Defenders Front, an influential hard-line pressure group, is offering free legal help to pilgrims and said it would press lawmakers and the Ministry of Religious Affairs, which regulates and oversees pilgrimages, to make sure swindlers are prosecuted.

"The ministry functions as checks and balances here. We demand their responsibility," said Aziz Yanuar, a lawyer for the group, which is also known as the FPI.

The FPI brought hundreds of thousands of protesters to the streets over the past year in a successful campaign to defeat a re-election bid by the governor of Jakarta, an ally of Mr. Widodo, and have him jailed for blasphemy.

Any further gains by the FPI would represent a growing challenge for Mr. Widodo in the run-up to the 2019 presidential election.

Iskan Qolba Lubis, an Islamist opposition lawmaker who isn't affiliated with the



Pilgrims in Mecca in June. Below, Asmana, who sells soup by the street, said she is still determined to make the umrah journey.

FPI, said the Ministry of Religious Affairs should compensate victims.

The ministry is supporting investigations and prosecutions, but won't pay compensation for fraud victims, said Mastuki, a ministry spokesman who goes by one name.

Umrah trips attracted more than 876,000 Indonesians in the season of around nine months that ended in June, an increase of around 60% from four years ago. Pilgrims must wait up to 30 years for one of Indonesia's 211,000 annual places in the hajj.

Until recently, the Religious Affairs Ministry had only eight employees to monitor umrah trips, and it wasn't prepared to handle the surge, Mr. Mastuki said. The ministry has now doubled that number, he said.

The ministry and other agencies said they would form a regulator to check the flow of funds to and from all umrah travel companies. The



ministry is also looking at reviewing some permits.

In the case that drew national attention to alleged umrah fraud, police accuse Anniesa Hasibuan, a designer of Muslim fashion, and her husband, Andika Surachman, of taking around \$63 million from nearly 60,000 people who booked trips with their Ja-

palatial home, fund a fashion business and put on shows at New York Fashion Week.

The couple's lawyer, Deski Kuddeh, said that his clients deny any wrongdoing and don't know what happened to the money. "Ms. Anniesa's volunteer did the corruption," he said, without explaining further.

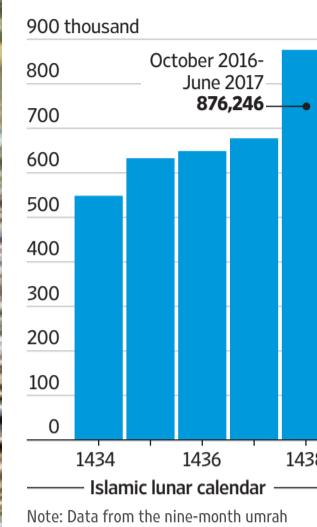
"It was a time bomb," Sularsi, coordinator for complaints and legal issues of the nonprofit **Indonesian Consumers Foundation**, said of First Travel. "We've received many reports from pilgrims who registered with various agents before this case exploded, but no real actions were taken by the government."

The foundation said it had received more than 22,000 complaints from pilgrims this year through July, of whom 17,000 were registered with First Travel.

Mr. Mastuki said the ministry had monitored the busi-

## Travel Boom

Indonesia has seen a surge of Muslims making the umrah pilgrimage to Mecca.



Note: Data from the nine-month umrah season in the Islamic lunar calendar.

1434=November 2012-August 2013

Source: Ministry of Religious Affairs

THE WALL STREET JOURNAL.

ness well, and that many complaints reported to the foundation were about trips managed by unregulated companies outside of the ministry's ability to take action.

Asmana, a 63-year-old grandmother who sells noodles by the roadside on the outskirts of Jakarta, said she picked First Travel's umrah package because it was cheaper than others.

She paid \$1,000 in February 2016 to make the umrah in February this year. After the company delayed the trip, she paid another \$184 to book a June departure, only to be delayed again.

When news of the First Travel arrests broke in August, she learned that she had been defrauded. She said she is still determined to make the trip.

"I am embarrassed," she said. "I told my neighbors and even my loyal diners. People say, 'it's great, a noodle seller can go to Mecca.' "

A large advertisement for Northern Trust. It features a man in a dark t-shirt standing in a modern office environment with large windows and a desk in the background. The text "UNLEASH YOUR GREATER." is prominently displayed in large white letters across the middle of the image. Below the main headline, smaller text reads: "Invent a better way. Start the next big thing. Disrupt the status quo. Whatever you're pursuing, our advisors will help you realize your vision. It's a personalized approach to wealth that transforms your aspirations into action." At the bottom, it says "Call 866.803.5857 or visit [northerntrust.com/Pursuits](http://northerntrust.com/Pursuits)". The Northern Trust logo is at the bottom right.

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## IN DEPTH

# FARM

Continued from Page One

still almost entirely run by private farmers and not companies—use machinery and technology more efficiently, get better prices on bulk supplies and manage to keep more of the profits by cutting out middlemen.

Mr. Frahm, 59 years old, said decisions on his farm are driven by the constant analysis of efficiency and scale—cents per pound or units per acre. “I’m always interested in, how big is too big, how far can this thing go?” he said, clad in blue jeans and a Pioneer seeds ball cap. In more than three decades of running his farm, through droughts and commodity-market swings, he said he had only one losing year.

### Three decades

Mr. Frahm estimated that farms of his size can produce \$10 million to \$15 million worth of grain in a good year. With that amount of production, well-managed farms can reap \$1 million to \$3 million in profit, even in times of low crop prices, he said.

A typical smaller farm selling just \$500,000 worth of grain annually has over the past three years generated a 5% profit margin, or about \$25,000, said Mark Wood, a Colby-based agricultural economist for the Kansas Farm Management Association.

Mr. Frahm said his farm provides steady, well-paying jobs and helps fund Colby’s hospital and community college. But he has stepped in at the last moment to place the winning bid at land auctions, and he knows that rankles other farmers. Some landowners see him as more of a corporate manager than a grower and have avoided renting their fields to him, looking instead for smaller farmers, he said. “I run into that resentment—haven’t you got enough by now?” he said.

Mr. Frahm’s family settled and began farming near Colby, which now has a population of 5,419, in the 1880s. In 1986, after a heart attack killed his father, Mr. Frahm took over the family’s 5,600 acres. The farm was large but not unheard-of in Kansas at that time.

He said he looked for opportunities to expand, persuading relatives to lease him fields and plowing profits from good years into buying land. In 2013 he negotiated his biggest-ever expansion, adding 7,000 acres when an uncle retired, boosting his total land by nearly one-

third. This spring, Mr. Frahm rented another 480 acres, and he said he is negotiating this fall to buy more.

Rural demographics are moving in Mr. Frahm’s favor. The average age of a U.S. farmer is 58. Younger people are moving away, and over time more fields wind up owned by heirs in towns or cities hundreds of miles away. In Kansas’ Thomas County, where agricultural economists estimate that more than half the land is absentee-owned, Mr. Frahm can make an attractive tenant. Some landlords have approached him to rent their fields, knowing he has a good reputation for making payments and maintaining land.

That makes it tough for farmers like Michael Juenemann. He grew up on a family farm near Colby, but his parents’ 160 acres don’t produce enough crops to support the two of them, let alone Mr. Juenemann and his own family. For the past five years Mr. Juenemann, 29, has been renting small parcels of land to farm himself, borrowing machinery and rolling out of bed to bale his own hay in the dark.

To make ends meet he works for other farmers, and said the hours mean he missed much of his son’s first years. Still, he said, “for as long as I can remember, it’s been what I wanted to do.”

Mr. Juenemann needs more land if he is to farm full time for himself. But buying enough acres requires a down payment he can’t afford. This spring, a few fields became available for rent just up the road from his in-laws’ farm—but Mr. Juenemann only found out after Mr. Frahm began farming them.

“That’s aggravating—opportunities like that where I could get some more land, but [landowners] will go directly to the big guys,” said Mr. Juenemann, adding he doesn’t blame Mr. Frahm.

Many large farmers pay cash on leases, versus the crop-sharing deals that smaller farmers have often used and which add risk for the landowner. Some large farmers provide more data on how the property is cared for. Mr. Frahm offers a mobile app that shows his landowners how much moisture their fields are getting.

Three-quarters of America’s farmed cropland is controlled by 12% of farms, USDA data show. The number of million-dollar-plus revenue farms more than doubled between 1992 and 2015, while the ranks of smaller farms, with revenue between \$350,000 and \$999,999, fell by 5%, as farmers get older and have a hard time making profits. USDA researchers, in a December report, said consolidation is likely to continue.

An average farm household in the Colby area needs income of at least \$50,000 annually to get by, said Mr. Wood, the agricultural economist, which has become harder to generate from a smaller farm. “The big guys can cover their costs and have money left over to grow,” Mr. Wood said. Smaller farms, he said, “are going to struggle.”

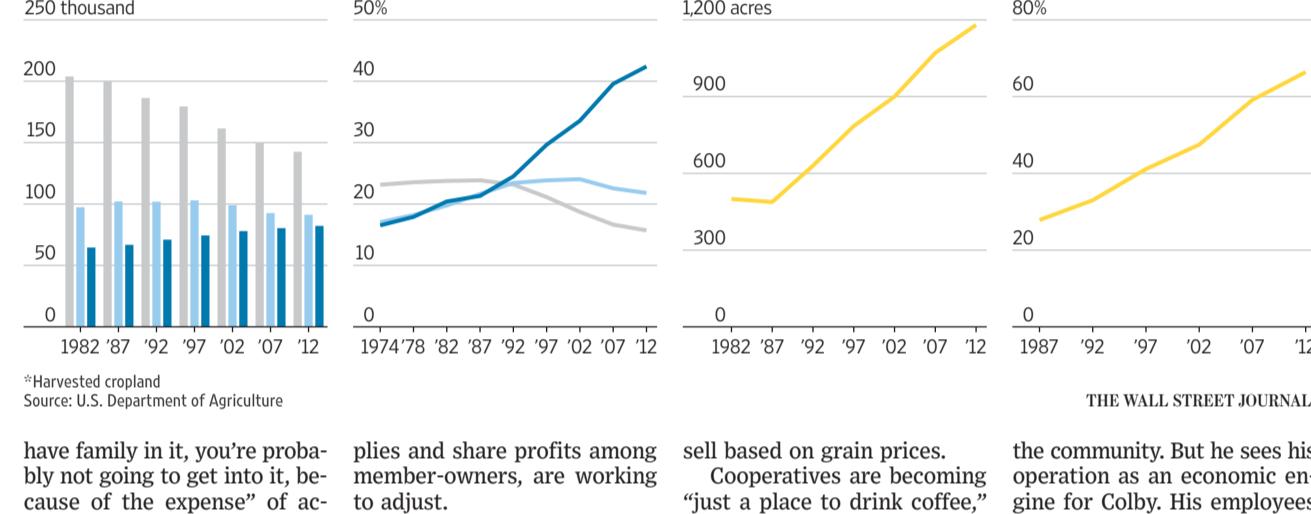
Bill Miller, 65, who farms about 10,000 acres around Colby, has absorbed other farms from neighbors who retired or moved on. He said the younger generation will have a hard time growing big enough to compete with large, entrenched farms. “If you don’t



Jacob Rickli heads back to work after a dinner break during the corn harvest on one of Lon Frahm’s fields in Colby, Kan., this month.

### Shift to Greater Size

The largest U.S. farms are growing in number and size, and commanding more of the country’s food production, while smaller farms shrink.



\*Harvested cropland  
Source: U.S. Department of Agriculture

have family in it, you’re probably not going to get into it, because of the expense” of acquiring land, he said.

The local school district has lost more than one-fourth of its students over the past 20 years, he said. “The young people are moving away, because the farmers need less help,” Mr. Miller said. The big machinery and technology used on large farms—such as remote sensors for irrigation systems—mean fewer workers are needed.

At Colby’s Farm Credit of Western Kansas, chief credit officer Mark Winger said the bank over the past decade has reduced the number of loan officers that deal with farmers.

As large farms absorb smaller ones, he said, that leaves fewer farmers to finance, and more concentration of risk.

### Supplier pressure

Some area farm-supply retailers, which sell seed and chemicals, have trimmed head count. Local grain companies, such as Winona Feed and Grain and Rexford Grain, which buy grain from farmers and sell it on to exporters, livestock operations and ethanol plants, have been absorbed by larger regional players, including Frontier Ag Inc. Large farmers often seek to buy chemicals and materials from suppliers with direct links to manufacturers, and increasingly handle grain storage and sales themselves.

Farmer-owned cooperatives, which handle grain and sup-

plies and share profits among member-owners, are working to adjust.

Jeff Kahle, who grew up near Colby and now manages eight regional facilities under farm cooperative company CHS Inc., has watched area farms consolidate.

Two decades ago, around the time Mr. Kahle started working at the co-op, it wasn’t uncommon for 120 farmers to turn up at a planting seminar hosted by Kansas State researchers. These days, he figures 20 farmers might show up, even though they still represent the same number of acres. As a result, he said his operation has shed about one-fifth of its staff over the past 10 years.

“The larger [the big farms] get, the more difficult they are to do business with on a retail level,” Mr. Kahle said. Over time he said he aims to provide more advisory and technology services to farmers.

Mr. Frahm said he largely stopped dealing with local co-ops around 15 years ago, when he started finding better prices by scouring the internet for deals on seed and chemicals. Now he orders seed and pesticides by the truckload.

When selling crops, he prefers dealing with brokers that match up his crops with area feedlots and ethanol plants, which can fetch him higher prices. He stores nearly all his grain in his own bins and runs his own loading station, saving on transport costs and giving him more flexibility on when to

sell based on grain prices.

Cooperatives are becoming “just a place to drink coffee,” Mr. Frahm said. “They can’t change quickly enough to keep up with competition that can turn on a dime.”

Mr. Frahm, who holds three degrees in business and agricultural economics, said his operation thrives by pushing efficiency at every turn.

His nine-person team totes tablet computers that control sprinkler systems miles away, switching them off when sensors report adequate moisture. When his tractors are rolling, automated systems monitor the number and type of seeds being sown in each row, to maximize planting on fertile ground.

*I’m always interested in, how big is too big, how far can this thing go?*

The equipment beams the data to remote servers, where Mr. Frahm and his team analyze it to determine how machinery can be run more efficiently, or where they can spray fewer chemicals. This year Mr. Frahm has been testing automated insect traps that deliver updates on the number and type of bugs killed to help time pesticide spraying.

Mr. Frahm acknowledges big farms have brought changes to

the community. But he sees his operation as an economic engine for Colby. His employees hold year-round, salaried positions with health care and four weeks of vacation. His longest-tenured employee started working for Mr. Frahm’s father on the farm 43 years ago.

He brings them on cruises as bonuses and outfits them with matching white Ford pickups for work. He said he gives each one \$1,000 each year to donate to charity. “These jobs offer a higher quality of life than if you were out trying to [farm] on your own,” he said.

The farmer’s Colby office is outfitted with flat-screen TVs and a grand piano where he sometimes plunks out jazz standards. Before Mr. Frahm bought the building, it housed the bank that lent him money. He owns a sprawling house on the town’s edge, and vacation houses in Denver and Arizona and a cabin on a nearby lake.

Wheeling his own white Ford truck around Colby, where rows of corn march up to the edge of the town’s main thoroughfare, Mr. Frahm notes the farm’s sponsorship of the annual county fair, and support for the historical society and public radio station.

Mr. Frahm said he has no heirs, and after he dies he plans to have a foundation own his property, with the goal of maintaining jobs and funding his community charities.

“There’s a reason behind continuing to accumulate,” Mr. Frahm said. “My main concern is that everything carries on.”

ingly for Brexit and “clearly indicated that they would prefer to have signs in miles and yards.”

The council replied saying it would look into the matter. It geared the signs toward walkers and runners who may be training for 5K or 10K races, said Jeremy Richards, a council spokesman.

Mr. Bennett—he also goes by “Hundredweight,” or 112 pounds—said he couldn’t wait for Burnley to ponder its signs and drove 3½ hours to the town for his raid.

Passerby Alan Wall, 69, approved. “Seeing as we’re coming out of the EU,” he said, “what’s the point of using metric?”

Mr. Bennett eventually won the Burnley battle. The town council this year erected kilometer signs along footpaths. In an email demanding their removal, Mr. Bennett, using the name “Polly Peck,” said town residents voted overwhelm-

ingly for Brexit and “clearly indicated that they would prefer to have signs in miles and yards.”

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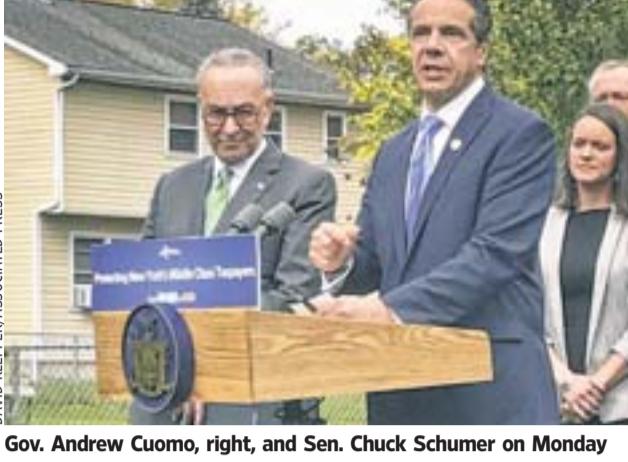
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The council

# GREATER NEW YORK



Gov. Andrew Cuomo, right, and Sen. Chuck Schumer on Monday

## High-Tax States Balk at Republican Deduction Plan

By MIKE VILENSKY

Lawmakers from New York and other high-tax states are resisting efforts to roll back a policy that helps residents save on their federal taxes.

Republicans have proposed eliminating or limiting the deductibility of state and local taxes as part of new tax legislation. New York Gov. Andrew Cuomo, a Democrat, has seized on the issue, touring the state and joining with local and federal lawmakers who want to preserve the lucrative tax break.

The deduction allows individuals to subtract their home-state levies from their federal taxable income. In high-tax states such as New York, that can allow taxpayers to save big.

"This is probably one of the most destructive policies to the state of New York I've heard proposed in 30 years," Mr. Cuomo said Monday at a news conference with Sen. Chuck Schumer, a fellow New York Democrat.

The status of White House and congressional efforts to eliminate the deduction for some or all taxpayers isn't clear. A tax policy the White House outlined earlier this year proposed repealing the deduction.

House Republicans from New York, New Jersey and other high-tax states have been resisting GOP leaders' proposals to repeal the deduction and use the money to lower tax rates.

House leaders need at least some of those members' votes to get the bill through and they have been negotiating with New York and New Jersey lawmakers. So far, they haven't announced a deal, though they have been considering proposals to allow property tax deductions or to set an income limit for the tax break.

On Monday, a White House

spokeswoman said: "The President has made it clear that his two non-negotiables are a middle-class tax cut and getting the corporate rate down to 20% or lower."

The spokeswoman also said that only about 30% of U.S. taxpayers claim itemized deductions, and pointed to a report from the Congressional Budget Office that said the state and local tax deduction "provides a much larger benefit relative to income for higher-income households than for lower-income households."

The issue has put some New York Republicans in a difficult position, torn between a policy their party generally supports and concerns about how it could affect them in their districts.

Rep. Peter King, a Republican representing Long Island, has been at the fore for pushing back on the policy within his party. In an interview, Mr. King described a recent meeting of House Republicans where he and other high-tax state representatives expressed concerns about repealing the deduction.

"Politically and economically, it would be devastating," Mr. King said, describing his suburban district as a swing region where voters backed Mr. Trump last year after previously voting for President Barack Obama, a Democrat. "The deduction is essential for these people to get by."

For Mr. Cuomo, the issue is familiar. In the 1980s, Republican President Ronald Reagan sought to eliminate the deduction, and New York Gov. Mario Cuomo, Mr. Cuomo's late father, led a successful effort against the repeal.

—Richard Rubin

contributed to this article.

## A New Way to Pay the Fare

MTA panel OK's plan to have subway, bus riders use bank cards, phones to 'tap and go'

By MELANIE GRAYCE WEST

So long, swipe.

A committee of the Metropolitan Transportation Authority on Monday approved a contract for the creation of a new payment system that will allow riders to "tap" or wave a cellphone, a bank debit card or an MTA-issued card with a special chip at a subway turnstile or upon boarding a bus.

Such systems are used in other major cities, including London and Chicago.

The committee voted to award the \$573 million contract for the development and rollout of the new payment system to Cubic Corp., the company that created the current MetroCard system. The total cost to convert the payment system is expected to be around \$1 billion.

A final vote on the new system is scheduled for Wednesday's full MTA board meeting.

Phasing out the MetroCard has long been on the agenda for the MTA. The current system, now more than two decades old, requires constant upkeep—like maintaining swipe readers at turnstiles—



The MTA is looking to phase out the MetroCard system, which is more than two decades old.

and labor to take care of everything from fixing MetroCard machines to handling cash.

Each MetroCard transaction costs the agency about 15 cents, according to MTA Chairman Joseph Lhota. Transaction costs would drop under the new system, partly because the new readers won't break down as often because they have fewer moving parts, said Mr. Lhota.

John Raskin, executive director of the Riders Alliance, an advocacy group, said the new system would open up the possibility of faster boarding

on buses and new fare options that "make transit more efficient and fair" for low-income New Yorkers.

The new payment system will be rolled out in 2019, part of a first phase which includes development of the back-end system, a website and the installation of the readers at 500 turnstiles and in 600 buses.

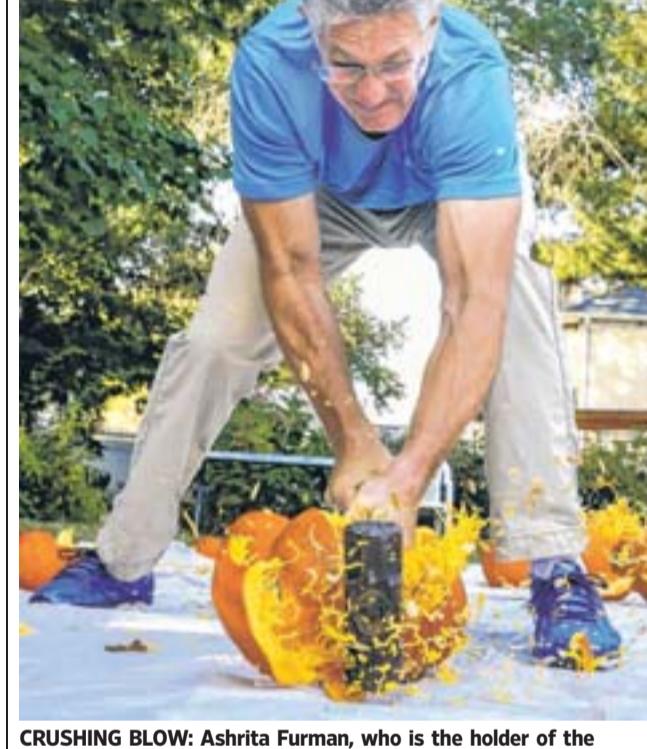
The system will work on subways, buses and the Long Island Rail Road and Metro-North. MetroCards will be totally phased out in 2023.

The MTA expects the ma-

jority of riders will use an established digital-wallet program, like Apple Pay, or a style of debit card issued from a personal bank for "tap-and-go" payment, commonly referred to as contactless payment.

The MTA will also roll out its own contactless card, aimed at the roughly 10% of riders who don't have a cellphone or use a bank account. The plan is to phase in the agency's own contactless cards late in the process to force riders to use their phones or their own bank-issued debit cards.

## Man With a Mission



BRENDAN McDERMID/REUTERS

CRUSHING BLOW: Ashrita Furman, who is the holder of the most Guinness World Record titles, tried Monday in Queens to break the record for the most pumpkins smashed in one minute.

## Mayor Puts the Brakes On Prospect Park Cars

By MARA GAY

New York City Mayor Bill de Blasio is banning cars from Brooklyn's Prospect Park, a move he says will make one of the city's flagship parks safer and more tranquil.

"People are working really hard, long hours, a lot of stress," he said at an event on Monday. "There gotta be some places that are stress free."

Cars will be permanently banned from the park starting Jan. 2. They had been temporarily prohibited this summer in what Mr. de Blasio, a Democrat, had said was linked to his "Vision Zero" initiative to reduce pedestrian fatalities in the city.

Prospect Park has been the scene of deadly crashes involving cars and pedestrians or cyclists.

About 1,000 people walk, jog, or bike through the park weekday mornings, and about 300 vehicles use it during the same period, according to the

city's Transportation Department.

De Blasio administration officials said they received petitions this summer supporting a permanent ban.

The mayor said he and others had worked to prohibit cars in Prospect Park since his days as a New York City councilman, representing the Park Slope neighborhood adjacent to the park.

He noted that he and his wife, Chirlane McCray, were married in the park and their two children played there.

"I can't possibly describe to you how much Prospect Park has meant to our family," Mr. de Blasio said.

Mitchell Moss, director of the Rudin Center for Transportation Policy and Management at New York University said the ban was "long overdue."

He added: "It makes sense for safety and because there's overwhelming sentiment in the communities around the park that this is the right thing."

## Moore Show Falls Short at Box Office

By CHARLES PASSY

Film director Michael Moore may have arrived on Broadway with the self-professed goal of taking down a sitting president.

But in the end, his politically liberal-minded show, "The Terms of My Surrender," which closed this past weekend, failed to wow at the box office.

In its 13-week run, including a preview period, the show had ticket sales of \$4.2 million, according to BroadwayWorld.com, a theater website that tracks grosses. That figure represents only about 49% of the show's potential gross.

Mr. Moore's largely one-man production started on a strong note, taking in \$456,000 in its first full week. But it quickly fell well under that mark, with ticket sales dipping below \$300,000 in some subsequent weeks.

True to the billing, Mr.

Michael Moore's Broadway show ended a 13-week run last weekend.



Moore's production skewered Republican President Donald Trump. It also focused on Mr. Moore's life and history of political activism.

In an email, Mr. Moore said

the show was "the most artisti-

cally gratifying experience of my life." He said there are "talks happening about taking this show on the road."

A spokesman for the show didn't comment on the budget of the production or if it made a profit or loss.

Theater-industry observers say reviews of the show, which mostly were negative, affected the box office.

Moreover, observers noted that Mr. Moore wasn't helped by the fact that many comedians already are offering that Trump-skewering perspective—without charging their audiences the price of a Broadway ticket.

"If you want to see something anti-Trump, you can just watch any of the late-night shows" on television, said Christopher McKittrick, an editor with Daily Actor, a website that covers theater.

## GREATER NEW YORK WATCH

### SEXUAL HARASSMENT

#### State Opens Probe Into Weinstein Co.

New York Attorney General Eric Schneiderman has opened an investigation into the Weinstein Co. to determine whether its handling of allegations of sexual misconduct against company co-founder Harvey Weinstein violated state or city laws.

The civil rights bureau of the attorney general's office issued a subpoena to the company Monday, a person familiar with the investigation said.

Representatives for the Weinstein Co. and Mr. Weinstein didn't respond to requests for comment. Mr. Weinstein, who was fired from the company earlier this month, has denied allegations of nonconsensual sex.

—Rebecca Davis O'Brien

### ENVIRONMENT

#### City Could See Dire Floods, Study Warns

Within the next three decades, floods that used to strike the New York City area only once every 500 years could occur every five years, according to a new scientific study released just days before the fifth anniversary of superstorm Sandy.

The study, performed by researchers at several universities and published Monday in the Proceedings of the National Academy of Sciences, primarily blames the predicted change in sea-level rise caused by global warming.

The researchers based their analysis on multiple models that factored in predictions for sea-level rise and possible changes in the path of future hurricanes.

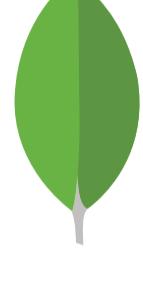
—Associated Press

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# LIFE & ARTS

HALLOWEEN

## What Would Santa Say?

BY ANNE MARIE CHAKER

**ITS UGLY AND SPOOKY,** and that's the point.

The Halloween tree is a fake orange Christmas tree, and retailers hope we'll buy it, and then also candy corn lights, black and orange ornaments, oversize spiders and miniature pumpkins. Candy makers like the idea because we'll need garlands of skull chocolates and gummies, too.

Target Corp. for the first time is selling 6- to 9-foot trees for Halloween, including a \$968 orange Christmas tree and has new in-store "Hyde and Eek Boutiques" featuring holiday merchandise like lace copper pumpkins or \$20 plastic spooky-piano figurines.

Spending on Halloween decorations, candy and costumes is expected to reach \$9.1 billion this year, up 8% from last year's projection, according to the National Retail Federation. At online home-decor retailer Wayfair, sales of Halloween-themed trim, such as a \$20 string of candy corn lights, have increased by 73% since last year. Bronner's Christmas Wonderland, a year-round holiday decorations store in Frankenmuth, Mich., says it increases its Halloween inventory each year, including window and tree ornaments as well as a Halloween village.

"Anything Halloween I can find goes on the tree," says Drew Holmes, a 31-year-old pharmacist in Morgantown, W.Va., who has two trees, including a bright orange fake fir purchased last month from Treetopia and decorated with black Christmas balls. That is in addition to his black Christmas tree trimmed with \$300 worth of orange and purple lights, garlands and ornaments, including clip-on feathery blackbirds.

"A Christmas tree is a blank canvas that you can change the look of," says Carrie Chen, brand manager for Treetopia. "It can become spooky." The online Christmas tree retailer has sold 40% more orange trees this fall compared with last year and carries an assortment of other brightly-colored trees including hot pink and "sassy sapphire."

For some households, Halloween kicks off a three-month period of home decorating. Christina Book, a 35-year-old stay-at-home mother of three in Bakersville, Calif., creates a Hal-

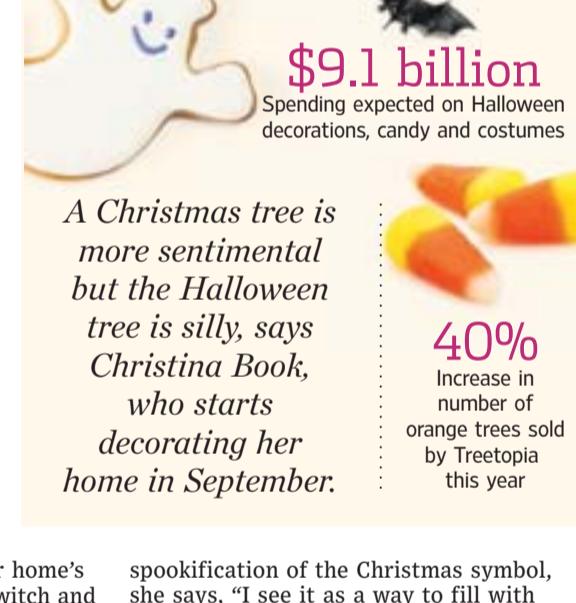
loween witch-stuck-in-a-tree in her home's entryway by positioning a plastic witch and a pointy hat in a pre-lit artificial black fir. "Whenever people come in, it's 'oh my gosh you have a Halloween tree,'" she says. Her tree comes out from a backyard storage shed in early September, and she and her three children trim it with orange ribbon, store-bought ornaments and homemade Popsicle-stick crafts, children's photographs and glittery classroom projects.

"I always take a few steps back as I'm going, to make sure things are distributed

evenly," says Ms. Book. She aims to have the tree completed by the second weekend in September so the family has six weeks to enjoy it. After Halloween, it is replaced by autumnal decor like gourds and pumpkins for Thanksgiving. Then, her 7-foot Christmas tree goes up, trimmed with home-sewn burlap garland, strings of popcorn and cranberries and an "Our New Home" ornament from 2006.

"It's more sentimental," she says. "The Halloween tree is funny and silly."

While some people may shudder at the



spookification of the Christmas symbol, she says, "I see it as a way to fill with things that add to the atmosphere of the home." When friends and neighbors see it, she says, "they definitely giggle and think it's awesome."

Since September, sales of fake trees at Balsam Hill, a Redwood City, Calif., maker of artificial Christmas trees sold online, are up more than 10% due in part to the Halloween tree phenomenon, says Thomas Harman, Balsam Hill chief executive. "People don't only want to decorate with spiders and witches,"



A 6-foot fake willow tree with orange lights from Target, left, and a Treetopia tree decked with skeletons, giant spiders and ghoulish ornaments.

F. MARTIN RAMIN/THE WALL STREET JOURNAL (TREES); ISTOCK (4)

he says. "They're pulling forward their Christmas decorations and decorating with trees and garlands." It also sells a Halloween tree.

"Halloween tree" this year is one of the most-searched product queries for Halloween, along with inflatables, wreaths and pillows on Wayfair. The site began selling Halloween decor four years ago. This year, sales of Halloween trees—including a \$385, 7-foot tree that shakes—are up 20%.

Nestlé SA, maker of Butterfinger, Nerds and SweeTarts, says it has been pleased with its candies' role in the Halloween tree

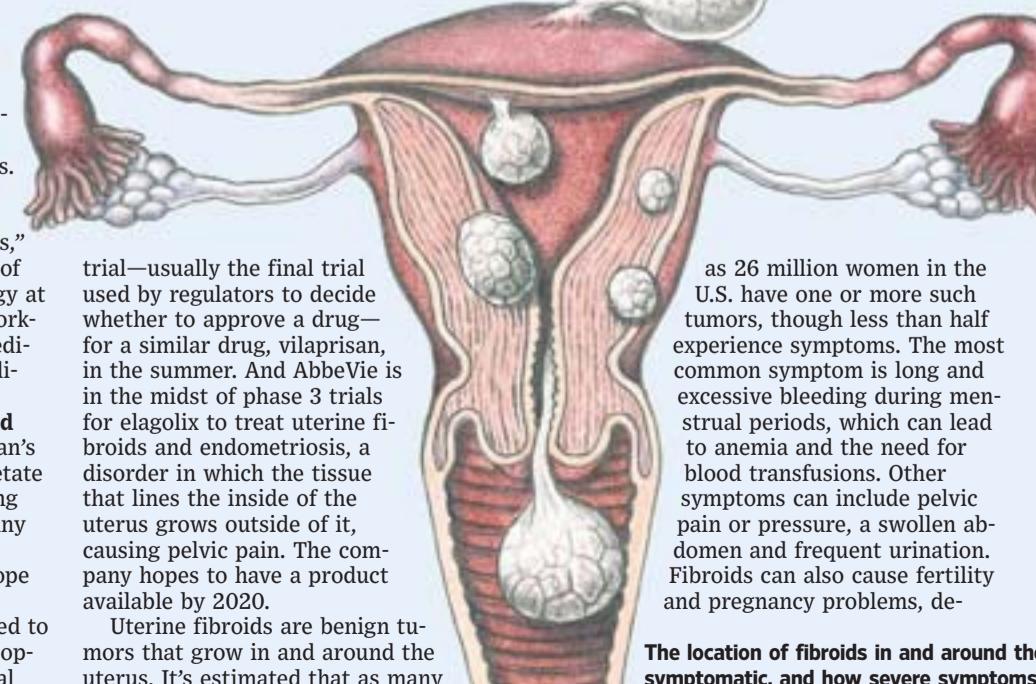
phenomenon. "All of our products can be used to make Halloween crafts, including being strung or hung," says spokeswoman Tricia Bowles.

"I've seen SweeTarts Skulls & Bones glued to yarn to create a strung look that was then wrapped around a Halloween tree," says Ms. Bowles. "So creative!"

One caveat for Halloween tree decorators: They are tempting to household cats. Ms. Book's cat, Milo, finds the fabric bats hard to resist: "I have to hang them high in the tree or else he'll have them in his mouth."

YOUR HEALTH | By Sumathi Reddy

## FOR WOMEN, FIBROID HELP WITHOUT SURGERY



trial—usually the final trial used by regulators to decide whether to approve a drug—for a similar drug, vilaprisan, in the summer. And AbbeVie is in the midst of phase 3 trials for elagolix to treat uterine fibroids and endometriosis, a disorder in which the tissue that lines the inside of the uterus grows outside of it, causing pelvic pain. The company hopes to have a product available by 2020.

Uterine fibroids are benign tumors that grow in and around the uterus. It's estimated that as many

as 26 million women in the U.S. have one or more such tumors, though less than half experience symptoms. The most common symptom is long and excessive bleeding during menstrual periods, which can lead to anemia and the need for blood transfusions. Other symptoms can include pelvic pain or pressure, a swollen abdomen and frequent urination. Fibroids can also cause fertility and pregnancy problems, de-

pending on their size and location. The cause of fibroids remains unknown. African-American women have a higher rate of uterine fibroids. If a woman has no symptoms, treatment of fibroids isn't necessary, experts say.

While a hysterectomy is the most common way to treat fibroid tumors, women who still want to have children can have a myomectomy. That surgery removes fibroids while keeping the uterus intact. But fibroids can grow back after the procedure. A number of other minimally invasive procedures are less commonly used and usually not recommended for women who want to have children. There's some chance of recurrence with most of them.

UA belongs to a group of drugs called selective progesterone receptor modulators (SPRM). They block the progesterone from feeding the fibroids, which causes them to shrink.

"This particular drug also works directly on the lining of the uterus—the endometrium," says Dr. Reddy. "Please see HEALTH page A13

The location of fibroids in and around the uterus helps determine whether a woman is symptomatic, and how severe symptoms are.

## LIFE & ARTS

**WINE. CHOCOLATE.** Binge-watching "The Crown."

How are your coping strategies working for you these days?

Therapists have, for months, been reporting a significant increase in clients who are stressed and saddened by current events—hurricanes, fires, the threat of nuclear war. In some cases, they say, these large-scale worries are undermining people's ability to cope with their own private stressors.

In addition to talk therapy, many therapists teach their clients new tactics for dealing with anxiety and stress when it arises.

Psychologists use the term "emotion regulation" to describe how we change our emotions. Most often (but not always) people want to change, or "down regulate," a negative emotion. We can effectively reduce anxiety or worry in one of two fundamental ways, says Maurice Schweitzer, a professor at the Wharton School at the University of Pennsylvania, who studies the regulation of emotions. You can

switch your attention to something else, such as when you are on an unpleasant flight and you watch a movie. Or you can change the way you conceptualize the situation: A co-worker snaps at you, yet you try not to take it personally because you realize he is under a lot of stress. "This gives us agency," Dr. Schweitzer says. "We can choose what to focus on and decide how we want to react."

Many people rely on exercise, yoga and meditation, and favorite music, all proven to reduce stress and calm our nervous system. Peter Wagner, 60, an investment manager in New York, has created a "calm-down" playlist of songs, which includes Dusty Springfield's "Son of a Preacher Man" and Randy New-



**BONDS: ON RELATIONSHIPS** | By Elizabeth Bernstein

# Calm Your Mind In Anxious Times

man's "Sail Away." Barry McCarthy, 74, a psychology professor in Washington, D.C., curbs his late-night worrying by reminding himself that problems seem unsolvable between midnight and 5 a.m. and switching to thoughts of past or future vaca-

tions. And when Mary Westheimer, 62, a business manager from Phoenix, is anxious, she pictures a water faucet, turns the tap on in her mind and lets all the water run out.

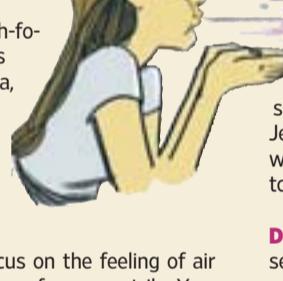
Shannon McCormick, 42, a public relations manager from Columbus,

Ohio, limits her worrying to one room in the house, a stress-management strategy that a nun taught her in high school. (She uses the bathroom.) Liz Singer, 61, a psychotherapist in New York, puts both hands on her chest and envisions her body

### Seven Tips From the Experts to Cut Out Stress

#### FOCUS ON YOUR BREATH.

Research shows that a technique called "breath-focused attention" lowers activity in the amygdala, the brain's fear and anxiety center. People who practice it regularly have fewer negative emotional experiences overall.



For five minutes, focus on the feeling of air passing the outside edge of your nostrils. You don't have to try to breathe deeply or slow down your breath. Just focus on the sensation.

#### IDENTIFY THE CAUSE.

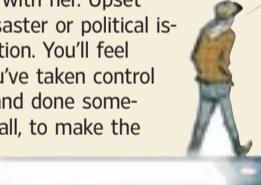
A study by researchers at Yale University and the University of Toronto, published in 2013 in the journal "Psychological Science," showed that people often misattribute the source of their anxiety. They think it is one thing when it really is another. As a result, they make bad decisions. An example: You almost get into a car accident on your way home from work, which leaves you sweaty and tense. Then when you get home you need to make an investment decision and are more conservative

than you would normally be.

Some questions to ask yourself: What is the source of your feelings? Do they stem from something you are dealing with in the moment or a different issue? "Focus only on what is before you," says Jeremy Yip, the lead researcher on the study, who is now an assistant professor at Georgetown University's McDonough School of Business.

**DON'T RUMINATE.** As soon as you notice yourself doing it, decide to take action. Brad Stulberg, a mental-skills coach for executives and entrepreneurs in Oakland, Calif., and author of "Peak Performance," tells clients that the question "what if?" is a clue they're ruminating, as is feeling their mind is racing for 10 minutes.

Pause and ask yourself what step you can take. Are you worried about your child? Plan some quality time with her. Upset about a natural disaster or political issue? Make a donation. You'll feel better because you've taken control of your thoughts and done something, however small, to make the situation better.



**PUT DOWN YOUR PHONE.** Social media can produce the same gawker effect as a car accident on the highway, Mr. Stulberg says. We can't tear our eyes away from the carnage on Twitter or Facebook. This is a pathway to rumination, so set a time limit for social media.



**VISUALIZE YOUR ANXIETY.** Focus intently for a moment on your worry and give it a rating on a one-to-10 scale. Picture where the fear is in your body—chest, throat, abdomen? Then imagine your fear as an object, such as a fiery, red ball.

Now, imagine the color of the ball changing. Make it pink or pale yellow. Put stripes or polka dots on it. Visualize it changing size. Then lift it up over your head in your mind and imagine the breeze carrying it away. "This allows you to shape your emotions in a positive way," says Candida Abrahamson, a life coach in Skokie, Ill.

**SAY IT OUT LOUD.** "When our voice is trapped in our mind we start to believe it is true," says Vasavi Kumar, a licensed social worker in Austin,

Texas. Speaking it out loud helps you realize how you speak to yourself and identify thoughts that may sound ridiculous when verbalized.

**TAP.** The "emotional freedom technique," or "tapping," helps calm anxiety by focusing on our energy and where it may be blocked, says Julie Barthels, a licensed clinical social worker in Rockford, Ill. You start by labeling your emotion as specifically as you can—"I am worried my partner is irritated with me"—and rating it on a one-to-10 scale. Then, take two fingers and tap gently on the top of your head while saying your worry slowly out loud several times.

Repeat this by tapping in the following spots down the same side of your body: the inside of your eyebrow, outside of your eyebrow, under your eye, your chin, your collarbone, and the side of your torso.

After you finish, take a deep breath and rate the strength of your feeling. Repeat as needed until you get to one. "It sounds hokey, but it works," Ms. Barthels says.

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# SPORTS

MLB

## The Rise of Baseball's Superteams

A World Series matchup between the Dodgers and Astros highlights the huge gap between baseball's top and bottom teams

BY JARED DIAMOND  
AND BRIAN COSTA

Devotees of baseball's data revolution describe the playoffs as a crapshoot, an unpredictable tournament where chaos reigns and the most deserving participant rarely emerges victorious.

But this year's World Series between the Los Angeles Dodgers and Houston Astros introduces a new paradigm sweeping the sport. Instead of the vast parity that defined the last decade, there exists a Grand Canyon-sized gap between the top and bottom of the standings. A few teams accumulated so much talent that they simply overpowered the field, which is weakened by a phenomenon in which many executives view mediocrity as the ultimate failure—and are willing to suffer ineptitude for a while to achieve greatness.

It resulted in a regular season in which three teams—the Dodgers, Astros and Cleveland Indians—finished with more than 100 wins for the fourth time in major-league history. Starting Tuesday night at Dodger Stadium, two such clubs will square off with a championship at stake for the first time since 1970.

Welcome to the Age of the Superteam.

"You have front offices thinking more strategically about, 'Which side of the spectrum are we on?'" Dodgers general manager Farhan Zaidi said. "Because I'm actively trying to avoid getting stuck in the middle."

This push to the extremes originated in basketball and football, before seeping into baseball more recently. On paper, it makes sense: Good teams vie for titles and reap the benefits of qualifying for the postseason. Bad ones earn coveted top draft picks, the easiest way to add a direction-altering player without giving anything up in return—a must for smaller franchises that lack vast financial resources. Teams in the middle often stay in neutral, spinning their wheels without going anywhere.

To escape that fate, teams developed a strategy known, somewhat controversially, as "tanking"—a rebuilding technique that involves enduring a stretch of futility in order to acquire the pieces necessary to climb back to prominence.

With commitment and patience, the approach undoubtedly can work. Theo Epstein employed it with the Chicago Cubs, the reigning champs. Under Jeff Luhnow, Houston's ultra-statistically minded GM, the Astros embarked on an unprecedented teardown, averaging 103 losses in his first three years at the helm. This season, they went 101-61, brimming with young stars like Carlos Correa, George Springer and Alex Bregman.

Luhnow faced plenty of skepticism for using such an unorthodox method. Now, with copycats



Above, the Dodgers celebrate during Game 5 of the National League Championship Series. Left, Carlos Correa and Jose Altuve of the Astros.



sprouting up, nobody questions the Astros anymore.

"We were just bluntly honest with people," Astros president Reid Ryan said.

Those in the industry attribute the popularity of Houston's model to changes to the MLB draft that coincided with Luhnow's hiring for the 2012 season. Before that point, teams could sign draftees for as much money as they wanted, which in some cases disincentivized high picks. Cash-strapped teams would sometimes refrain from selecting the best available player out of fear that his contract demands would strain their economic limits.

To combat that problem, the league implemented limits on how much teams could spend in draft bonuses, with teams holding more desirable picks receiving a larger pool. Suddenly, putting up the

worst record in the majors came with an even better prize, and smart teams took advantage.

As time passes, the tactic seems less crazy, which was not the case a decade ago. Former Baltimore Orioles executive Jim Duquette recalled that in 2007, saddled with a hopeless team, he wanted to trade shortstop Miguel Tejada. The Los Angeles Angels offered Ervin Santana and Erick Aybar, a package Duquette thought would help the Orioles in the future. He says his boss, Peter Angelos, quickly rejected the idea.

"My owner wasn't willing to take that beating and be really bad," said Duquette, now an analyst for SNY. "He wanted to stay somewhat competitive."

More owners appear willing to go that route now. For the first time since 1997, only five American League teams finished with a win-

ning record, the five that made the playoffs. Four teams finished with at least 95 losses—the same number as 2015 and 2016 combined.

With a growing number of teams choosing to struggle, it creates an opportunity for win-now teams to load up in ways never before possible. It sparked an arms race among a few teams to suck up as many assets as they possibly could, not only to improve their few weak spots, but to bolster areas of strength.

Consider the Dodgers, who at 104-58 compiled the best record in the major leagues since 2004. They mixed baseball's largest payroll with smart leadership to construct a squad with a stunning amount of depth, replete with quality backups at every position, at least some of whom would start elsewhere. When they lost All-Star shortstop Corey Seager to a back injury for the National League Championship Series, they replaced him with Charlie Culberson, who went 5-for-11 at the plate.

Though the Dodgers already boasted MLB's best rotation heading into the end of July, they still targeted arguably the best starting pitcher on the market, trading for right-hander Yu Darvish. After the Dodgers clinched their first pennant since 1988 last week, closer Kenley Jansen praised Zaidi and president of baseball operations Andrew Friedman, saying they "put a ridiculous team together."

Darvish turned a great team into an even greater one. The Astros responded. A month after the Darvish deal, Houston dealt for ace right-hander Justin Verlander, who

has gone 4-0 with a 1.46 ERA in the playoffs. He cemented the Astros' status as a Superteam.

"When we came into spring training, we thought we had a great team, but at the All-Star break, some teams started loading up. The Dodgers were one of those teams," Astros pitcher Lance McCullers Jr. said. "We were really excited to get [Verlander], because we felt like that was our moment to get loaded up."

The stratification is producing a strange new reality—the duty to lose. Vince Gennaro, the associate dean at NYU's Tisch Institute for Sports Management, Media, and Business, said that in this environment, middling teams with trade chips "have an obligation to their fans to deal those players for prospects to make their team less competitive in the near future so they can return to contention."

Others question how long it will remain effective. If too many teams try to tank at once, not all of them can lose enough to get the draft spot they seek. This season, for instance, the San Diego Padres looked like textbook tankers, and they didn't even finish in last place in their division. Zaidi pointed out that "there are equilibrium effects to a bunch of people changing their strategy."

The Dodgers and Astros, meanwhile, will exit their showdown with a mission to outsmart their opponents again when the time comes to retool.

"How do you stay at the top once you're successful?" Luhnow said. "That's the Holy Grail we're trying to figure out."

### THE COUNT

#### First 33 Games

How some notable coaches performed through their first 33 games at their current schools:

COACH/SCHOOL	RECORD	3RD SEASON
Urban Meyer Ohio State	30-3 (.909)	14-1 (Won national championship)
Jim Harbaugh Michigan ▶	25-8 (.758)	5-2 (t-4th, Big Ten East)
Nick Saban Alabama	25-8 (.758)	14-0 (Won national championship)
Jimbo Fisher Florida State	24-9 (.727)	12-2 (Won the Orange Bowl)
Brian Kelly Notre Dame	23-10 (.697)	12-1 (Lost national championship)
Chris Petersen Washington	21-12 (.636)	12-2 (Lost CFP semifinals)
James Franklin Penn State	19-14 (.576)	11-3 (Lost the Rose Bowl)
Dabo Swinney Clemson*	19-14 (.576)	6-7 (Lost Meineke Car Care Bowl)

Source: Stats LLC; WSJ \*Includes interim season in 2008



JUSTIN K. ALLER/GETTY IMAGES

## MAYBE JIM HARBAUGH ISN'T INFALLIBLE

On Saturday, Michigan will host Rutgers and, in all likelihood, mercilessly pulverize a weaker team. To put it another way, it won't be too different from what Penn State did to the Wolverines this past weekend.

Two and a half years into Jim Harbaugh's tenure, this is the state of Michigan football: The Wolverines are decent. And that's better than worse-than-decent, but it isn't exactly a compliment, either, for one of the game's pre-eminent powerhouses.

For the third straight season, Michigan is out of the national title conversation. Any faint hopes the team still clung to were summarily extinguished during Saturday's 42-13 loss to the Nittany Lions.

Still, the Wolverines are 5-2 and for maybe any other coach at most any other school, these early returns might be considered incredible. But Harbaugh isn't just any coach. He's the one so celebrated that he turned the world's blandest article of clothing—the khaki—into a fashion statement. His return to Ann Arbor to coach at his alma mater was met with unbridled jubilation, along with one of the fattest checks in the entire sport.

The problem is this: Through Har-

baugh's first 33 games, Michigan is 25-8. Which is the exact same record his predecessor, Brady Hoke, had during his first two and a half years on the job.

During that third season, Hoke limped to a 7-6 finish. The team went 5-7 the next year, and Hoke was canned.

Nobody is expecting for Michigan to miss out on a bowl game and hit that type of low, but Harbaugh is going through a rough patch of his own: Dating back to last year, the Wolverines are 6-5 in their last 11 games.

That includes a 1-3 record against ranked opponents, with the lone win coming against a Florida team that's now 3-3. With a 2-2 conference record this year, the Wolverines are tied for fourth place in the Big Ten East division (with Rutgers) and have games against two top-10 teams, Wisconsin and Ohio State, still to come.

(Here it deserves mentioning that, unlike Harbaugh, Hoke actually beat Ohio State in his first year. Harbaugh, thus far, is 0-2 against the school's dreaded rival after last year's double-overtime thriller.)

"A team that goes through this understands that it can have a great

opportunity," Harbaugh said at his news conference Monday. "When the going gets tough, the tough get going. It's a cliché, many call it a cliché, but clichés are usually clichés because they're true."

In fairness: College-football turnarounds can be notoriously slow because of the time it takes to get top recruits and then actually develop them. And Michigan has one of the youngest teams in the country.

Still, preaching patience to college football fans is like serving steak and whole milk to a vegan. So what's stranger than the time it has taken Harbaugh to turn Michigan into a

College Football Playoff team is the reason why: Harbaugh, the former quarterback and offensive mastermind who produced Andrew Luck at Stanford, hasn't found a reliable signal caller yet for the Wolverines.

Wilton Speight struggled at the position to start the year, and then he got hurt. His replacement, John O'Korn, has thrown four interceptions and just one touchdown. Harbaugh has brought in two highly regarded recruits, but they're young and have combined for one career pass.

Despite these bumps in the road, Harbaugh's record so far at Michigan is still better than many other big-

name coaches—such as Clemson's Dabo Swinney, Penn State's James Franklin and Notre Dame's Brian Kelly—through as many games at their current stops.

In fact, Harbaugh's mark is exactly the same as the best coach in the entire sport in his first 33 games at his school. At Alabama, Nick Saban started out 25-8 as well, which included a 7-6 record in that first season—and some of those wins were later vacated. But there's a big difference, too: Saban's third year wrapped up undefeated and with a national championship.

—Andrew Beaton

# OPINION

## Et Tu, Steve Bannon?

Is Steve Bannon working for my agenda—or his?

MAIN STREET  
By William McGurn

That's the question Donald Trump might ask himself now that Mr. Bannon has declared a "season of war" against establishment Republicans on the president's behalf. Mr. Bannon's top target? Senate Majority Leader Mitch McConnell.

During an appearance at the Value Voters Summit two weekends ago, Mr. Bannon invoked Plutarch and Shakespeare to declare that we are reliving the "Ides of March." The only question on Capitol Hill, he warned Mr. McConnell, is "who's going to be Brutus to your Julius Caesar."

But whereas Caesar was done in by Roman senators wielding knives, Mr. Bannon proposes a bloodless assassination. He wants to make Mr. McConnell's continued leadership a litmus test for every Republican Senate candidate next year. That means backing primary challengers who pledge not to support Mr. McConnell as leader. Unfortunately for Mr. Trump, given what the past few weeks have revealed about the GOP's political shortcomings, it's difficult to see how Mr. Bannon's new initiative will end up providing the president what he needs most today: more Republican senators.

The Bannon-McConnell clash grows out of an age-old political argument. McConnell advanced his side of this argument in the Rose Garden of the White House last week alongside President Trump: "Our operating approach will be to support our incumbents and, in open seats, to seek to help nominate people who can actually win in November. That's my approach and that's the way you keep a governing majority."

To which Mr. Bannon responds: What good is having a majority if it doesn't deliver? Here Exhibit A is the seven-year Republican promise to repeal ObamaCare, which met its death in Mr. McConnell's Republican Senate.

Certainly Mr. McConnell's leadership has taken a hit from the failures to get an ObamaCare repeal through. But slim majorities always disproportionately empower dissenters and outliers, regardless of who the majority leader might be. So long as GOP bills can be defeated by the defection of three Republicans, the Trump agenda will be held hostage to those on the margins, whether it's John McCain or Lisa Murkowski.

This is where Mr. Bannon's war could end up doing the Trump agenda harm. In 2018, Democratic senators are up for re-election in 10 states Mr. Trump carried last November. In any normal year, Republicans would concentrate on increasing their Senate numbers by squeezing these Democratic incumbents on issues

where they are vulnerable.

Take Claire McCaskill. She's running for re-election in Missouri, which Mr. Trump carried by almost 19 points. The last time she ran, her GOP opponent, Todd Akin, basically took himself out of the race with a boneheaded comment that a woman wouldn't get pregnant from "legitimate rape." This time Mr. Trump is telling Missourians that if Ms. McCaskill doesn't vote to lower taxes, "you have to vote her out of office."

### Taking out McConnell will not give Trump what he needs: more Republican senators.

Ditto for Indiana Sen. Joe Donnelly, a Democratic incumbent in another state Mr. Trump carried by 19 points.

So long as the focus is on Mr. McConnell and Republican-on-Republican warfare, it largely lets incumbents like Sens. McCaskill and Donnelly off the hook.

Some people think this doesn't matter to Mr. Bannon, because his real objective is less in moving the Trump agenda forward than in making himself relevant again. Josh Holmes, a former chief of staff to Sen. McConnell, puts it this way: "The best path to the front page of any newspaper is an attack on a Republican from within the tent. [Mr. Bannon] knows that."

In the short term, the future of the Bannon-McConnell feud will likely be determined by another Senate vote key to the Trump agenda: tax reform. In sharp contrast to the way the president outsourced the ObamaCare repeal to Congress, he and his team are now publicly making the case for tax reform. If Mr. McConnell gets a bill through the Senate, the victory will recast the debate, and it will be more difficult to make his Senate leadership a compelling primary issue.

If a tax-reform bill dies under Mr. McConnell, it would be a second big strike against his leadership. But even here, it's not clear Mr. Bannon's war is the solution. It is one thing to take a candidate you oppose out; it is quite another to get one you support in. Or, as Mr. McConnell tartly put it, Mr. Bannon is a "specialist at nominating people who lose."

In other words, Mr. Bannon may succeed in rallying unhappy Republican voters to oust Republican incumbents deemed insufficiently pro-Trump. He may even succeed in ousting Mr. McConnell from the Senate leadership.

But killing off establishment Republicans does nothing to get Mr. Trump's judicial picks through, his federal nominees confirmed, or his legislation passed. Surely the president must appreciate that unless this "war" results in more Republican senators, Mr. Bannon will have undermined the Trump agenda.

*Write to mcgurn@wsj.com.*

BOOKSHELF | By Peter Stothard

## That's How You Got Caesar

### The Storm Before the Storm

By Mike Duncan  
(PublicAffairs, 327 pages, \$27)

Donald Trump has been good for the study of Ancient Rome. Those who see the president as a monster have eagerly likened him to the "bad emperors" (almost any one will do), deploying parallels to Caligula, Nero and Commodus to highlight sins of self-glorification, nepotism, the free use of the lie and playing fast-and-loose with political norms. At the same time, the president's sympathizers have responded with parallels of their own. Victor Davis Hanson has noted how the "careful and shrewd" elderly emperor Claudius, ruling between the reigns of Caligula and Nero, was hated by the intellectuals of his time, deemed as "sometimes hasty and inconsiderate, occasionally silly and like a crazy man." "Sound familiar?" asks Mr. Hanson, reminding Mr. Trump's critics that a president whom they think of as bad may not only be good, but an alternative (or precursor) to someone worse.

Comparing individuals is little more than a game. But it is a simplification of a very old American game. To the Founding Fathers, any Roman emperor, "good" or "bad," was a warning. A better Republican constitution had existed before them in Rome, and even the best of autocrats was a subversion of it. Benjamin Franklin's mimentary message to his fellow Americans that the constitution's framers had given them a Republic, if they could keep it, is cited on the opening page of Mike

Duncan's "The Storm Before the Storm: The Beginning of the End of the Roman Republic." The author is described as "one of the foremost history podcasters in the world" and his book is a retelling for present times of Rome's history from 146 to 78 B.C., when the seeds of constitutional subversion were sown.

What parallels does Mr. Duncan see to our current age? Noting that the American republic has not collapsed and been taken over by a dictator ("that hasn't happened yet," he writes), the author suggests that "if the United States is anywhere on the Roman timeline, it must be somewhere between the great wars of conquest and the rise of the Caesars." (Carthage and Corinth were destroyed in 146 B.C.; Julius Caesar's rise began in around 60 B.C.) "If" and "somewhere" are the key vagaries in Mr. Duncan's assertion, but he cites "rising economic inequality, dislocation of traditional ways of life, increasing political polarization, the breakdown of unspoken rules of political conduct" as well as "a set of elites so obsessed with their own privileges that they refused to reform the system in time to save it."

Tiberius Gracchus was born into a wealthy elite but cemented a bond with the poor plebes who distrusted domination by elites. Sound familiar?

The Roman generals who triumphed in 146 B.C. ended the independence of the Republic's two greatest rivals in north Africa and Greece. At Carthage the glory went to the old aristocrat and aesthete, Scipio Aemilianus; at Corinth it went to a "new man" (the first senator from his family), Lucius Mummius, an upstart with a cheerful contempt for foreign art. Also at Carthage was Tiberius Gracchus, a young aristocrat who would become a popular radical, demanding a fairer distribution of the spoils of empire and driving what Mr. Duncan sees as the dominant plot line of the period. The reforms he and his brother Gaius attempted to force into effect helped pave the way for the civil wars that make up most of the narrative of "The Storm Before the Storm."

The book's final year, 78 B.C., is the date of the death of the dictator Sulla, the most successful leader of the old guard. The most prominent character is Gaius Marius, dominant among the "new men." In Republican Rome there were no political parties of the modern kind, but the successor to Sulla's senatorial support was Pompey the Great, while the heir to Marius's was Julius Caesar. The radical martyrs won some of their aims before everyone fell under the one-man rule of Caesar's adopted son, the first emperor, Augustus.

When Mr. Duncan's tale begins, Rome had what nostalgics would come to see as a constitution of checks and balances: executive consuls served for only one year at a time; a senate of land-owning elders served for life; popular assemblies passed laws and elected peoples' tribunes. After the death of Sulla, Rome was well on the way to a checked-and-balanced constitution only in name.

How did this happen? Was it inevitable? Was the constitution ever really balanced in the first place, given how easily it gave way? How, in the future, might a country produce a constitution strong enough to withstand the bad rulers who, under any system, must appear from time to time? To most Romans, "democracy" simply meant mob rule, and this was the aim of almost no one except as a means to an end. Liberty, however, was a clarion call always worth answering. How was liberty to be preserved when the virtuous who believed in it were not in control?

Mr. Duncan does not answer such questions. He is a story-teller, and a story alone never can give an answer. His style is more folksy than forensic. "Fate intervened to alter the course of Roman history," he declares when describing the windfall legacy that King Attalus of Pergamum left to the Republic, and which Tiberius Gracchus hoped would pay for his redistribution of land. "History has a sense of humor," he adds, which is humorous if not helpful. The author does disentangle well some complex events others neglect: Marius made his name through some massive victories against what the Romans saw as marauding northern tribes, but how the Teutones and the Cimbri saw their own ambitions is wholly unknown. Mr. Duncan gives them due place in his story.

Yet for a professional of the spoken word, he is curiously silent on what is perhaps the greatest parallel between his subjects and President Trump: the use of rhetorical devices to identify the wealthy speaker with the poor, the man born to an elite with those who distrust domination by elites, the educated anti-intellectual with those not much educated at all. It is possible to argue that President Trump brilliantly used the playbook of Marius and Caesar—and that his opponents last year and this have sounded more like the aristocratic old guard. More on language and less on war would have better advanced Mr. Duncan's argument.

Mr. Stothard is the author of "The Senecans: Four Men and Margaret Thatcher."

By John Vinocur

Paris

What Europe lacks most today, French President Emmanuel Macron believes, is a common strategic culture. In his view, that means one that is interventionist, has a single doctrine for taking action, and has a joint budget for producing its own military hardware. "Our inability to work together convincingly undermines our credibility," Mr. Macron asserted in a speech at the Sorbonne last month.

Correct. And, although he won't say it, this reality savages the idea that the European Union, in an undertaking called Defence Europe, could emerge as a military player of sufficient substance and boldness to inhibit Russia in Eastern Europe or stare down a threat in the Middle East.

Two Fridays ago, Mr. Macron publicly received the 2017 Strategic Review, a 100-page doctrinal summary drawn up by a panel of experts proud of France's "strategic singularity"—its nuclear strike forces, its capacity to intervene rapidly around the globe, and its permanent membership in the U.N. Security Council. In an uncertain time, the review essentially repeated, as expected, what Mr. Macron has said must be Europe's goal for 2020: "autonomous European operating capabilities in complement to NATO."

Yet the document, in its published version, skipped

naming the central element smothering a common European strategic culture: Germany and its passivity. Although this reality discomforts Mr. Macron's sought-after closeness with Chancellor Angela Merkel, members of the French defense community attacked Germany's soft strategic stance at a closed seminar last month.

Washington and Paris have a problem in common: Germany's passive attitude.

Alain Barluet of Le Figaro, a participant, reported that French officers and experts were concerned about a "Germanization of the Defence Europe project. That means making concessions to norms and a culture recalcitrant to join tough operations." He called the difference in concepts "a chasm."

Meantime, Jean-Dominique Merchet of L'Opinion wrote that "French military men, industrialists and defense experts regard Germany more readily as a counter-model or a threat than an indispensable partner." At the general staff level, he went on, the U.S. and Britain, sharing what was described as France's we-actually-fight strategic culture, were called "our two closest allies."

The French and Germans

may sign joint communiqués disapproving of Mr. Trump's position on the Paris climate accord or the Iran nuclear deal, but there are real differences behind them. Earlier this month Mr. Macron told Der Spiegel that he has an "extremely cordial relationship" with Mr. Trump, while Germany's Foreign Minister Sigmar Gabriel, an eager friend of Russia, routinely portrays America as a warmonger forcing Europe to align itself with Russia and China on Iran and North Korea.

These days, Mrs. Merkel hardly puts any energy into comprehending an American president whose popularity rating in her country runs at about 5%.

Yet at the U.N. last month, discussing the adequacy of the Iran nuclear pact, Mr. Macron asked rhetorically, "Is this accord enough?" and answered, "No. It is not." He said: "Let's be honest, the tensions are on the rise. Look at activities of Hezbollah and Iran's pressure on Syria." He spoke of the need "to reassure regional countries and the United States."

And on North Korea the same dissuasion-conscious tone comes out of Paris. Pyongyang is the creator of a "strategic rupture," French Foreign Minister Jean-Yves Le Drian recently said in a television appearance. "It's hard to see how the Americans could accept the risk of a ballistic missile pointed towards Alaska or a part of the United States." No major German political fig-

ures brush close to using that vocabulary.

Where the French and Germans seem to have more strategic commonality is in wanting to start production of military equipment for sale to their neighbors. It's at the disregard of the North Stream 2 natural gas pipeline problem, where they both are participants, and Russia as producer has the strategic goal of dominating European energy supply.

At the same time, France is trying to sell fighter-bombers to Belgium against NATO's recommendation that it purchase Lockheed-Martin F-35s with dual conventional and nuclear bomb-carrying capabilities that the French Rafales can't accommodate. Norway, the Netherlands and Denmark already bought the F-22s.

In response, Florence Parly,

the French armed forces minister, has said the Rafales' purchase "would contribute to the reinforcing of the Defence Europe project and to its strategic autonomy."

That's a reckless statement.

It would threaten the European Union defense effort among many of its members, ridicule Mr. Macron's contention that the undertaking is "in complement to NATO," amuse Russia, and end the French president's hopes that Mr. Trump comes to see him as America's go-to guy in Europe.

*Mr. Vinocur was executive editor and vice president of the International Herald Tribune.*

By Brian Reardon

The U.S. is unique in its prevalence of small and family-owned businesses. S corporations and other pass-throughs employ the majority of workers and are the foundation of thousands of local economies, ensuring that the benefits of economic growth aren't concentrated in a few financial centers.

The tax-reform debate has largely ignored this reality. Instead, it has been mired in claims that family businesses do not pay enough taxes. In reality, the combination of higher marginal rates, the individual alternative minimum tax, and the inability to shift income to lower-taxed countries results in S corporations, not C corporations, paying the highest effective tax rate. There is good reason to support cutting rates for C corporations, but there is an even better argument to apply those rate cuts to pass-through businesses.

'S corporations' are major job creators but get a bum rap.'

such as pensions, mutual funds, nonprofits and foreign investors. The Congressional Budget Office estimates that shareholder taxes add just 2 percentage points to the corporate effective tax rate.

Pass-through businesses are more than law firms and hedge funds, too. There are 4.3 million active S corporations, and they are in every industry and every corner of the country. S corporations easily outnumber C corporations, these businesses would be subject to the entire double tax.

Either option is unsustainable. A business that operates with effective tax rates in the

mid-30s cannot long survive competing against companies paying effective rates in the low 20s or high teens.

The third alternative would be to sell the family business. That might be good for private-equity investors eager to snap them up, but it would be bad for local communities. The choice whether to keep production domestic or move it offshore is more meaningful when the person making the decision lives in the same community as the workers whose jobs are at stake.

The good news for these communities is that the tax reform framework targets family businesses for lower rates similar to the rate cuts for C corporations. For tax reform to help all employers, these lower rates need to stay in the plan.

*Mr. Reardon is president of the S Corporation Association and a former White House official at the National Economic Council.*

Family Businesses Deserve a Tax Break

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## OPINION

### REVIEW & OUTLOOK

## The Wages of Corporate Taxes

**W**hat do left-of-center economists have against a tax cut that would raise wages for American workers?

They're always telling us that America needs a raise, and that labor isn't capturing enough of corporate profits, yet along come Republicans promising to raise wages by encouraging more investment in the U.S., and they react with shock and smears.

That's the only way to describe the remarkable attack on economist Kevin Hassett for marshaling the considerable economic evidence that cutting the corporate tax rate to 20% from 35% will benefit workers. Mr. Hassett is an expert in this field, having done his own research over the years, and now he is chairman of the White House Council of Economic Advisers.

Mr. Hassett didn't start this fight. But he felt obliged to respond to the recent political assault on tax reform by the Tax Policy Center. The TPC, which fancies itself nonpartisan but has a record of opposing every Republican tax reform, assailed the Trump-Congress tax policy framework by inventing details that don't exist. So on Oct. 5 Mr. Hassett responded in a speech at the TPC.

It was "scientifically indefensible," Mr. Hassett said, for the TPC to assert that there would be little growth from the proposed reform. The static analysis, Mr. Hassett added, was "based on many fictions." And by promoting its attack before the final details were known, the TPC had behaved "irresponsibly" and undermined hopes for "bipartisan cooperation."

In speaking so forthrightly, Mr. Hassett unleashed the furies. Not only was he wrong, thundered former Treasury Secretary Larry Summers, the plan he defended is "an atrocity," a combination of "ignorant, disingenuous and dishonest." The Summers-ettes in the economic press corps all kicked in unison, and Sen. Chuck Schumer called it "fake math."

\* \* \*

There is a long and legitimate debate about who pays corporate taxes. Corporations essentially collect taxes that are ultimately paid by someone else: a combination of workers in lower wages, customers in higher prices, or shareholders in lower after-tax returns.

For many years the dominant belief was that shareholders bore the biggest burden, but this has changed in recent decades with new research on the impact of capital mobility in a global economy. While labor is relatively immobile, especially across national borders, capital can go whereever it wants with relative ease.

U.S. companies have taken advantage of this reality by investing more abroad in lower-tax countries. The benefits accrue to Irish or Singaporean workers whose jobs are created by that capital investment. In his speech at the TPC, Mr. Hassett noted that in 1989 the average statutory corporate tax rate in the OECD was 43%—compared with 39% for the U.S. Today the average corporate tax rate for the Organization of Economic Cooperation and Development—a proxy for the industrialized world—is 24%.

Yet the combined average U.S. federal and state rate is still 39%. By making the U.S. rate competitive in a global market, capital will flow

back to the U.S. for new investment. Much of that investment will go to increase worker productivity, which would boost wages.

What really angers the liberals is that, in a paper released this month by the White House, Mr. Hassett collected years of economic evidence to make the case that cutting the U.S. rate to 20% would raise average wages by \$4,000 to perhaps more than

\$9,000. Outrageous, says Mr. Summers.

But Mr. Hassett isn't alone. Economist Laurence Kotlikoff wrote on these pages last week that the GOP framework would "raise real wages by 4% to 7%, which translates into roughly \$3,500 a year for the average working household." Other economists have found the increase closer to \$1,000. Still others say it's higher, but the debate is over the magnitude of the raise, not the fact that American workers will benefit if the U.S. cost of capital falls.

In their blogs, economists Casey Mulligan of the University of Chicago and Greg Mankiw of Harvard dissect Mr. Summers' academic arguments in rigorous detail, and Mr. Mulligan does him the service of citing some of his earlier work. In a 1981 paper Mr. Summers referred to "the increase in gross wages which results from the increased capital intensity arising from eliminating capital taxation."

In his response, Mr. Summers has grabbed for the lifeline that a small economy like Ireland has no relevance to America and that Britain saw no increase in wages after it cut the corporate tax rate. But the corporate tax rate isn't the only factor in the cost of capital, and the U.K. partially offset the benefit of the rate cut with other tax changes. And until Brexit, the U.K. economy was still one of the strongest in Europe.

Other large economies are also cutting their corporate rates, and Emmanuel Macron wants to cut the French rate to 25% from 33%. In his paper Mr. Hassett points out that wage growth has been far greater since 2013 in the 10 developed countries with the lowest statutory tax rate compared with those with the highest.

\* \* \*

Which brings us back to why Mr. Summers and his followers are so upset now. Our guess is that it has something to do with the disastrous record of their own policies in lifting wages. Mr. Hassett had the audacity to point out that real corporate profits rose 11% a year under President Obama, but "the pass-through to workers" was only 0.3%.

The Summers crowd that preaches about the dangers of inequality presided over an economy that increased it. Obamanomics was great for Wall Street, not for the American middle class. How dare conservatives try to do better—and with policies that look to increase supply-side incentives rather than by redistributing income, fixing prices and regulating business to the point that capital investment has been historically weak.

If we presided over that liberal record, we'd be sore, too. But if they look in the mirror with some honesty, they might understand that the failure of their policies in lifting wages is one reason Donald Trump is President. Meanwhile, why begrudge Americans a raise?

## Argentina Votes for Change

**A**rgentina may finally be turning away from the populist class-warfare politics of former president Cristina Kirchner. President Mauricio Macri's Let's Change coalition clobbered its opponents in Sunday's midterm elections, taking the five-most populated districts in the country and 40% of the national vote.

Argentines put Mr. Macri at the helm two years ago, and on Sunday confirmed their fatigue with *kirchnerismo*. Mrs. Kirchner's Citi-

zen's Unity movement won in only three of 23 provinces. In her own bid for a senate seat, she lost to Let's Change candidate Esteban Bullrich. On Monday Mr. Macri pledged to cut taxes, curb inflation and reduce poverty.

Standing next to Buenos Aires Province Governor Maria Eugenia Vidal on Sunday, Mr. Bullrich captured the nation's hopes when he said, "We are the generation that came to change the province forever." Sunday was a good start.

## Rule and Law in Catalonia

**I**t's a topsy-turvy world when an elected leader enforcing a democratic constitution gets accused of staging a coup, but then that's Catalonia this month. Separatists are furious that Spanish Prime Minister Rajoy might suspend autonomous government and force a new election to resolve a separatist crisis in the northeastern region.

Separatists, led by regional President Carles Puigdemont, claim Catalonia voted for independence from Spain in a referendum this month. No such thing happened. A majority of the minority of Catalans who participated in a publicity stunt dressed up as an election said they want to secede. A constitutional court had ruled the exercise illegal before it happened. It was an attempt at mob rule.

Now Mr. Rajoy wants to protect the rights of the non-secessionist majority. The national Senate will vote Friday on Mr. Rajoy's plan to invoke a constitutional clause suspending autonomous local government until new elections for a regional parliament can be held, perhaps in six months. In the interim, Madrid would take over responsibility for policing, taxation and most public administration.

It's a draconian step, but Mr. Rajoy has little choice. The regional government abandoned its obligation to uphold Spain's constitution when it authorized the phony vote. Mr. Puigdemont claims to want negotiations between Barcelona

and Madrid, but he won't say what he wants to negotiate. He has refused even to say whether he is declaring independence.

Mr. Rajoy owes it to loyal Catalans to call time on this farce. Though he may need to deploy a heavy police presence to quell violent protests, the focus should be on keeping streets safe, schools open and

other public services functioning while preparing quickly for regional elections. The courts will weigh sedition prosecutions against individual Catalan officials in some cases. Two local police officials are under investigation for their failures to stop the illegal vote, charges they deny. Madrid should be judicious but not shy about enforcing the laws.

There is nothing undemocratic about this. A duly elected national leader is trying to afford all citizens the protection of the national constitution against a minority of rabble-rousers. The biggest threat to Spain—and to Europe—would be to set a precedent for allowing fake votes to tear real countries apart.

The virtue of Mr. Rajoy's approach is that it would put Catalan voters firmly back in control, through a legal election. Those voters say they want to remain within Spain but they keep electing separatist local officials, presumably as a protest and on the assumption Madrid would hold the country together anyway. A new ballot offers Catalans a path out of this crisis by taking political responsibility for the union.

Rajoy tries to stave off mob rule until voters take responsibility.

## OPINION

### LETTERS TO THE EDITOR

## Death Taxes and the Capital-Gains Step-Up

Regarding Phil Gramm's "The GOP's 'Tax the Rich' Temptation" (op-ed, Oct. 9): The estate tax (or death tax) only applies to 0.02% of Americans. The \$5.49 million exemption reaches only the super rich. The remaining 99.98% of estates in America reap great economic benefits from the estate tax through a mechanism called "step-up basis."

Because every estate is subject to estate tax (though almost none pay it), all assets are revalued at death at their current value rather than at their original cost. Say farmer A paid \$200 an acre for farmland many years ago, which gets revalued to \$12,000 at his death. The heirs can then sell it immediately without paying the costly capital-gains tax. But if the estate tax ends there would be no reason for a step-up.

Ending the estate tax would be a pure gift to the richest 0.02% and put a new burden on 99.98% of families, as well as a drag on GDP.

MIKE CARROLL

Tuscola, Ill.

The repeal of the estate tax and the asset step-up basis provisions embedded with it will ensure that assets passed to the next generation will eventually be taxed if there is no estate tax. Reports indicate that there are currently \$3 trillion of unrealized gains held by U.S. taxpayers. Much of this escapes taxation because the step-up basis provisions of the estate tax system are effective on death even if no estate tax is paid.

Minor law changes to the capital-gains tax provisions so that assets held at death are taxed as if they had been sold at capital-gains tax rates could generate far more for the Treasury than the current estate tax. This approach would also flat-

ten the tax system so that it reaches a much wider population, but at much lower rates of taxation: 15% for long-term capital gains contrasted with the federal 40% estate tax on all assets held at death above the threshold exemption at current rates.

Canada and many other countries have declined to enact estate taxes but rely on capital-gains taxation as outlined above.

R.D. McCREEERY

Cleveland

Mr. Gramm compares the percentage of income taxes paid by the top 10% U.S. earners to France and Sweden, concluding that the top 10% U.S. earners pay a greater percentage of taxes than in the other countries. While this may be true on the surface, it's a fallacious comparison because Mr. Gramm conveniently fails to mention that the percentage of total income earned by the top 10% of U.S. earners is much higher than the top 10% in France or semi-socialist Sweden due to the U.S.'s far more skewed income distribution.

STAN KUICK  
Richland, Wash.

Mr. Gramm doesn't mention the best argument for repealing the estate tax: the waste of brainpower. Brilliant accountants and attorneys are working to prevent their clients' estates from being taxed, opposed by equally brilliant people in the IRS.

We have a bunch of geniuses spending their professional lives canceling each other out fighting over a trivial sum, less than 1% of federal tax revenue.

KEITH SMITH

Silver Spring, Md.

## Difficult to Hold Rogue Prosecutors to Account

In your editorial "Prosecutorial Impunity" (Sept. 18), you state: "The only real check on prosecutorial abuse are judges willing to enforce standards of honesty." You are sadly mistaken.

Judges cannot enforce standards, they can only enforce laws. Sen. Ted Stevens's conviction was overturned because the prosecution didn't abide by the rulings of the U.S. Supreme Court pertaining to the sharing of exculpatory evidence with the defense. This didn't save his political career, which was destroyed by the initial conviction.

When the trial judge in the case tried to obtain some punitive action against the offending prosecutors,

he could not, because the rulings of

## ObamaCare's Generational Disparate Impact Eased

Regarding your editorial "The ObamaCare 'Sabotage' Meme" (Oct. 14): Thanks to President Trump you healthy under-35-year-olds may soon be free from the intrusive, socialist strictures of ObamaCare. Since you have little or no need for health insurance, the government has no right to make you pay for it in order for you to have access to medical services and drugs you don't need or want, or otherwise pay a penalty. You will no longer be subsidizing those elderly who do need such coverage. After all, this is fairness, this is democracy.

I trust you will remember this when later in life you need essential continuing treatment for diabetes, arthritis, congestive heart failure or dementia.

TOM MOULSON

Corona del Mar, Calif.

## Desire to Preserve National Culture Isn't Undemocratic

William A. Galston doesn't seem to understand the current concern among nations faced with a surge in immigration ("Is Populism a Threat to Democracy?", Politics & Ideas, Oct. 18). Their populist concern isn't opposition to democracy. Their opposition is to changes in their freedoms that could be imposed by the culture and beliefs of a new, nonnative ruling majority.

The standards for individual rights and freedoms vary among peoples from different cultural backgrounds. Even though the newcomers from other political or religious backgrounds are a minority, they can have a disruptive influence, especially if they resist social integration and tolerance for the beliefs of their host nation.

HOLLISTER SYKES

Cranford, N.J.

## Why Should the Kurds or Anyone Else Trust the U.S.?

You say abandoning the Kurds would damage America's credibility ("Assault on the Kurds," Review & Outlook, Oct. 17). But we've often abandoned people we once supported. Just ask the Cuban exiles, the South Vietnamese, the Afghans who defeated the Soviet Union (see "Charlie Wilson's War"), the Iraqis who worked with us in fighting Saddam Hussein and now the Kurds, whom we should fully support. It has been demonstrated over and over again that our word means very little.

Also why would anyone want to negotiate and strike a deal with the U.S. if we sign agreements and then abandon them shortly thereafter (see Paris Accords, Iran deal)?

The fact is American credibility is already damaged and is getting to the point of no repair under the shortsighted leadership of President Trump.

STEVEN MORRIS  
Mount Pleasant, S.C.

## Pepper ... And Salt

THE WALL STREET JOURNAL



"This year I'm planting only invasive species so they can kill each other."

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## OPINION

# Comey and Mueller Imperil the Rule of Law

By Peter Berkowitz

**N**eeds broke last week about possible Russian wrongdoing in the U.S., and it didn't involve the Trump campaign. The Hill reported that in 2009 the FBI "gathered substantial evidence that Russian nuclear industry officials were engaged in bribery, kickbacks, extortion and money laundering designed to grow Vladimir Putin's atomic energy business inside the United States."

**The former FBI directors tend to investigate Republicans far more zealously than Democrats.**

The FBI kept that information from Congress and the public, the Hill reported, even as Hillary Clinton's State Department in 2010 approved a deal that transferred control of more than 20% of America's uranium supply to a Russian company. The Hill also reported the FBI had documents showing that during this period Russia engineered the transmission of millions of dollars to the Clinton Foundation.

The FBI director at the time: Robert Mueller, now special counsel in charge of investigating "Russian interference with the 2016 presidential election and related matters." The revelations can only heighten anxieties about Mr.

Mueller, the FBI and the rule of law.

The special counsel's open-ended mandate covers not only "any links and/or coordination between the Russian government and individuals associated with the campaign of President Donald Trump" but also "any matters that arose or may arise directly from the investigation."

Because Mr. Mueller has interpreted his mandate expansively, his effort may become the most politically disruptive federal investigation of our young century—more than the FBI's investigation of Mrs. Clinton's private email server and mishandling of classified information, more than Special Counsel Patrick Fitzgerald's investigation into the 2003 disclosure of CIA employee Valerie Plame's identity.

All three investigations have one important characteristic in common: James Comey, Mr. Mueller's successor as FBI director, played a dubious role in each.

In December 2003, after Attorney General John Ashcroft recused himself from the Plame matter, then-Deputy Attorney General Comey named Mr. Fitzgerald—a close friend who was godfather to one of Mr. Comey's children—as special counsel to head the Justice Department's "investigation into the alleged unauthorized disclosure" of Ms. Plame's employment.

Unknown to the public then, and still not widely known, that potential crime had already been solved. By early fall 2003, the CIA had determined that revealing Ms. Plame's identity caused no injury to national



WIN MCNAMEE/GETTY IMAGES

James Comey and Robert Mueller at the White House, June 21, 2013.

security, while the FBI knew it was not a White House official—as many Democrats and liberal pundits ardently believed—but rather Deputy Secretary of State Richard Armitage who was columnist Robert Novak's source for the original Plame story.

Mr. Fitzgerald declined to prosecute Mr. Armitage, but he played hardball with the Bush White House. Over several years, Mr. Fitzgerald inflicted severe damage by feeding the false accusation that the president had lied the nation into the Iraq war.

The only criminal charges he prosecuted were generated by his investigation. He won a 2007 conviction of I. Lewis "Scooter" Libby, former chief of staff to Vice President Dick Cheney, for obstruction of justice, false statements and perjury. The conviction

was based on small inconsistencies Mr. Fitzgerald discovered in (or created from) more than 20 hours of Mr. Libby's FBI interrogation and grand-jury testimony. Star prosecution witness Judith Miller wrote in her 2015 memoir that Mr. Fitzgerald had withheld crucial information and manipulated her memory, inducing her to testify falsely against Mr. Libby.

In contrast, then-FBI Director Comey played softball with the 2015-16 Hillary Clinton investigation. Despite the gravity of the matter—military service members can be court-martialed and discharged for sending classified information on non-secure systems—Mr. Comey mostly avoided issuing subpoenas and cooperated with the Obama Justice Department in obscuring the investigation's criminal character. He permitted Mrs. Clinton and her team to destroy evidence and granted generous immunity deals to her advisers. He drafted a statement exonerating Mrs. Clinton months before the FBI interviewed her. And his FBI neither recorded the interview nor compelled her to answer questions under oath.

In addition, in a July 2016 press conference, Mr. Comey usurped the authority of Justice Department prosecutors by publicly exonerating Mrs. Clinton. In the process, he confused the pertinent legal issue by asserting she did not intend to violate the law. But intent wasn't a necessary condition for a crime. Federal law criminalizes "gross negligence" in mishandling classified information. By Mr. Comey's own account, Mrs. Clinton had been "extremely careless."

With Mr. Trump, by contrast, Mr.

Comey is playing hardball even after leaving government. In May, shortly after President Trump fired him, Mr. Comey—possibly in conflict with FBI policy—leaked notes of an Oval Office meeting with the president. His purpose, Mr. Comey publicly acknowledged, was to "prompt the appointment of a special counsel."

Mr. Mueller is playing hardball too. Unlike the Clinton investigation into narrowly defined allegations, his mandate authorizes pursuit of unspecified crimes. That invites casting a wide net, which Mr. Mueller has done, exploring conduct that long predated the 2016 presidential campaign. He has assembled a huge team that includes, in addition to FBI agents, 16 seasoned prosecutors, at least seven of whom have contributed money to Democratic candidates. He might have extended his investigation to Mr. Trump's business interests. And he is working with agents from the Internal Revenue Service's criminal investigation unit, raising the possibility that he has obtained Mr. Trump's tax returns.

Mr. Mueller has adopted scorched-earth tactics in pursuit of Paul Manafort, who ran Trump's presidential campaign from June to August 2016. The special counsel's team has reached back more than a decade into Mr. Manafort's financial affairs and conducted a predawn, guns-drawn raid on his home on a day he was scheduled to testify before Congress as a cooperating witness.

One crucial difference distinguishes the probe of Mrs. Clinton from the two Comey-instigated special-counsel investigations of Republican administrations. Mr. Fitzgerald's multiyear investigation of the Bush administration and Mr. Mueller's ever-widening scrutiny of the Trump campaign exhibit a tenacious and nearly unconstrained search for persons and crimes to prosecute. In contrast, Mr. Comey's investigation of Mrs. Clinton reflects a determination not to prosecute systematic and obvious unlawful conduct.

Both excesses threaten the rule of law—but the dogged search for persons and crimes to prosecute poses the graver threat to constitutional government.

Mr. Berkowitz is a senior fellow at the Hoover Institution, Stanford University.

## When Ballpark Fan Favorites Strike Out

By Bob Greene

**V**ery disappointing," said Larry White, the tone of his voice matching the words. "Ninety percent of the appeal was in the anticipation. What am I going to get? What's going to be in my hand when I reach in there?"

Mr. White, of Rowley, Mass., is one of the nation's leading authorities on Cracker Jack—specifically, the toys and doodads that for more than a century were included in Cracker Jack boxes. At one time he owned in excess of 120,000 Cracker Jack prizes, and is the author of a guide to their resale value.

**Cracker Jack prizes aren't what they used to be, but there is still hope for the World Series.**

I sought out Mr. White after my inspired plan for attending the World Series had gone sour and I had ordered a 24-pack of Cracker Jack to munch on while I watched on television. No foodstuff has ever been more associated with baseball.

When the Cracker Jack arrived, I was mildly disheartened that the 24 packages were not the traditional boxes, but little bags. Still, there was Sailor Jack on the front with his dog, Bingo. And there, in capital letters, was the eternal promise: NEW PRIZE INSIDE!

I ripped open the top pack. There were the caramel-coated popcorn pieces and a few peanuts. I searched for the prize. There have been so many delightful (although understandably inexpensive-to-produce) ones down through Cracker Jack history, such as metal locomotives, wooden wedding rings, miniature park benches, tiny joke books, colorful whistles, scaled-down trumpets.

What I found was a small square of paper with a scannable image on it. I was instructed to download a cutely named app, aim my phone at the image, and then "experience" a videogame of some sort on my screen.

I started to tear open the other bags. Same thing: Download, aim, experience.

Which is why I called Mr. White. He informed me that the big change came last year, when Cracker Jack—

owned by Frito-Lay since 1997—decided it would be a good idea to get rid of the traditional prizes, and to go all-digital. "This is not progress," Mr. White said.

Frito-Lay's official position, as explained in a news release, is that "for nearly 125 years, the Cracker Jack brand has been a part of memorable family moments," and the new "baseball-inspired mobile digital experiences" are consistent with a product that "authentically reminds people of simpler times [and] childhood memories."

Because there's nothing like going to a beautiful ballpark with your mom and dad, buying some Cracker Jack, and then spending the rest of the afternoon gazing at the Cracker Jack app on the screen of your phone.

I was not going to allow this to dissuade me; I had another plan to get in the World Series mood. For the first time in decades, I bought some packs of Topps baseball cards: the 2017 edition.

As a boy, I knew that if you didn't live in a big-league city, you could do one of two things: Mail a stamped, self-addressed postcard to a favorite star in care of the ballpark where he played (Stan Musial at old Busch Stadium, Duke Snider at Ebbets Field) and hope against hope that, sitting around the clubhouse before a game, he might take the time to scrawl his autograph and have the clubhouse man drop the postcard in a mailbox. Sometimes this actually worked.

Or you could buy some baseball cards, stare at the heroic photographic images on the front, and spend many happy minutes studying the statistics printed on the back: number of hits, home runs, walks, stolen bases. This was real baseball—the nuts and bolts of it.

I opened my set of Topps 2017 cards and noticed something right away. Printed prominently on the back of each card, above the players' bios and statistics and in larger typeface, were their social media accounts. A tacit invitation to toss the cards to the floor, dispense with the dull statistics, grab a smartphone or go to a keyboard, and punch in the players' Twitter and Instagram handles.

Which, inevitably, I did. I can't tell you much about Baltimore Orioles infielder Ryan Flaherty's prospects for next season, but I can vouch for the cup of clam chowder he photographed during dinner one night.

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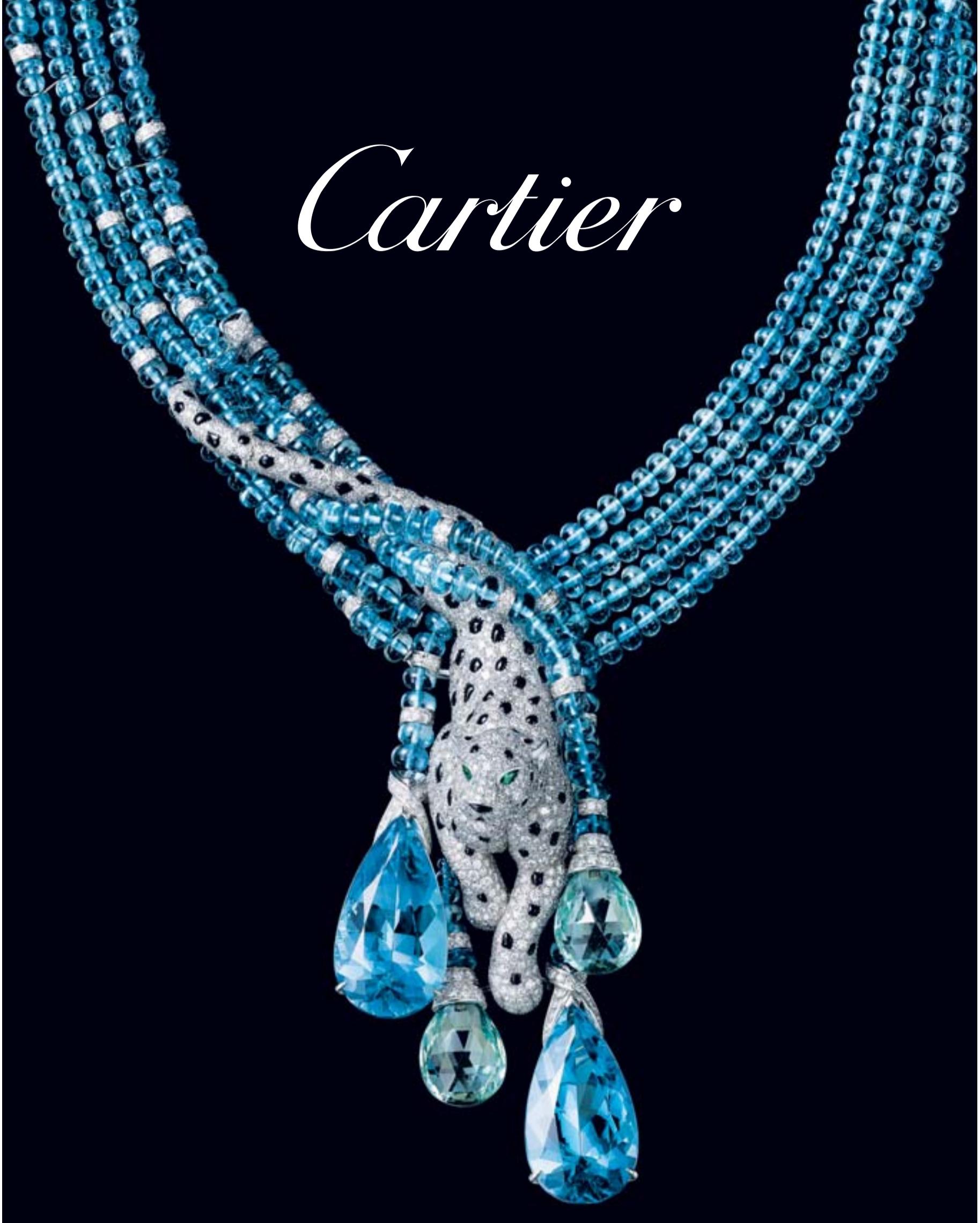
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## Dividend Fears Take Toll on GE

Conglomerate's shares swoon amid worries slow growth will force management's hand

BY BEN EISEN

Shares of **General Electric** Co. took another pounding on Monday, reflecting investors' fears that a conglomerate that was once the bluest of blue chips faces challenges daunting enough to force a dividend cut.

At least six analysts have either downgraded the stock or cut their year-ahead price tar-

gets since Friday, when the Boston-based conglomerate missed analysts' earnings expectations and slashed its forecasts. GE's new chief executive, John Flannery, called the quarterly performance "unacceptable" and said he would review the company's 24-cent quarterly dividend.

Mr. Flannery's remarks forced many investors and analysts to reassess their estimates of the company's earnings power, sales growth and capacity to return cash to shareholders in the form of dividends and share buybacks.

On Monday, GE fell \$1.51, or

6.3%, to \$22.32, making it the worst performer in the Dow Jones Industrial Average on a day when the index declined by 0.2% to 23273.96. The stock is down 29% so far this year, while the S&P 500 is up 15%.

The rout is the latest sign that GE, once the most-valuable company in America, is facing existential challenges revolving around its size, business mix and cost structure.

Many analysts and investors said they believe Mr. Flannery is well equipped to handle the task, but few think the company is on the verge of turning around a run of bad news that

has shredded \$86 billion in market value this year.

GE shareholders range from mom-and-pop investors to America's biggest institutions and money managers, such as **BlackRock Inc.**, **Capital Group** and **Fidelity Investments**. Many said they are continuing to hold on to GE shares, reasoning that the firm's broad array of business lines and its reputation for cultivating top managers will make the investment a winner in the long term.

"We're holding our nose," said Mike Bailey, director of research at \$1 billion wealth manager FBB Capital Partners,

which is retaining its shares of GE for the moment. "It's obviously been tough for a lot of folks. The pain for the moment is the dividend fear."

A dividend cut would reduce income for holders of the company's 8.66 billion shares outstanding, and would send a downbeat signal at a time when investors have been loading up on stocks for their income potential, sending the Dow industri-

Please see **GE** page B2

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- ◆ GE isn't alone in woes over long-term-care insurance... B11

## Arconic Picks GE Veteran As Chief

BY BOB TITA

Aerospace-parts specialist **Arconic Inc.** named **General Electric** Co. veteran Chip Blanksenhip as its chief executive, looking to end a year of management turmoil marked by a bitter fight with an activist investor and the sudden resignation of its former chief.

Mr. Blanksenhip, who headed GE's appliance business until recently, will become Arconic's CEO on Jan. 15, the company said Monday. Interim CEO David Hess, who has run the company since April, will stay as a director.

The appointment came as Arconic missed quarterly earnings expectations because of rising aluminum prices and costs for supplying parts for new jet engines built by GE and **United Technologies Corp.** Arconic shares fell more than 10% to \$24.35.

**At GE, Chip Blanksenhip worked in its jet-engine unit and led its appliance business.**



"Arconic needs improvement in performance across the board," Mr. Hess told analysts Monday.

Analysts said Monday's sell-off reflects investors' anxiety about whether a new CEO will be able to deliver on the ambitious profit targets established by his predecessor, Klaus Kleinfeld, who stepped down in April under pressure from activist investor **Elliott Management Corp.**

Arconic, which separated from aluminum producer **Alcoa** a year ago, has been beset by operating problems that have forestalled the high profit margins envisioned in the breakup.

Mr. Blanksenhip, 51 years old, will be expected to tighten cost controls and address persistent efficiency and technical problems weighing on production, particularly in businesses acquired in recent years to expand Arconic's presence in high-value forgings and metals besides aluminum.

Mr. Blanksenhip, whose training is in metallurgy and material-science engineering, joined GE in 1992, and cycled through several jobs with GE's aircraft-engine business.

Mr. Blanksenhip is "an excellent selection" for CEO, said David Miller, Elliott's senior portfolio manager, in a statement issued Monday.



KELLY LAUB  
Florida's insurance market is being upended by assignment of benefit contracts. A fire at Kelly Laub's home drew multiple contractors trying to get her to sign one.

## Contractors Vie for Home-Insurance Claims

BY NICOLE FRIEDMAN AND LESLIE SCISM

Within hours of a fire at Kelly Laub's four-bedroom house in New Smyrna Beach, Fla., in June, four contracting companies showed up to offer rebuilding services.

Each vendor wanted Ms. Laub to sign a document giving the contractor the rights to her homeowners insurance benefits, she said. In exchange, they offered to repair her home and negotiate with her insurance company on her behalf.

These assignments of benefit, or AOB, contracts are upending the insurance market in one of the largest U.S. states. Insurers and regulators said the pacts are responsible for

driving up insurance rates for some Florida homeowners and spurring a boom in contractor lawsuits against insurers.

Based on current AOB trends, the average statewide annual homeowners insurance premium for a \$150,000 new home is projected to rise from \$1,232.08 in 2017 to \$1,595.07 in 2022, a 29% increase, according to the Florida Office of Insurance Regulation. These increases are higher than nationwide projections from the Insurance Information Institute, a trade group.

Rate increases could steepen, executives said, if damage from Hurricane Irma last month causes major losses for the state's insurers or an increase in AOB-related law-

suits. Many Irma-related insurance claims are still being processed, so it is too soon to see much litigation related to the storm.

Catastrophe-modeling firms expect the insured losses to reach the tens of billions.

"The concern is that when you have a large event such as Irma, that when you add AOB on top of it, it's just going to magnify the impact of the storm," said Don Matz, president of **Tower Hill Insurance** in Gainesville, Fla. Tower Hill has raised rates for homeowners in some Southeast Florida counties by up to 15% in the past year partly due to AOB costs, he said.

AOBs allow repair companies to report a homeowner's claim to an insurer and be paid

directly, without the money going first to the consumer. Contractors can sue the insurer if there is a disagreement about the cost of the claim. They also can go after homeowners to make up for shortfalls if the insurer doesn't pay the full amount requested, according to regulators.

Other states allow AOB agreements, but they have had a larger impact in Florida because of a state law that requires the insurer to pay attorneys' fees if more money is awarded after a lawsuit than was initially offered. Insurers say the use of AOB agreements in Florida encourages contractors to overcharge insurers for repair work and perform more

Please see **ASSIGN** page B2

## Sears and Whirlpool Split Over Price Fight

BY SUZANNE KAPNER AND ANDREW TANGEL

**Sears Holdings Corp.** will no longer sell **Whirlpool Corp.** appliances after a pricing dispute and changing market dynamics fractured a partnership that stretched back more than a century.

The struggling department store chain has stopped carrying products made by the biggest U.S. appliance manufacturer, including Maytag, KitchenAid and Jenn-Air appliances, according to an internal Sears memo. Sears will deplete Whirlpool inventory currently in its stores, the memo said, but hundreds of items have disappeared from the websites of Sears and Kmart, which is also owned by Sears Holdings.

Sears has been a top seller of refrigerators, washing machines, dryers and other appliances for decades, but its grip on the market has weakened in recent years.

The retailer has closed hundreds of stores across

the country, and home-improvement chains like Home Depot Inc. have stolen market share.

As recently as 2002, Sears sold four of every 10 major appliances in the U.S., far outpacing its rivals. But its share of the market fell to 22% in the 12 months ended March, according to TraQline, a market-research firm.

Sears has scrambled to keep suppliers from abandoning the retailer as its financial position has deteriorated. In June, Chief Executive Edward Lampert took the unusual step of suing two makers of Craftsman tools to ensure they continue to supply the chain. Both lawsuits were resolved and the manufacturers are continuing to ship to Sears.

The disagreement with Whirlpool was unrelated to Sears's credit issues and instead had to do with pricing.

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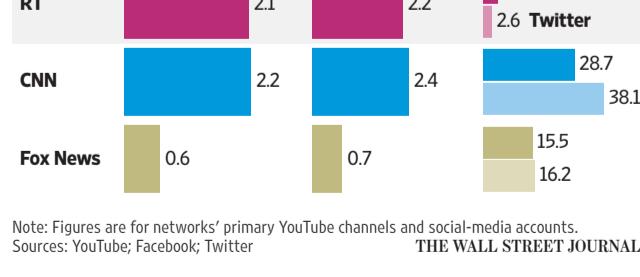
### ECONOMY WITHSTANDS HURRICANES

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## Russia Capitalizes on YouTube

### Long Reach

Russian state news outlet RT is among the most watched news networks on YouTube, helping it spread its content to anyone with an internet connection.



Note: Figures are for networks' primary YouTube channels and social-media accounts.

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thriving presence on Twitter with 10 million followers. RT's popularity on YouTube, Facebook and Twitter shows how the open approach of social-media companies can empower unreliable news sources—from government-backed propaganda outlets to conspiracy theorists to extremist groups. While the companies ban harassment,

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Whirlpool issues a warning on its earnings..... B3

The retailer has closed hundreds of stores across

to promote tweets to U.S. users. The Twitter dossier, submitted to a congressional committee investigating Russian influence in the election, cited a federal intelligence report released earlier this year that claimed RT was a primary tool in Russia's alleged efforts to swing the U.S. election toward President Donald Trump—a charge RT has denied. Yet RT maintains a

thriving presence on Twitter with 10 million followers.

RT's popularity on YouTube, Facebook and Twitter shows how the open approach of social-media companies can empower unreliable news sources—from government-backed propaganda outlets to conspiracy theorists to extremist groups. While the companies ban harassment,

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## Drugmakers Aim Branded Generics At Foreign Markets

BY DENISE ROLAND

One of Abbott's latest drug launches is a fruit-flavored gummy bear containing a laxative for children.

But the bears won't be appearing in any U.S. pharmacies: They were developed exclusively for the emerging markets, rolling out in Russia, Eastern Europe, the Middle East and Africa.

The product, known as Duphabears, is part of Abbott's big shift three years ago toward "branded generics," essentially off-patent medicine launched with the sort of brand name and marketing more typical of a patented drug. In many cases, the drugs are aimed squarely at fast-growing markets like Eastern Europe, the Mideast and Latin America.

The sector isn't one of the pharmaceutical industry's highest-profile businesses, though most generic drug giants make branded generics in one form or fashion. The category has long been caught somewhere in between the industry's two bigger core businesses: patented medicines, which drug firms spend heavily both developing and then marketing; and generics, where they do little of either.

Still, branded generics have given Abbott and a handful of other players a relatively cheap route to growth—allowing them

to repackage off-patent drugs and extend their commercial lifespan.

**Novartis** AG's generic drug arm Sandoz, **Valeant Pharmaceuticals** Inc. and India's **Sun Pharmaceutical Industries** Ltd. are among the big drugmakers that also sell them.

They require much less of the expensive research and development that goes into prescription drugs. Abbott and others can tweak things like how the medicine is delivered—for instance, in liquid form or in gel caps—for relatively little.

Branded generics, while much cheaper than patented medicines, can command higher prices than their unbranded counterparts in the developing world. In richer countries, pharmacists, insurers and health-plan administrators tend to guide patients toward cheaper generics, regardless of the brand's supplier or manufacturer. But in poorer countries—where government budgets are strained and health-care infrastructure spotty—spending for medicine tends to come mostly out of a patient's pocket. That gives them discretion to shell out on brands they trust.

Sales are "very much driven by promotion," said Susan Ringdal, head of corporate strategy at U.K.-based **Hikma Pharmaceuticals** PLC, which sells branded generics in the Middle East and North Africa.

All that can translate into fatter margins. The Hikma division, which sells mostly branded generics, boasts margins of around 18.4%, versus 6.9% for its unbranded oral generics business. Abbott made an operating margin of 18.7% on its branded generics business last year, according to Wall Street Journal calculations.

In India, branded generics accounted for about 63% of all drug sales by value in 2015, according to Unmesh Lal, a health-care specialist at consultancy Frost & Sullivan. In China, that figure stands at 55%. In the U.S., they comprise around 11%.

—Olga Padovina contributed to this article.

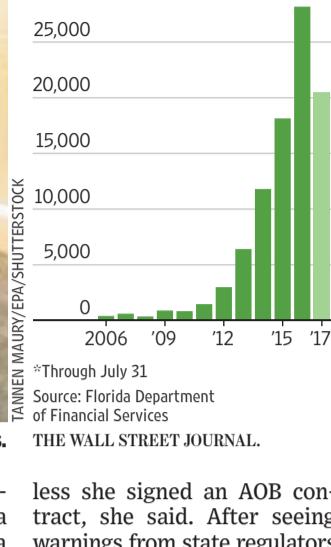
## BUSINESS & FINANCE



A Texas home after Hurricane Harvey. AOB pacts have had a larger impact in Florida than other states.

### Heavy Caseload

Assignment of benefit lawsuits



\*Through July 31

Source: Florida Department of Financial Services

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## ASSIGN

Continued from the prior page  
work than is needed.

**Heritage Insurance** in Clearwater, Fla., will pay out about \$50 million more than it otherwise would have this year due to AOB claims, said Chief Executive Bruce Lucas.

Some lawyers, consumer advocates and contractors say AOB agreements can help homeowners who are unfamiliar with the claims process and don't know how to navigate the system. Many homeowners are frustrated when some insurers can take days or even weeks to send adjusters to inspect damage, said Sha'Ron James, Florida's insurance consumer advocate.

cate. "The lawyers have found an opening," Ms. James said. "They realized there are a lot of unhappy consumers."

Some contractors say the agreements also ensure builders are paid fairly for their work. "Unless I have an assignment of benefit, I may not get paid, or I won't get paid the right amount," said David DeBlander, president of **Pro Clean Restoration & Cleaning** in Pensacola, Fla.

More than 28,000 AOB lawsuits were filed in Florida in 2016, up from 405 in 2006, according to the state's Department of Financial Services. Through July of this year, more than 20,000 were filed.

Insurers and regulators warn that AOB costs could accelerate rate increases in the state.

When **HCI Group** Inc.'s Homeowners Choice unit requested a 3.3% rate increase from Florida this year, regulators told the company the increase wasn't sufficient to cover its rising AOB costs. An actuarial analysis indicated a jump of 19% was justified. The insurer ended up increasing its rates by 8%.

Earlier this year, state insurance regulators unsuccessfully sought legislation to curb AOB lawsuits by limiting the instances in which insurers are required to pay attorneys' fees. Lawmakers are taking up the issue again.

Brooke Fehr, a magazine editor in Sanford, Fla., tried to get repair estimates from about five roofing companies after Irma. All but one wouldn't look at her roof unless she signed an AOB contract, she said. After seeing warnings from state regulators and her insurance company, she decided not to sign.

"It's really tough to be put into this position," Ms. Fehr said. "You're basically told nobody will do business with you if you don't [assign benefits], but the state is saying absolutely don't do business this way."

Ms. Laub, the homeowner in New Smyrna Beach, refused to sign any AOB contracts after her house fire. She had signed one earlier for roof damage and regretted it, because the roofing company turned out to be unreliable. "Once they have that assignment of benefits, the policyholder is kind of out of the loop," she said.

## GE

Continued from the prior page  
trials and other indexes to records.

With the 10-year Treasury note yielding less than 2.4%, GE's 4.3% dividend yield—the firm's stated annual dividend payout rate divided by its current share price—has been particularly attractive. The S&P 500's dividend yield is just under 2%.

Index funds operated by **Vanguard Group** are among the biggest GE owners. The

Vanguard Total Stock Market Index Fund, which had \$621 billion in assets as of the end of September, by itself owns roughly 205 million shares, or 2.4% of GE's shares outstanding, according to Morningstar.

Mr. Flannery, who had previously committed to maintaining GE's dividend, said Friday that his views are "continuing to evolve."

GE last cut its dividend in mid-2009 just as the financial crisis was ending. Its stock fell 56% in 2008 and rose 6.6% in 2009, far undershooting the major stock indexes. Recently, the company has become known for its dividend growth, increasing its payout by nearly 9% annually between 2012 and 2016, according to FactSet.

Dividends, and the pace at which they are increased and cut, have long operated as a key barometer of corporate health.

Academic research has shown that investors tend to bid up shares of companies that initiate payouts and sell those that cut them.

"It's a like a window into the health of the business," said Eric Ervin, co-founder of Reality Shares, which manages \$97 million in its exchange-traded funds. "If they have to cut the dividend, what does that say about the company and management team running the business?"

Reality Shares buys stocks



Source: FactSet

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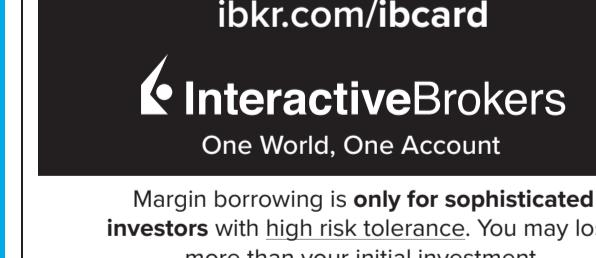
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## BUSINESS NEWS

# T-Mobile Puts Off Sprint 'Rumors'

BY DREW FITZGERALD

**T-Mobile US Inc.** on Monday said it added 817,000 postpaid customers in the third quarter but hardly commented on its merger discussions with rival **Sprint Corp.**, keeping investors on hold about the company's future.

T-Mobile ended the period with about 37 million postpaid subscribers—its most valuable—with its customer total reaching 70.7 million.

Shares in the carrier rose 1.7% to \$61.47 on Monday. The stock is up 32% over the past 12 months.

In an unusual move, the company's quarterly results were accompanied by a video of Chief Executive John Legere discussing the numbers, rather than the freewheeling conferences its top executives typically host on the web each quarter.

Mr. Legere avoided mentioning merger discussions with Sprint, the No. 4 U.S. carrier by subscribers behind No. 3 T-Mobile.

"With all the rumors and speculation out there, we decided that we wanted to make sure you all saw and focused on our Q3 results and not just on the rumors and speculation that seem to fill the news every day," he said in the video.

The question of whether the U.S. wireless industry is due for another round of consolidation has vexed investors for months. Discussions between Sprint and T-Mobile have gone the furthest but remain short of an agreement, according to people close to the matter.

Sprint, which has scheduled its earnings release for Wednesday, also plans to forgo a conference call and instead share a recorded message.

Overall, T-Mobile posted a \$537 million quarterly profit, or 63 cents a share, up from \$353 million, or 42 cents a share, in last year's third period. Revenue rose 8% to \$10 billion.

It has been a relatively quiet season in the wireless industry, with most customers choosing to hold on to their old handsets instead of upgrading to a new device. Analysts expect choppy results after Apple Inc. starts selling its high-end iPhone X next month.

T-Mobile said it expects to see most of the impact from the new iPhones in the fourth quarter and potentially in the first quarter of next year, "depending on inventory."

"T-Mobile typically does well when there is a jump ball or an event that pushes customers to act such as the launch of a new iconic phone or aggressive promotional activity," said Colby Synesael, an analyst at investment bank Cowen Co. With a lack of such catalysts, plus a destructive hurricane season, the company's results were slightly below Wall Street's expectations, he said.

Monthly churn, a measure of customers dropping service, rose slightly for T-Mobile in the third quarter from the second. The uptick was especially pronounced in T-Mobile's MetroPCS brand, with churn in prepaid plans rising to 4.3% from 3.9% in the second quarter. T-Mobile contended with low prices in the prepaid market from Sprint's Boost Mobile brand, while its main brand competed against heavily promoted unlimited plans from Verizon.

—Cara Lombardo contributed to this article.

## Signal Strength

T-Mobile's net postpaid subscriber additions



Source: the company  
THE WALL STREET JOURNAL



A Deltic processing plant in Arkansas in 2015. Based on Friday's closing stock prices, the agreement would provide a roughly 7% premium for Deltic shareholders.

MOMENT EDITORIAL/GETTY IMAGES

# Lumber Companies Cut a Deal

Potlatch and Deltic plan to combine in all-stock transaction; tax benefits of REIT

BY DANA MATTIOLI

Lumber company **Potlatch Corp.** intends to combine with **Deltic Timber Corp.** in an all-stock deal, the companies said Monday.

Deltic shareholders are to receive 1.8 common shares of Potlatch for each share of Deltic that they own.

Based on Friday's closing prices, that would amount to a roughly 7% premium for Deltic shareholders.

The Wall Street Journal first reported the companies

were nearing a deal Sunday.

On Friday, Potlatch shares closed at \$53, giving the company a market value of \$2.2 billion. Deltic closed at \$89.12, putting its value at \$1.1 billion.

Potlatch shareholders are set to own about 65% of the combined company, to be named PotlatchDeltic. It would trade under Potlatch's existing ticker symbol, PCH.

Shares in Deltic rose 4.1% to close at \$92.77 on Monday, while Potlatch shares fell less than 1% to \$52.50.

Potlatch and Deltic are big timberland owners and lumber manufacturers. Together, they own nearly 2 million acres, with 1.1 million in the U.S. South, 600,000 in Idaho and 150,000 in Minnesota.

Potlatch, of Spokane, Wash.,

got its start in 1903. The company is structured as a real-estate investment trust, or REIT, an entity that passes its profit to shareholders. As a result of the deal, Deltic will attain REIT status, giving the new company a more-favorable tax structure.

Under the REIT conversion, Deltic's accumulated earnings, estimated at \$250 million, would be distributed to the combined company's shareholders through a dividend, 80% in stock and the rest in cash, by the end of next year.

The companies expect about \$50 million in synergies from the deal.

Deltic, based in El Dorado, Ark., was founded in 1907 and became part of Murphy Oil in the 1950s. In 1996, Murphy Oil

spun off the company. In addition to timber, it also has a real-estate arm.

Mike Covey, chairman and chief executive of Potlatch, would serve in those roles at the combined company. Deltic CEO John Enlow would run the integration and serve as vice chairman, the people said.

Potlatch and Deltic compete with timber giants such as Weyerhaeuser Co., which last year bought competitor Plum Creek Timber Co. for more than \$11 billion.

Deltic has been under pressure to consider a deal by Southeastern Asset Management Inc., a big holder of its shares.

The companies expect the deal to close in the first half of next year. Potlatch has agreed

to a \$66 million termination fee if the deal falls through under certain circumstances, and Deltic has agreed to a \$33 million fee.

**Bank of America** and **Perkins Coie LLP** advised Potlatch on the deal. **Goldman Sachs** and **Davis Polk & Wardwell LLP** advised Deltic on the deal.

Potlatch on Monday narrowly missed earnings estimates for its third quarter, posting adjusted earnings per share of 89 cents on income of \$36.7 million, less than the 90 cents on \$36.9 million analysts expected.

But the company said it plans to raise its annual dividend to \$1.60 from \$1.50 a share beginning in the fourth quarter.

—Cara Lombardo contributed to this article.

## Hasbro Warns About Sales Impact of Toys 'R' Us Bankruptcy



CHARLES SYKES/INVISION FOR HASBRO/ASSOCIATED PRESS

**Hasbro Inc.** warned that the **Toys "R" Us Inc.** bankruptcy will soften sales during the key holiday period, with the maker of Nerf guns and Disney Princess dolls unsure how frequently it will ship items to the retailer.

Hasbro's shares fell 8.6%, after the Pawtucket, R.I., company on Monday forecast fourth-quarter sales growth of between 4% and 7%, below expectations for growth of around 11%.

Shares of **Mattel Inc.** also

dropped, finishing the day down 3.2%. The toy maker is set to report its third-quarter results on Thursday.

Hasbro Chief Executive Brian Goldner tried to reassure investors that the impact of the Toys "R" Us bankruptcy could be softened by the fact that the industry's fortunes aren't tied to one retailer and that toys are broadly available.

In addition to growth in toy sales at drugstores and dollar

stores, Mr. Goldner said sales are growing much more rapidly online than in stores.

Still, the Toys "R" Us bankruptcy filing—which occurred in September after some suppliers scaled back shipments—does inject considerable uncertainty during a period when around 50% of toy sales are made.

Toys "R" Us has secured \$31 billion in bankruptcy financing and plans to continue operating most of its 1,600 stores through

the holidays.

Mattel and Hasbro were among the toy retailer's biggest unsecured creditors, with Mattel owed more than \$135 million and Hasbro \$59 million when Toys "R" Us filed for protection, according to court papers.

For the third quarter, Hasbro said its earnings rose 3% to \$265.6 million, or \$2.09 a share. Sales gained 7% to nearly \$1.8 billion.

—Paul Ziobro

# Whirlpool Warning Puts Stock In a Spin

BY ANDREW TANGEL

**Whirlpool Corp.** shares fell sharply in after-hours trading Monday after the appliance maker issued a profit warning, blaming rising costs.

Chief Executive Marc Bitzer cited rising raw-material costs and slow progress on its European integration as hurting the company's profit margins.

Whirlpool said Monday it expected to earn \$11.10 to \$11.40 a share for 2017, down from an earlier estimate for full-year earnings of \$12.40 to \$12.90 a share.

The Michigan-based manufacturer said its outlook includes up to \$175 million in costs related to restructuring, up from a second-quarter estimate of \$165 million.

# \$175M

Outlook for restructuring costs, up from a \$165 million estimate

Whirlpool shares fell almost 10% at one point after hours but later were off 6.6% at \$170.50, after closing at \$182.50 in 4 p.m. New York Stock Exchange composite trading.

Overall for the third quarter, Whirlpool reported profit of \$276 million, or \$3.72 a share, up from \$238 million, or \$3.10 a share, in the same period a year ago. Net revenue rose 3% to \$5.4 billion.

"We are pleased with our revenue growth and free cash flow improvement but are not satisfied with our operating margins," Mr. Bitzer said in a statement.

Mr. Bitzer added that the company would continue with its recently announced price increases on home appliances and a plan to reduce fixed costs.

Whirlpool's latest quarterly results come as the company is engaged in a trade battle over imported washing machines with two South Korean rivals.

The company is asking U.S. trade regulators to recommend tariffs and quotas to combat what it has said is a flood of imports that hurt the domestic industry.

# Tesla Likely to Face Price Test in China

BY TREFOR MOSS

talks with Shanghai authorities about a factory.

Chief Executive Elon Musk is praised in the Chinese media as a tech visionary. That has helped the upstart become the only foreign maker to make significant inroads into China's electric-vehicle market—despite being the only one without a local base.

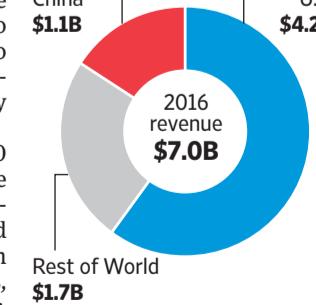
Tesla sold roughly 12,000 imported cars in the first nine months of 2017, up from an estimated 11,000 in 2016 and good for 4% of China's plug-in market, according to EV Sales, a website tracking the sector.

Tesla hasn't disclosed unit sales figures, but says China accounted for \$1.1 billion of its \$7 billion revenue last year, second only to the U.S.

A 25% tariff on imported cars means Tesla's Chinese customers pay far more than their American counterparts: The Model S starts at \$106,000 on Chinese auto website Yiche.com, compared

## Channeling China

China is Tesla's second-biggest market, after the U.S.



Source: the company  
THE WALL STREET JOURNAL

with the recommended U.S. retail price of \$74,500.

Zhou Lixun said she bought a \$166,000 Model X for her business partner, who owns an auto-parts company in Beijing, earlier this year. "There are other EV brands, but nothing else at the top end," said Ms. Zhou.

Zhou. "We think Tesla is high-tech, and it makes us feel young and fashionable."

Now Tesla is seeking to appeal to a much broader customer base. Its China strategy is to become the first foreign auto maker to build a wholly owned plant, according to people familiar with the company's plans. Not having to form a joint venture with a local company will allow it to safeguard its technology and retain 100% of profits.

The drawback is that cars built in a free-trade zone will almost certainly be subject to the 25% tariff, auto analysts say. The Shanghai government didn't respond to a request for comment. That could be a deal breaker for potential buyers of the mass-market Model 3, which starts at \$35,000 in the U.S. "The people who would buy that car care about their money," Mr. Zhang said.

—Kersten Zhang in Beijing  
contributed to this article.

Source: the company  
THE WALL STREET JOURNAL

## TECHNOLOGY

# Seagate Exceeds Expectations, Touts Toshiba Deal

BY IMANI MOISE

**Seagate Technology** PLC reported higher-than-expected earnings in its latest quarter as executives touted benefits of a prospective technology-supply deal with **Toshiba** Corp.'s memory-chip business and outlined plans for additional cost cuts.

Shares of Seagate rose 13% to \$39.35 Monday as the data-storage provider also guided revenue and earnings ahead of estimates in the current quarter.

Late last month, Seagate,

NAND storage portfolio while providing significant value for our storage customers," Chief Executive Dave Mosley said on a call with analysts.

Companies involved in the deal for Toshiba's memory-chip business, including **Apple** Inc. and **Dell Technologies** Inc., stand to gain easier access to supply in a competitive market. Surging demand for memory chips has led to shortages and higher prices of these components.

Seagate, one of the biggest makers of disk drives, has resorted to job and cost cuts in recent years to cope with weakening demand for personal computers that use its storage product.

Sales continued to fall during the first quarter, dropping 5.9%, but the company said demand for its storage products is beginning to turn around, fueled by an increasing appetite for data.

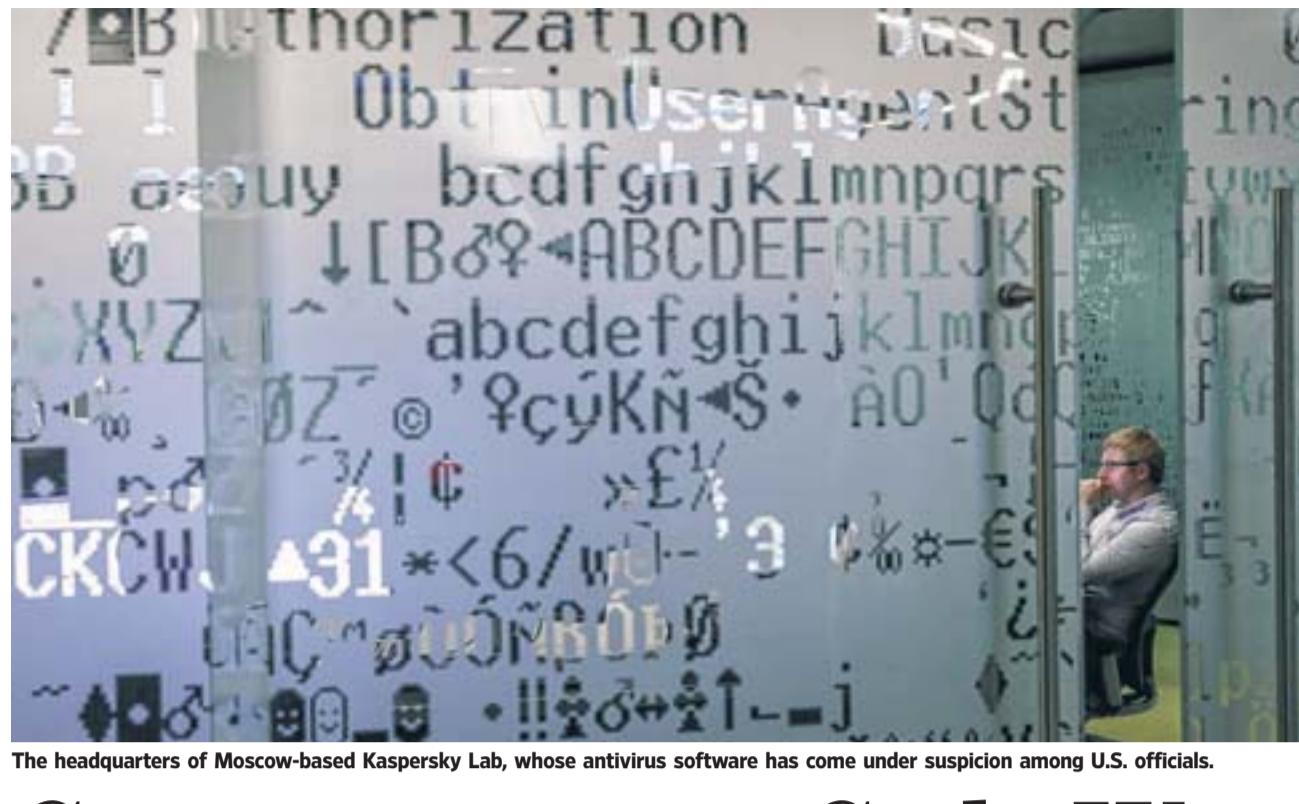
In its current quarter, Seagate said it expects revenue to rise between 3% and 5% from the first quarter and to lift margins by cutting operating costs between 2% and 3%.

RBC Capital Markets said the company's guidance implies earnings of \$1.08 a share on \$2.74 billion in revenue at the midpoint, ahead of estimates of \$1.03 a share on \$2.63 billion.

In all for the quarter ended Sept. 29, the California-based company reported a profit of \$181 million, or 62 cents a share, up from \$167 million, or 55 cents a share, a year earlier.

On an adjusted per-share basis, earnings fell to 96 cents from 99 cents. Revenue fell 5.9% to \$2.63 billion.

Analysts polled by Thomson Reuters had forecast earnings of 86 cents a share on \$2.54 billion in revenue.



The headquarters of Moscow-based Kaspersky Lab, whose antivirus software has come under suspicion among U.S. officials.

# Countermove in Code War

Russia's Kaspersky  
vows transparency  
after U.S. complaints  
of cyberespionage

BY DAVID GAUTHIER-VILLARS  
AND DAN STRUMPF

**Kaspersky Lab** ZAO, the Moscow-based cybersecurity company, pledged to turn over the source code for its antivirus software for independent review—a bid to protect its reputation after U.S. officials said Russian operatives have used the popular program to spy on Americans.

The company said Monday the review is part of a "transparency initiative" it hopes will improve the trustworthiness of its products.

It said it would hand over the source code for its software in next year's first quarter but didn't specify who would undertake the review or how widely the code would be disseminated.

Cybersecurity experts wel-

comed the announcement—a rare, albeit not unprecedented, move—but said it could have limited impact. Martijn Grootenhuis, editor of the Virus Bulletin, a U.K.-based information portal on information security, said he hoped the move would help "take away some of the distrust between Kaspersky and Western governments, as I don't think there's a good reason for this distrust." But the move could be viewed as insufficient because the company could issue, or be forced to issue, a "rogue update at any moment," he added.

Kaspersky has been caught in a public-relations crisis amid reports that the company's flagship software, designed to protect computers against malware, was used by the Russian government as an espionage tool. The Wall Street Journal reported earlier this month that Kaspersky's antivirus software was used by Russian operatives to help them secretly scan computers around the world for U.S. gov-

ernment documents and top-secret information.

Kaspersky has denied any complicity with Russian officials—or any government—in efforts to spy on other countries. The company's chief executive, Eugene Kaspersky, has said his firm is being made a pawn in a wider geopolitical war of words between the West and Moscow.

Amid the backlash over the U.S. allegations against Kaspersky, a number of clients have said they would stop using the company's products. That includes the U.S. Department of Homeland Security.

Others, though, have said they weren't shaken by the accusations. In Germany, one of Kaspersky's largest markets, the BSI, a federal cyber agency, said it had found no reason to warn against the use of the company's products.

"Because of what it does, an antivirus program needs to have very intimate access to your computer," said Bruce Schneier, chief technology of-

ficer of **International Business Machines** Corp.'s cybersecurity unit IBM Resilient. "So subverting an antivirus program is a very effective way to attack someone."

Rick Ledgett, deputy director of the National Security Agency when some of the alleged data theft occurred, said Kaspersky's proposal doesn't address the problem. The problem isn't "the code itself, it's the use of the code," he said in a blog post Monday. "The experts will find that the code does exactly what it's supposed to do, and [Mr. Kaspersky] knows that."

Jeanne Shaheen (D, N.H.), a member of the Senate Foreign Relations and Armed Services committees, said Kaspersky's proposed independent review failed to address concerns with the company's products—"most significantly, that Russian law enables the Kremlin to monitor data transmissions, including Kaspersky's."

—Shane Harris  
contributed to this article.

13%

Seagate stock rose by this much in Monday's trading.

along with a number of other companies led by **Bain Capital** LLC, signed a deal with the embattled Japanese industrial conglomerate for its booming memory-chip business in a deal valued at \$18 billion.

Seagate is expected to provide \$1.25 billion in financing to support the acquisition, which Toshiba has said it wants to close by March 31.

The company said the Toshiba agreement would solidify its so-called NAND flash-memory business and deepen its portfolio.

Analysts from RBC Capital Markets said in a research note the company's diverse product offering helps it weather the volatility of the disk-drive industry.

"This agreement has the opportunity to increase the potential for meaningful future revenue growth from Seagate's

# Cisco Fortifies Shift From Hardware

BY RACHAEL KING

**Cisco Systems** Inc. said Monday it will pay \$1.73 billion to acquire **BroadSoft** Inc., a maker of cloud-based communications software, as the networking giant steers further away from its legacy hardware and into sales of software and services.

The deal would help Cisco increase its recurring revenue from subscription-based services, which Chief Executive Chuck Robbins has said is core to its growth strategy.

Increasingly, software and services are driving value in

providing corporate technology, while hardware, such as Cisco's routers and switches, face pricing pressures due to commoditization.

"BroadSoft has been a visionary in the idea that all collaboration technologies are going to move to the cloud," said Rowan Trollope, senior vice president of Cisco's Applications Business Group.

On Monday, BroadSoft climbed 1.7% to \$54.80.

Cisco is paying \$55 in cash for each of BroadSoft's shares, which as of Friday's close had gained 31% on the year. The deal, which had been rumored

since late August, is expected to close early next year.

BroadSoft, based in Gaithersburg, Md., makes a software product that combines video, voice, messaging, screen sharing, file sharing and conferencing in an application accessed online. It also makes communications software for call centers and team collaboration that workers can access online.

BroadSoft has been growing at about 20% annually over the past few years, but its subscription business has been growing at about twice that rate, BroadSoft CEO Michael Tessler said in an interview. Al-

most half of BroadSoft's revenue comes from recurring software and subscriptions.

Although Cisco's revenue declined 4% in the most recent quarter compared with a year earlier, revenue related to recurring software and subscriptions rose by half, good for 31% of the company's total take.

Cisco also is creating cloud-based subscription services to help customers manage its own networking hardware. "Our objective is to continue moving to cloud-managed solutions across our entire enterprise networking portfolio," Mr. Robbins told securities analysts in June.

motivated and called suggestions its viewership is declining "patently absurd." YouTube still runs ads before some RT videos, with YouTube and RT sharing the ad revenue.

Researchers say sites like YouTube and Facebook have boosted RT by helping old clips live on and recommending RT videos to viewers who have shown interest in news sources outside the mainstream.

As a result, YouTube, Facebook and Twitter are now the battlegrounds for RT's fight against Western influence. RT joined YouTube in March 2007 and uploads roughly 13 videos a day alone to its main English-language channel, according to Tubular Labs, which tracks YouTube data. Google News also includes RT stories, helping legitimize the site with readers.

The Russian government funds RT, which broadcasts in six languages, to spread its perspective to audiences outside Russia. In 2009, it changed its name from Russia Today and began boosting its presence in the U.S. with a Washington newsroom and cable and satellite carriage deals.

Unlike other government-funded news outlets, such as the U.K.'s BBC or the U.S.'s Radio Free Europe, researchers say RT is more overtly political, with a goal of undermining Western institutions and democracies.

In recent months, RT has faced more scrutiny in the U.S. In September, RT said the Justice Department asked a company affiliated with RT to register as a foreign agent. A bipartisan bill in Congress

would broaden the foreign-agent-registration law to include RT. RT said the legislation is part of an attempt to eventually ban it from the U.S.

Russian President Vladimir Putin said last week that if the U.S. takes any steps to restrict Russian media, "a mirrored response will immediately follow" against U.S. news outlets in Russia.

The vast majority of RT's YouTube videos are political, though some of its most popular are of natural disasters. Researchers and former RT employees say the outlet highlights conflict in the West, questions prevailing narratives in Western media and promotes conspiracy theories.

On Nov. 4, four days before the election, RT posted videos on YouTube of an interview with WikiLeaks founder Julian Assange. Two of the videos—titled in part "Trump would not be permitted to win" - Assange" and "Clinton & ISIS funded by the same money" - Assange"—together have more than 3.4 million views.

Several times after the U.S. alleged the Russian-backed Syrian government used chemical weapons in the country's civil war, RT ran segments questioning whether the regime was behind the attacks—or whether they even happened. RT says on its website, "We are set to show you how any story can be another story altogether."

Google and Facebook have included some disclaimers around debunked stories but they haven't labeled posts from state media.

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## RUSSIA

Continued from page B1

hate speech, the promotion of violence and other unsavory posts, they tend to allow unreliable, misleading and highly partisan content, as well as other content that falls in a gray area, in an effort to avoid accusations of censorship and to protect users' free speech.

One former YouTube employee said YouTube managers are struggling with the site's role in spreading RT's content.

"There is definitely a lot of hand-wringing, but there's also a lot of, 'We have to protect this speech,'" the employee said.

YouTube's policy chief, Juniper Downs, said at a conference this month that restricting content on YouTube has costs, including the infringement of free speech and the exchange of ideas.

"I don't think we should tweak the way the entire system works in order to solve a very specific problem without thinking through the collateral damage," she said.

YouTube, part of **Alphabet** Inc., said, "We have a wide variety of news channels available on YouTube that represent an array of viewpoints from across the political spectrum." The company added that it removes videos that violate its policies. Facebook and Twitter declined to comment.

RT, which called the intelligence report "a complete fail," said in an email: "RT's goal is,

and has always been, to inform. The hysteria surrounding such mundane activities as RT's social-media advertising of its content—something done by practically all news organizations—speaks to the establishment's fear of losing the monopoly on information, and betrays a concerted effort to push RT out of the US market."

Michael McFaul, a former U.S. ambassador to Russia who is now a political-science professor at Stanford University, said RT is "an instrument of Kremlin foreign policy and should be thought of that way."

When Mr. McFaul toured RT's Moscow newsroom as ambassador a few years ago, RT officials' "proudest moment was where they are with YouTube," he said.

Until a few weeks ago, YouTube included RT in its package of premium channels for advertisers, charging brands extra to advertise before RT videos. The company said its algorithm recently removed RT from the program, but it declined to say why.

YouTube says such premium channels are among the top 5% of its most popular content. RT said in an email that the move was politically

motivated and called suggestions its viewership is declining "patently absurd." YouTube still runs ads before some RT videos, with YouTube and RT sharing the ad revenue.

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Cisco has agreed to buy software firm BroadSoft for \$1.73 billion.

ROSLAN RAHMAN/AP/GETTY IMAGES



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## BUSINESS NEWS

# GE Executive Pay up for Review

By EZEQUIEL MINAYA

Executive compensation is one of the many things John Flannery plans to shake up as he tightens the belt at **General Electric** Co. But his options may be limited.

The new chief executive said Friday he was working with the board

**GFO JOURNAL** "on comprehensive changes" to the company's compensation

plans to "better align the team with investors."

The company declined to elaborate on those plans. Executive compensation at GE—like many other large public companies—generally comprises salary, cash bonus and long-term performance awards, such as options and restricted stock. Pension benefits and other perks, such as life insurance and aircraft use, also are included.

Setting compensation policy is the responsibility of independent board members. But Mr. Flannery, who is also board chairman, will have a strong hand.

"It's absolutely the board

that makes that decision in the end," said Dan Marcec, director of content for research firm **Equilar Inc.**

Ultimately, however, "Flannery is going to make some changes to company strategy and as a result it wouldn't be surprising to see performance measures change to align with that strategy," he added.

Companies have increasingly tied performance-based pay to long-term goals. Mr. Flannery could try to modify the metrics used to determine compensation to achieve a more immediate impact, said Steven Hall Sr., founding partner and managing director of compensation consultancy Steven Hall & Partners.

The conglomerate already modified its bonus program for top executives in March to tie pay more closely to specific performance goals, including the level of cost reductions over the next year. GE at the time said the changes came out of discussions with activist investor Trian Fund Management, which had called for more stringent targets.

The company also cut pay for Mr. Flannery's predecessor,



John Flannery, General Electric's new chief executive, is working with the board on 'comprehensive changes' to compensation plans.

Jeffrey Immelt, by 35% to \$21.3 million in 2016. Compensation for exiting finance chief Jeffrey Bornstein fell 25% to \$9.9 million. The conglomerate's compensation plan for executives paid out only 80% of its target amounts.

But Mr. Flannery appears to be going deeper, aiming to exit \$20 billion in business and shedding executive perks. When he took over on Aug. 1, one of his first belt-tightening moves was to ground GE's entire fleet of six business jets.

# SEARS

*Continued from page B1*  
one person familiar with the situation said.

"Whirlpool has sought to use its dominant position in the marketplace to make demands that would have prohibited us from offering Whirlpool products to our members at a reasonable price," Sears told employees Friday in the internal memo, a copy of which was reviewed by The Wall Street Journal.

Sears has marketed itself for years as being the only retailer to sell all of the top U.S. appliance brands. Even as rivals such as Home Depot, Lowe's Co. and Best Buy Co. gained share in the appliance market, the company held exclusive control over its Kenmore brand. But earlier this year, Sears agreed to start selling Kenmore appliances on Amazon.com Inc., loosening its grip on one of its historic product lines in a gamble to boost sales.

Monday evening, a Sears customer-service representative tried to interest a caller in a Kenmore or GE appliance, saying: "We don't carry any Whirlpool appliances anymore."

It wasn't immediately clear how Whirlpool's loss of Sears's retail floor space would affect the Michigan-based appliance maker.

Longbow Research analyst David MacGregor estimates Whirlpool sells approximately \$600 million of its branded appliances through Sears each year. But his estimate doesn't include Kenmore-branded products, many of which have been manufactured by Whirlpool.

Retail floor space has been repeatedly raised as an issue in a heated trade battle over washing machines that Whirlpool has been waging against LG Electronics Inc. and Samsung Electronics Co. Whirlpool in part has complained that underselling by its South Korean rivals has edged it out of prime floor space.

Whirlpool dominates the U.S. market for washers, with 35% of retail dollars spent on the appliances in the second quarter of this year, according to TraQline data.

Whirlpool will continue to make products for Sears's Kenmore brand, a person familiar with the matter said. And Sears will continue to sell appliances from LG, Samsung, GE, Frigidaire, Electrolux, and Bosch, some of which also make Kenmore products.

## New Highs and Lows | WSJ.com/newhighs

The following explanations apply to the New York Stock Exchange, NYSE Arca, NYSE MKT and Nasdaq Stock Market stocks that hit a new 52-week intraday high or low in the latest session.  
% CHG—Daily percentage change from the previous trading session.

Monday, October 23, 2017

NYSE highs - 203		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %	
BectonDickinson BDX	214.72 -0.4	DellTechnologies DVNT	88.17 0.6	Prudential PUK	49.87 0.6	ComstockRcs CRK	4.12 -5.5	HartfordMultiUSEq ROUS	29.78 0.2	JanusVetTaill CTRSK	30.40 0.2	JanusVetTaill CTRSK	30.40 0.2	DirexSP500B1B SPXL	41.07 -1.0	HancockIndustrials JHMI	33.97 -0.2	HancockIndustrials JHMI	33.97 -0.2
BeritAthawy A DRKA	285.74 0.3	DigitalTimber DEL	94.65 4.1	PulteGroup PHM	28.19 -0.4	Volaris VLRS	10.24 -1.5	HealthCareSelSect XLV	84.31 -0.3	HancockIndustrials JHMI	33.97 -0.2	HancockIndustrials JHMI	33.97 -0.2	DirexSP500Bull2 SPUL	46.32 -0.6	HancockIndustrials JHMI	33.78 -0.4	HancockIndustrials JHMI	33.78 -0.4
BeritAthawy B BRKB	189.72 -0.2	DivisionalHomeFd DNI	12.32 0.1	PenzanceMgmt PZN	12.70 1.3	Corts JCPen JBR	12.52 -2.2	HullTacticalUS HTUS	28.15 -0.2	HancockIndustrials JHMI	33.78 -0.4	HancockIndustrials JHMI	33.78 -0.4	DirexSP500Bull1.25 LSPL	34.46 -0.3	HancockIndustrials JHMI	33.78 -0.4	HancockIndustrials JHMI	33.78 -0.4
BerryGlobal BEI	10.62 -0.6	DollarGeneral DG	84.86 0.4	RH RRH	88.54 1.0	DuffPhelpsSeln DSE	5.82 -1.8	DirexSemiCust SOXL	137.48 1.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockMats JHMM	34.25 -0.2	IQSOndHdgFwd FXJX	21.80 0.8	HancockMats JHMM	34.25 -0.2	HancockMats JHMM	34.25 -0.2
BigCommerce BDF	15.95 -0.6	Dover DOV	95.99 0.4	Raytheon RTN	189.98 0.3	DP Energy EPE	2.54 -2.3	InnovatorBD500 FIFTY	34.88 -1.0	IQSOndHdgFwd FXJX	21.80 0.8	HancockMats JHMM	34.25 -0.2	InnovatorBD500 FIFTY	34.88 -1.0	HancockMats JHMM	34.25 -0.2	HancockMats JHMM	34.25 -0.2
Bimco BIM	198.40 -0.9	DowDuPont DWDP	72.18 0.5	RedHat RHT	122.95 0.3	EdgewellPersonalP ROP	6.51 -2.3	IntersilDivGrowth DGRD	33.43 -0.1	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	HancockTech JHMT	41.20 -0.4
BoehringerIngelheim BIB	141.40 -1.6	Eaton Vance EV	52.13 -1.2	Renren RENN	11.50 -0.5	EasternKodak KODK	6.12 -2.3	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	HancockTech JHMT	41.20 -0.4		
Boeing BOE	59.98 -0.9	EmersonElectr EMR	66.44 0.4	RockwellRockwell ROP	189.85 -0.4	EdgewellPersonalP ROP	6.51 -2.3	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	HancockTech JHMT	41.20 -0.4		
BoeingScientific BSX	29.93 -0.3	Entergy ETR	85.99 0.3	RockwellCollins RCO	135.38 -0.1	El DoradoGold EGO	1.55 -2.6	FidelityCoreDiv FDDV	27.86 -0.1	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	HancockTech JHMT	41.20 -0.4
BofA M&T BOM	14.94 -1.1	JohnsonMatthey JMT	10.66 -0.2	RockwellCollins RCO	135.38 -0.1	El DoradoGold EGO	1.55 -2.6	FidelityCoreDiv FDDV	27.86 -0.1	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	HancockTech JHMT	41.20 -0.4
BondLabs BDT	125.88 -0.2	RoperTech ROP	25.60 -0.4	RockwellCollins RCO	135.38 -0.1	El DoradoGold EGO	1.55 -2.6	FidelityCoreDiv FDDV	27.86 -0.1	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	HancockTech JHMT	41.20 -0.4
BonitaBldg BBL	43.12 -0.4	RockwellCollins RCO	135.38 -0.1	RockwellCollins RCO	135.38 -0.1	El DoradoGold EGO	1.55 -2.6	FidelityCoreDiv FDDV	27.86 -0.1	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	HancockTech JHMT	41.20 -0.4
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BonitaBldg BBL	43.12 -0.4	RockwellCollins RCO	135.38 -0.1	RockwellCollins RCO	135.38 -0.1	El DoradoGold EGO	1.55 -2.6	FidelityCoreDiv FDDV	27.86 -0.1	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	IQSOndHdgFwd FXJX	21.80 0.8	HancockTech JHMT	41.20 -0.4	HancockTech JHMT	41.20 -0.4
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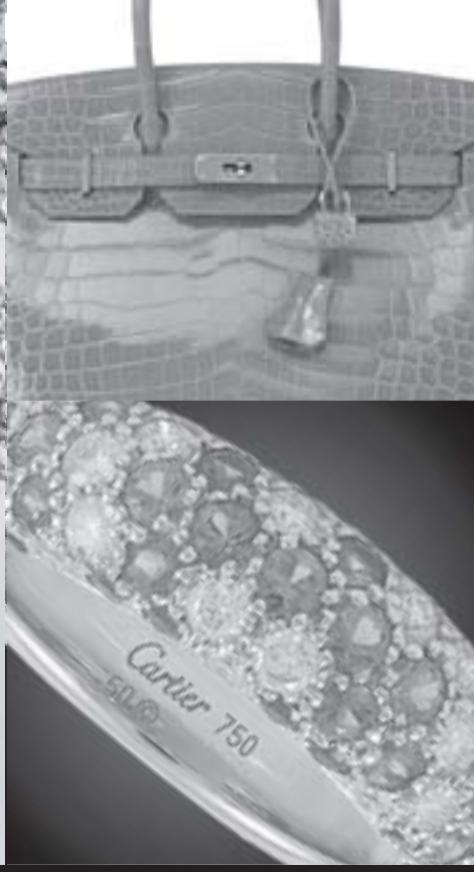
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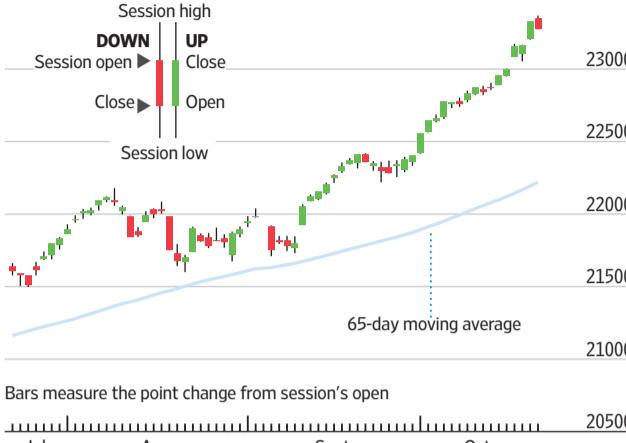


## MARKETS DIGEST

### EQUITIES

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Bars measure the point change from session's open

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Session high  
DOWN UP Close  
Session open ► Open  
Close ► Open  
Session low

65-day moving average

20500

July Aug. Sept. Oct.

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# COMMODITIES

WSJ.com/commodities

## Futures Contracts

### Metal & Petroleum Futures

	Contract	Open	High	hi	lo	Low	Settle	Chg	Open	interest
		Open	High	hi	lo	Low	Settle	Chg	interest	
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.		3.1740	3.1750	3.1450	3.1895	3.1520	3.1880	0.0225	944	
Oct 3.1450	3.1750	3.1450	3.1740	3.1750	3.1450	3.1740	0.0225	175,739		
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.		1277.70	1280.80	1271.50	1277.70	1271.50	1277.70	0.30	686	
Oct 1274.70	1280.80	1271.50	1277.70	1280.80	1271.50	1277.70	0.30	686		
Dec 1281.50	1284.70	1273.60	1280.90	1273.60	1280.90	1273.60	0.40	398,173		
Feb'18 1283.40	1288.30	1277.70	1285.10	1277.70	1285.10	1277.70	0.50	71,979		
April 1285.00	1291.00	1281.90	1288.90	1281.90	1288.90	1281.90	0.40	15,451		
June 1288.60	1295.70	1285.70	1292.90	1285.70	1292.90	1285.70	0.60	12,766		
Dec 1301.00	1308.00	1298.30	1305.20	1298.30	1305.20	1298.30	0.80	10,707		
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.		951.05	985.00	951.05	985.00	951.05	985.00	-19.90	1	
Oct 958.00	985.00	951.05	985.00	951.05	985.00	951.05	-19.90	1		
Dec 973.15	973.15	948.45	949.95	948.45	949.95	948.45	-19.90	30,528		
March'18 959.70	960.35	941.20	941.25	941.20	941.25	941.20	-20.05	3,464		
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.		924.50	925.30	917.50	924.50	925.30	924.50	0.40	52	
Oct 921.10	925.10	917.50	924.50	925.10	917.50	924.50	0.40	52		
Jan'18 925.30	929.30	916.00	927.20	925.30	927.20	925.30	0.40	68,719		
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.		17.024	16.870	17.024	16.870	17.024	16.870	0.002	233	
Oct 16.920	16.920	16.870	17.024	16.920	16.870	17.024	-0.003	143,585		
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.		442.50	445.00	442.50	445.00	442.50	445.00	-4.55	100	
Dec 52.07	52.30	51.68	51.90	52.07	51.68	51.90	0.06	608,176		
Jan'18 52.29	52.48	51.86	52.08	52.29	52.48	51.86	0.04	299,750		
Feb 52.33	52.61	51.98	52.19	52.33	52.61	51.98	0.22	126,950		
March 52.46	52.67	52.05	52.26	52.46	52.67	52.05	-0.05	288,393		
June 52.48	52.58	52.00	52.18	52.48	52.58	52.00	-0.05	198,710		
Dec 51.77	51.84	51.27	51.43	51.77	51.84	51.27	-0.10	256,908		
<b>NY Harbor ULSD (NYM)</b> -42,000 gal.; \$ per gal.		128.00	129.50	128.00	129.50	128.00	129.50	-1.00	5,908	
Nov 1.8107	1.8146	1.7857	1.7878	1.8107	1.8146	1.7857	-0.174	48,067		
Dec 1.8103	1.8155	1.7874	1.7896	1.8103	1.8155	1.7874	-0.058	112,208		
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.		117.05	117.05	117.05	117.05	117.05	117.05	-0.003	100	
Nov 1.6841	1.6915	1.6725	1.6783	1.6841	1.6915	1.6725	-0.002	58,498		
Dec 1.6948	1.6950	1.6737	1.6780	1.6948	1.6950	1.6737	-0.004	141,382		
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu.		1.6390	1.6390	1.6390	1.6390	1.6390	1.6390	-0.004	100	
Nov 3.001	3.017	2.948	2.991	3.001	3.017	2.948	-0.076	75,253		
Dec 3.180	3.198	3.127	3.156	3.180	3.198	3.127	-0.043	270,968		
Jan'18 3.300	3.316	3.254	3.280	3.300	3.316	3.254	-0.039	200,877		
Feb 3.305	3.321	3.257	3.284	3.305	3.321	3.257	-0.035	81,636		
March 3.264	3.279	3.213	3.240	3.264	3.279	3.213	-0.032	173,661		
April 3.010	3.010	2.975	2.992	3.010	3.010	2.975	-0.013	125,522		

### Metal & Petroleum Futures

	Contract	Open	High	hi	lo	Low	Settle	Chg	Open	interest
		Open	High	hi	lo	Low	Settle	Chg	interest	
<b>Corn (CBT)</b> -5,000 bu.; cents per bu.		351.75	351.75	343.00	351.25	343.00	351.25	6.75	792,898	
Dec 358.25	365.75	357.00	365.25	358.25	365.75	357.00	6.75	300,109		
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.		268.50	275.00	266.75	273.50	266.75	273.50	3.75	4,947	
March'18 271.25	275.00	270.75	274.75	271.25	275.00	270.75	3.50	1,746		
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.		977.00	982.75	975.00	980.75	975.00	980.75	2.00	219,793	
Jan'18 987.50	993.25	991.00	991.00	987.50	993.25	991.00	1.75	251,660		
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.		315.00	317.90	315.00	319.00	315.00	319.00	-1.20	144,933	
Dec 316.40	319.00	315.00	319.00	316.40	319.00	315.00	-1.40	113,183		
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.		43.16	43.45	43.04	43.63	43.16	43.63	.47	170,384	
Dec 43.45	43.75	43.25	43.75	43.45	43.75	43.25	.47	170,384		
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.		121.00	121.00	119.75	119.75	121.00	119.75	-10.00	3,922	
Dec 121.00	121.00	119.75	119.75	121.00	121.00	119.75	-10.00	3,922		
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.		123.50	124.00	122.80	124.00	123.50	124.00	-10.50	5,908	
Dec 124.25	124.75	123.50	124.75	124.25	124.75	123.50	-10.50	5,908		
<b>Wheat (MPLS)</b> -5,000 bu.; cents per bu.		42.25	42.50	41.50	42.50	42.25	42.50	-1.00	10,000	
Dec 41.00	42.00	41.00	42.00	41.00	42.00	41.00	-1.00	10,000		
<b>Wheat (No.1 soft white, Portl, OR)</b> -5,000 bu.; cents per bu.		61.00	62.00	60.95	61.00	61.00	61.00	-3.75	10,000	
Dec 62.25	63.50	62.25	63.50	62.25	63.50	62.25	-3.75	10,000		
<b>Cattle-Feeder (CME)</b> -50,000 lbs.; cents per lb.		153.700	153.725	151.650	153.625	153.700	153.625	-.36	1,000	
Oct 152.025	153.700	151.650	153.625	152.025	153.700	151.650	-.36	1,000		

# BIGGEST 1,000 STOCKS

## How to Read the Stock Tables

The following explanations apply to NYSE, NYSE ARCA, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISE and BATS. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those stocks 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.

**Monday, October 23, 2017**

**NYSE**

	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg								
ABB	ABB	AB	25.28	-0.18	BerkHathaway A	BKRA	284198845.50	DaVita	DVA	61.00	1.65	HCP	HCP	25.98	-0.38	MidAmAppt	MAA	104.41	-0.40	ScottsMiracle	SMG	98.57	-0.13	Travelers	TRV	134.45	1.13					
AES	AES	AES	11.13	... .	BerkHathaway B	BKRB	189.39	0.35	Deere	DE	129.59	0.44	HDFC Bank	HDFC	94.66	-0.31	MitsubishiUFJ	MU	6.50	-0.01	SealedAir	SEE	44.86	-0.36	KirkhillEnterprises	TCK	9.45	-0.10				
Aflac	AFL	AFL	84.32	-0.24	Bio-Rad Lab	BIO	223.57	0.60	DigitalAutomotive	DAL	52.88	-0.29	HillBurton	HQ	22.12	0.10	MizuhoFin	MFG	3.56	-0.02	SempraEnergy	SRE	114.43	0.30	TurquoiseHill	TRQ	3.15	-0.03				
AT&T	AT	AT	35.25	-0.29	BlackBerry	BRY	45.05	-0.37	DomesticBank	DB	16.63	-0.35	Hanesbrands	HBB	22.86	-0.63	MobileTeleSys	MBT	10.43	-0.09	WhirlwindInc	WHD	24.14	-0.38	AGNC Inv.	AGNC	21.63	-0.16				
AT&T Labs	ATB	ATB	56.06	-0.24	BlackRock	BLK	474.39	-2.32	Entergy	ENE	105.96	-0.52	HartfordFnd	HIC	54.06	-2.43	NielsenHoldings	NLSN	41.38	-0.21	Yodoo's	YD	104.40	-0.40	AGM Inv.	AGM	146.00	-0.40				
AbbVie	ABBV	ABBV	94.51	-0.24	Blackstone	BK	34.72	0.26	DiscoverFds	DFS	66.84	-0.27	HoffmannFnd	HFM	30.43	-0.31	NetRetailProp	RNN	41.61	-0.11	ShawCom	SBR	21.71	-0.02	Moody's	MO	146.00	-0.40				
Accenture	ACN	ACN	139.33	-0.16	BlockPipe	BWP	14.67	-0.01	Disney	DIS	98.70	-0.10	Hotels	HOT	19.33	-0.13	NetRevenue	EDU	93.97	1.22	ShewWilliams	SHW	386.58	-3.12	US Foods	USFD	27.52	-0.05				
AcuityBrands	AVY	AVY	159.95	-0.95	Bio-RadLab	BIO	223.57	0.40	DoyleAutomotive	DAL	52.88	-0.29	HolidayFrontier	HFC	36.27	-0.36	NRG Energy	NRG	24.89	-0.51	Shopify	SHOP	102.91	0.81	UnderArmour	UA	16.85	-0.63				
Adient	ADNT	ADNT	85.00	-0.10	BlackKnight	BKI	45.05	-0.37	DevonEnergy	DEV	34.65	-0.58	Honeywell	HON	145.92	0.14	SmithGroup	SPG	165.44	-0.72	SmarpaEnergy	SRE	110.30	0.30	Under Armour	UA	16.85	-0.63				
AdvanceAuto	AAP	AAP	85.91	-0.87	BlackRock	BKR	11.00	-0.12	Diageo	DE	135.96	-0.65	Houman	HOU	24.63	0.32	NorthWestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AdvSemIns	ASX	ASX	6.26	-0.06	BlackRock	BKR	11.00	-0.12	ExxonMobil	EX	104.23	-0.14	Huhtasaari	HSD	28.75	-0.52	NetWellness	NWL	40.16	-0.21	UnitedHealth	UNH	207.01	-0.49	Unilever	UN	55.89	-0.43				
Aegon	AEG	AEG	5.84	-0.04	BlackRock	BKR	11.00	-0.12	FordMotor	F	14.25	-0.21	Ihssen	HSD	28.75	-0.52	NetWellness	NWL	40.16	-0.21	UnitedHealth	UNH	207.01	-0.49	Unilever	UN	55.89	-0.43				
AerCap	AER	AER	52.55	-0.51	BlackRock	BKR	11.00	-0.12	HyattHotels	HOT	42.87	0.20	HartfordFnd	HIC	54.06	-2.43	NetRetailProp	RNN	41.61	-0.11	WellsFargo	WFG	17.40	-0.29	Unilever	UN	55.89	-0.43				
Aetna	AET	AET	161.47	-0.63	BlackRock	BKR	11.00	-0.12	Huhtasaari	HSD	28.75	-0.52	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AffiliatedMtrs	AMG	AMG	195.85	-1.69	BlackRock	BKR	11.00	-0.12	Ihssen	HSD	28.75	-0.52	Huhtasaari	HSD	28.75	-0.52	NetRetailProp	RNN	41.61	-0.11	ShawWilliams	SHW	386.58	-3.12	UnitedHealth	UNH	207.01	-0.49	Unilever	UN	55.89	-0.43
AgilentTechs	A	A	67.02	-0.23	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AgnicoEagle	AGM	AGM	44.91	-0.53	BlackRock	BKR	11.00	-0.12	Ihssen	HSD	28.75	-0.52	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
Agricultral	AGC	AGC	107.79	-0.14	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AirProducts	APD	APD	153.60	-0.24	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
Albemarle	ALB	ALB	78.74	-0.95	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AllianceBernstein	ABDN	ABDN	20.50	-0.19	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AllianzEnergy	LNT	LNT	42.77	-0.10	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AllisonTransl	ATL	ATL	39.63	-0.10	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
Allstate	ALL	ALL	92.97	-0.01	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AllyFinancial	ALLY	ALLY	24.62	-0.27	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
AlticeUSA	ATC	ATC	25.60	-0.42	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
Altria	ATM	ATM	64.40	-0.56	BlackRock	BKR	11.00	-0.12	Houman	HOU	24.63	0.32	Houman	HOU	24.63	0.32	Northwestern	NW	38.30	-0.29	SouthwesternLabs	SLL	55.93	-0.54	Unilever	UN	55.89	-0.43				
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## MONEY & INVESTING

# GE Isn't Alone in Long-Term-Care Woes

Conglomerate reviews reinsurance obligations amid wider concerns about sector's reserves

BY LESLIE SCISM

Worries about the health of the long-term-care insurance industry have netted investors for years. **General Electric** Co.'s comments show the problem isn't going away soon.

The Boston company on Friday cut its earnings fore-

cast for the year, citing poor results at units including its power division.

The company also said results could be hit by a reassessment of an insurance unit's prospects, a remark that came as a surprise to some, given that GE years ago spun out a business closely identified with long-term care, now known as Genworth Financial Inc.

A GE executive on the company's conference call Friday said the firm has actuaries combing through its long-term-care insurance reserves

in "a very complex exercise" to figure out if they are deficient.

GE still has billions of dollars in reinsurance obligations on its books from coverage it sold to other insurers that had sold policies to consumers. By doing so, GE took on some of those carriers' responsibilities for paying claims, according to analysts. The risk for GE and others is whether carriers that sold long-term-care policies have adequate reserves to pay future claims.

If GE proceeds with an outsize charge, it "may result in a negative read across" a wide

range of other companies with long-term-care reserves, said analysts at securities firm Evercore ISI in a recent report.

Their report followed GE's disclosure this summer of the review, when it noted "adverse claims experience."

Evercore said long-term care is "one of the larger balance-sheet concerns" at insurers including Genworth, Manulife Financial Corp. and **Unum Group**. The three companies declined to comment.

Evercore said its analysis of GE's regulatory filings indi-

cates the company likely has "a deficiency of 20% or more" in its long-term-care reserves, which could mean a charge of \$2.5 billion or more.

Until its review is completed, GE is halting dividends from its GE Capital unit to the parent, which has fueled concerns about whether the company will maintain its common-stock dividend. GE is aiming to conclude the review before year-end.

Long-term-care insurance took off in the early 1990s.

In general, the policies pay for nursing homes, assisted

living facilities or health-care aides in people's private residences. Such care generally isn't paid by the Medicare health-insurance program for older people.

But by the middle part of the last decade, many insurers were rapidly ratcheting back the benefits, concluding they had badly miscalculated how many people would file claims and how long they would draw benefits before dying, among other things.

Industrywide, insurers have taken billions of dollars of charges over the past decade.

## Mongolia Returning to Debt Market With \$650 Million Offshore Bond



Mongolia is planning to raise up to \$650 million in an offshore bond sale this week, a person familiar with the situation said.

The government plans to issue a 5½-year bond with a yield of about 6%, which is roughly where its existing dollar bonds due in 2022 and 2024 are trading, the person said Monday.

Proceeds from the latest bond offering will be used to retire, or buy back, U.S. dollar- and yuan-denominated debt that

matures in 2018, the person said.

This will be Mongolia's second visit to the offshore dollar-bond market in 2017. In March, Ulaanbaatar—the capital city, above—raised \$600 million by issuing seven-year bonds. The latest bonds have received an initial credit rating of B-minus from S&P Global Ratings and Fitch Ratings, meaning they are rated as junk debt. The country agreed to a \$5.5 billion bailout

package with the International Monetary Fund this year to help deal with its existing debt load.

This month's issuance comes in a strong year for bond sales by emerging countries. Last month, Tajikistan raised \$500 million in its first-ever international bond sale, paying a 7.125% interest rate.

Speculative-grade bond issuance in the developing world has topped \$200 billion so far in 2017, according to data from J.P.

Morgan Chase & Co. and Dealogic, up 60% from a year earlier.

Junk-rated bonds issued by sovereign nations this year have been some of the best performers in credit markets. Mongolia's bonds issued in March have given double-digit-percentage returns to investors.

Credit Suisse Group AG, Deutsche Bank AG and J.P. Morgan are joint lead managers and joint bookrunners.

—Manju Dalal

## HEARD ON THE STREET

# China Feeding Frenzy Will Need Shrewd Play

BY STEPHEN WILMOT  
AND JACKY WONG

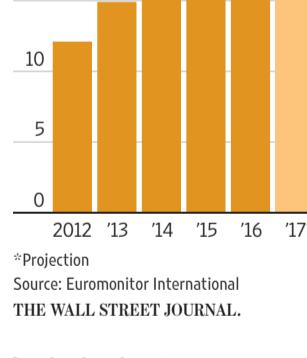
Selling baby food should be a steady business, but in China it has been anything but. The world's largest infant formula market is booming again. It probably won't last.

Last week global dairy company Danone posted organic growth in its third-quarter formula sales of more than 20%, with an increase of more than 50% in China, which accounts for two-fifths of global sales. Rivals Mead Johnson, which has belonged to consumer group **Reckitt Benckiser** since mid-June, and Nestlé also noted improvements in China.

An uptick in births has created a rosier picture. Chinese births rose 8% to 17.9 million last year, the highest point since 2000. How much of the rise is due to the relaxation of the infamous one-child policy is a matter of debate. The jump may have more to do with a quirk of the Chinese zodiac calendar. The Year of the Monkey,

### Bouncing Babies

Value of infant formula sales in China



beginning in 2016, was an auspicious year in which to be born. The longer-term outlook for births is negative. Last year there were 225 million Chinese ages 23 through 32 but only 176 million ages 13 through 22, notes Deutsche Bank.

Demographics won't generate sustainable growth in China.

The other big reason for

the third-quarter improvement is also temporary: Distributors are no longer running down inventory.

Following a succession of health scandals, China last year said that formula products, of which there were more than 2,000, would need to be registered with the nation's food and drug regulator as of 2018. Not knowing which brands would be allowed, distributors held off buying. Meanwhile, low-quality brands that couldn't hope for approval cleared their warehouses. Western groups found it hard to compete.

Now that some brands have received approval, distributors seem to be buying again. Another likely factor is a delay in the government's clampdown on cross-border e-commerce, a loophole for unlicensed imports that has become a major conduit for cut-price formula sales. Authorities were going to close it at the end of this year; now it looks like it will remain open another 12 months. This

may have encouraged importers to place orders.

Danone's emergence as the key beneficiary is rooted in crisis. Two years ago its mainstream brand, Dumex, was drawn into a health scare by a big supplier, New Zealand dairy company **Fonterra Co-Operative Group**.

Danone responded by unloading Dumex and betting big on the cross-border e-commerce channel. Management expects a strong fourth quarter, but stressed that "volatility is still to be expected."

Stable sales trends could eventually emerge if the regulatory situation settles down. As they do, big global players should flourish in a more concentrated and disciplined market. Their brands also typically have better reputations for food safety than domestic ones. But investors shouldn't get their hopes up too early. For the foreseeable future, feeding babies in China will remain a tricky affair.

# Treasury, CFPB Clash Over Arbitration Rule

BY YUKA HAYASHI

WASHINGTON—The Treasury Department on Monday criticized a rule governing how banks resolve disputes with consumers, part of an effort by the White House to thwart a plan initiated under the Obama administration.

The dispute relates to a regulation issued in July by the Consumer Financial Protection Bureau, which continues to be run by an Obama-appointed official. The rule makes it easier for con-

sumers to bring class-action lawsuits against financial companies by banning arbitration requirements written in the fine print of financial-services contracts.

Senate Republicans are preparing to vote on a bill that would overturn the rule, which is unpopular in the financial industry. Senate GOP leadership has told Democrats to expect a vote this week.

The Office of the Comptroller of the Currency, an independent banking regulator affiliated with

the Treasury Department and headed by an acting Trump official, earlier in October released an analysis saying that the rule would increase the cost of credit for consumers. The CFPB disputed the OCC analysis, saying it was "based on flawed statistics and is contradicted by publicly available historical data."

The Treasury report released Monday predicted that the new rule would generate more than 3,000 additional class-action lawsuits over the next five years, resulting in more than

\$500 million in additional legal-defense fees for the financial industry.

The CFPB said the Treasury report rehashes industry arguments. "Our rigorous analysis of the costs and benefits of the rule found that mandatory arbitration clauses allow companies to avoid accountability for breaking the law and cost consumers billions of dollars by blocking group lawsuits," a CFPB spokesman said.

—Siobhan Hughes contributed to this article.

The Amazon effect's long shadow again fell on **Etsy** Inc.

Shares of the online crafts marketplace declined 62 cents, or 3.8%, to \$15.76 Monday after **Amazon.com** Inc. unveiled a new way for shoppers to seek out handcrafted wares.

Amazon's Handmade Gift Shop allows users to search for

tchotchkes under categories such as "for her" and "for baby," as well as by price range.

Etsy shares fell as much as 6.8% after the opening Monday.

Etsy reported \$11.7 million in earnings on revenue of \$101.7 million in the most recent quarter.

—Chris Dieterich

## Amazon Throws Etsy for a Loop



CHRIS BRONSON/ASSOCIATED PRESS

## MARKETS

# Glum Company News Hits Stocks

BY AKANE OTANI  
AND RIVA GOLD

A flurry of downbeat updates from American companies dragged down U.S. stocks Monday.

Major indexes were little changed in early trading and then slid into **MONDAY'S MARKETS** the close, with the Dow Jones Industrial Average ending at its session low.

Still, stocks have been generally resilient. Monday's modest decline of 0.2% for the blue-chip index was its biggest since early September.

Analysts and investors have attributed the stability to a period of solid earnings and economic growth.

Many expect corporate news to drive much of the action in the coming days, with nearly 200 companies in the S&P 500 on this week's earnings calendar, according to FactSet.

"Listening to companies on their earnings calls, I think the general trend is still looking pretty positive," said Jeremy Bryan, a portfolio manager at Gradient Investments.

While some sectors like the insurance industry are expected to report weaker results than in previous years, partially because of damage from hurricanes earlier this year, "we're looking through the one-time hits and still expecting robust growth into 2018," Mr. Bryan said.

The Dow industrials fell 54.67 points to 23273.96. The S&P 500 dropped 10.23 points, or 0.4%, to 2564.98, and the Nasdaq Composite declined 42.23 points, or 0.6%, to 5686.83. All three indexes closed at records on Friday.

Hasbro shed \$8.44, or 8.6%, to \$89.75, after the toy maker posted earnings and sales results that beat analysts' expectations, but gave a downbeat projection for sales in the key holiday period.

**Mattel**, a rival toy maker, dropped 51 cents, or 3.2%, to 15.46.

**State Street**, which posted better-than-expected earnings but reported foreign-exchange trading results that disappointed some analysts, fell 2.95, or 3%, to 96.17.

**General Electric** slid 1.51, or 6.3%, to 22.32, and posted its biggest one-day percentage decline since August 2011 after several analysts cut their price targets for the stock following the company's latest earnings report, which slashed 2017 projections.

GE's stock has fallen 29% so far this year, putting it on pace for its worst year since 2008.

Elsewhere, the Stoxx Europe 600 rose 0.2% as gains in technology companies offset declines in the banking sector.

Investors this week will be watching closely for the European Central Bank's plans to announce the fate of its giant bond-buying program at its meeting Thursday.

This "may be a potential turning point in the timeline for withdrawing accommodation," said Holly MacDonald, chief investment strategist at Bessemer Trust, noting the ECB faces constraints on continuing its program of quantitative easing.

Still, with the move well-telegraphed to markets and no interest-rate increase on the horizon for some time, the ECB's October meeting is unlikely to ruffle bond markets much, she said.



Shares of conglomerate General Electric posted their biggest one-day percentage drop since 2011.

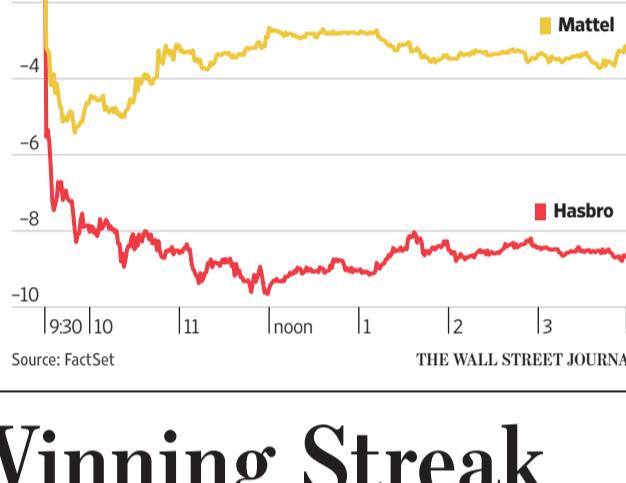
U.S. government bonds strengthened Monday, with the yield on the 10-year Treasury note falling to 2.375% from 2.381% on Friday. Yields fall as bond prices rise.

In Asia, Japan's Nikkei Stock Average rose 1.1%, rounding out its longest-ever winning streak with a 15th session of consecutive gains, after Japanese Prime Minister Shinzo Abe won a national election by a landslide. The Nikkei was down slightly early Tuesday.

Hong Kong's Hang Seng Index reversed its opening gains to trade down 0.6% as investors turned cautious on Chinese banks ahead of their earnings releases this week. It was down 0.2% early Tuesday.

## Downbeat

Shares of toy makers fell after Hasbro gave a cautious outlook for the holiday sales period.



Source: FactSet

THE WALL STREET JOURNAL.

# Japanese Shares Extend Winning Streak

BY STEVEN RUSSOLILLO

## Bouncing Back

Japan's Nikkei Stock Average has jumped to its highest level since 1996.



chief Japan FX and equity strategist at Bank of America Merrill Lynch. "Political stability should be restored and Abe's economic policy will likely continue."

The Nikkei is up 13% this year, nearly all of it since early September after having vastly underperformed most global equity markets in 2017.

Analysts and investors cite strengthening domestic corporate earnings and signs of a strengthening economy as catalysts for the Japanese market's recent surge to its highest level since 1996. It isn't overly expensive, either. The Nikkei trades at about 17 times projected earnings over the next 12 months, roughly around its five-year average, according to FactSet. By comparison, many other markets, including the U.S., sport valuations that are much higher than average.

The Bank of Japan's annual ¥6 trillion (\$53 billion) of purchases in exchange-traded stock funds provide a steady source of liquidity and support for the stock market.

But monetary policy might not be as favorable as it once was, as recent moves suggest Japan's central bank might have already started tightening.

The BOJ bought just ¥7.7 trillion (\$68.8 billion) worth of Japanese government bonds in September, according to J.P. Morgan.

The figure represents its smallest monthly amount of outright buying, which doesn't account for maturing bonds, since October 2014.

But that isn't stopping equity investors now. The 15 days of consecutive gains appears to be one of the longest streaks on record of any stock market.

—Saumya Vaishampayan contributed to this article.

# Investors Seek More Clarity on Fed Chief

BY DANIEL KRUGER

Prices of Treasurys edged higher Monday as investors paused to wait for clarity over whom President Donald Trump will nominate to lead the Federal Reserve.

The yield on the benchmark 10-year U.S. Treasury note fell to 2.375% from 2.381% Friday, posting its second decline in three days. Bond yields fall when prices rise.

Some analysts said the implications for monetary policy may be significantly different depending on which candidate Mr. Trump selects. Potential nominees John Taylor, a Stanford University economics professor, and Kevin Warsh, a former Fed governor, are seen by investors as likely to favor raising interest rates at a faster pace than the central bank has suggested it will take.

Others in the running are current Fed Chairwoman Janet Yellen and central-bank governor Jerome Powell, both of whom are seen as more likely to maintain the status quo as the Fed has projected three rate increases in 2018. A fifth possibility, White House economic adviser Gary Cohn, has no record in central banking. Mr. Trump has said he would like to name his pick before his Nov. 3 trip to Asia.

"People are a little wary of getting out ahead" of a decision about the Fed's leadership, said Thomas Simons, a money-market economist at Jefferies Group LLC.

Investors are also awaiting the European Central Bank meeting Thursday, looking for signs about whether policy makers there will move to slow or curtail the bank's €60 billion (\$70.5 billion) in monthly bond purchases. The ECB's three-year policy of negative interest rates and its huge bond purchases have driven sovereign-bond yields in the bloc to near record lows.

## AUCTION RESULTS

Here are the results of Monday'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.

### 13-WEEK AND 26-WEEK BILLS

	13-Week	26-Week
Applications	\$134,345,850,900	\$115,607,926,000
Accepted bids	\$42,000,076,800	\$36,000,038,000
*noncomp	\$563,800,900	\$468,276,000
*foreign noncomp	\$976,000,000	\$993,000,000
Auction price (rate)	99.720681	99.370583
	(1.10%)	(1.24%)
Coupon equivalent	1.123%	1.270%
Bids at clearing yield accepted	57.71%	51.38%
Cusip number	912796NP0	912796LX5

Both issues are dated Oct. 26, 2017. The 13-week bills mature on Jan. 25, 2018; the 26-week bills mature on April 26, 2018.

# Hurricanes Don't Slow Down the Economy for Long

BY CHELSEY DULANEY



The economy is bouncing back from Hurricanes Harvey and Irma more rapidly than many analysts expected, a sign that the "Goldilocks" environment that has propelled U.S. stock indexes to dozens of records this year is still intact.

Incoming data suggest Hurricanes Harvey and Irma had slightly less of a negative impact on economic activity in the third quarter than we had

Some analysts have raised their estimates for third-quarter economic growth.

previously assumed," said analysts at Macroeconomic Advisers last week.

The firm raised its estimate for third-quarter growth to 2.7% from 2.6%.

Barclays PLC also raised its forecast for gross domestic product last week to 2.5% from 1.5%, saying that U.S. economic activity had returned to normal sooner than the bank had anticipated.

The upgrades come ahead of the Commerce Department's estimate for third-quarter GDP, to be released Friday.

Economists anticipate a 2.5% increase in GDP in the quarter, slowing from 3.1%

growth in the prior quarter.

The data are expected to confirm that while the economy is expanding at a steady pace, growth hasn't accelerated enough to prompt a

faster unwind of stimulus from the Federal Reserve. That should help sustain this year's market moves, analysts say, with U.S. stocks continuing to climb higher while the U.S.

dollar and Treasury yields remain soft.

Hurricane Harvey battered the Texas coast in August, shutting ports and oil refineries and leading to a spike in

gasoline prices.

Hurricanes Irma and Maria followed in early September, hitting the Florida coast and Puerto Rico.

Economists had warned

that the storms could disrupt a wide swath of the economy, from housing construction to factory production.

While the storms did indeed take a toll, recent data have suggested that the economic impact has been more subdued than previously forecast.

A recent report from the Fed showed industrial production—a measure of output at factories, mines and utilities—rebounded 0.3% in September after a sharp decline in the prior month.

The report, which also included an upward revision to August's data, indicated that disruptions from the storm were less severe than initially reported.

Data on U.S. trade—which economists feared would be hurt by port closures—and jobless claims also have been surprisingly upbeat, analysts say.

The data are "strongly suggesting that the distortions caused by the hurricanes in the Gulf states will prove to be a short-lived phenomenon," said analysts at Jefferies Group.

The resilience of the economy should confirm the Federal Reserve's case for raising interest rates again this year, analysts say.

Markets are pricing in a 98% chance of another U.S. rate increase by December, according to CME Group Inc. data.

# MARKETS

## Palladium Soars on Hopes for Growth

Investors believe rising auto production will fuel demand for year's top commodity

By IRA IOSEBASHVILI  
AND AMRITH RAMKUMAR

Palladium prices are at their highest level in nearly two decades as investors bet that rising global growth will buoy automobile production and stoke demand for the rare metal.

Prices for palladium, a key ingredient in emission filters for gasoline engines, crossed \$1,000 a troy ounce earlier this month for the first time since 2001. They closed Monday at \$949.95 a troy ounce and are up 39% in 2017, making it the year's best performing major commodity.

"Nobody really predicted this big move," said Edward Meir, a strategist at brokerage INTL FCStone. "It's really quite staggering."

Driving the rally are expectations that robust demand for gasoline-powered cars will continue as the global economy picks up steam. That is expected to create more need for palladium, a silvery-white metal that is already much scarcer than gold, silver or platinum.

Car sales in China, the world's largest auto market, rose 4.3% in the first eight months of this year, according to the China Association of Automobile Manufacturers. Although sales have cooled from last year's double-digit growth, analysts said demand has still been healthy enough to boost palladium prices.

Brokerage Johnson Matthey projected in May that palladium demand will top supply by 792,000 ounces this year, from 163,000 ounces in 2016.

Some investors believe the metal will receive an additional boost from a continuing

### Driving Gains

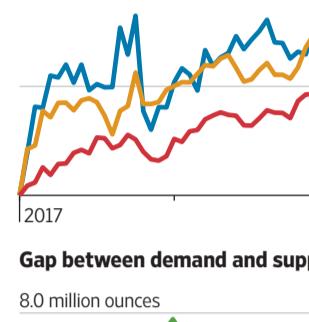
Bets that rising global growth will increase automobile production have helped fuel a surge in prices for palladium, a rare metal used in emission filters for gasoline engines.

### Annual car sales in China

2013	22 million cars
2014	23
2015	25
2016	28
2017*	29

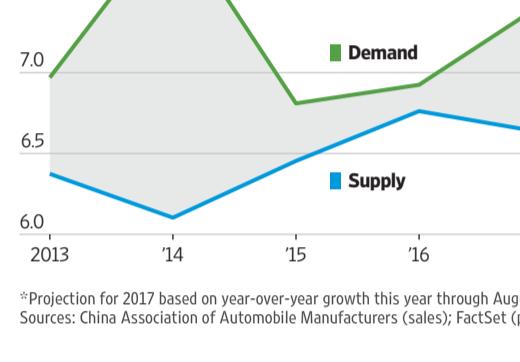
### Metal prices in 2017

Palladium Gold Platinum



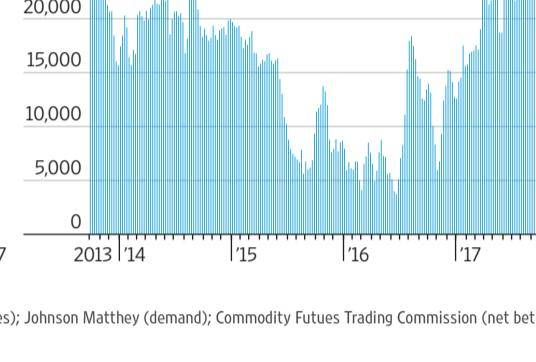
### Gap between demand and supply widens again

8.0 million ounces



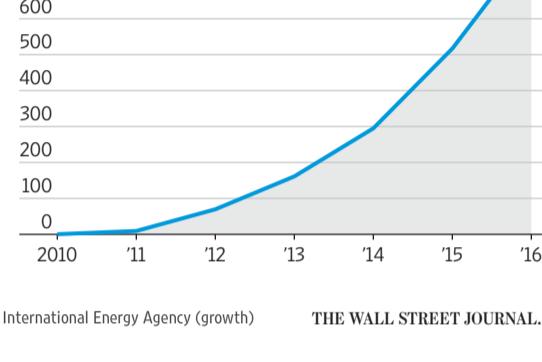
### Net bets on higher palladium prices

30,000 contracts



### Global hybrid electric car stocks

900 thousand cars



\*Projection for 2017 based on year-over-year growth this year through August  
Sources: China Association of Automobile Manufacturers (sales); FactSet (prices); Johnson Matthey (demand); Commodity Futures Trading Commission (net bets); International Energy Agency (growth)

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switch to hybrid vehicles, which primarily use gasoline rather than diesel. China in September said it would force auto makers to accelerate production of hybrids and electric vehicles by 2019, the latest signal that officials across the globe are determined to phase out traditional internal-combustion engines altogether.

Meanwhile, sales of diesel-powered cars have declined in Europe, after Volkswagen AG, the world's biggest auto maker

by sales, was caught rigging diesel engines to dupe emissions tests two years ago. Electric cars and hybrids are expected to grab 4% of the European market this year, up from 2.3% before the diesel scandal, according to research group LMC Automotive.

That has hurt the price of platinum, which is often mined together with palladium but used mainly in diesel engines, driving prices for palladium above platinum prices in

September for the first time in 16 years.

Some analysts believe at least part of the rapid run-up in palladium prices has come from investors eager to catch a piece of the rally. Those same investors are likely to be just as quick to abandon the metal as soon as prices lose momentum.

Palladium's rise this year has been punctuated by sharp drops as investors locked in profits on big moves. A stronger dollar could be

another obstacle. Palladium is priced in the U.S. currency and becomes more expensive to foreign investors when the dollar rises.

In the longer term, the auto industry may consider switching to platinum in gasoline engines if the price of palladium continues to climb, some market participants said.

Shree Kargutkar, portfolio manager at Sprott Asset Management, said he thinks platinum provides a better long-

term value alternative to palladium given palladium's sharp rise.

Still, changes in the automotive industry don't pose an immediate threat to the rally, he said. Those shifts and mining companies' efforts to bring more areas of supply on line to capitalize on higher prices are likely to take years.

"We're not at a point where the palladium bulls have something to worry about," he said.

## HEARD ON THE STREET

Email: [heard@wsj.com](mailto:heard@wsj.com)

FINANCIAL ANALYSIS & COMMENTARY

[WSJ.com/Heard](http://WSJ.com/Heard)

## A Lost Opportunity for Allergan

Last year Allergan did one of the best deals in drug industry history. The drug company has been busily squandering the benefits ever since.

Shares are down nearly 25% over the past three months and more than 40% from the high set in 2015. The latest blow came last week after a federal judge invalidated a patent on the dry-eye drug Restasis. That could pave the way for generic competition on Allergan's second best-selling product. Allergan says it will appeal the ruling.

To make things worse, Judge William Bryson wrote in his decision that he has "serious concerns" about the "legitimacy" of Allergan's recent sale of Restasis patents to a Native American tribe to beat back a separate challenge.

That rebuke aside, some of the issues that have pushed the stock lower, such as the patent decision, weren't Allergan's fault. A planned merger with Pfizer, for instance, was scuttled in



Allergan CEO Brent Saunders

### Swelling

Allergan's quarterly net debt



Source: S&P Global Market Intelligence

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2016 after the Treasury Department changed the tax rule that was driving the deal.

But a big source of Allergan's trouble, a weak balance sheet, is self-inflicted. Allergan sold its generics unit to

Teva Pharmaceutical Industries last year for about \$40 billion in cash and Teva stock.

The deal was announced in 2015, when generic drug stocks were white-hot. Aller-

gan got out just before prices started falling. That deal pushed Allergan's net debt down to \$5.4 billion as of last September, according to S&P Global Market Intelligence.

Allergan hasn't spent the money as wisely as it could have, though. It has paid down a chunk of debt and spent about \$7 billion on acquisitions. Those deals may pay off, but Allergan's biggest financial move after the

deal was buying back some \$15 billion in stock. Unfortunately for Allergan, the intense buying didn't push the stock any higher even as net debt has swelled back up to \$24.4 billion as of June 30.

Allergan could improve its cash flow by raising prices on its existing products, a standard tactic in the industry. But the company has some self-imposed limits there. Chief Executive Brent Saunders pledged in 2016 that Allergan would limit itself to one price rise a year on its medicines and limit those increases to less than 10% as part of a "social contract" with patients.

The company's pipeline could still churn out some new hits, which would relieve pressure on the balance sheet. For example, Allergan presented favorable late-stage data on an investigational treatment for uterine fibroids Monday.

But Allergan's capital allocation choices mean that pipeline has a lot to live up to.

—Charley Grant

### OVERHEARD

Which one of these states doesn't belong?

As the deadline passed for cities to submit plans for Amazon.com's second headquarters, it received a surprising number of bids.

The 238 proposals it received from North America seemed like a lot given that its criteria called for a metropolitan area with at least one million residents, a condition met by only about 54 U.S. cities.

There were only seven U.S. states that failed to bid. Four states—North Dakota, South Dakota, Wyoming and Vermont—don't have one million people in the entire state, and two, Montana and Hawaii, aren't far above that mark.

The outlier is Arkansas, with nearly three million residents in the state, which probably abstained from submitting a bid for a different reason.

It is home to Amazon's rival, Wal-Mart Stores, which recently said it would build a new headquarters in Bentonville.

### In China, Banks Need Careful Check

Chinese bank stocks have been on a tear this year. As lenders start reporting earnings this week, it is time for a more realistic assessment.

China's banks have been vital forces behind the explosive growth of credit across the economy, with corporate debt now estimated at about 250% of gross domestic product.

For investors, the question is where this leaves banks' asset quality, a driver of their share prices. Over the past 4½ years, Chinese banks have recognized some 5 trillion yuan (\$755 billion) of bad loans. Even so, official estimates of nonperforming loans in the overall banking system still put them at 1% to 2% of assets; the most bearish independent analysts reckon the real figure could be up to 20%.

Even though state-owned enterprises' profitability has edged up, their debt has, too, and at a higher interest rate, hampering their ability to repay. Their liabilities continue to rise as well, up 11% in the first half of this year. Meanwhile, the amount of "special mention loans"—those that are overdue but haven't been written off—that banks record has been rising sharply.

Any correction in China's frothy property market could spark a rise in nonperforming loans. When property prices in Wenzhou, a wealthy coastal town that has seen significant housing price fluctuations, dropped almost 50%, the nonperforming loan ratio for banks there surged more than 4 percentage points, according to Deutsche Bank analysts.

It is time for investors to go back to basics and question banks' balance sheets harder.

—Anjani Trivedi

## Prices for Natural Gas Are Poised to Surprise This Winter

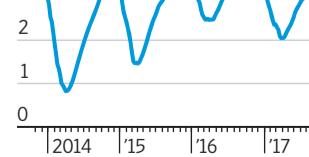
After nine years of booming production of natural gas, this winter could be one of the rare instances when supply and demand conspire to drive up prices.

Those expecting prices to rise have had plenty to point to on the demand side of the equation: Scores of industrial plants have sprung up to take advantage of cheap fuel, the U.S. has become a major exporter of gas and coal plants are closing in droves in favor of environmentally friendlier and more flexible gas-fired generators.

The supply side of the ledger has been just as dynamic, though. The recent boom in oil drilling in shale

### Tank Half Empty

Natural gas in U.S. underground storage



4 trillion cubic feet

3

2

1

0

2014 15 16 17

Source: Energy Information Administration

is seen rising for the eighth month in a row in November to a record.

Even so, this winter could see prices go up. No matter how much gas is being produced, the heating season, which runs roughly from November through April, sees underground gas inventories depleted far faster than supply can replenish it. The "injection season," which officially ends in two weeks, is when the surplus is built up.

Last Thursday, the U.S. Energy Information Administration reported that gas in underground storage stood at 3.646 trillion cubic feet, or 4.7% less than the same week a year ago. That isn't a huge

difference, but it might be if this winter is extra cold because of La Niña conditions, as some climatologists predict. Analysts at the Natural Gas Supply Association,

Plants have sprung up to use cheap fuel, while new pipelines are easing transport.

American Gas Association and Barclays all have noted the possibility of a frigid winter.

For some perspective, the winter of 2015-2016 was re-

markably mild and saw prices crash to their lowest this century in February. Stored gas fell by just 1.4 trillion cubic feet. But the cold winter of 2013-2014 saw a draw of 2.95 trillion cubic feet. Prices soared in February 2014 to nearly double their price a year earlier.

Gas prices, at roughly \$3 a million British thermal units, are about where they were at this time last year. But storage is starting this heating season around where it was during the 2013-14 winter. The margin of safety in the gas market shouldn't be taken for granted before the glut resumes in the spring.

—Spencer Jakab

# EMERGING MARKETS ARE ON THE MOVE.

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<sup>1</sup> Data as of 6/30/17.

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Tuesday, October 24, 2017 | R1

## Katzenberg on Weinstein

The Hollywood icon also talks about his plan to revolutionize TV



NIKKI RITCHIE/DOW JONES (2)

**'The problem is there's a pack of wolves. He is not a lone actor in this.'**

*It has been a difficult period for Hollywood, as the Harvey Weinstein scandal has focused attention on an uncomfortable issue for the entertainment business: ongoing sexual abuse.*

*Wall Street Journal Editor in Chief Gerard Baker spoke with industry giant and former colleague of Mr. Weinstein, Jeffrey Katzenberg. Mr. Katzenberg, a former chairman of Walt Disney Studios, co-founder of DreamWorks and now partner at WndrCo, spoke about the crisis and what it means for Hollywood, as well as his own efforts to explore new territory in short-form television. Here are edited excerpts of the conversation.*

### The abuse question

**MR. BAKER:** I want to start

*with a topic that's on everybody's mind, what happened with Harvey Weinstein. Now you, Jeffrey, last week in a very powerful statement spoke out in response to a direct communication from Harvey Weinstein asking for you to support him. You responded to him in no uncertain terms. You said he had done terrible things to women, and you went on to say there appear to be two Harvey Weinstens: one that I've known well, appreciated and admired, and another that I've not known at all.*

*How on Earth could powerful people, yourself included, not have known that he was behaving like this?*

**MR. KATZENBERG:** I do a lot of soul searching about it. I don't have a good answer. I've had hundreds of meetings with

Harvey Weinstein—my office, his office, on sets, on locations, the south of France, the Sundance Festival, the Peninsula Hotel. And literally not a single time had Harvey been abusive to somebody in my presence, other than, "Why's the car not here?" "I thought that script was supposed—" You know, that's not abusive behavior. That's why I said there are two Harveys, because somehow or another this behavior was masked from me by him, but more important, that these women masked it from all of us too, because they were intimidated, they were scared, they were humiliated.

And it literally took the *New York Times* and the bravery of these women to speak out about something that has been around from the

beginning of Hollywood. The casting couch has been in Hollywood from the beginning. The complicity around the acceptance of it and the silence about it is the crime.

Harvey Weinstein, make no mistake about it, he is a monster. The problem is there's a pack of wolves, he is not a lone actor in this. That's the challenge that I think all of us now really have to find a way to deal with.

**MR. BAKER:** You say in all your encounters with Mr. Weinstein directly, you've never seen behavior like this. But you must have heard about it?

**MR. KATZENBERG:** Unfortunately, the answer is no. From 1994 on, I had no business engagements or dealings with him whatsoever. Did I hear stories about Harvey abusing

women and people? The answer is no. Is that because there was never a forum, that I never opened myself to somebody to be able to have that conversation? Guilty. But I'm not going to do it again. I think you will see in these coming weeks and months real action. We cannot go on this way.

**MR. BAKER:** One thing that would clearly, presumably change the culture would be if there were a lot more women in senior positions in media

*companies generally, but in Hollywood perhaps in particular.*

**MR. KATZENBERG:** That's a long-term solution. I'm talking about something that has to bring this to a stop immediately.

In movies, in television, in live entertainment, in Las Vegas, on Broadway shows, in the news industry, actors and actresses, men and women, must audition on an ongoing, regular basis for their work.

So the question is: How do we address that moment and add

*Please turn to the next page*

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## It's Time to End the Culture of Stress and Burnout

Arianna Huffington says that Uber could have been as successful without its 'brilliant jerks'

*Arianna Huffington, founder of the Huffington Post and Thrive Global, spoke with Dennis K. Berman, financial editor of The Wall Street Journal, about a range of topics, from her experience as an Uber board member to the perils of an economy driven by social-media platforms. Edited excerpts follow.*

### Importance of culture

**MR. BERMAN:** Take us back to your arrival on the Uber board in April 2016. What was going on? What did you see?

**MS. HUFFINGTON:** The growth was the most amazing thing. Then, though, what I began to see is that the growth was also achieved at the expense of an incredible burnout in the company. Working hard is great, but the data is very clear that working longer and working smarter contradict each other.

**MR. BERMAN:** Was there a moment where you said, "This is crazy"?

*MS. HUFFINGTON:* I think there was a moment when I said, "We need to do something about this culture."

We produced a series of workshops to help everybody understand that even though we claim to be in a data-driven culture, we are forgetting the data—which is that when you are operating in a culture of burnout and constant stress there are going to be consequences. Burned-out people act out again and again. They make mistakes.

**MR. BERMAN:** So is there a moment now, where you have various board members in litigation with other board members, alliances being struck, chaos reigning, where you say, "This is crazy"?

**MS. HUFFINGTON:** No. We have a great CEO. I chaired the search committee and I'm very, very thrilled with the results. Dara Khosrowshahi is really somebody who has the perfect combination of talents for this time in Uber's history,

including being unflappable, which I consider the greatest trait of leadership.

**MR. BERMAN:** Could Uber have been what it became without, to use a term I know you like, a bunch of brilliant jerks?

**MS. HUFFINGTON:** Oh, yes. One of the things I said in my first all-hands when I spoke to the employees was that with growth forward we would end the cult of the top performer.

This is not just a Silicon Valley cult. Why did Harvey Weinstein last that long? The cult of somebody who delivers results. When you deliver results, somehow a lot is forgiven. And that is particularly prevalent in the Valley. So I called the top performers brilliant jerks and I said, "We're going to have zero tolerance for them."

We are recognizing that what's happening in the culture has direct consequences to the bottom line. A culture is not nice to have, it's absolutely essential. Especially

right now, in the world of social media, companies can no longer hide behind expensive ads what's happening in the company.

### On social media

**MR. BERMAN:** What do you

*'We are recognizing that what's happening in the culture has direct consequences to the bottom line.'*



*view as the moral responsibility of Facebook, Google, Twitter, YouTube, social-media platforms, to the people and the countries that they serve?*

**MS. HUFFINGTON:** I think there is a moral responsibility, as [Facebook COO] Sheryl Sand-

berg said last week, not to allow foreign powers to come in and use fake names and be able to infiltrate the platform. She said if these were from real accounts, as opposed to fake accounts, they would only

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## JOURNAL REPORT | WSJ D.LIVE

# Wal-Mart Takes Aim at Amazon

Marc Lore, the company's U.S. e-commerce chief, explains its acquisition strategy

**Wal-Mart Stores Inc.** has been on a buying spree over the past year, seeking to better position itself for an intensifying e-commerce battle with **Amazon.com Inc.**

Leading the effort is Marc Lore, who became Wal-Mart's U.S. e-commerce chief last year after the Bentonville, Ark.-based retailer acquired his startup, Jet.com, for \$3.3 billion.

Mr. Lore sat down with The Wall Street Journal's Jason Anders to discuss the megaretailer's plans for e-commerce. Edited excerpts follow:

### Elevating the brand

**MR. ANDERS:** *Wal-Mart recently acquired ShoeBuy, Bonobos, ModCloth, Moosejaw and delivery company Parcel. But you aren't done shopping, right? There's more to come?*

**MR. LORE:** That's right. We're looking at a lot of different things right now. Everything in every sector—technology, retailers, digitally native brands. We're looking a lot.

**MR. ANDERS:** *The brands you bought are all established, well-known names. What's the overall strategy? Do you plan to integrate these things closely into Walmart.com or keep them as their own brands?*

**MR. LORE:** There are two different strategies that we are pursuing simultaneously. The retail specialists such as ShoeBuy and Moosejaw—we bought those companies to really help us accelerate in the long tail. They have an amazing assortment, amazing relationships with brands. The teams are great, product content is much better than what we had before. So being able to take that product content and those relationships and bring that to Walmart.com and Jet is really the reason to do it.

We've also empowered the leaders of these companies to basically run the category across the entire entity. We didn't just buy them and say,

"Just keep doing what you're doing." Instead we told them, "We want you to run and manage this category." It's worked out really well.

**MR. ANDERS:** *Are these types of brands helping to elevate Wal-Mart overall, make it cooler?*

**MR. LORE:** It's about bringing in a better, more unique, specialist assortment to the site. We're working on a couple of partnerships now that will be announced in the next few months to help bring an even more premium assortment onto the site. We're also redesigning the website, investing heavily in vertical experiences in both home and fashion, to make it less about transaction and more about browse and discovery. So yes, we're definitely making a push to elevate the brand.

### Importance of scale

**MR. ANDERS:** *Wal-Mart is famous for paying attention to the bottom line. Jet.com came up not having that same sort of restraint. Can you do this in a way on Jet.com that is ultimately profitable?*

**MR. LORE:** Absolutely. E-commerce is a scale game. And the great thing here is that we get to combine the scale of both Walmart.com and Jet together on a common infrastructure. So it isn't looking at each of them in isolation. We actually get the ability of each one to leverage from the other.

**MR. ANDERS:** *When do you think Jet.com will become profitable?*

**MR. LORE:** I haven't talked about profitability, although at the analysts' meeting last week, I did say that this year would be the peak in losses. We expect a slight reduction of losses next year.

**MR. ANDERS:** *When we polled audience members about which company they think is going to dominate e-commerce in five years, they didn't pick Wal-Mart.*



**'We get to combine the scale of both Walmart.com and Jet together on a common infrastructure.'**

NIKKI RITCHER/DOW JONES (2)

### Chasing Amazon

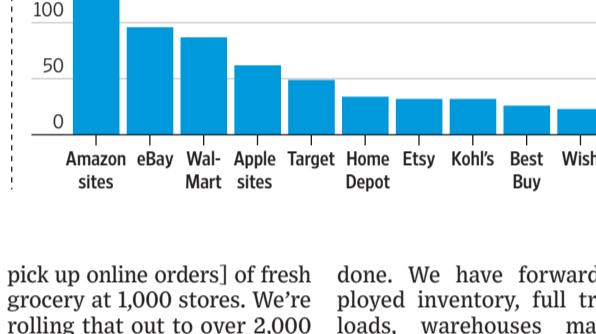
In an e-commerce market projected to grow by nearly 50% over the next four years, Wal-Mart is chasing market leader Amazon

Leading e-commerce retailers in the U.S. in 2016, in billions of dollars

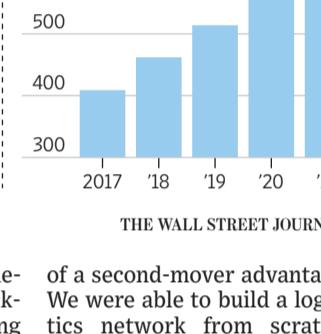


Source: Statista

Unique monthly visitors to the most popular retail websites in the U.S. as of March 2017, in millions



Projected retail e-commerce sales in the U.S., in billions of dollars



THE WALL STREET JOURNAL.

**MR. LORE:** It will be interesting to ask that question 50 years from now, or 20, because Wal-Mart has some really unique assets that no one else has. To date, we haven't fully leveraged the scale of Wal-Mart, specifically its 4,600 stores within 10 miles of 90% of the population. Fresh, frozen, over 100,000 general-merchandise skews are in that proximity.

That product gets there in full truckloads—not cases and pallets—and those 4,600 warehouses are profitable. They're already covering their entire fixed expense. So each marginal dollar that ships out of there comes out at an incredible profit.

**MR. ANDERS:** When we polled audience members about which company they think is going to dominate e-commerce in five years, they didn't pick Wal-Mart.

Already, [customers can

pick up online orders] of fresh grocery at 1,000 stores. We're rolling that out to over 2,000 stores next year. And from each of those stores, we will have the ability to deliver. We are testing grocery deliveries now in 22 stores, using a combination of our own associates, Uber drivers, Deliv, and a bunch of other players.

**MR. ANDERS:** There is a big arms race under way right now with groceries. Certainly, Amazon and Whole Foods are getting a lot of attention. Up to now, Wal-Mart has been banking heavily on its vast physical store network and making that better.

**MR. LORE:** The hard part is

done. We have forward-deployed inventory, full truck-loads, warehouses making money. We have pickup capability for online orders at 1,000 stores, which will be 2,000 stores by the end of next year and eventually 3,000 and 4,000 stores. Now, it's just about that last-mile delivery piece, and there are plenty of partners we can work with to do that.

**MR. ANDERS:** Amazon has plowed a ton of money into the logistics side. Are you saying that Wal-Mart can go head-to-head with Amazon and offer the exact same services that they're offering?

**MR. LORE:** We have a little bit

of a second-mover advantage. We were able to build a logistics network from scratch. We've got the warehouses in place at the right size, with the right amount of automation. And today, we can hit 87% of the country overnight and 99% in two days, via ground shipping.

Over the next two years, you'll start to see dramatic improvements. You'll see the new design rollout at Walmart.com. You'll start to see more same-day and two-hour delivery. You're going to see a lot of changes.

And I think two years from now, it will be interesting to ask the same question to see how people think.

## Katzenberg on Weinstein

Continued from the prior page  
a level of protection for what is an imperative part of the creative process?

### The short-form future

**MR. BAKER:** Let's move on to a happier topic, which is the future of TV. You've got a plan to revolutionize TV. WndrCo. Tell us why there's space for another major initiative in the TV field.

**MR. KATZENBERG:** We've hit a moment in time in which there's a fantastic opportunity to innovate storytelling and to evolve it.

Ten years ago, two things happened. One, everybody now has a television with them all the time. At the same time, a little earlier than that, there was a platform called YouTube. And out of YouTube came this amazing new form and format. Short form, under 10 minutes.

And in a very short period of time, that platform gets a size and a scale that is unprecedented as a media platform. And Google comes along, buys it, does a fantastic job investing in the platform itself and the creators in it, creates a business model for monetization. Out of that, the platform evolves. There starts

to be professionally produced content there, some of it incredibly imaginative, very compelling.

**MR. BAKER:** Without being too flippant, isn't it all skateboarding, ducks and puppies, falling down stairs, and all this kind of stuff?

**MR. KATZENBERG:** No. It's what people can afford to make. I believe that if you create short-form content that can be consumed in these chapters of under 10 minutes, it will revolutionize the storytelling opportunity.

I'll point to another medium where somebody capitalized on this. Traditionally, a chapter in a novel is 20 to 40 pages long. Fifteen years ago, two great authors came along and realized that as a society and a world we're ADD. James Patterson and Dan Brown changed the architecture, the formatting, of the way in which they told a story. So "The Da Vinci Code" was 464 pages long, 105 chapters.

Now the quality of that story, the arc of the story, the quality of the characters, the richness of it, the excitement of it, it was one of the great reads. What he did is, he al-

lowed a different consumption habit, which is if you had 10 minutes you could read a chapter or two. If you had an hour you could read five or six.

**MR. BAKER:** Give us a sense of how it's going.

**MR. KATZENBERG:** This is as hard as anything I've ever done for many reasons, not the least of which is that anybody has started a new media platform, at its foundation was library content. The challenge for new TV is there isn't any. Everything has to be created from scratch, because you cannot take an episode of "Game of Thrones" and cut it up into six 10-minute pieces.

It's a Catch-22. For people to pay for a subscription service, there needs to be not just supreme quality but there also needs to be quantity. You have to deliver on both of those.

So I have spent the last year in conversations with all of the major suppliers of television and created a business model, a licensing model. I've talked with many of the best show runners to talk about creatively how they're going to interpret this.

Continued from the prior page  
have taken them down if the language was violent or hate-filled. Otherwise, they, on the grounds of free speech, would have kept them up. So that's the question that we need to discuss, in terms of platforms.

For me, the more significant question has to do with what's happening with the hijacking of people's attention. I think in the attention economy, companies like Facebook or YouTube, especially, the part of Alphabet that is directly about people's attention, the goal is to get as much of your attention as possible through an enormous amount of persuasive techniques.

If you look at the "like," it's a way to keep you hooked, to keep you returning to see how many likes the picture of your salad got. And among teenagers especially, and college kids, this has become a symbol of validation.

It cannot be in our interest to have persuasive techniques hijacking our attention in such a way. And I think that's going to be the big, existential issue we need to discuss.

And if you think, "Oh, don't worry, I have incredible will power and I'm only going to

spend as much time as I really want on this," think again.

**MR. BERMAN:** In your testing, what is the average social-media consumption?

**MS. HUFFINGTON:** Stunning.

There are people who are totally addicted and they spend over 10 hours [a day]. But normal people, who are not completely addicted, may spend seven hours on Instagram or Facebook a week.

**MR. BERMAN:** Should a 12-year-old have a smartphone?

**MS. HUFFINGTON:** The closer you get to the Valley, to people who are part of these companies and actually producing this product, the later the kids get the phones and the stricter they are about how much time they allow them on their phones. Over 70% of people sleep with their phones. With the best will power, if you wake up in the middle of the night and you can't go right back to sleep, you are going to be tempted to look at your phone, to look at texts. And then your whole sleep cycle is interrupted.

None of us would be here without all that technology has brought us. It's basically about setting boundaries and

reconnecting with ourselves.

### Gender issues

**MR. BERMAN:** Based on your experience on the Uber board, what are some practical things that a company should be thinking about as it relates to gender in the workplace?

**MS. HUFFINGTON:** When workplaces are fueled by this culture of burnout, where people wear this like a badge of honor, it disproportionately affects women.

First of all, women internalize stress differently. The numbers show that women in stressful jobs have a 40% greater risk of diabetes and a 60% greater risk of heart disease. So that's something we need to be working on ourselves. Also, there's more sexist behavior when people are burned out. They act out. We all know that when we are running on empty, when we're exhausted, we operate at our worst.

**MR. BERMAN:** If you were to give mindfulness training in the White House, what would be your prescription?

**MS. HUFFINGTON:** To take the president's phone away at night. That might change the course of world history.

## VOICES FROM THE CONFERENCE



"It's a great time to be a lender, but it's also a terrible time to be a lender if you're overconfident. If you're not reserving enough, if you're not thinking of risk management, if you're not considering scenarios of your losses doubling or tripling, which is a rare event but it does happen, as we saw in 2008."

**Max Levchin,**  
Founder and CEO, Affirm

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# Baidu Sees AI as Key to Its Future

CEO Robin Li on the company's technology expertise, its autonomous-driving program and the battle against fake information

**Baidu** is the search titan in China, but with its mobile efforts, it stumbled relative to the competition.

The Wall Street Journal's global technology editor, Jason Dean, spoke with the co-founder, chairman and chief executive of Baidu, Robin Li, about the company's plans for reclaiming its advantage, as well as its push into autonomous vehicles. Here are edited excerpts.

## The search future

**MR. DEAN:** You're placing a huge bet on artificial intelligence. Why do you think that could help you regain your edge?

**MR. LI:** First, every company has its own DNA. Baidu is a technology company. During the desktop age, in order to serve the users better, you just needed to come out with the best technology to rank contents on the internet. I think that's what we are good at. But when the world moved into mobile, the landscape changed. The market involvement changed. For mobile, you need to build your own ecosystem. You need to enable people to create content for you, and we don't have access to that content anymore.

We're still dominating in mobile search, but we need to figure out what's next. Luckily, we have entered the age of AI, and technology is important again. You need to have the best natural-language processing technology, the best voice-recognition technology, the best image or computer-vision technology. You need to analyze a lot of data.

I think we are good at that, and there are a lot of new opportunities for AI. If you think about search, it's the most natural AI application. When you type in a keyword or query, we will try to guess what you mean and provide the best answer for that query. That's pretty much the definition of AI. Let computers understand humans and provide answers or provide services.

**MR. DEAN:** A big part of what you're doing related to your AI is your autonomous-driving program. You just announced a new deal with BAIC, which is one of the biggest Chinese state-owned auto makers in Beijing. Tell us about that deal.

**MR. LI:** We have a very solid plan. The plan is to mass produce level-three cars by 2019 and mass produce level-four cars by 2021.

## Asleep at the wheel

**MR. DEAN:** Level-four autonomous is where the person doesn't need to be awake, basically, and the car drives itself. What is your involvement in this?

**MR. LI:** We don't manufacture cars. They do. We provide technologies so that they can drive automatically. We also provide technology and content for people to be entertained in the car. When a passenger gets into the car, our vision is that you will never need to touch your phone anymore. The car can provide all the things—the screen, the songs, the microphone. Everything can be better than the mobile experience.

**MR. DEAN:** Where would you say your technology ranks in autonomous driving against Waymo [the driverless-car division of Google parent Alphabet Inc.]?

**MR. LI:** It's a question of open versus closed. Apollo [Baidu's autonomous-car software system] is a very open system, and the first day, we had about 50 partners join us, including companies like Ford and Daimler, Bosch, Continental and many in China. I think history has also proved that an open system has better momentum.

We published Apollo 1.0 in July, and we published 1.5 in September on GitHub. If you go there and check it out, it's a very active community. Lots of people are contributing to the Apollo technology, because the world believes we will be moving into an autonomous-driving society.

I think a lot of people are participating, and they are providing signals to us. They are providing data to us. They are providing requests or demands for us. We know more about the real market demand. That gives us an edge.

**MR. DEAN:** So if I'm a potential partner to you, and then Waymo's coming over and they want to talk to me, why would I go with Baidu over them?

**MR. LI:** Because you will have much better control over your destiny.

Apollo is open, and you can see everything, and you can contribute data to us, and we can provide you simulation technology, security technol-



'We're going to deliver a fully autonomous bus by the end of next year.'

ogy, and we can provide you data too.

**MR. DEAN:** How are you going to make money on this open-source autonomous-driving platform?

**MR. LI:** We can sell simulation systems, and we can sell data. We can sell high-definition maps. We can even in the future write insurance policies. There are lots of things you can do. It's a very large market. I think auto represents about one-sixth of the total Chinese GDP, and it's growing fast, too.

## Getting there first

**MR. DEAN:** The BAIC deal, is the goal to be first with the level-four autonomous car? Do you think you'll beat the competition to delivering that to market?

**MR. LI:** That's not the first level-four vehicle we're working on. We issued another announcement with King Long, which is one of the larger bus manufacturers in China. We're going to deliver a fully autonomous bus by the end of next year.

It's going to be run in designated areas, but it's going to be fully autonomous.

**MR. DEAN:** Fake news has been a big issue in the U.S. It's been an issue in China, too. You recently took some measures to address them that stirred some controversy. How do you see the role and responsibility of big internet companies like yourself in balancing the need to safeguard against bad information versus the risk of censorship?

**MR. LI:** We want to provide the best way for people to find information, and that means we need certain kinds of control over information so that we provide people with true information instead of fake news. The fake-news issue became more and more serious as social media became more popular.

There's no fact checking. There's no editorial control.

We recently set up a platform to clarify a lot of things in collaboration with the government and quite a few other companies. We also integrated in our existing products features like Baidu Encyclopedia. It's one of the most authoritative information sources in Chinese.

From time to time, there are things that are unverified. People are curious about the authoritative explanation of those kind of topics. We use our technology to extract the main topics from every article and provide a Baidu Encyclopedia entry right after the news text.

**MR. DEAN:** The concern in China is that partly what is fake news can be dictated by the government. How do you balance that into your equation?

**MR. LI:** The government cares more about politically sensitive content. But we, as a general information provider, need to do a lot more with rumors about scientific issues, rumors about entertainment, all kinds of things.

We need to do a lot more work, and we're doing that, using technology, using editorial control.

# The Thinking Behind Alibaba's Expansion

Executive Vice Chairman Joseph Tsai says the company can compete with all the tech giants



'Our international expansion really focuses on our customers, who are doing business in China, as they expand abroad.'

China's Alibaba has grown into one of the world's biggest tech giants. As it has grown, it has spread into many different areas of tech and has begun to bump against U.S. tech giants like Amazon and Google.

The Wall Street Journal's global technology editor, Jason Dean, discussed Alibaba's strategy with Joseph Tsai, the company's executive vice chairman. Here are edited excerpts.

## What now, what next?

**MR. DEAN:** Let's talk about your ambition. You started off in e-commerce. You're now directly or indirectly in cloud computing, media and entertainment, logistics, payments and others as well. Your vision is that customers will meet, work and live at Alibaba, which is pretty much everything. Where does the ambition end, and what's the unifying vision?

**MR. TSAI:** Since 1999, we started the company with a mission to make it easy to do business anywhere. We want to make sure we help businesses, companies, especially small companies, to be able to reach their markets and reach

consumers.

Today, we run the largest retail platform in China. There are over 500 million consumers on that platform. And most of them are mobile. So whenever we think about expanding into a new space, we ask ourselves, "Is that consistent with our mission? Are we staying true to that mission?"

**MR. DEAN:** You've been called the Amazon of China. You've competed in China against them and won. But increasingly, you're competing head-to-head globally, particularly in the cloud business. What is the strategy there? Are you trying to take them on outside China, as well as Microsoft and Google in the cloud?

**MR. TSAI:** If you look at Amazon and Alibaba, the two companies grew up in very different environments. We grew up in China. Amazon grew up in the United States. We started as e-commerce companies. You can say that we're from the same genus but grew up as two different species because we have our own environment.

China is a developing economy. It's an environment where the economy is shifting. So that's where we are.

from investment and exports to consumption.

If you look at China today, it exhibits a lot of the developing-economy characteristics, whereas Amazon is in a very well-developed economy. E-commerce is actually very, very tough. It's not about just doing an app or launching a website. It's about figuring out the entire supply chain. We have to worry about putting merchants together. We have to worry about logistics. We have to worry about payment.

There is going to be some competition at the fringe. But in China today, the cloud market is probably what the U.S. was like maybe seven, eight years ago. It's about to take off. We're very excited by it.

We're very happy to continue to grow our business in China. Our international expansion really focuses on our customers, who are doing business in China, as they expand abroad. We help them expand.

We also have an effort in, for example, Southeast Asia, outside of China, where a lot of Southeast Asian companies are looking at cloud solutions. So that's where we are.

## The push for AI

**MR. DEAN:** In that world, you have to be going up against them head-to-head, at least in some cases. And you're targeting multinationals as well, you're advertising in the U.S. What's your competitive advantage against Amazon when you go head-to-head with them?

**MR. TSAI:** In the cloud you really compete on technology and products. And we have areas we feel we are excellent in. We're very good in database, we're very good in middleware as well as security. We're not just competing with Amazon, we're competing with Google, we're competing with Microsoft, great, great technology companies. But we feel like we have both the wherewithal and the technology and the people to compete.

**MR. DEAN:** You announced last week you're ramping up R&D spending to a total of \$15 billion over the next three years. What's driving that?

**MR. TSAI:** As a percentage of revenue, historically, we've been spending roughly around 10%, 11% of our revenues on R&D. So with this effort, \$15 billion over three years, roughly on average about \$5 billion a year, you're looking at midteens revenue percentage spending. I don't think that's a huge stretch.

This just shows our commitment to put more resources into the talent as well as the technology develop-

ment as we see the future.

With this effort we're going to be focused a lot on very advanced areas like quantum computing, machine learning, computer vision, voice recognition, natural-language processing.

**MR. DEAN:** Several of those categories that you mentioned fall under the rubric of artificial intelligence. It's hard to separate the hype from the reality. Where do you have an advantage in AI technology?

**MR. TSAI:** I have a cigar theory on AI; you look at Cuba, C-U-B-A. Those are the four important elements. C stands for cloud computing, which means low-cost computing to train the machines and manage massive amounts of data. U means use case. We serve hundreds of millions of consumers every day. We're seeing their behavior. We have fresh data every day. B means big data. A is algorithm. You need to have smart people, the scientists, the mathematicians, to develop the good algorithms.

We are one of the top companies that have all those elements in place.

## A question of trust

**MR. DEAN:** You and Google and Facebook have an enormous amount of data on people. Why should people trust the big tech companies to treat that data responsibly?

**MR. TSAI:** It's because it's good for business to be a responsible custodian of consumer

data. If you lose that trust, why would anybody want to use your service the next day?

That's the basic principle there. It's very, very important that those that preside over these large troves of data, the companies, are very mindful of that consumer trust, the difference between the trust and nontrust is a very thin wall. So, we feel like we're reading on thin ice all the time.

**MR. DEAN:** Alibaba founder Jack Ma told President Trump in January that Alibaba would create a million jobs in the U.S. over five years. That pledge was met with some skepticism. Can you tell us what you're doing to make that a reality?

**MR. TSAI:** We take our China experience. There are over 10 million small merchants that are selling on our platform. Whenever you try to help a merchant to sell more, grow their business, it creates jobs. We have studies that show that the Alibaba platform has created over 30 million jobs in China just from merchants hiring people. The logistics industry is hiring a lot of people.

We believe that we can bring the same idea, create a platform here to let American companies, especially small businesses, sell to Chinese consumers.

Remember, we have access to 500 million consumers in China. That is a huge job-creation opportunity.

## VOICES FROM THE CONFERENCE



"We're still dealing with crappy passwords over the last 25 years. Literally every conference, we talk about all this crazy security and big-data analytics, and we still can't get the passwords right. So, as a consumer one of the biggest things that seems simple is at least have a different password for each site."

**George Kurtz,**  
Co-Founder and CEO, CrowdStrike

# Is Regulation Ahead For Giants of Tech?

Barry Diller says it's inevitable. Also: He talks about the absurd valuations put on 'unicorns.'

**Barry Diller**, after a long and successful career in traditional entertainment, has reinvented himself as chairman of **IAC/InterActiveCorp**, owner of such popular digital properties as Angie's List and Expedia. Wall Street Journal Editor in Chief Gerard Baker spoke with Mr. Diller about the fierce competition and harsh realities in today's digital business world. Edited excerpts follow.

You're in a false environment. It occurred to me that companies, once they got up to being a substantial business, should not rely on a corporate for capital or for telling them what's right or wrong.

So we started splitting these companies out. I believe that companies that have multiple and disparate operating divisions are really suboptimal.

**MR. BAKER:** What was the threshold at which you—

**MR. DILLER:** There is none.

**MR. BAKER:** There is none?

**MR. DILLER:** No. It's feel. Every one worked better when they were independent. If you really want a company to continue to innovate, they've got to be on their own melting ice cube.

**MR. BAKER:** What do you think of the virtues of going public versus going private? You've spun off a lot of companies that are now public.

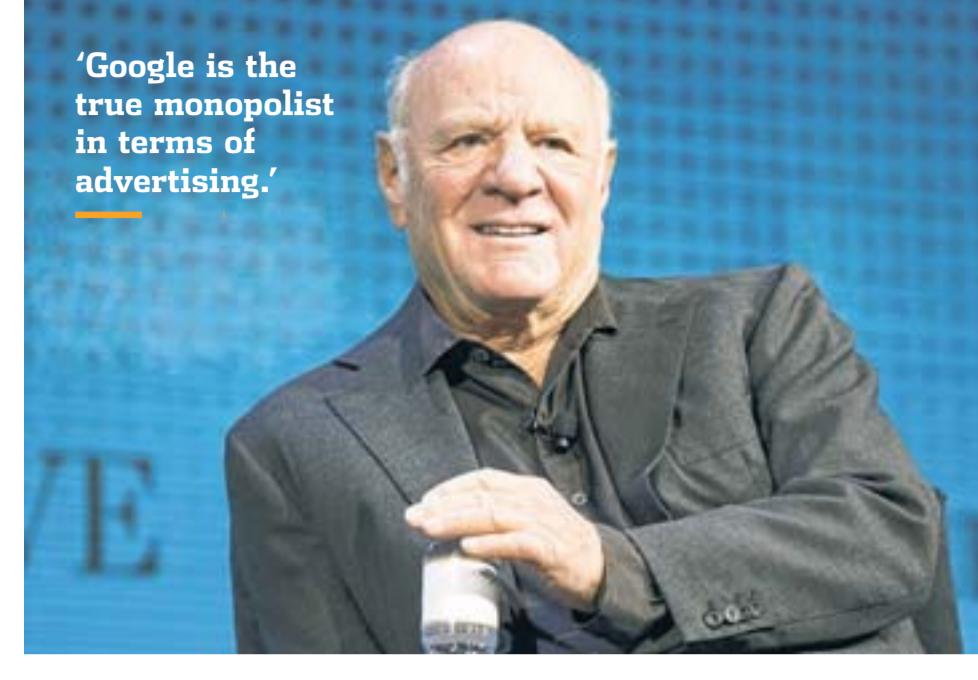
**MR. DILLER:** They're all public.

**MR. BAKER:** But they are confronting all of those challenges public companies face: tougher regulation and scrutiny and reporting requirements. What would your advice be to an Uber or an Airbnb as they go through this process?

**MR. DILLER:** If you don't have to, don't do it. Meaning the reason that you would take a company public is liquidity, for all the obvious reasons. However, unless you need capital, there's utterly no purpose so long as you can provide some liquidity to people who need it. I've never sold a share of my company.

By the way, I think that the pressure of venture capital to force companies to go public because they've got to return money to shareholders isn't a very good process.

**MR. BAKER:** These valuations for so-called unicorns, do you think that the aura of being a tech company somehow bestows on them some kind of



'Google is the true monopolist in terms of advertising.'

NIKKI RITCHIE/DOW JONES (2)

magical valuation?

**MR. DILLER:** Well, yeah. A company isn't dealing with basics when VCs in a room with three or four people make up a valuation when they do additional rounds of financing.

It has no reality. It's just a bunch of guys saying, "Oh, we were worth \$300 million. Oh, let's make it \$700 million." And if they get enough people to buy it, "Let's make it \$5 billion." Or in Uber's extreme case, "Let's make it \$65 billion."

**MR. BAKER:** How do we do that? Can you give us a clue?

**MR. DILLER:** Let me tell you, it's very easy. You and I sit in a room and say, "We're going to get this done over here to put some money in. Let's just make up a good figure and if he's going to buy it, fine with us." These valuations don't bear reality.

**MR. BAKER:** Being dependent on advertising in the current environment, unless your name is Google or Facebook, is pretty challenging, right?

**MR. DILLER:** There's no hope.

**MR. BAKER:** No hope?

**MR. DILLER:** If you're going to build a business based upon advertising, purely advertising is your sole source of revenue, I would say go home.

**MR. BAKER:** Really?

**MR. DILLER:** It isn't possible. There's no pricing power. You have two monopolists. One, really. Google is the true monopolist in terms of advertising. No one is going to enter it and take share away from that. It's just not possible. Not that there won't be other forms of advertising channels.

**MR. BAKER:** So you don't think anything can be done about the duopoly or the monopoly as you call it?

**MR. DILLER:** Eventually.

**MR. BAKER:** You think regulators are going to tackle it?

**MR. DILLER:** As we now see these companies, these four or five, having more hegemony over more areas, inevitably, it has to bring regulation. The track is so clear. This is a different situation than the standard fear that down the street, in a garage somewhere, will be your competitor that will destroy you. These main tracks have been laid now. And the dominant companies in them do not really have fundamental competition.

**MR. BAKER:** What about video?

**MR. DILLER:** Everybody and their mother is trying to do video. Mostly, defensively. Two companies are doing it offensively, Netflix and Amazon, interestingly, with two different business models. The Netflix model is very clear. They have 100 million subscribers. Their next closest competitor has 35 million or 40 million. They are so far ahead of everyone else, it's impossible at a mass communication scale to compete with them. And it's unlikely they're going to lose it, because they're overprogramming way beyond the water line.

The other model, which is completely weird if you're in the program business, or entertainment, is Amazon, because Amazon isn't particularly in the business of saying, "We'd like you to like our programming for its sake." Meaning, to the degree that people watch it, you do well. Amazon is doing it to build Prime, because they want to sell you more things. That's a business model entertainment has never had to compete with.

From the beginning of time, incumbents never invent anything new. Incumbents protect their ground. Other people come in with new ideas. And up until the last couple of years, the methodology was that HBO would be created by Time Inc., a publisher, and would eventually be bought.

Guess what? They are not buying Amazon and they're not buying Netflix.

## VOICES FROM THE CONFERENCE

"We know that bias prevents us from being a meritocracy, but research shows that when you say you're a meritocracy, when you design an organization and you say that it is meritocratic, it leads to spikes in bias. It leads you to be more biased. Because basically it frees people up from thinking that they have to try hard to be fair in their decision making....And I think that's one thing we're seeing going on in tech."

**Joelle Emerson,**  
Founder and CEO, Paradigm



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## JOURNAL REPORT | WSJ D.LIVE

# At Oracle, It's All About the Cloud

Chief Executive Officer Mark Hurd says the move is in the customers' best interest

Business software giant Oracle Corp. is in the midst of a massive transition, taking on Amazon.com Inc. and others in selling cloud-computing services. Helping lead the shift is Mark Hurd, the company's chief executive officer.

In an interview with Wall Street Journal Financial Editor Dennis K. Berman, Mr. Hurd discussed Oracle's strategy and why shifting software operations to the cloud is in companies' best interest.

Edited excerpts follow.

### Generational change

**MR. BERMAN:** Let's talk about year-end compensation, about how you are being incentivized. That has changed at Oracle, and I think that says a lot about the company.

**MR. HURD:** The compensation has always been about stock options, and people would only make money if the company was performing.

The problem with that methodology—low salaries, low bonuses, lots of stock options—has always been that when you do a Black-Scholes model against that, it gets you to crazy numbers, but you don't get anything unless the stock performs. What we have done is tried to evolve that. We're sticking with the mentality of options-related comp, but aligning it to performance incentives, some of which are around our transition to the cloud. It's a big deal.

**MR. BERMAN:** So the way you are paid is changing simply because you need to push the company to the cloud?

**MR. HURD:** Yeah. Our industry is going through a secular change that's generational.

This will be a 10- to 15-year run to get there. And what's happened over the last 20 to 25 years in tech is all being challenged now. So for us, we're cannibalizing ourselves.

**MR. BERMAN:** Was there a moment inside when you were like, "We've just got to do this differently? We have to make a change?"

**MR. HURD:** No. Nothing like that. It took us a bit to figure out where the market is headed. So we started with, "Here's where this thing is going to land." And if we are right, there's a possibility that there isn't a data center that a company owns in 2025. There is a possibility that all of development testing, which is a third of the IT market, will be done in the cloud. These numbers are gargantuan.

If you don't prepare for that now, you won't get there. You have to internalize that and say, "I can kick this can down the road for a couple of years or I can go do what we decided to do."

**MR. BERMAN:** Right now, you're doing a blend of cloud services, on-premise systems, all kinds of custom brew for customers. What will that look like in 2020?

**MR. HURD:** Right now, Silicon Valley does a good job of providing a bunch of individual parts—servers, operating systems, databases—all of this stuff. You send it all to the customer basically a la carte. The customer creates a huge IT staff and then tries to put it together like a Lego set. The stuff that they put together like a Lego set is really hard to upgrade, it's really hard to

maintain, and frankly, it's really hard to secure. All of this is going to move toward a simpler, more flexible, more variable market.

**MR. BERMAN:** Is the future really a fully vertically integrated IBM of the 21st century?

**MR. HURD:** That's a great question. If you went back into the '80s, there was a rebellion against exactly that model, which was, "We want to procure our way to more leverage with all of these vendors." I think what has happened is you've gotten a lot of that, and what you've gotten in return is a very complicated, very difficult environment out there. I think you'll see a rotation to a degree back to more optimization, more integration. The cloud is a lot of that.

**MR. BERMAN:** Isn't there sort of a great kind of Greek mythological irony that the IBM destroyer becomes IBM in the end?

**MR. HURD:** I'm going to stay out of mythology. But the environment in IT today isn't sustainable. Forget anything to do with IT's performance. The simple risk from a security perspective has to change. It isn't sustainable.

**MR. BERMAN:** What do you mean by that?

**MR. HURD:** Let's pretend we got attacked. Oracle would see something today in the marketplace that would try to penetrate something. We would create a piece of software to fix that. That's called a patch. You'll hear this term "patch" used a lot. A patch is simply a new piece of code



NIKKI RITCHIE/DOW JONES (2)

'There is a possibility that all of development testing, which is a third of the IT market, will be done in the cloud.'

that fixes another piece of code. We would fix it immediately in our cloud. But by the time it rippled its way through our on-premise customers, it would be one year.

This is now becoming an issue for CEOs, for boards.

### 'Really flipping hard'

**MR. BERMAN:** Have we sort of gotten over that psychological barrier where a CEO says, "I'm willing to risk myself and my reputation and my company by doing all this work in the cloud"?

**MR. HURD:** Do you want to be in front of the U.S. Congress and say, "Listen, I put all this software and my IT staff missed a patch"? Or do you want to say, "I did exactly what Oracle said."

If I'm a CEO, not Oracle's CEO, I like the second talk track. I'd much rather say, "Listen, I got the best guys in the world doing this for me" as opposed to, "I tried to do it myself."

This patching thing, while it may sound trivial, when you have tons of configurations, tons of operating systems and tons of databases, this is really, really flipping hard.

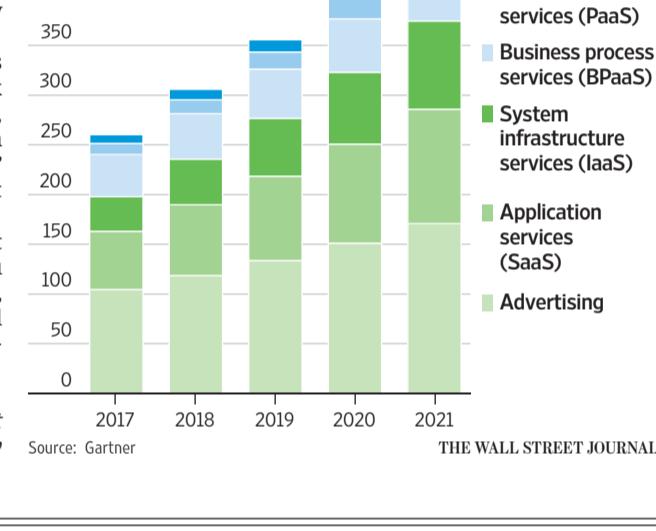
**AUDIENCE MEMBER:** Aren't there a lot of serious security

issues with everything in the cloud, having all of that valuable data in one place?

**MR. HURD:** I don't think so. Equifax to me was an absolutely perfect target. I don't mean this to be derogatory toward them, but they're a relatively small company, their resources are aligned to the size of company, and they have an incredible treasure trove of encrypted files.

### Getting Cloudier

Projected global public cloud services market



SOURCE: GARTNER

THE WALL STREET JOURNAL.

# GM's Strategy for the Autonomous Car

President Dan Ammann on what the company is doing—and what the timetable is

'I think the promise of what the technology can do will help from a regulatory perspective.'

Will auto makers or tech companies lead the way to the era of the autonomous car?

Dan Ammann is helping chart General Motors Co.'s course. The company's president for nearly four years, he spoke with Jamie Heller, The Wall Street Journal's business editor, about the company's strategy of developing the whole autonomous-car ecosystem and whether the new era will benefit auto makers. Here are edited excerpts of their conversation.

**MS. HELLER:** So it's a technology play, and Google's been out there with Waymo, and has logged many more hours of test-driving on public roads than GM. Why do you think you can succeed as the leader?

**MR. AMMANN:** A demonstration-level capability or small-scale deployment doesn't have the impact on the world that we think this technology can. Our goal is to get to the point where we can launch a truly driverless car, with all of the safety validation and everything that needs to go with it, at large commercial scale.

We're making sure we have control of all of the capabilities necessary to do that, from the advanced software-engineering capability for the self-driving brain of the car, all the way through the integration of that into all of the sensors on the vehicle, the electrical architecture, the automotive-grade safety validation, and then the ability to reliably build these cars at large scale.

**MS. HELLER:** You just said in

The Wall Street Journal that you're now going to be testing

in lower Manhattan.

**MR. AMMANN:** We're currently testing in San Francisco, in Scottsdale, Ariz., and in Michigan. There's a different rate of learning and a different experience operating in each of these environments.

As you would expect, downtown San Francisco is a significantly more complex environment than Scottsdale, for example. As a rule of thumb, our cars experience about as much in one minute of San Francisco driving as they do in one hour of Scottsdale driving, just given the number of interactions with other players, between pedestrians, cyclists, other vehicles, and things going on.

In the more complex environment, our cars can learn more quickly, and we learn more quickly about the problems we need to solve. Now we're taking that a step further, to Manhattan, which most of us would agree is the most complex and difficult driving environment in the U.S.

**MS. HELLER:** Is that just a technical thing, or is there also a messaging and branding element in taking it to New York, where Wall Street is?

**MR. AMMANN:** It's all about getting the technology ready as fast as we can. Until we're testing in the most complex

environments, which are the same environments in which we ultimately think the technology should be deployed, we won't get the level of performance that we need.

### Attracting talent

**MS. HELLER:** A lot of people here talk about competing for talent. How are you attracting the people you need to GM?

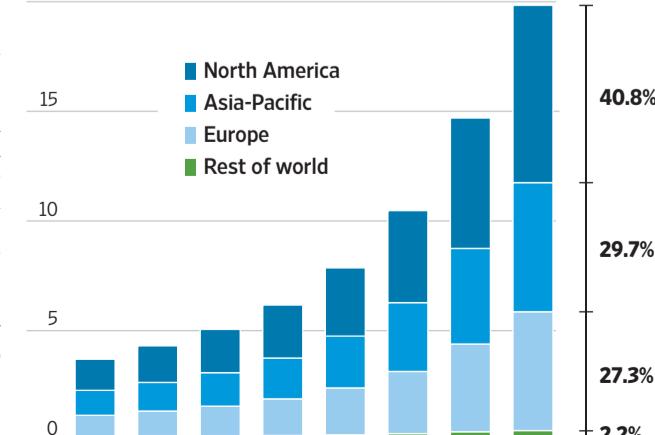
**MR. AMMANN:** When we began to see the change in the transportation landscape a few years ago, we saw we were missing some of the specific software-engineering capability that we needed, particularly in the self-driving area. So we learned what was out there, and we ended up acquiring a company called Cruise Automation, which was a very small but very talented engineering team.

And with that team we not only bought capability at the time, but we bought the ability to recruit more talent. People see what we're doing, and often reach the conclusion that if you want to come to the place where your technical contribution will actually be commercialized in large scale, then this is the place to come.

**MS. HELLER:** What's happening on the regulatory front? How much of an impediment or help is that going to be?

### Speedy Growth

Forecast size of the market for self-driving cars



SOURCE: VARIANT MARKET RESEARCH

**MR. AMMANN:** It's still being formulated, but I think the promise of what the technology can do will help from a regulatory perspective. Every year 40,000 people are killed in traffic accidents in the U.S. Regulators will tell you 95% of those fatalities are caused by human error.

So if we can make a significant impact by replacing the human driver with a better driver, then it almost becomes an obligation to deploy this technology for the betterment of society.

### Industry impact

**MS. HELLER:** Let's say you succeed and we're all getting driven around by robots. Is this going to be good or bad for the car industry long term? Will we just need fewer cars?

**MR. AMMANN:** We think by making transportation more accessible, lower cost, safer, we actually create the opportunity for more vehicle miles to be traveled. We think transportation becomes more readily available in general to people. So total vehicle miles traveled or total passenger miles traveled probably goes up.

While autonomous cars are seen out on the road in testing, what we still haven't seen is what we're aiming to achieve, which is a truly driverless car deployed in large commercial scale. But once you've deployed, the technology will only continue to improve. So we view that on-off switch of the beginning of commercial deployment as just the beginning of a really interesting journey, and changing that total customer experience.

**MS. HELLER:** The big question is when that on-off switch gets flipped.

**MR. AMMANN:** We and others are working on this as fast as we possibly can.

**MS. HELLER:** You said the last prediction was five years from 2016. Are we still in that timetable?

**MR. AMMANN:** I think inside of that time frame we will see some pretty interesting developments.

# The Outlook for Tech M&A

Peggy Johnson and Jennifer Nason talk about past deals and the prospect for more deals

**Tech companies aren't sticking to their bread and butter when it comes to acquisitions. In 2016, Microsoft Corp. surprised the market with its \$26 billion acquisition of LinkedIn. And this year, Amazon.com Inc. purchased Whole Foods for more than \$13 billion. Wall Street Journal Senior Editor Yun-Hee Kim talked about mergers and acquisitions and strategic investments with Peggy Johnson, Microsoft's executive vice president of business development, and Jennifer Nason, global chairman, investment banking at J.P. Morgan Chase & Co. Edited excerpts follow.**

**MS. KIM:** What is the outlook for big acquisitions?

**MS. NASON:** I am bullish about 2018 for activity. Money is still virtually free. The equity market has been very responsive to M&A. Prices are still high, so we're seeing very high valuations. That is tough. But increasingly companies are looking at assets and saying, "This is just strategic for me. I need to make a move."

**MS. KIM:** Peggy, one of your partnerships came as a surprise this year: the partnership with Amazon on digital assistants. You have Cortana and Alexa working together.

**MS. JOHNSON:** They're talking to each other.

**MS. KIM:** What was the logic behind that deal?

**MS. JOHNSON:** It started with a conversation that Jeff Bezos and Satya Nadella had at our CEO Summit about how we're really operating in different spaces.

Jeff's all about shopping, and that experience. We're all about productivity and that experience. I think there was a recognition that there will be

a multitude of personal agents, and could ours talk to each other?

When it was handed off to the engineering teams, then the hard work began. They figured out how you can have a seamless experience between your two devices. I think you'll see more of that going forward.

**MS. KIM:** Are you open to working with companies like Apple and Google in the AI space as well?

**MS. JOHNSON:** We are. We try not to look at everything through a competitive lens. Is there some shared value that together we can build more for our joint customers? Rather than fighting over a piece of the pie, can we grow the pie, is really our model.

**MS. KIM:** This partnership is an example of a potential expansion in the AI space?

**MS. JOHNSON:** Yes, AI is a big area for a lot of people right now. If we can take out some of the friction in the development process, I think we'll start to see some of the outcomes that we've all been talking about and envisioning.

**MS. KIM:** Jennifer, a lot of rivals in tech are partnering and working on emerging technologies. Will this be a trend?

**MS. NASON:** It's certainly more capital efficient. Sometimes you just can't go out and buy everything. M&A is hard, time-consuming, and it doesn't always work. So some of these partnerships can be a good way to have a bet in a certain area and see how it plays out.

**MS. KIM:** We're seeing a lot of software companies going after hardware, and hardware companies going after software. Jennifer, will that trend continue in the industry?



Jennifer Nason (left) and Peggy Johnson

**MS. NASON:** Yes, there are many examples. But the big hardware of the future is going to be the autonomous vehicle, and the networks that are going to those vehicles, the software, all the technology, the content.

**MS. KIM:** Which companies are in best position?

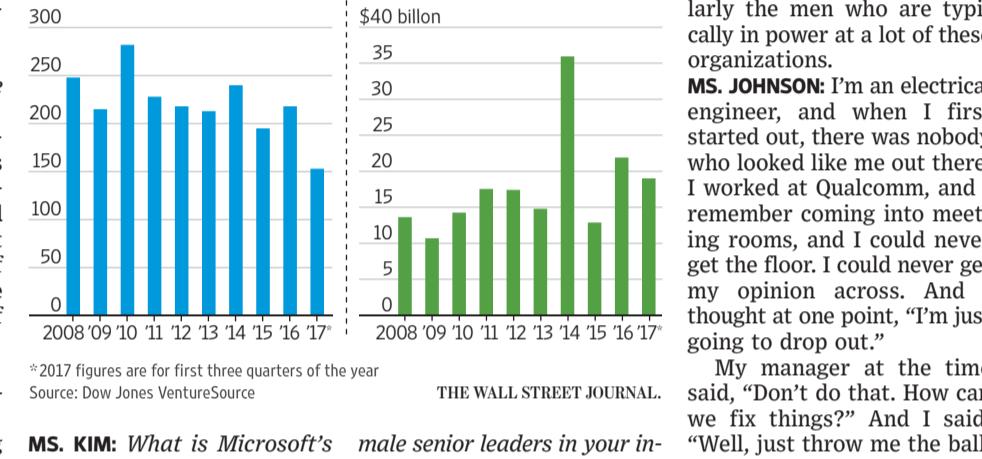
**MS. NASON:** I would never underestimate the big OEMs [original equipment manufacturers], so Ford and General Motors. We know there's a lot going on there. Thousands of companies are trying to raise private equity for elements of the autonomous vehicle.

**MS. KIM:** What is Microsoft doing in this space?

**MS. JOHNSON:** We're enabling that space. We've come out with our connected-vehicle platform, which takes care of a lot of the plumbing, if you will, that the car needs to go through; the aggregation of data from all of the different sensors, off-loading it, and analyzing it in the cloud. We've looked at a set of tools that can enable OEMs in the space.

## It's a Deal

Merger, acquisition and buyout activity involving venture-backed information-technology companies headquartered in the U.S.



\*2017 figures are for first three quarters of the year

Source: Dow Jones VentureSource

THE WALL STREET JOURNAL.

**MS. KIM:** What is Microsoft's next big growth opportunity?

**MS. JOHNSON:** We have a big focus in AI. Just over a year ago we announced a reorganization. We've had AI on our campus for about 25 years, so we've put a lot energy into that, and this reorganization will help refocus even more.

**MS. KIM:** You are both rare fe-

male senior leaders in your industries. What can companies do to promote more women into senior roles?

**MS. NASON:** Well, if they could just send an email out tomorrow, and promote a bunch of people. (LAUGHTER) I hope Jamie Dimon is listening.

I've invested more time and effort in diversity committees and panels, and generally it's

women talking to other women about how to fix it. I think that's been a big tactical mistake on our part to talk to each other, rather than to involve the men, and particularly the men who are typically in power at a lot of these organizations.

**MS. JOHNSON:** I'm an electrical engineer, and when I first started out, there was nobody who looked like me out there. I worked at Qualcomm, and I remember coming into meeting rooms, and I could never get the floor. I could never get my opinion across. And I thought at one point, "I'm just going to drop out."

My manager at the time said, "Don't do that. How can we fix things?" And I said, "Well, just throw me the ball. I have something to say, but it's hard to interject." And he started doing that. That's when my career really took off. So I've tried to do that over and over, you know, going forward with any team or group of people, make sure everybody is heard. It's very important, whether you're a quiet man, or a quiet woman.

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Your MISSION is Our MISSION

## JOURNAL REPORT | WSJ D.LIVE

# The View of An Activist Investor

William Ackman explains why he's battling with ADP



NIKKI RITCHIE/DOW JONES (2)

**'Once the owner is gone, there is a real risk that a company will lose its innovation.'**

Activist investor William Ackman, the founder of Pershing Square Capital Management, has spent the past few months locked in battle with Automatic Data Processing after taking a stake in the human-resources software firm and having his request for board seats rebuffed.

In an interview with The Wall Street Journal's business editor, Jamie Heller, Mr. Ackman laid out his case for board changes at ADP and for shareholder activism in general. Edited excerpts follow.

### Replacing the founders

**MS. HELLER:** What do you think about this new proposal out of Silicon Valley for a new U.S. stock exchange, where the longer you hold a stock, the more voting rights you get? And no earnings guidance. Is that a world you would welcome?

**MR. ACKMAN:** I think a lot of companies make the mistake of giving guidance to their shareholders on earnings. When you have companies very focused on meeting numbers, it causes them to miss opportunities.

ADP is the classic example of a company that has met its numbers but missed the market. We've heard stories from former employees that ADP had an opportunity to build a competitive product to Workday, but there just wasn't room in the budget for it. They couldn't make the numbers if they had to make a big capital expense on a new program. That decision has cost them tens of billions of dollars, and created competitors.

You get the shareholders you deserve. If you have earnings guidance, you're going to have shareholders who are

very focused on the short term. If you don't, you're going to attract investors who take a longer-term view.

**MS. HELLER:** You haven't done that much investing in tech, so how did you pick ADP?

**MR. ACKMAN:** ADP is sort of the classic example of a company started by a founder, built up over decades to become the dominant company in payroll processing. It was an innovative company that helped with an important task.

Then, the founder dies and the stock gets disseminated out to children, and estates, and foundations, and then to the market, to the government to pay taxes. And then the board becomes comprised of what I call professional directors. If you look at the board of ADP today, only one director in the last 14 years has

bought a share of stock.

Owners are willing to make bold decisions. Once the owner is gone, there is a real risk that a company will lose its innovation. So activism is sort of a replacement for the founders. Because we own 8% of the company, we're seeking representation on the board. Once we're there, we can think like an owner. We can help make decisions like an owner.

**MS. HELLER:** One of the criticisms of your ADP campaign is that there aren't specifics. It's just "let's improve margins." What's your response to that?

**MR. ACKMAN:** What companies do when they want to defend against activists, and they don't have a good response, is they will attack the activist. They say that bringing the activist on the board is extremely risky.

In fact I think it is dangerous not to have opposing points of view in a board room. ADP is operating in a world that has changed dramatically in the last five or six years because of technology, because of cloud-based software. And they've missed the market as a result.

### Risk of disruption

**MS. HELLER:** You recently said that as an investor, you need to be looking at what the venture capitalists are looking at, and what the startups are doing because you never know who is going to come in and blow up your business. Yet you're investing in a business that seems to be on the defensive from rivals like Workday and Paychex. How did you decide to make that leap?

**MR. ACKMAN:** I'm a pretty active small investor in venture capital personally. It helps me think about the risk of disruption. The most important thing a long-term investor needs to think about is the risk of someone in a garage coming out with the next new thing.

ADP has some of those kinds of risks. But we think as long as ADP is open to change, it still has a strong enough market position, a strong enough balance sheet, enormous resources, that it can mitigate competitive threats.

What's fascinating is, ADP has a \$50 billion market cap. It spends \$860 million a year on systems development and R&D. They have 9,000 developers, technologists, working for the company. They spend more than the entire industry does developing products and software. And much smaller competitors, with a fraction of the resources, have better products than ADP.

In response to Mr. Ackman's comments, ADP said in a statement that while it understands the value of diverse

perspectives on a board, none of Pershing Square's nominees had the "relevant technology" experience or skills to "be additive" to ADP's board. It also said the company had transitioned 83% of clients to the cloud and was delivering long-term value for shareholders.]

**MS. HELLER:** Does this mean we're going to see more of Bill Ackman in tech?

**MR. ACKMAN:** The reason we haven't been an investor in technology generally is that most true technology companies are so dynamic that it's hard to predict the future. If a business is dynamic and subject to so much change, I can't predict what it's worth. And if I can't predict what it's worth, I'm not going to be an investor in the company.

ADP's business model is a little bit different. It's really a business service company. It tends to have very long-term relationships with its customers, as switching costs are very high.

**MS. HELLER:** Let's go back to this idea that more companies in Silicon Valley are moving away from one vote, one share. Is that a good trend?

**MR. ACKMAN:** I think super voting is dangerous unless it's in the hands of an incredibly talented entrepreneur. Look at what Uber Technologies is going through now, where Travis Kalanick was the greatest CEO of all time, and then all of a sudden the board soured on him. But by virtue of ownership, he's got enormous influence and ability to elect people to the board.

Fundamentally I prefer one vote, one share. But if it's Steve Jobs, you can probably give him control. The risk is really in the next generation. If a company goes public with supervoting stock, after the founder retires, it should convert to one vote, one share.

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## Self-Flying Plane Wins Startup Showcase

Eviation was the audience choice, while the judges favored a comedy-streaming service



Eviation co-founder and CEO Omer Bar-Yohay at The Wall Street Journal's D.Live conference

**EVIACTION**, A STARTUP developing self-flying, electric passenger planes, was crowned the audience choice for the most promising startup at The Wall Street Journal's D.Live technology conference.

The Israel-based startup is hoping to build a company it describes as "Uber meets Tesla in the sky," using self-piloting, lightweight aircraft that can whisk up to nine passengers each at 280 miles an hour on demand.

With the aircraft still in planning, it is an ambitious vision that would require rapid changes to U.S. aviation, a highly regulated and crowded industry where self-flying and electric planes are still thought by many to be far off.

Eviation won out in the audience choice over five other young companies that made up the Startup Showcase at the conference.

Founders from each of the startups faced off in pitches before three judges—Levi Strauss & Co. Chief Executive Chip Bergh; Philip Krim, CEO of mattress seller Casper; and Jenny Lee, managing partner

at venture-capital firm GGV Capital.

Sitting on director's chairs on an outdoor stage overlooking the Pacific Ocean, the judges peppered the founders with questions on their business models.

### Judges choose Laughly

In the end, the judges unanimously went with a different choice than Eviation, all three favoring **Laughly**, a comedy-streaming service that claims 30,000 monthly active users who pay for something akin to a Netflix of stand-up comedy.

But Eviation, helmed by Omer Bar-Yohay, won over the crowd.

Mr. Bar-Yohay spoke about the plane in epoch-shifting terms, comparing it to the shift from horses to highways. Highways, he said in a slide presentation "gave us traffic, and they gave us the suburbs...is this the last paradigm shift?"

Eviation's planned aircraft, shaped similar to many military drones, is designed to be about 36 feet long, and very low-cost, Mr. Bar-Yohay said.

**Eviation describes its vision as 'Uber meets Tesla in the sky'**

### Other contenders

Others in the Startup Showcase included:

**KinTrans**, a sign-language translator that aims to read sign language made by a human, transcribe it, and play it back with voice.

**Hurdle**, which makes low-cost, wirelessly connected LED wristbands meant for concerts and other live events, aimed at allowing more ways for musicians to interact with the audience.

**Bounce Imaging**, a company that makes throwable cameras for law enforcement to see into rooms or around corners.

**My Jomo**, which makes small, round digital screens worn by retail salespeople that can flash discount promotions or a person's name to help draw in consumers.

# Companies Must Use AI—or Else

If a company isn't using artificial intelligence, says Intel CEO Brian Krzanich, it is going to be outpaced by another company that is

*Artificial intelligence is the latest Holy Grail for the tech industry. What is the potential for this technology? And how close are companies to achieving it?*

To get a report on the state of play, The Wall Street Journal's chief news editor, Jason Anders, spoke with Intel Chief Executive Brian Krzanich.

Here are edited excerpts of their conversation.

## The smart revolution

**MR. ANDERS:** *AI is everywhere. You've had a front-row seat to some of the biggest innovations in computing. How big is this moment?*

**MR. KRZANICH:** We're just at the beginning of a transformation. Artificial intelligence is going to be similar to what the internet was back in the '90s.

You remember back in the '90s everybody said, "If you're not going to be an internet company, you're not going to be around."

The same thing is going to be true. Almost every company you can think of, every application, it's going to be affected by artificial intelligence. You're going to be using artificial intelligence, or you're going to be outpaced by people who are.

**MR. ANDERS:** *What are the real applications that you're most excited about today?*

**MR. KRZANICH:** Today I think you already see it in some applications and social media, where your news feeds, or what you're shopping for, or if you listen to one of the music systems, they'll send you weekly suggestions.

What they look at is things like what you listen to, what are the word patterns, things like that. But where you're starting to see it break through that's really exciting are things like health care. There's already data that suggests that using machine learning, looking at MRIs, they can detect Alzheimer's years

earlier than what humans can detect. So imagine the transformation if Alzheimer's, which can be slowed down by drugs, could be detected five, 10 years earlier.

**MR. ANDERS:** *To be able to do that, you have to be a company that has both the AI tech, but also access to the MRIs.*

**MR. KRZANICH:** You'd be surprised at how many companies actually have access to data but don't put the investment in place.

I went to the National Retail Federation in January. I talked about how brick and mortar needs to think about one of the differences between brick and mortar and online shopping. Online shopping has all the data about you. They see what you searched, they

## What's It Good For?

Some of the ways surveyed companies are using or plan to use artificial-intelligence technology

**37%** | Improve efficiencies in IT operations

**34%** | Improve data, analytics or insights platforms

**33%** | Improve business automation

**33%** | Mitigate security risk

**32%** | Test new products

**31%** | Gain better customer insights

**30%** | Innovate product design and development

**30%** | Create and deliver a better customer experience

**30%** | Improve efficiencies in business operations

Source: Responses from 1,476 data and analytics decision makers whose firms are planning to use or currently use AI technologies, surveyed in Forrester's Global Business Technographics Data and Analytics Survey, 2017

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see what you put in your basket and then don't buy. They understand what colors you choose. All of that data is then tuned to what they send to you. Brick and mortar should be doing that same thing. They have cameras in there already, they can put in small [radio-frequency identification tracking tags].

We did a project with Levi's. They can now track what goes into the changing room and never comes out, never goes out of their store. Do you pick up red things, but you only buy white things. All of that data could really transform brick-and-mortar retail as well.

**MR. ANDERS:** *You have a new Nervana platform, a different way of designing chips. What is different about this?*

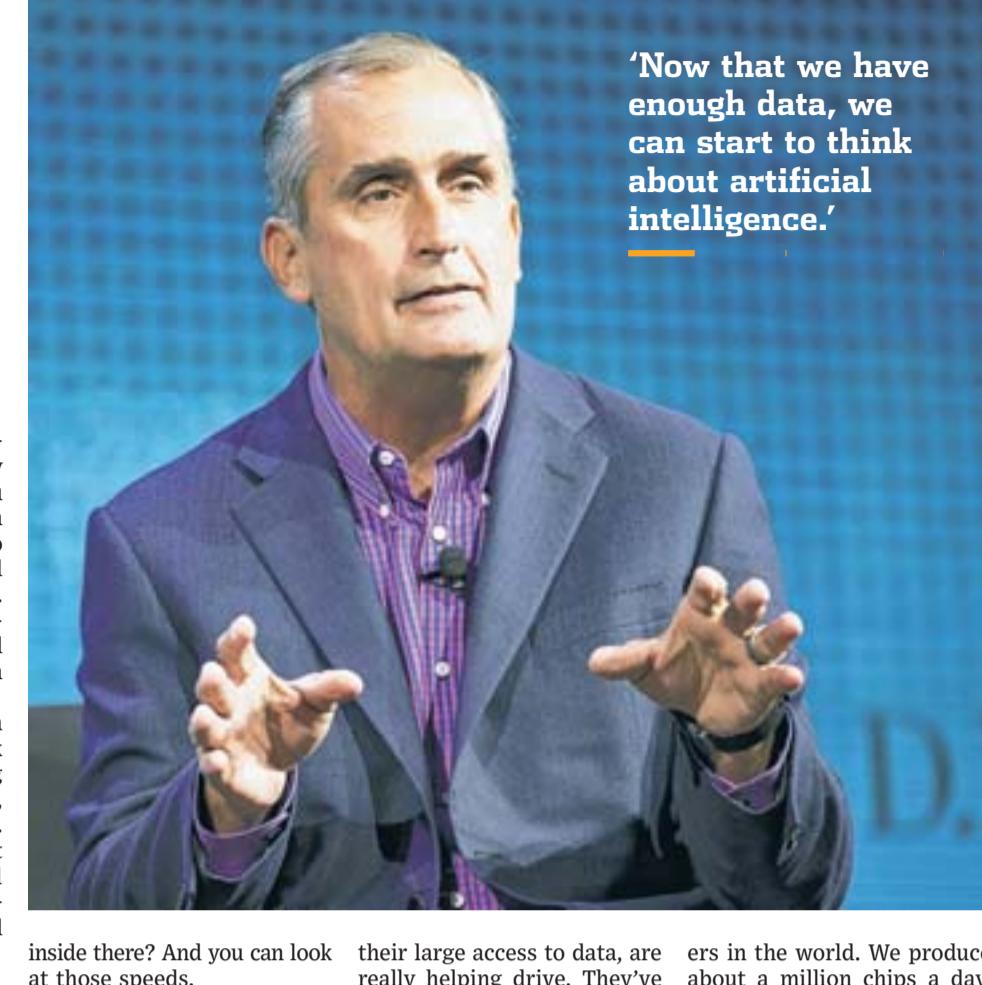
**MR. KRZANICH:** In industry, five, seven years ago, people started saying, artificial intelligence is going to take off, really it's the advent of the cloud. The cloud allowed aggregation of data. Now that we have enough data, we can start to think about artificial intelligence.

We started to think about what we call neural processing, which is that you're starting to look at very large data sets with a very different architecture that allows for much larger data sets to be worked on at one time.

We have a goal by 2020 to be 100 times better than the best artificial-intelligence systems out there today using this neural processing.

**MR. ANDERS:** *How do you measure 20 times better than the best artificial intelligence, or 100 times better? What's the metric?*

**MR. KRZANICH:** There are algorithms that you can test against. So you show it a set of pictures, or a set of data sets that are large, and you say, how long does it take to find the five patterns that are



'Now that we have enough data, we can start to think about artificial intelligence.'

NICKI RITCHIE/DOW JONES (2)

inside there? And you can look at those speeds.

What we're talking about here is being able to do those much faster, but it isn't only about speed. It's going to be the amount of data that we can look at.

Look at things like weather prediction. One of the biggest things that limits accuracy is the amount of data that can be absorbed into the system when you look at all of the temperature measurements and wind speeds and all. What we'll do is massively expand the amount of data that can be used by these systems.

## The big players

**MR. ANDERS:** *Who besides Intel is doing things that you find absolutely are just blowing you away?*

**MR. KRZANICH:** The place where we see probably the most innovation is with the cloud-service providers. That's the Googles, the Facebooks, the Amazons, the Alibabas.

Those companies, because of

their large access to data, are really helping drive. They've been great partners back to us, saying this is the kind of engine that we need.

Nervana's a good example. We're partnering with companies like Facebook. They're one of the people who are starting to take a look at it in its early phase and saying,

"Hey, this really could change the way we think about artificial intelligence, and help us steer how we develop the software and the hardware."

**MR. ANDERS:** *Any company you talk to, any startup you talk to, any established company you talk to, they're all an AI company. How do we tell who's really doing stuff, versus who's just talking about doing stuff?*

**MR. KRZANICH:** I think it comes down to, can you show a case that is genuinely shifting how that company does something.

Let me give you a real-life example within Intel. Intel's one of the largest manufac-

urers in the world. We produce about a million chips a day, roughly. For each one of those million chips we take about 1.6 million pictures as it progresses through the production line.

Why didn't this chip work? Well, we have to go back through the 1.6 million photos in order to try and find where the defect is. We now use artificial intelligence to compare against known images, and what that image really is, to go through those 1.6 million images. What used to take three weeks, now takes a couple of hours. And so our ability to shift how fast we can solve issues.

I think when you ask a company, are you an artificial-intelligence company, you have to ask them, what's your use? What have you shifted? What have you changed? What have you improved? What's running more efficiently? Or, what are you delivering to the customer that shifts what makes their life better?



'We try to not think too much about the algorithm. We're always looking at, what is the actual job the content's doing?'



# In Defense of an Ad Model

Jonah Peretti of BuzzFeed talks about social media, algorithms and fake news

**MR. PERETTI:** If you're reaching a really large audience, advertising is a good model. We reach more than half of the millennials in the U.S. I agree that diversification of revenue is also important. We, like a lot of media companies, have expanded into areas like merchandise, show development, commerce, a bunch of other areas.

**MS. PASSARIELLO:** You're very dependent on social-media platforms. Do you see it as a crutch to be so reliant on platforms that can change their strategy?

**MR. PERETTI:** When BuzzFeed started, Facebook was how you hooked up with friends to go places. The iPhone hadn't

launched yet. We were trying to understand, "What does it mean for content to become social?" We didn't realize these platforms were going to go so huge.

We saw these three trends come together: digital video, mobile and social. That has created the largest audience that the world has ever seen. You're able to reach literally billions of people.

We feel like we'll be able to build on top of these platforms and reach many more people and build a great business by reaching people where they're consuming media today.

**MS. PASSARIELLO:** Does it give

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### VOICES FROM THE CONFERENCE

"I think what's going to define Africa's tech rush is whether or not it is controlled by the people of Africa or it's simply happening to the people of Africa. Ultimately, what's going to yield the most synergy is if we're taking advantage of all the resources and the untapped opportunities of the continent, which includes the individuals on the ground as well. And the way that they're thinking about building businesses there and building businesses that not only address the needs of the continent, but the global diaspora and I think, honestly, humanity in general."

**Jessica O. Matthews,**  
Founder and CEO, Uncharted Play



### Peretti

*Continued from the prior page you whiplash when one of these platforms suddenly changes, like away from live video news content to focus on something else?*

**MR. PERETTI:** BuzzFeed started as a lab. We're continually innovating. The more change there is in the media industry, the better it is for us. I worry about the opposite, which would be if Facebook and Google became the only two platforms, and they decided to stop innovating and they lost their paranoid fear of other people taking share from them, and they just did the same, boring thing. Then BuzzFeed would get less of a benefit from all of our innova-

tion and ability to switch platforms and to connect with audiences in a deeper way.

#### Meeting the audience

**MS. PASSARIELLO:** How do you tweak your content based on changes to the algorithms on Facebook or Google that change how content appears in search or the news feed?

**MR. PERETTI:** We try to not think too much about the algorithm. We're always looking at, what is the actual job the content's doing? How do we make content that actually is serving a job in someone's life in a deep and meaningful way, and gives them a reason to connect with other people?

Facebook or Google or who-ever is building these algorithms, they're trying to surface great content, get more

user engagement, get people to spend more time on the platforms. But the algorithms are always flawed, and they're always changing. If you are a company that's trying to figure out the algorithm or game the algorithm, you're going to have whiplash, as you said earlier. The best thing is to not think that way, to think about the user and consumer.

**MS. PASSARIELLO:** What is your prediction of what's going to be performing well six months from now?

**MR. PERETTI:** I think that all great companies go back to the customer or the consumer or the audience and they try to understand them in a deep way. Facebook had a program where they had people look at their news feed and then answer survey questions, and then they could use that data to improve the algorithm.

There are a lot of weird things. For example, we do D.I.Y. content. We have a brand called Nifty, all about hacks and things you can build. People will see a Nifty video, then a large chunk of them will spend their entire weekend building a project. Or with Tasty, a food brand that we created. People will watch, make the thing and post their version of it.

Then we'll post something that maybe is a fun piece of entertainment that gets the same number of views, but people see it and then they forget about it. It doesn't have a longer impact. The algorithm might see the same number of shares, the same amount of engagement, but not be able to tell that someone did a project with their kids or cooked a meal with their family. There's a lot of things that are hard to measure.

When we see those signals, of people actually posting responses of them making or cooking it, we know we're on to something and we know that's a deeper, more meaningful thing. We know that will drive brand affinity, so people will start to associate the brand with things that really matter in their life, which will cause more page likes, and start to show up in the metrics. Even if the algorithm can't measure it, we stay on it and keep pushing toward it.

#### The fake-news problem

**MS. PASSARIELLO:** You're competing against fake news, so how do you approach that?

**MR. PERETTI:** The dystopian view is that The Wall Street Journal and the New York Times and the Washington Post will prioritize subscriptions and move behind a paywall. A very small percentage of elites will get the quality journalism that those organizations produce.

If you're thinking about an electorate and people being informed, the subscription model in media doesn't help inform the public. If Facebook can't find ways to support quality content in their news feed, that would be bad for democracy. Facebook is going to find more ways to allow publishers to generate revenue on their platform.

It's a huge question for society and democracy. If Google and Facebook take all of the revenue but don't want to pay for the fact checking, reporting, more-intensive investigations, who does that work? If it's only subscription services, that's a big challenge. Google and Facebook are going to have to fix that. It isn't tenable that the only people getting quality news will be 2% or 5% or even 20% of the public.

**MS. PASSARIELLO:** Is there a way that tech platforms should be solving fake news more aggressively with algorithms?

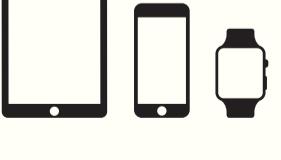
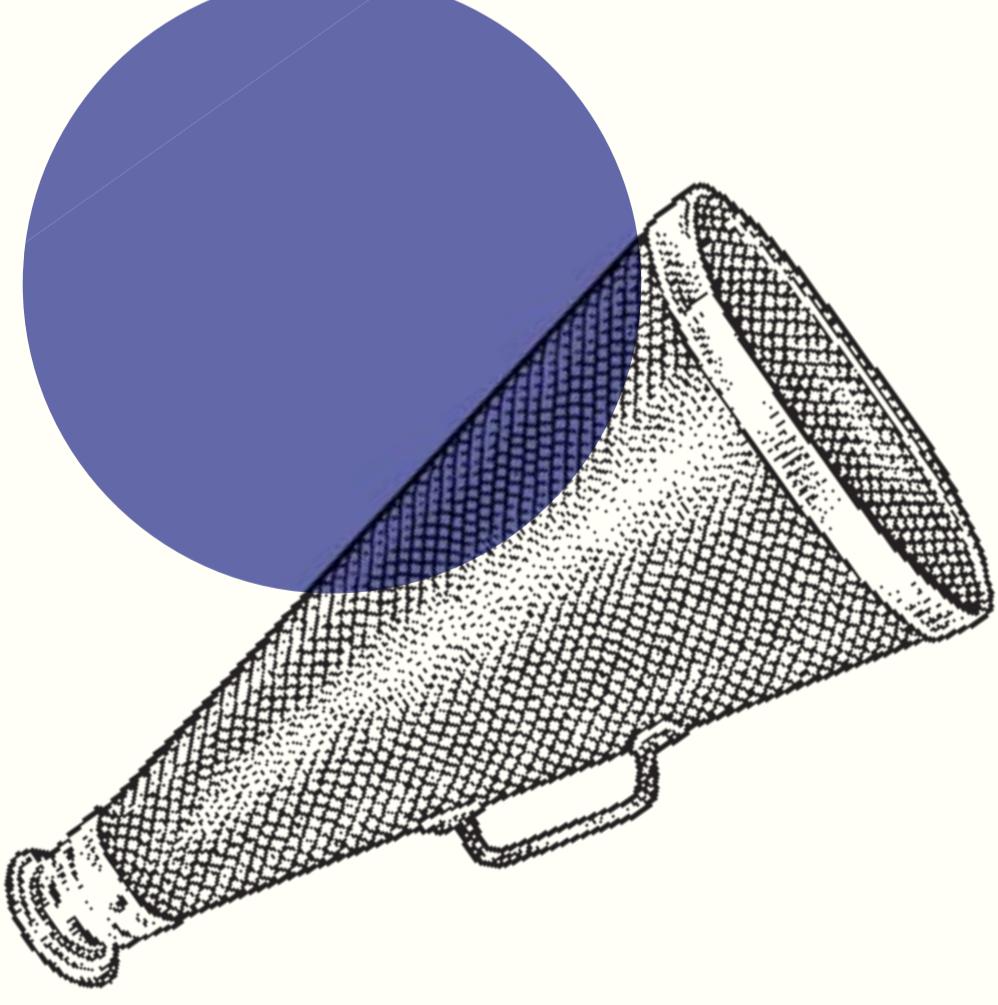
**MR. PERETTI:** The challenge with the big tech platforms is they're places where people are getting news and entertainment. And they're kind of the telephone company, where people communicate with their friends. It's hard to do both. We don't want the telephone company interrupting a phone call when someone says something fake or incorrect on the phone. Speech should be open.

Big tech platforms need to lean more on organizations where we have brands that we stand behind. They're going to need more help from media partners to say, "OK, different media sources can vouch for the information that's circulating." They're not necessarily going to be able to do that themselves.

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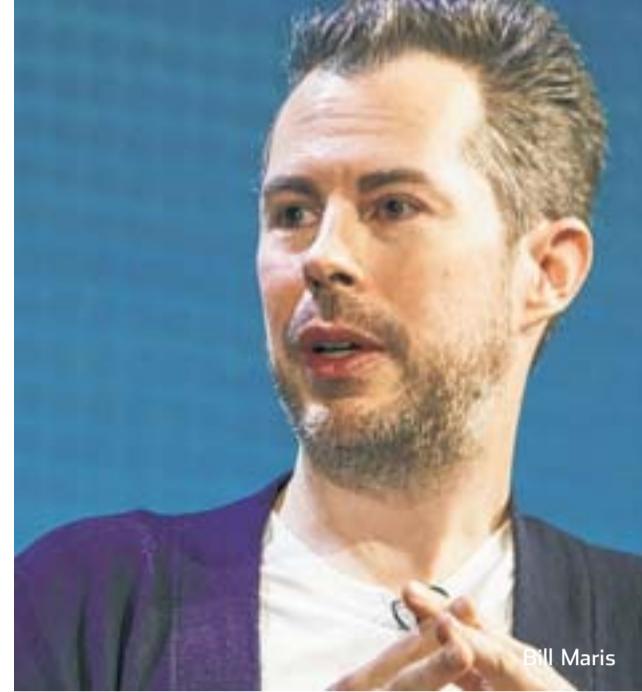
## JOURNAL REPORT | WSJ D.LIVE



Sam Altman



Jenny Lee



Bill Maris

NIKKI RITCHER/DOW JONES (3)

# Where the Money Will Come From

**Sam Altman, Jenny Lee and Bill Maris offer their thoughts on startup funding, the most exciting technologies and increased regulation**

Ideas about investing and politics were bubbling as Wall Street Journal reporter Rolfe Winkler met with Sam Altman, president of the accelerator and seed-money investor **Y Combinator**, Jenny Lee, managing partner at **GGV Capital**, and Bill Maris, founder of the venture fund **Section 32**, and the founder and former CEO of **Google Ventures**. Edited excerpts follow.

**MR. WINKLER:** Sam, are you considering running for governor of California next year?

**MR. ALTMAN:** No.

**MR. WINKLER:** Willie Brown, the former California Assemblyman and San Francisco mayor, wrote back in May [in the San Francisco Chronicle] that you are "looking at running for governor in 2018." What did you and Willie Brown talk about?

**MR. ALTMAN:** A lot of people have suggested that I run. But I love my current job. The state is extremely, badly broken and it would be good to try some new ideas. But there are so many important things to do right now on my list that are higher than that, I am not going to do it.

**MR. WINKLER:** Let's talk about **Y Combinator**: Is it now 250 companies a year that you invest seed money in?

**MR. ALTMAN:** In our main program, it's probably about 280. But we started this online version. We did 3,000 companies. We did an online version of **Y Combinator** that we called Startup School this spring. Up to that date, **Y Combinator** had funded, let's say, 1,700 or 1,800 companies ever, and advised that many too. We advised 3,000 companies at once in this one thing.

**MR. WINKLER:** That's a lot.

**MR. ALTMAN:** It worked really well. We used our alumni to advise them. We had companies all around the world, we had meetups all around the world. It worked so well that we're going to expand that.

**MR. WINKLER:** Is it too many? How do you sort through all of these companies?

**MR. MARIS:** I don't think it's too many. We can't invest in everything. Sam has a different mission and job, which is coming at this startup ecosystem from a different place. I'm looking for 15 to 20 companies a year that I feel like I or my network can help grow.

**MS. LEE:** I spend time talking to a lot of companies. But the way we play is, if you are a hunter who's looking for elephants, you have to have the skill set to identify, "Is this an elephant, or is this a zebra?"

We have to have partners who know how to identify, have the right skill sets, and the resources and tools to go hunt them down and then help them to grow.

**MR. ALTMAN:** There is some limit of how many good companies there are to fund. We're not anywhere close to that. And until we get there, I'd rather figure out how to structure our organization so that we're not spread too thin.

**MR. WINKLER:** What are the best companies right now? The technologies you're most excited about?

**MS. LEE:** We think technology is going to come back around and bring with it new inventions in the form of new products, new planes, new autonomous cars, hardware.

**MR. MARIS:** It wouldn't surprise me if the sun is setting on the golden age of Silicon Valley. I mean, the companies that used to be fun and disruptive and interesting and benevolent, that were largely viewed that way, now we're concerned that they're disrupting our elections.

They're hoarding our personal information and using it for profit, and so forth. And I think the tide, the populism that sort of helped get Trump elected, may be turning against the concentration of wealth that's happening in Silicon Valley in a similar way.

**MR. WINKLER:** Do you guys see a coming wave of regulation that's going to break up these big tech companies?

**MR. MARIS:** I wouldn't be surprised. These companies are more powerful than **AT&T** ever was. If you think the system is broken, the people with power and money are the ones people will look to to say, "We need to disrupt that. This isn't working for us."

**MS. LEE:** I have a different perspective. Entrepreneurs out there, don't focus on the politics. Your world should be consumed with trying to figure out a way to deliver value and services to your target audience. It could be consumers, it could be enterprises. And that world doesn't have to be in the U.S. If it isn't going to work here, look elsewhere.

**MR. WINKLER:** SoftBank Group Corp. is an 800-pound gorilla. Bill, what impact is it having?

**MR. MARIS:** Turbulence. I think it's unprecedented to have a fund that size [the tech-focused Vision Fund has close to \$100 billion]. It creates some turbulence and probably compresses returns over time because you have a large fund that needs to do large deals at high prices to deploy capital.

**MR. WINKLER:** Why did you leave Google Ventures so abruptly?

**MR. MARIS:** It wasn't abrupt from my point of view. I went in there kind of voluntarily to do an experiment for a year. And by the time I got to almost 10 years, it felt like it was time to go do something new, learn something new.

**MR. WINKLER:** Were you trying to raise money for Section 32, your new venture-capital fund, while you were still at GV?

**MR. MARIS:** No. I left GV thinking I was going to become a magician. I didn't know what I wanted to do. I was really just enjoying taking a break.



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## JOURNAL REPORT | WSJ D.LIVE

# Where Wearable Tech Is Headed

Chip Bergh, Levi Strauss's CEO, says the company wants to see what new functions consumers want. But the possibilities are endless.



'Anything that's a fabric will be able to have conductive fiber in it that can do just about anything.'

something that we're going to be able to build in from a functionality standpoint.

**Learning from Google**  
**MS. PASSARIELLO:** Tell us about working with Google. Different cultures. What's it like to go through this innovation process with them?

**MR. BERGH:** We're perfectionists. Everything we sell has got to have quality embedded in it. It's got to be perfect before we launch something. When we launch a new fit, the team travels around the world to make sure it fits all the different body types around the world.

We really focus on perfection and really failure is not an option. Google embraces mistakes.

We had one instance where the sleeve actually caught fire. That's not a good thing for a consumer, right? But they loved it. They were like, "That gives us a problem to solve."

And so it was two very, very different cultures coming together trying to solve a common problem. And I think we learned a lot from it. We're now embracing failure a lot more readily, willing to fail fast, fail early, but just keep moving forward because

there's no such thing as a real failure. It's just an opportunity to learn.

**Working with Amazon**

**MS. PASSARIELLO:** You've had an official supplier relationship between Levi's and Amazon for several years. What do you gain from having Amazon as an official supplier?

**MR. BERGH:** They've got enormous scale in the online space. They attract the most eyeballs for consumers who are shopping.

We do have our own website. We do work with our other wholesale customers like Macy's, like J.C. Penney, like Kohl's on their e-commerce sites.

We're trying to innovate in the e-commerce space, so we just launched a chat bot that is a virtual stylist. If you go to levi.com, you can experience that.

As we develop these capabilities and prove them out, we're willing to share them with all of our online partners. But Amazon's one of our biggest customers globally. They're one of our fastest-growing customers.

**MS. PASSARIELLO:** Amazon gathers a lot of information

about how Levi sells. Do you get access to that data?

**MR. BERGH:** Some of it. I'm sure we don't get all of it. But we try to have a productive working relationship, and not just with Amazon here in the U.S. I met with Alibaba this morning. We're working with Wal-Mart as well. All of these e-commerce players are collecting a lot of data, and I think we can partner together to do a better job of targeting consumers.

**MS. PASSARIELLO:** Amazon has launched a lot of its own lines to compete with others, and now they have all this data about how well they sell your product. When do you expect them to go head-to-head with you with their own denim line?

**MR. BERGH:** I would be the first to argue that they shouldn't go there, but a lot of our customers have their own private label and we've been dealing with this for 30 years. I don't want to say it's inevitable, because they're really happy with our business and they've got other brands as well. But if they launch a private label, competition's a good thing. It will make us take our game up to the next level.

## Qualcomm's Game Plan

CEO Steven Mollenkopf talks about smart cars and 5G technology

'All of the things that have to be done to support 5G products in 2019 are happening.'



**Qualcomm Inc. isn't a big consumer name, but it's one of the companies most responsible for what consumers can do with their smartphones and increasingly smart cars.**

**The company's chief executive, Steven Mollenkopf, spoke with Jason Anders, The Wall Street Journal's chief news editor, about what's around the corner for Qualcomm and consumers as technology continues to shake things up. Here are edited excerpts.**

**MR. ANDERS:** Last fall you announced one of your biggest deals, to buy **NXP Semiconductors**, a Dutch company, for something like \$39 billion plus a fair amount of debt. This would be not only a huge deal for Qualcomm, but also a really big push deeper into automotive technology. How's that going? Regulators are still looking at it, right?

**MR. MOLLENKOPF:** We're on track to close this year. I think it's the second-largest tech deal in history. NXP has a strong footprint in Europe and other places, so it's natural that people ask a lot of questions. But nothing unusual.

**MR. ANDERS:** How will this deal change Qualcomm? What will you be able to do that you can't do right now? And does it fundamentally change the mission of the company?

**MR. MOLLENKOPF:** The mission of the company has always been to take technology, invest in it ahead of the industry, and then put it in a way that it can be used at scale. And for the past 30 years, we've been doing that in the cellphone space. That'll continue—you have 5G [wireless technology] on the horizon.

The NXP deal accelerates our strategy of driving the mobile road map into new industries at the time when the industry is being disrupted by those new technologies. Estimates are that 20% of the economic value of 5G will accrue

to the automobile industry—which may seem unusual at first glance, but in reality, if you think about the connected car and all its implications it's immense.

**MR. ANDERS:** NXP is in a lot of the parts of the car, and a lot is not about autonomous driving—it's in a lot of core tech systems that make cars high-tech today in ways most of us don't fully appreciate.

**MR. MOLLENKOPF:** Our portfolio, independent of NXP, is already pretty strong. If you look at our position in telematics, in infotainment, we've shipped hundreds of millions of devices into cars in the past 15 years. Now, what's happening in the car space is that there's a big change in the architecture of the car.

The car is getting smarter, so all of these distributed smarts in the car, it's essentially consolidating into a number of smarter subsystems that are all connected in a coherent way. And they're all being connected to the internet. And so our goal—and we'll be able to do this quite well with NXP—is to have a piece of all of those subsystems.

If you look at the combination of those two portfolios—the computing power and connectivity from Qualcomm with all of the other parts of the car coming from NXP—we're in a pretty strong position.

**MR. ANDERS:** Do you see Qualcomm being a major player in self-driving cars?

**MR. MOLLENKOPF:** We do. First of all, it's probably a 30-year next wave. If you look at where the car is going, we are just starting to scratch the surface. My guess is the industry isn't thinking far enough ahead in terms of the implications to transportation, of having the car connected and smart.

You're also going to see tremendous capacity for the distribution of video. Part of that is coming from 5G. Part of that is coming from access to new spectrum. And I think that's going to be disruptive not only to the cellular industry, but to how the cable industry delivers data over the top or how it is delivered.

Qualcomm and Apple are locked in an epic battle right now. You've both sued each other, and lots of allegations are flying around. Can this relationship be saved?

**MR. MOLLENKOPF:** This is fundamentally a discussion about pricing over the fundamental technology that makes the phone the phone. We have a long history of providing value and settling these issues. Sometimes they get more publicity than others, but I think we'll get through it. We have a very strong product relationship with them.

**MR. ANDERS:** Let's talk about 5G. You had a bit of a milestone yesterday [Oct. 16] in this front, which was the first call. You made the first call?

**MR. MOLLENKOPF:** We had an event in Hong Kong where we made the first call on a real chip. Not a prototype, but a real chip.

**MR. ANDERS:** Who did you call?

**MR. MOLLENKOPF:** It was a data connection—everything's in data these days. But it's a milestone. All of the things that have to be done to support 5G products in 2019 are happening.

**MR. ANDERS:** What exactly will I be able to get in 2019?

**MR. MOLLENKOPF:** You will get a device, a phone in your pocket, that will access 5G networks, in addition to devices that I think you're going to start seeing in the home and in cars that get access to a tremendous amount of data at lower latency.

You're also going to see tremendous capacity for the distribution of video. Part of that is coming from 5G. Part of that is coming from access to new spectrum. And I think that's going to be disruptive not only to the cellular industry, but to how the cable industry delivers data over the top or how it is delivered.

### Wearing the internet

**MS. PASSARIELLO:** Levi's just unveiled its first connected item of clothing, this \$350

jacket that you're wearing. How are consumers starting to use it?

**MR. BERGH:** We have a line of product called Commuter, which really is for bike riders. It's a little bit niche, but getting more mainstream. So we decided to use the Commuter line. This allows cyclists to get directions, listen to their music, change their playlist without ever needing to look at their phone.

**MS. PASSARIELLO:** How do you see the use of the product evolving?

**MR. BERGH:** Where this specific product goes and how much more functionality we build into this is one question. The other big question is where does wearable technology go?

Right now devices kind of control our life, and the picture for the future is that technology is embedded in our life, into the clothing that we wear, perhaps into the sheets

in our bed at home, and anything that's a fabric will be able to have conductive fiber in it that can do just about anything.

**MS. PASSARIELLO:** Do you plan to roll this fabric out across many other products in your lineup?

**MR. BERGH:** Yeah. We have a lot to learn from the consumer. What other kinds of functionality do they want built into this? And then we'll go there. We're already working with Google on 2.0.

**MS. PASSARIELLO:** What do you have in mind already for 2.0?

**MR. BERGH:** If you think about all the different ways or times you need to take your phone out to use an app, imagine replacing more of that. Scroll through your phone and look at the apps and say, "Do I really need to look at the screen for this?" And if not, if I can control it with a swipe, it's

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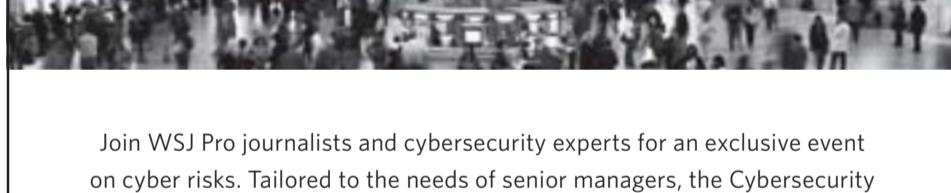
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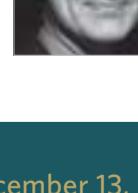
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# The Big Benefits Of Smart Cities

Cities have long been doing things the same way. No longer, says Chuck Robbins, CEO of Cisco.

*The big push at networking giant Cisco Systems Inc. these days is to create "smart cities," where wireless networks with enough sensors and computers to process the data will attempt to make services more efficient and lower costs. Cisco Chief Executive Chuck Robbins spoke with Jason Anders, chief news editor of The Wall Street Journal, about how it's going. Edited excerpts follow.*

**MR. ANDERS:** Why do we need smarter cities?

**MR. ROBBINS:** Some statistics say that 30% of traffic is created by people looking for parking, so that's a problem that technology can solve and is solving. We have 70% of the world's energy usage in cities; 20% of global energy usage is lighting, so connect to LED lighting and leverage technology to actually make them more efficient. You can cut 50% to 75% out of it. There are environmental opportunities. There are efficiency and citizen-service opportunities. There are lots of great oppor-

tunities.

**MR. ANDERS:** Where exactly do you come in? How does this get off the ground?

**MR. ROBBINS:** It does require infrastructure. Security has to be dealt with up front. The partnerships required to actually make this work are pretty significant.

**MR. ANDERS:** Some of this isn't quite Jetsons-level stuff. Garbage pickup doesn't sound that high tech. But what's the future of waste management?

**MR. ROBBINS:** We've done things the same way forever. Waste-management vehicles leave, they have a route. They pick up receptacles, and they empty receptacles even if they're empty. The ability to put sensors inside those—there are applications that have been written now that actually understand where that needs to occur. You can actually put sensors in that measure the presence of toxic materials so safety issues can be addressed.

**MR. ANDERS:** What are some of the big cities that you're involved in?

**MR. ROBBINS:** We're involved in 120 around the world today. Hamburg has gone all in, particularly in the port. Collaboration between their employees running the dock, communicating to vehicles that are waiting, managing the traffic congestion—everything's connected, all the sensors, so that they can actually make that seamless.

They've increased the productivity of the port and improved the efficiency by 20% just by implementing this technology.

Every city has different things going on. In 2016, I was in Davos and the party secretary of Guangzhou, China, said, "I'd like Cisco to come partner with us to build a smart city in Guangzhou." And 15 months later, we had shovels, shoveling dirt for the Cisco Guangzhou Smart City Project. We're building innovation centers. We're partnered with universities.



'Lower cost should result in lower taxes or at least more efficient use of your taxes or greater services.'

NIKKI RITCHIE/DOW JONES (2)

**MR. ANDERS:** Cities are ultimately businesses, and some aren't well run. I assume the pitch is the technology is good not only for society but for the bottom line and budget. But at the end of the day, someone has to write the check.

**MR. ROBBINS:** Yeah. I was in a major city last week talking to the mayor, and the discussion quickly got to, "The first-use case has to really create hard dollar savings so that we can then invest those in some of the other things going on. But we need to create money and then show people."

So investing in, perhaps, reduction of lighting cost to then fund the fundamental change in how citizen services are delivered is how they tend to think about these things.

**MR. ANDERS:** How does technology bring the city together?

**MR. ROBBINS:** Chicago's another example where they've aggregated lots of data sources, and they bring that data together and they're encouraging these hyperlocal applications. We create opportunities for people to live more efficiently, to get to where they're trying to get to more

efficiently, to engage in different conversations about what's going on locally. And that can extend to social issues, social opportunities.

**MR. ANDERS:** Is the primary goal of a smarter city to empower me as the citizen or to more closely manage and control and observe me as a customer of city services?

**MR. ROBBINS:** In general, I think it's the former, because lower cost should result in lower taxes or at least more efficient use of your taxes or greater services.

Guangzhou obviously moved people out of this location when they created this spot for us to go in with some Chinese partners and build this smart city. But one of the commitments they made to the citizens was that we were going to move them back to this city afterward and they were going to have a better life as a result of it.

**MR. ANDERS:** This is a hacker's dream. Now, everything from my garbage can to my Wi-Fi to literally the way I'm driving my kids to school is in a database somewhere and for some-

one to access.

**MR. ROBBINS:** It is a pressing issue. We're moving to this massively distributed virtualized world of technology assets. The network has to actually play a very deep, defensive role. So we've been investing in new technologies. We've created technology that can determine when malware is present in encrypted traffic without decrypting it, then you can quarantine it. We have to build more of those applications, I think, for this to come to life. But it's very much a forefront ambition.

**MR. ANDERS:** Do you worry that you're creating targets?

**MR. ROBBINS:** Every day we are. But the way we operate with mobile phones in the enterprise today says that we, as a society, will take the benefit of the technology at a pretty significant risk. The benefits and the productivity enhancements from that technology were so great that we just kind of tried to operate around that and build and work around. I think we're going to build defenses here, and then, we're going to quickly adapt as we see things.

## VOICES FROM THE CONFERENCE



"What you need in the future to continue to grow and to thrive as a company is what we call a thoughtful integration between hardware and software. In the future, what we will have to do is really think about creating the best experiences possible, and that includes working with partners like **Google** and **Facebook**. They're incredibly important partners of ours."

**David Eun,**  
President, Samsung NEXT

LOWER  
HEALTH COSTS  
CAN ACTUALLY LEAD TO  
HIGHER QUALITY.

# Facebook Opens Up on Messenger

David Marcus on how the company's new channel for advertisers works, and why he thinks consumers won't be put off by it

David Marcus, vice president of messaging products for Facebook, is head of Messenger, one of the company's two messaging products. He spoke with Wall Street Journal Deputy Technology Editor Christina Passariello about the introduction of ads in Messenger that offer the advertisers a channel for direct communication with consumers. He also talked about Russian use of Facebook accounts to influence U.S. elections. Edited excerpts follow.

**MS. PASSARIELLO:** Messenger recently introduced advertising. What did you test in terms of monetization that didn't work before you settled on advertising?

**MR. MARCUS:** It isn't like we tested a lot of things, but we thought about a lot of things. If you turn to Asia and you look at different messaging platforms that are thriving, they tend to use a completely different approach to monetization. They use sticker-package sales, game monetization. All kinds of different things.

We decided that we wanted to take a completely different stance, because the setup, notably in places where Messenger is the preferred messaging app, is really different. You have apps for almost everything you do daily, and we needed to find what problem we could actually fix for businesses and people alike to actually generate a decent revenue stream for Facebook.

We started trying to figure out how we could completely reinvent interactions between people and businesses. Sixty-five percent of the interactions we have with companies are over the phone, which is a thing I never want to do. You can't put the phone down, go about your life and wait for

someone to respond, because they'll hang up on you. And it basically doesn't preserve context of all past interactions.

Messaging [in Messenger] has those two abilities. It's instant and preserves the context of all past interactions. We talked about customer care, but if you expand into customer acquisition, lead generation, businesses that build a really great experience inside of Messenger are seeing massive uplift if they redirect people from an ad on News Feed, on Instagram, and now more and more on Messenger, into a conversation, versus a mobile website.

And the reason for that is basically that the conversation remains forever, and you have the context of all your past interactions, and you can re-target and re-engage because we have ad products that enable you to do that if you're an advertiser.

**MS. PASSARIELLO:** Isn't there a risk that we are so inundated with advertising in all of our different feeds that consumers don't want to see it anymore?

**MR. MARCUS:** Well, I think that it's different. First, you cannot get contacted by a business. You have to start conversations. We have plug-ins that enable businesses to get you in a conversation. We have m.me/your-business-brand URLs that you can deploy in emails and everywhere. We have click-to-Messenger ads. If you're buying advertising on Facebook now you can buy, basically, conversations as an objective, messages. And now we're testing ads inside of Messenger. But we're doing it in a way that's the least possible disruptive path for people, because we never want to get in the way of people getting to their messages and doing

what they want to do. Messaging is very transactional.

**MS. PASSARIELLO:** Have you had any feedback from users who are resisting seeing ads in Messenger yet?

**MR. MARCUS:** The way we measure this is by measuring engagement. We've rolled out ads inside of Messenger in a number of countries and certain percentages of people. And what we're trying to track is where there are any drops in engagement, as in people not going to Messenger as often, not messaging as often, et cetera. And so far, so good.

**MS. PASSARIELLO:** How are you sharing best practices in monetization with WhatsApp?

**MR. MARCUS:** We both have 1.3 billion monthly active users: 1.3 billion people using Messenger, 1.3 billion people using WhatsApp. But it's generally very different people. If you look at North America, it's mainly Messenger. Western Europe is kind of split. All of Latin America and India is mostly WhatsApp. The markets and when the markets got to free unlimited texting has determined whether you're using WhatsApp or Messenger as the preferred platform.

What we're trying to do right now is really demonstrate that there's a playbook for monetizing messaging platforms in the West.

WhatsApp is testing different things as well, enabling smaller businesses to start experimenting with messaging on WhatsApp. We'll see whether the paths converge over time or not.

**MS. PASSARIELLO:** Have you shared your experiences with the new rollout of advertising on Messenger with WhatsApp?

**MR. MARCUS:** We share every-



'We never want to get in the way of people getting to their messages.'



thing, but we'll see. The WhatsApp team is really starting to enable businesses to be on the platform, and they're doing it in a very deliberate, thoughtful way.

**MS. PASSARIELLO:** Russian entities have used Facebook and Facebook platforms to try to influence the American electorate during the election. What is your best understanding about how Messenger was used by these Russian actors?

**MR. MARCUS:** The narrative about Facebook as of late has not been super positive. The impact Facebook has in the world, we don't talk about it anymore. It's completely overshadowed by all of this.

If you look at the impact we're having every day, like when you see people who have an orphan disease and they can't find other people to talk to, even their family can't relate to what they're living through, on Facebook you can find other people from the other side of the world that are living the exact same thing and groups that are so meaningful for people. We've raised more than \$17 million on the platform for Harvey victims.

We've been able to use Safety Check that we activated 600 times since we launched it, and sent one billion notifications around the world to let people know that people are safe. And I could go on and on.

Clearly when you design a platform that reaches two billion people every month, sometimes bad things happen. And we shouldn't tolerate those things, and they shouldn't happen. Mark Zuckerberg and Sheryl Sandberg outlined a clear plan about how we're going to ensure that this isn't going to happen again, and we're going to hire thousands of people, we are, actually, hiring thousands of people to review ads and review all activities around, notably, elections around the world. We tend to do well at those things. We tend to actually take those things very seriously and execute plans ruthlessly and get to really good outcomes. So I'm actually confident that we're going to be able to deal with this.

The way the platform was used is still being investigated. But traditionally if you're a [Facebook] page, for instance, you cannot message people.

People have to message you. We're collaborating with the special counsel and Congress. And we'll figure out what happened, we'll get to the bottom of it, we'll learn from it, and we'll make sure that we build systems to prevent what happened from happening again.

**MS. PASSARIELLO:** On the 470 accounts that Facebook has already identified, how many have also been using Messenger to communicate?

**MR. MARCUS:** My understanding at this stage is it's a small number.

**MS. PASSARIELLO:** Facebook's approach often has been to be reactive to these kinds of ways that people are using its products in malicious ways. Does Facebook need to be more proactive in anticipating these kinds of uses?

**MR. MARCUS:** Now that we know that we have a lot of actors that are trying to do things, we need to continue to be more thoughtful when we build new product experiences, new ad products, to try to overthink how it can be used in ways that the platform wasn't designed for.

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