SUPREME COURT OF THE UNITED STATES

IN THE SUPREME COURT OF THE UNITED STATES
APPLE INC.,
Petitioner,
V.
No. 17-204
ROBERT PEPPER, ET AL.,
Respondents.
)

Pages: 1 through 65

- Place: Washington, D.C.
- Date: November 26, 2018

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1 IN THE SUPREME COURT OF THE UNITED STATES 2 _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ 3 APPLE INC.,) 4 Petitioner,) 5) No. 17-204 v. б ROBERT PEPPER, ET AL.,) 7 Respondents.) 8 _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ 9 Washington, D.C. Monday, November 26, 2018 10 11 12 The above-entitled matter came on for 13 oral argument before the Supreme Court of the United States at 10:05 a.m. 14 15 16 APPEARANCES: 17 18 DANIEL M. WALL, ESQ., San Francisco, California; on 19 behalf of the Petitioner. GEN. NOEL J. FRANCISCO, Solicitor General, 20 Department of Justice, Washington, D.C.; 21 2.2 for the United States, as amicus curiae, 23 supporting the Petitioner. DAVID C. FREDERICK, ESQ., Washington, D.C.; on 24 25 behalf of the Respondents.

1	CONTENTS	
2	ORAL ARGUMENT OF:	PAGE:
3	DANIEL M. WALL, ESQ.	
4	On behalf of the Petitioner	3
5	ORAL ARGUMENT OF:	
6	GEN. NOEL J. FRANCISCO, ESQ.	
7	For the United States, as amicus	
8	curiae, supporting the Petitioner	20
9	ORAL ARGUMENT OF:	
10	DAVID C. FREDERICK, ESQ.	
11	On behalf of the Respondents	32
12	REBUTTAL ARGUMENT OF:	
13	DANIEL M. WALL, ESQ.	
14	On behalf of the Petitioner	61
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 PROCEEDINGS 2 (10:05 a.m.) 3 CHIEF JUSTICE ROBERTS: We'll hear 4 argument first this morning in Case 17-204, 5 Apple versus Pepper. Mr. Wall. 6 7 ORAL ARGUMENT OF DANIEL M. WALL ON BEHALF OF THE PETITIONER 8 MR. WALL: Thank you, Mr. Chief 9 Justice, and may it please the Court: 10 11 The only damages theory in this 12 monopolization action is rooted in a 30 percent 13 commission that Apple charges app developers and which allegedly causes those developers to 14 15 increase app prices to consumers. 16 The case is barred by the Court's 17 Illinois Brick doctrine because the developers' 18 pricing decisions are necessarily in the causal 19 chain that links the commission to any consumer 20 damages. 21 If the commission increases beyond the competitive level, but apps developers do not 2.2 23 change their apps prices, consumers suffer no damages. And if app developers do change their 24 25 prices to pass on some or all of the

over-charge, well, that is precisely the kind 1 2 of damages theory that the Illinois Brick doctrine prohibits. 3 4 JUSTICE GINSBURG: Is there any -- in 5 -- in your view, is there any first buyer in 6 this picture? 7 MR. WALL: Excuse me? JUSTICE GINSBURG: Is there any first 8 9 buyer in this picture? MR. WALL: Well, there's -- there's 10 11 two different buyers in this picture. There 12 are the app developers who, by contract with Apple, are buying a package of services which 13 include distribution and software and 14 15 intellectual property and testing and -- and so 16 forth. 17 And then the plaintiffs in this case are the -- the buyer of the apps themselves 18 that are made with that package of goods and 19 services and --20 JUSTICE GINSBURG: My -- my question 21 22 was within Illinois Brick, is there in this 23 case anyone who would qualify as a first buyer 24 with standing to sue Apple? 25 MR. WALL: The developers, yes.

Without a doubt, the developers are the ones
 who, in the first instance, pay the 30 percent
 commission.

4 I think it's -- it is -- it is 5 important to root the analysis in the common ground, which has been conceded, that the only 6 7 damages theory is based upon that 30 percent commission. That is charged by contract 8 9 between Apple and the developers. And it is deducted from whatever price that the developer 10 chooses to -- to set, subject to only the 11 12 minimal restriction --13 JUSTICE SOTOMAYOR: I'm sorry, the --14 the first sale is from Apple to the customer. 15 It's the customer who pays the 30 percent. 16 MR. WALL: But there has always been a 17 -- a transaction between Apple and the developer before that, which has the pricing 18 19 decision of what the developer is going to do 20 on account of the 30 percent commission. There is never --21

22 JUSTICE SOTOMAYOR: Could I ask you
23 something --

24 MR. WALL: Sure.

25 JUSTICE SOTOMAYOR: -- more generally

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1 about Illinois Brick? That was a case of a 2 vertical monopoly: A concrete block person, 3 manufacturer, monopolizes the next intermediate 4 market who then sells to a customer. 5 MR. WALL: Yes. 6 JUSTICE SOTOMAYOR: All right. This 7 is not quite like that. This is dramatically different. This is a closed loop. 8 MR. WALL: It is a closed loop, but in 9 terms of the injury theory, which is what is at 10 issue in --11 12 JUSTICE SOTOMAYOR: They're not 13 claiming the 30 percent is their injury. 14 MR. WALL: No. They're --15 JUSTICE SOTOMAYOR: They're -- they're 16 claiming their injury is the suppression of --17 of a cheaper price, doesn't have to be 18 30 percent. They're not seeking 30 percent of 19 their sales. 20 They have to go out and prove at the 21 next step how, without this monopoly, they 22 would have paid less. It could be as little as 23 a -- a penny or nothing or it could be 24 something more. But the point is that this 25 closed loop with Apple as its spoke, they are

1 the first purchaser of that 30 percent markup. 2 MR. WALL: No, they are not. The --3 the first purchaser is clearly the app 4 developer, who, by contract, agrees that every 5 time it puts a positive price on an app, it will allow Apple to -- to take 30 percent of 6 7 it. And the damages theory --8 JUSTICE SOTOMAYOR: Apple took 9 30 percent from the customer, not from the 10 developer. 11 MR. WALL: Apple collects the -- the 12 funds, but even the Ninth Circuit here agreed that -- that the process, the payment flow is 13 immaterial to the Illinois Brick issue. 14 15 JUSTICE BREYER: Certainly, I wouldn't 16 think that's true, even if they concluded it. 17 And in a simple theory, I would have thought it 18 would have been in antitrust for at least 100 19 years. What you do is you look to see who you 20 claim is the monopolist. Who do they claim is 21 the monopolist? 2.2 MR. WALL: Apple. 23 JUSTICE BREYER: Apple. And if you 24 pay -- if that's true, they can raise prices to 25 some people, lower them to others, their

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1 suppliers. And if you were injured because you 2 paid them more, the monopolist, you can collect 3 damages. 4 And if you're injured because they 5 forced your price down, you're a supplier, you can collect damages. End of theory. I don't 6 7 see anything in Illinois Brick that conflicts with that. 8 9 MR. WALL: Everything in Illinois Brick --10 11 JUSTICE BREYER: All right. What is 12 that? 13 MR. WALL: -- conflicts with that. 14 JUSTICE BREYER: Yeah. 15 MR. WALL: The -- the emphasis in all 16 three of this Court's decision on both pass-on 17 defenses and damages theories, that's what the 18 doctrine disallows. It -- it says that --19 JUSTICE BREYER: It says that if -- I 20 don't mean to interrupt you, but I don't want to -- you to miss the point I'm making. 21 2.2 If Joe Smith buys from Bill, who 23 bought from the monopolist, then we have something indirect. But, if Joe Smith bought 24 25 from the monopolist, it is direct. That's a

1 simple theory. 2 Now I can't find in reason or in case 3 law or in anything I've ever learned in 4 antitrust anything that would conflict with 5 that. And what I want you is to tell me what? MR. WALL: What conflicts with that in 6 7 this case is that the alleged monopolization, which is over the distribution function, 8 9 allegedly first manifests in a 30 percent commission. Consumers do not pay the 10 30 percent commission. 11 12 There was an effort in the -- in the district court to try to argue that -- that 13 Apple added that, but that was abandoned. So 14 15 what we have here instead is a damage theory 16 that runs through the independent pricing 17 decisions of the app developers. 18 JUSTICE KAGAN: Does your answer to 19 Justice Breyer depend on what you said, that the alleged monopolization is in the 20 distribution function? Because I understood 21 2.2 the -- the Respondents now to be saying, no, 23 that's wrong; the alleged monopolization is in 24 the apps themselves. 25 In other words, the consumer says you

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1 have a monopoly on apps. You might also have a 2 monopoly on the distribution function, which 3 the app developers have to live with, but you 4 have a monopoly on apps, which the consumers 5 have to live with. 6 MR. WALL: In --7 JUSTICE KAGAN: So, in responding to Justice Breyer, you said: Well, it's because 8 9 the alleged monopoly is the distribution function. But I don't think that that's 10 11 correct. 12 MR. WALL: Well, two points, Justice 13 Kagan. First of all, it is correct. The --14 15 the complaint repeatedly alleges at paragraphs 16 3, 8, and 53 that this is a case about -- about 17 a distribution market. It has always been a 18 case about a distribution market. And it necessarily is because there is no good-faith 19 20 allegation that -- that Apple actually 21 monopolizes the apps as software. 2.2 It is -- it is simply the pipeline, 23 the sale of the apps, which is -- which is alternately described in this case as either 24 25 distribution or as the so-called aftermarket,

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1 which is simply limiting that to iOS apps 2 instead of the 80 percent of the apps --3 JUSTICE BREYER: You know, there are 4 an awful lot of words in this case that I tend 5 to have trouble understanding. One is 6 two-sided market. Another is a lot that you 7 used. 8 MR. WALL: Uh-huh. 9 JUSTICE BREYER: So I go by simple analogy. If Bill buys from the monopolist, he 10 11 is a direct purchaser. If Bill buys from Sam, 12 who buys from the monopolist, he is an indirect 13 purchaser. Anyone can understand that. 14 And when I get into what I think of as 15 jargon, I begin to think: Suppose I were 16 advising United Fruit Company. I have a great idea. You won't have to torpedo the boats of 17 your competitors anymore. 18 19 Here's what you do: What you do is 20 you buy from the farmers and you tell the 21 farmers what you will pay the banana farmers is 2.2 a very low price plus 30 percent commission. 23 And then what you do is, when you sell to 24 banana consumers throughout the world, you 25 charge them that 30 percent commission, which

1	they say is a higher price. And if you,
2	United Fruit, did not become a monopolist.
3	Now I think I'm advising Jay
4	Rockefeller, John Rockefeller, and I give him
5	the same advice. And I give the same advice to
б	United Shoe, which happened to be a
7	distribution company. And we thereby have
8	well, you see the point.
9	MR. WALL: But the difference here is
10	is that there there is there is no
11	third-party intermediary that is setting the
12	price and exercising its independent
13	determination as to whether any or all of the
14	initial over-charge, which is some part or all
15	of the commission, is going to manifest itself
16	in the app's price. And that's why I started
17	with with with the simple I would I
18	would say, you know, the hypothetical of
19	imagine the price today is the competitive
20	price, the 30 percent is the competitive price.
21	And it goes up by 10 points tomorrow.
22	No consumer is injured unless the apps' prices
23	change. The apps' prices have to change. And
24	if they don't and they only change by virtue
25	of a decision which implicates everything this

13

1	Court talked about in Hanover Shoe, in Illinois
2	Brick, and in
3	JUSTICE KAGAN: Well, Mr. Wall, I
4	think you're avoiding the question a bit
5	because, I mean, the questions that are being
6	put to you by my colleagues are really, what
7	was Illinois Brick about? Was it about a
8	vertical supply chain or, instead, was it about
9	a pass-through theory?
10	Now, in the facts of Illinois Brick,
11	and, indeed, in the facts of all the Illinois
12	Brick cases that we've discussed, you had both.
13	So you didn't have to separate the two.
14	And now, here, you don't have both,
15	because this is not a vertical supply chain,
16	but there still is a pass-through mechanism.
17	So then the question is, does Illinois Brick
18	apply to that or not?
19	And I think what Justice Breyer was
20	suggesting to you, that as long as it's not
21	that vertical supply chain where the person is
22	not buying from the monopolist itself, here,
23	the person is transacting with the monopolist
24	itself, that that's what separates this case
25	from Illinois Brick and makes it entirely

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1 different, notwithstanding that there's some 2 kind of pass-through mechanism involved. 3 MR. WALL: I completely agree with you 4 that the key to this is deciding what Illinois 5 Brick was about. Was it simply a formalistic case about vertical chains, or was it about 6 7 pass-through? And in answering that guestion, I 8 would begin with, first of all, with Hanover 9 Shoe, which is about a pass-on defense and 10 11 about the -- the difficulties in -- in the --12 the -- the potential complication of antitrust 13 litigation through pass-on defense, and then 14 the framing of the question in Illinois Brick 15 by this Court which said, having already found 16 that we will not allow a pass-on defense, we 17 are now confronted with the question to whether allow pass-on to be used offensively. 18 19 It was 100 percent about pass-on. The vertical chain was the factual setting of the 20 case, and, indeed, Respondents' argument would 21 2.2 -- would have this Court believe that the 23 factual setting is the sum and substance of the 24 Court's reasoning. 25 JUSTICE ALITO: Mr. Wall, could I ask

1 you about what troubles me about your position, 2 and -- and it is this: Illinois Brick was not 3 about the economic theory. It was about the 4 court's -- the court's -- the basis for the decision was not economic theory, as I read the case. It's the court's calculation of what 7 makes for an effective and efficient litigation scheme. 8

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9 And maybe your answer to this question is that the validity of Illinois Brick is not 10 11 before us. But I really wonder whether, in 12 light of what has happened since then, the court's evaluation stands up. 13

14 Take the third point that it makes 15 about that the direct, so-called direct 16 purchasers are the most efficient and most --17 in the best position to -- to sue.

18 If we look at this case, how many app 19 developers are there whose apps are sold at the 20 Apple store?

MR. WALL: Tens of thousands. 21

2.2 JUSTICE ALITO: Yeah. Has any one of 23 them ever sued?

MR. WALL: None have ever sued. 24 There 25 have been -- there have been plenty of

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1 disputes, but none has ever gone to litigation. 2 For that matter, no state or federal antitrust 3 agency has ever sued either. 4 We do not take that -- we do not take 5 the absence of litigation as evidence of an 6 oppressed developer community that cannot speak 7 for itself. These -- you know, the fact of the matter is that nowadays major companies suing 8 9 their suppliers happens all of the time. The idea that it -- that it -- that it 10 11 doesn't, which was decried by Judge Posner as 12 fanciful, has proven to be fanciful because it literally happens all of the time. 13 14 JUSTICE GORSUCH: Well, Mr. Wall, 15 along those lines, I take your point that 16 Illinois Brick and Hanover Shoe might be read about the economic realities of the 17 pass-through mechanism being important, rather 18 19 than the contractual formalities, whether it's a sales agent or a formal purchase between the 20 manufacturer and the distributor. 21 2.2 And antitrust normally accounts for 23 economics, rather than forms of contract. 24 MR. WALL: Indeed. 25 JUSTICE GORSUCH: I take your point.

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1 But building on what Justice Alito had in mind, 2 Illinois Brick has been questioned by 31 states before this Court in an amicus brief. You're 3 4 asking us to extend Illinois Brick, admittedly, 5 only because of a contractual formality and the economic realities are the same. I'll spot you 6 7 all of that for purposes of this question. But why should we build on Illinois 8 Brick? Shouldn't we question Illinois Brick, 9 perhaps, given the fact that so many states 10 11 have done so. They've repealed it. 12 There haven't been a huge number of reported problems with indirect purchasers and 13 14 direct purchasers receiving double recovery, 15 one of the problems Illinois Brick built on, 16 and the other one, which Justice Alito alluded 17 to, is direct purchasers don't always sue because there's a threat that monopolists will 18 19 share the rents with the direct purchasers. 20 MR. WALL: Right. JUSTICE GORSUCH: And indirect 21 2.2 purchasers may be better suited to enforce the 23 antitrust laws. So long wind-up. Okay. 24 MR. WALL: 25 JUSTICE GORSUCH: Sorry, but there's

1 the pitch. 2 MR. WALL: Sure. So a few things. First of all, it is -- it is an enormously 3 4 complicated and controversial issue what to do 5 with the Illinois Brick doctrine. You can see this in -- in the briefing 6 7 in this case where, yes, you do have states saying repeal it. You also had the plaintiff's 8 bar through the American Antitrust Institute 9 say don't repeal it. 10 11 There have been, I think, on the order 12 of 17 efforts in Congress to have -- have it changed. Not once has it ever gotten to the 13 14 floor. It is a quintessentially controversial 15 political issue which belongs across the 16 street, not here. 17 I would disagree completely --18 JUSTICE GINSBURG: Why? Why is that 19 so if the Court created the doctrine in the 20 first place? 21 MR. WALL: Because I don't think it's 2.2 fair to say that the court just created it. 23 What the court did was it applied the foundational principle of all Section 4 24 25 jurisprudence, which is the proximate cause

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1 principle of damages not going past the first 2 step, and then it -- it dealt with that in the context of the potential for duplicative 3 4 pass-through over-charge claims, which are a 5 unique problem in antitrust. 6 It's not a general problem of all 7 damage theories. But, when you have over-charge cases -- and this gets to Justice 8 Gorsuch's point about the potential for -- for 9 duplicative recovery, it's not hypothetical. 10 It's automatic. It's mathematical. 11 12 If the first purchaser gets 13 100 percent of the over-charge because of 14 Hanover Shoe, anything else that is recovered 15 that gets added on to that is necessarily 16 duplicative, and that's what happens in the 17 district courts. You get the direct purchasers 18 and the direct purchasers suing on whatever 19 theory optimizes their level of recovery. 20 I'd like to reserve the rest of my time and turn it over to the Solicitor General 21 2.2 at this point. 23 CHIEF JUSTICE ROBERTS: Thank you, 24 counsel. 25 General Francisco.

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1	ORAL ARGUMENT OF GEN. NOEL J. FRANCISCO
2	FOR THE UNITED STATES, AS AMICUS CURIAE,
3	SUPPORTING THE PETITIONER
4	GENERAL FRANCISCO: Mr. Chief Justice,
5	and may it please the Court:
6	I'd like to begin where Mr. Wall left
7	out, and I think it addresses many of the
8	questions that have been asked here.
9	At bottom, Illinois Brick and Hanover
10	Shoe, properly understood, prohibit
11	pass-through theories. And they reflect a
12	basic application of the background principles
13	of proximate cause that this Court generally
14	reads into statutes of this sort, and, in
15	particular, the rule that damages stop at the
16	first step.
17	Here, the first step is the app
18	maker's pricing decision, because the
19	Respondents, the consumers, are injured if and
20	only if the app makers decide to increase their
21	prices in order to recoup Apple's
22	JUSTICE KAGAN: General, I have to say
23	I find that a not intuitive argument, I mean,
24	because it just seems to me that when you're
25	looking at the relationship between the

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1 consumer and Apple, that there is only one 2 step. 3 I mean, I pick up my iPhone. I go to 4 Apple's App Store. I pay Apple directly with 5 the credit card information that I've supplied to Apple. From -- from my perspective, I've 6 7 just engaged in a one-step transaction with 8 Apple. 9 And when I come in and say Apple is a monopolist and Apple is charging a 10 11 super-competitive price by -- by extracting a 12 commission that it can only extract because of 13 its market power, I mean, there's my one step. 14 GENERAL FRANCISCO: Right. I 15 understand that, Your Honor. But, in proximate 16 cause, the issue is not transactional 17 proximity. The issue is proximity between the 18 illegal conduct on the one hand, here, Apple's 19 monopolistic over-charge, and the injury to 20 consumers on the other hand, here, the higher 21 prices. 2.2 And Apple's monopolistic over-charge 23 is not the direct cause of higher prices. The direct cause of the higher prices is the app 24 25 maker's decision to increase their prices in

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order to recoup the over-charge. 1 2 JUSTICE KAVANAUGH: How do we know 3 that? How do we know that, given that Apple really operates as a retailer in many respects 4 5 here, as Justice Kagan points out? 6 GENERAL FRANCISCO: Right. 7 JUSTICE KAVANAUGH: And how do we know 8 that the 30 percent charge is not affecting the price? 9 GENERAL FRANCISCO: Well, you don't 10 11 know --12 JUSTICE KAVANAUGH: In the same way 13 that any retailer that adds 30 percent would 14 affect the ultimate price paid by the consumer? 15 GENERAL FRANCISCO: You don't know for 16 sure, but that's the whole point. Here, 17 because app makers set the final price, they have a choice to make: They either absorb the 18 19 over-charge and keep prices the same, in which 20 case the consumers aren't harmed at all, or they increase their prices to recoup the 21 2.2 over-charge, in which case the app makers are also harmed because they face a drop in sales 23 24 as a result of increased prices.

25 JUSTICE KAVANAUGH: But the consumers

23

1 are harmed then too.

2	GENERAL FRANCISCO: Yes, Your Honor.
3	And that's the whole point of Illinois Brick
4	and Hanover Shoe. When you've got part of the
5	harm going to that initial party that's bearing
6	the full brunt of the over-charge in the first
7	instance because of its pricing decision,
8	that's the party that gets the whole claim.
9	JUSTICE KAVANAUGH: But we have
10	ambiguity about what Illinois Brick means here,
11	and shouldn't that ambiguity, if if there is
12	such ambiguity, be resolved by looking at the
13	text of the statute? Any person injured?
14	GENERAL FRANCISCO: Yes, Your Honor.
15	JUSTICE KAVANAUGH: That's broad.
16	GENERAL FRANCISCO: And what I think
17	that Illinois Brick reflects is the type of
18	statutory interpretation that this Court has
19	engaged in in a variety of cases, including the
20	RICO cases, including the Lexmark cases, where
21	you interpret background principles of
22	proximate cause to be built into the statute,
23	including the rule that damages stop at the
24	first step.

25 JUSTICE KAGAN: Does it make a

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1 difference, General, that -- that Apple is 2 influencing the prices here? In other words, 3 this is -- you're suggesting that the app 4 developers are just sort of setting these 5 prices independently --6 GENERAL FRANCISCO: Uh-huh. 7 JUSTICE KAGAN: -- but I'll give you sort of two ways in which that's not true. 8 9 The first way is this 99 cent 10 charge --11 GENERAL FRANCISCO: Uh-huh. 12 JUSTICE KAGAN: -- which you might 13 say, well, that doesn't matter because, you 14 know, it could be 99 cents or it could be 15 \$100.99. 16 But, in fact, these are all low-cost 17 products for the most part. So saying a price has to end with the -- you know, the -- the 18 19 number 99 is saying a lot about the fact that 20 you can't charge 77 cents or 55 cents --GENERAL FRANCISCO: Sure. 21 2.2 JUSTICE KAGAN: -- or 32 cents. So 23 that's one. And the other is the entire allegation 24 25 here is that Apple is truly a monopolist on

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1 both sides of the market. It's able to dictate 2 to developers whatever price structure it 3 wants, and it's also able to dictate to 4 consumers what the nature of the sale is going 5 to be. 6 GENERAL FRANCISCO: Right. 7 JUSTICE KAGAN: And in that event, it -- it sure seems as though, you know, Apple --8 9 you know, it happened to set up this commission that puts it in the ambit of Illinois Brick. 10 11 but it could have done a thousand other things 12 that are essentially the same that would have 13 taken it out of the Illinois Brick rule. 14 GENERAL FRANCISCO: Sure. And let me 15 take those points in turn. First, the 99 cent 16 pricing policy. 17 The first thing I'll point out is it's not in the complaint, but we'll put that to the 18 side and assume that it's part of this case. 19 20 Here, I don't think it changes the fact that 21 the app makers still control the overall price, 2.2 and to the extent that -- to the extent that 23 Respondents are harmed by that, it's based on a 24 pass-through.

25 Look, if I go to an auction house and

1 I have to bid in \$10 increments, nobody thinks 2 the auction house is setting the price. The 3 bidders are still setting the price. And, 4 here, the Respondents are --5 JUSTICE KAGAN: But if you have to bid in \$10 increments and the -- and the true 6 7 alternative prices are \$3, \$5, and \$7 --8 GENERAL FRANCISCO: Right. 9 JUSTICE KAGAN: -- then, indeed, you 10 are setting the price. 11 GENERAL FRANCISCO: And, well, that's 12 my second point, Your Honor. Here, any injury 13 is based on a pass-through because app makers 14 are either going to round up or they're going 15 to round down. If they round down to the lower 16 99 cent price point, the consumers aren't 17 injured at all. If they round up to the next 99 cent price point, the consumers are injured 18 as a result of the pass-through theory. And 19 20 it's that intermediating pricing decision that we think that under the principles of proximate 21 2.2 cause --23 JUSTICE SOTOMAYOR: General, the 24 problem is that they're not measuring damages 25 by that.

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1 GENERAL FRANCISCO: I --2 JUSTICE SOTOMAYOR: As I understand, 3 they're saying it's not the 30 percent; it is 4 what the price would be if we could buy apps 5 outside of this closed loop. 6 GENERAL FRANCISCO: I --7 JUSTICE SOTOMAYOR: And it could be theoretically a lot higher than the markup. It 8 could well be within it, but the point is that 9 that 30 percent -- that 30 percent or whatever 10 11 that 30 --12 GENERAL FRANCISCO: Uh-huh. 13 JUSTICE SOTOMAYOR: -- percent figure 14 is, is not the measure of our damages. That's 15 as I understand --16 GENERAL FRANCISCO: Yeah --17 JUSTICE SOTOMAYOR: -- that they're saying the developers may have their own claim, 18 19 their damages likely have to stay within the 20 30 percent, but we don't measure our damages by 21 that. 2.2 GENERAL FRANCISCO: So, respectfully, 23 I'll disagree with that, and in explaining it, Justice Kagan, I think I can also answer the 24 25 second part of your question.

1 The harm to the consumers here is that 2 they have to pay higher prices for apps. And 3 the reason they have to pay higher prices for 4 apps -- and, Justice Kagan, this goes to your 5 question -- is because Apple controls the 6 pipeline that connects app makers on the one 7 hand and iPhone users on the other.

8 And the way they exploit that pipeline 9 through their alleged monopoly is by charging 10 that 30 percent commission. So the only reason 11 consumers are harmed here in the form of paying 12 higher prices is because the app makers decide 13 to increase their prices in order to recoup 14 that commission.

15 And, Justice Breyer, to your question, 16 the reason why this makes it different than 17 your hypothetical of Bill buys from Sam and you have transactional proximity is because the 18 19 question isn't proximity between the parties 20 who are transacting with one another but proximity between the antitrust violation, the 21 2.2 30 percent commission, and the harm to 23 consumers in the form of higher prices. JUSTICE BREYER: I wouldn't have 24 25 thought that was the antitrust violation. Ι

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29

1 would have thought the antitrust violation is 2 having enormous market power achieved by not 3 patents and not skill, foresight, and industry 4 but, rather, anticompetitive or more 5 restrictive than necessary practices. 6 Alcoa --7 GENERAL FRANCISCO: For sure. JUSTICE BREYER: -- Alcoa did not 8 9 charge higher than competitive prices, and 10 that's why Learned Hand said the easy life, not 11 necessarily higher prices, is the reward, 12 often, of monopoly. Now --13 GENERAL FRANCISCO: For sure --14 JUSTICE BREYER: -- I would have 15 thought it's a matter for proof at the damages 16 stage whether, in fact, Apple, assuming they 17 prove it is a monopoly, has extracted higher than competitive prices from those particular 18 people, the plaintiffs, or whether they've just 19 20 had the easy life. 21 GENERAL FRANCISCO: Right. 2.2 JUSTICE BREYER: Now I don't think 23 that's the stage we're at in this case. So, if 24 you say right, right, right --25 GENERAL FRANCISCO: Well --

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1 JUSTICE BREYER: -- then they must 2 win. 3 GENERAL FRANCISCO: -- no -- so what I 4 wanted to say is that, for sure, the Illinois 5 Brick theory doesn't apply across the board, 6 but it does apply when somebody is bringing an 7 over-charge theory, as in Illinois Brick, as in Hanover Shoe, and as here. The --8 9 JUSTICE BREYER: Have we had trial on that? 10 11 GENERAL FRANCISCO: Your Honor, where 12 you have that kind of over-charge theory, what Illinois Brick says -- asks is under basic 13 14 principles of proximate cause, is there some 15 party other than the monopolist that's standing 16 in between the plaintiffs' injury in the form 17 of higher prices and the monopolist's violation 18 in the form of the commission. 19 And whenever the price setter, the 20 ultimate price setter, is somebody other than the monopolist, it's never the monopolist's 21 2.2 over-charge that is the direct cause of the 23 injury. JUSTICE KAVANAUGH: But -- but if the 24 25 app developer -- if Apple bought the apps from

1	the app developer and then added 30 percent to
2	it and sold it to the consumer, you would agree
3	that a claim could lie there, correct?
4	GENERAL FRANCISCO: Your Honor, I want
5	to make sure I understand the hypothetical. If
6	Apple said
7	JUSTICE KAVANAUGH: Apple's buying the
8	app from the app developer for a price
9	GENERAL FRANCISCO: Right.
10	JUSTICE KAVANAUGH: Apple's then
11	adding 30 percent to that price and selling it
12	to the consumer. The consumer alleges that
13	Apple's doing that as a result of monopolistic
14	behavior.
15	The claim lie?
16	GENERAL FRANCISCO: Yes, you can sue
17	Apple directly, but you can't sue Apple if the
18	if if Apple isn't the price-setting party
19	but the app maker is the price-setting party.
20	And that's why may I finish the answer, Your
21	Honor?
22	And that's why the key is who sets the
23	price, and it's very hard to manipulate our
24	rule because, under our rule, you actually have
25	to change the party that has the authority to

```
set the final price, and that's a fundamental
 1
 2
      change in the nature of the transaction itself.
 3
               CHIEF JUSTICE ROBERTS: Thank you,
 4
      counsel.
 5
               Mr. Frederick.
 6
                ORAL ARGUMENT OF DAVID C. FREDERICK
 7
                    ON BEHALF OF THE RESPONDENTS
               MR. FREDERICK: Thank you, Mr. Chief
 8
      Justice, and may it please the Court:
 9
               Apple directed anticompetitive
10
11
      restraints at iPhone owners to prevent them
12
      from buying apps anywhere other than Apple's
      monopoly App Store. As a result, iPhone owners
13
14
      paid Apple more for apps than they would have
15
      paid in a competitive retail market.
16
               Under this Court's precedents, iPhone
17
      owners have a cause of action under Section 4
      of the Clayton Act directly against Apple for
18
      those over-charges. The court of appeals
19
      should be affirmed for three reasons.
20
21
               First, Illinois Brick is a bright-line
2.2
      rule that Respondents easily satisfy.
23
               Second, Apple directed its monopoly
24
      abuses at Respondents. So it's appropriate
25
      that Respondents can sue Apple for their
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1 damages as a result of those violations. 2 And, third, Apple seeks to expand and 3 modify the bright-line rule of Illinois Brick 4 to deny indisputably direct purchasers an 5 antitrust remedy and to change the rule into a standardless inquiry that will be hard to apply 6 7 at the pleadings stage. Now, if I could return to the first 8 point, the direct purchaser rule is a 9 bright-line rule. This Court said so in 10 Illinois Brick and, importantly, a case that 11 12 has not yet been discussed today, in UtiliCorp, in which the Court said Illinois Brick is a 13 14 bright-line rule for direct purchasers, 15 notwithstanding the economics that go into 16 that. 17 UtiliCorp was a case that protected the defendants, who were asserting that -- who 18 -- who were asserting that the -- there was a 19 break in the link of the chain. 20 This case is really the flip side of 21 2.2 that to protect plaintiffs who directly 23 purchased from the alleged antitrust violator 24 and are claiming damages as a result of that 25 antitrust violation.

34

1 CHIEF JUSTICE ROBERTS: There's --2 there's one antitrust violation under your 3 theory, which is the increase, the 30 percent 4 increase that Apple imposes when it -- when it, 5 as you put it, it sells the apps? 6 MR. FREDERICK: Wrong. And this is 7 very important for the Court to understand. The antitrust violation here is the monopoly 8 9 App Store. Consumers cannot buy an app anywhere other than Apple's 100 percent-owned 10 11 monopoly App Store. 12 CHIEF JUSTICE ROBERTS: But, when it 13 comes to the 30 percent increase, you're --14 you're obviously saying the purchasers, again, 15 under your theory of the apps, are harmed by 16 that and recover -- can recover damages for 17 that, and also that the developers are harmed 18 by that and they can recover damages for it as 19 well. 20 In other words, to the extent it might be said that Apple is a two-sided market, 21 2.2 they're -- they're subject to suit on both 23 sides of the market for a single antitrust price increase that they're alleged to have 24 25 imposed.

35

1	MR. FREDERICK: So, Mr. Chief Justice,
2	I think that your question kind of gets to the
3	core of a lot of the confusion here because, by
4	having a wholly-owned monopoly App Store, Apple
5	is able to distort the market at the supply
б	chain and at the retail chain for consumers.
7	We, representing consumer iPhone
8	owners, are suing only for the damages that we
9	incur. That is the higher than what a
10	competitive market price would be for apps.
11	Our measure of damages is not
12	necessarily the 30 percent. The 30 percent is
13	simply proof that Apple is acting as a
14	monopolist because it extracts
15	CHIEF JUSTICE ROBERTS: No, no, I
16	understand I understand your claim on your
17	side of the market. But you do think that the
18	developers have a claim as well, don't you?
19	MR. FREDERICK: Well, I have no grief
20	
21	CHIEF JUSTICE ROBERTS: It's the same?
22	MR. FREDERICK: I have it's not the
23	same. It is a different claim.
24	CHIEF JUSTICE ROBERTS: For for the
25	same price increase

36

1 MR. FREDERICK: No. 2 CHIEF JUSTICE ROBERTS: -- for the 3 same --4 MR. FREDERICK: No, I disagree with 5 that, Mr. Chief Justice. Apple's supplier of 6 the apps, if they have a claim, it is that 7 Apple has distorted the market for the supply 8 of apps in a way that hurts app developers' profits. 9 10 Their argument would be, if we weren't 11 suffering under the one monopoly store 12 constraint, we might be able to charge a different price lower than 99 cents and be able 13 14 to get a direct purchase from an iPhone Apple 15 owner. 16 CHIEF JUSTICE ROBERTS: Well, I think 17 you're just saying that the measure of damages 18 would be different between the two sides of the 19 market? 20 MR. FREDERICK: And -- but they would be different damages. 21 2.2 JUSTICE KAGAN: In other words, you 23 are saying the consumer says, I'm paying a 24 higher price for the product. It might be the 25 entire 30 percent commission, it might be some

portion of the 30 percent commission, that's super-competitive, but I'm paying a higher price for the product.

And the app developer says: Well, I don't -- you know, that's irrelevant to me. I don't have to buy the product. What's relevant to me is fewer people are buying my apps.

8 And that represents some amount of 9 lost profits. But those two things are not --10 I mean, it is true that two people are being 11 able to sue because Apple is -- is transacting 12 with each of these people and each of them has 13 a gripe against what -- the way Apple has 14 structured the market.

But the damages are entirely different. One is a measure of lost profits, which may or may not exist. The other is I'm paying too much.

19 MR. FREDERICK: That's correct.

20 JUSTICE GORSUCH: Well, but, Mister --21 JUSTICE ALITO: That's an interesting 22 theory, but is that the theory -- is that your 23 claim?

24 MR. FREDERICK: Yes.

25 JUSTICE ALITO: I thought this case

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38

1 was all about the 30 percent. 2 MR. FREDERICK: Well, the other side 3 has been trying, Justice Alito, to make the 4 case all about the 30 percent. But if you read 5 the --6 JUSTICE ALITO: So the 30 percent has 7 nothing to do with this? MR. FREDERICK: The -- what the 8 9 30 percent is, is an allegation that Apple is 10 monopolizing the sale of apps. And we know 11 that because they can extract 30 percent on 12 every single sale, which only a monopolist 13 could do. 14 The 30 percent is not a measure of 15 damages. I'm not aware of any case from this 16 Court that says you have to plead antitrust 17 damages with particularity. But the -- because of the ability to extract a monopoly rent, we 18 19 can say in good faith that they -- we are 20 paying more than we would pay than if a competitive market existed. 21 2.2 JUSTICE GORSUCH: Mr. Frederick, I 23 think you'd agree that there can only be one 24 monopoly rent. And then the question becomes, 25 who's paying it?

And it might be spread partially between direct purchasers and indirect purchasers. It might be partially spread between the app makers and the purchasers of apps. And disaggregating that is the question that we've been wrestling with here.

7 I guess here is where I'm stuck and 8 need your help. You say that Illinois Brick is 9 a bright-line rule premised on the existence of 10 a contractual relationship between the buyer --11 the ultimate purchaser and the intermediate 12 seller, and that there has to be that kind of 13 relationship, rather than a sales agency 14 relationship like we have here.

15 But antitrust doesn't usually depend 16 upon such contractual formalities. It usually 17 depends upon the underlying economics. And I 18 have a hard time distinguishing this case from 19 Illinois Brick in the sense of -- in the 20 question of economic pass-through and the problems that it presents, the possibility that 21 2.2 the intermediate purchaser may absorb the monopoly rent and not pass it along. 23 24 Now that raises for me the question, 25 further question, and I -- I -- I'll wind it up

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1
      quickly, I promise, whether Illinois Brick is
 2
      correct. All right. And you have an amicus
 3
      that says it's not, but you don't make that
 4
      argument.
 5
               I'm really curious why --
               MR. FREDERICK: Because --
 6
 7
               JUSTICE GORSUCH: -- the plaintiffs'
      bar is not making that argument before this
 8
 9
      Court.
10
               MR. FREDERICK: Because --
               JUSTICE GORSUCH: So there -- there's
11
12
      a whole -- a whole bunch of things for you to
13
      chew on.
14
               MR. FREDERICK: Okay. I'll try to
15
      chew on them succinctly, Your Honor.
16
               We haven't asked for Illinois Brick to
17
      be overruled because we plainly meet the
18
      bright-line rule. We paid Apple and Apple was
19
      _ _
20
               JUSTICE GORSUCH: Say I don't -- say I
      don't buy the formalistic contractual -- it
21
2.2
      seems to me an argument in -- in -- in the law
23
      of contracts rather than the law of antitrust.
24
      So help me out with economics.
25
               MR. FREDERICK: Economics, we paid
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41

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1
      money. Apple never shared that money with any
 2
      middleman.
                  Illinois Brick is a case about a
 3
      middleman.
                  There's no middleman here.
 4
               We paid the money. Apple kept
 5
      30 percent of it --
 6
               JUSTICE GORSUCH: Again -- again, that
 7
      _ _
               MR. FREDERICK: -- before sending
 8
 9
      70 percent on.
               JUSTICE GORSUCH: -- that's based on
10
11
      the form of the relationship.
12
               MR. FREDERICK: But that --
13
               JUSTICE GORSUCH: Talk to me about the
14
      possibility, the problem that the app producer
15
      might absorb the monopoly rent. That's the
16
      economic problem that I'm stuck with.
17
               MR. FREDERICK: Okay. If I could try
      to answer your question with a hypothetical,
18
19
      and if the Court would indulge me, suppose in a
20
      competitive market the price for an app was 90
      cents, not 99 cents, as Apple is charging.
21
2.2
               It's 90 cents. We would all agree, I
23
      think, that the consumer can sue for the nine
      cent differential between the monopoly price --
24
25
               JUSTICE GORSUCH: I understand the 99
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1 cent argument. 2 MR. FREDERICK: Okay. 3 JUSTICE GORSUCH: Let's put that 4 aside. 5 MR. FREDERICK: All right. Now that we've got that aside, let's look at it from the 6 7 developer's perspective. If they had a claim, if they had a 8 9 claim -- and I'm not saying that they do -- but if they had a claim, they would need to show 10 11 the difference between the profits that they 12 would have achieved in the monopoly App Store versus the profits they would have achieved at 13 14 a competitive market price. 15 And that depends on three factors, 16 okay? One is the difference in sales that they 17 would achieve between 99 cents and 99 -- 90 18 cents. The second is how their sales 19 differences would affect their revenue. And the third is whether the commission was 20 30 percent in a competitive market. Okay? 21 2.2 So, if you take my hypothetical, the 23 damages for the developer, there are three possibilities. One is that it's zero. 24 If the 25 commission went to 22 percent in a competitive

1 market, the developer takes home 70 cents just 2 as it does with Apple's 30 percent in a 99 cent 3 monopoly market. At 22 percent commission, the 4 developer has zero damages. 5 The developer would have positive damages if the commission were zero because 6 7 then the app developer sustains damages of 20 cents. The developer would make the 90 cents 8 in the competitive market instead of the 70 9 cents that Apple is now passing along by virtue 10 11 of the monopoly market. 12 The damages would be negative, though, if, in a competitive market, the commission 13 14 stayed at 30 percent because, there, the 15 benefits that would achieve by the monopoly 16 price of 99 cents give the developer an extra 17 eight cents per transaction. 18 So, in that way, Mr. Chief Justice, 19 the developer has a different claim that's based on its lost profits. And that would be 20 irrespective of whether the buyer of the app, 21 2.2 the consumer, sustains damage for the nine 23 cents in my hypothetical. You can run these out under different 24 25 -- you can get your law clerks to run all the

1 different scenarios. It always works the same 2 way. 3 JUSTICE BREYER: Unless we're --4 unless we're prepared to overrule, which wasn't 5 our case, Alcoa, I think all you'd have to show 6 is, one, they have monopoly power, and, two, 7 they achieved it through less restrictive -for more restrictive than necessary practices, 8 end of your burden. 9 10 In your case -- and -- and Justice 11 Gorsuch is quite right, there's only one 12 monopoly profit to be earned. And so you'd 13 have a different question when you get to the damages stage. The different question is: 14 15 Well, how did they divide that monopoly profit? 16 You'd like to show that they got some 17 of it from consumers. But that's for a later 18 proceeding. 19 MR. FREDERICK: That's correct. 20 JUSTICE BREYER: And you're adding one thing. One of the things that we want to use 21 2.2 in order to prove that they do have monopoly 23 power, i.e., the power to raise price 24 significantly above a competitive level, is 25 they charge us so bloody much money. That's

44

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1 just a piece of evidence here, and we'll worry 2 later, agreeing that there's only one monopoly 3 profit in theory, as to who got what. 4 Now have I stated that correctly? 5 MR. FREDERICK: Yes, you have, Justice 6 Breyer. 7 I mean, the basic problem in this case as it comes to this Court is who gets to 8 9 complain about the monopoly App Store. We say as the buyers of the apps from the monopoly App 10 11 Store, there's no form or function, there are 12 no contract issues, Justice Gorsuch, that create a different form versus function 13 14 problem. We're paying the money. They're 15 keeping it. And we think we're paying more 16 than we're -- we would have to if the market 17 was a competitive market. 18 JUSTICE KAVANAUGH: They say it would 19 be different if Apple purchased the apps from 20 the app developer and then added 30 percent on the sale. 21 2.2 And why is that not different? 23 MR. FREDERICK: Because it's 24 irrelevant. And here's where we part company 25 from the Solicitor General. It's irrelevant

who sets the price so long as what the
 violation is, here, the monopoly App Store,
 leads to higher prices that the consumers have
 to pay. That's what the violation is. That's
 how we are proximately harmed.

6 So, in the very hypothetical, Justice 7 Kavanaugh, that you posed to the Solicitor 8 General, the Solicitor General concedes we are 9 direct purchasers in a situation where the app 10 developer sets the price and they simply tack 11 on 30 percent by virtue of their monopoly 12 power.

13 It's no different here. If you think 14 about it in -- in terms of what is actually 15 going on, suppose Apple dropped its commission 16 from 30 percent to 20 percent, but it 17 maintained the price restriction of a 99 cent 18 app. From the consumer's perspective, we're 19 still overpaying for the app. Under that 20 hypothetical, Apple simply gives the app developer more money, but that doesn't affect 21 2.2 the consumer welfare at all. 23 JUSTICE SOTOMAYOR: Now --24 JUSTICE GORSUCH: Are we going to

25 create a -- I'm sorry. Go ahead, please.

1 JUSTICE SOTOMAYOR: The General said 2 that if, in fact, Apple bought these products 3 from suppliers and paid them and then added 4 30 percent to you, that that would be a classic 5 antitrust violation. You're saying -- that's basically what 6 7 they're doing here anyway. But let's take the reverse. Let's say they collected money from 8 you and paid all of it over to the developer 9 and then told the developer: Give us 10 11 30 percent of that back. 12 Would you then still be a direct 13 purchaser and --14 MR. FREDERICK: So we would still be 15 direct purchasers if, under your hypothetical, 16 we're buying it from Apple and then Apple is 17 engaging in the Justice Gorsuch form over function situations in terms of how the money 18 19 gets moved around. 20 I think that the -- in that situation, we are still directly purchasing and we're 21 2.2 still able to complain about Apple's violation. 23 And I think, under your hypothetical, Justice 24 Sotomayor, we have to keep the idea that Apple 25 is still operating a monopoly App Store.

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1	It's no different than if there was a
2	grocery store chain that monopolized the sale
3	of all vegetables. If they if that is the
4	only place you could buy vegetables, we would
5	say that that monopoly store outlet was able to
б	control prices and affect output. That's
7	basically what's happening here.
8	JUSTICE GORSUCH: Well, I think
9	Justice Sotomayor's question is a requires
10	further exploration. I mean, are are we in
11	danger of just incentivizing a restructuring of
12	contracts here so that all that Apple does or
13	people like it is make you purchase directly
14	from the app provider and then it then returns
15	the the profit to Apple later?
16	And if that's all we're doing, then
17	what is the point of Illinois Brick? And you
18	still haven't explained to me why the
19	plaintiffs' bar isn't asking to overturn
20	Illinois Brick when 31 states are. So help
21	help me on both those.
22	MR. FREDERICK: Well well
23	JUSTICE GORSUCH: They're two separate
24	questions.
25	MR. FREDERICK: okay. So so let

me take the second one first, Justice Gorsuch. 1 2 I don't represent the plaintiffs' bar. Ι 3 represent the consumers in this case, and the 4 consumers in this case have no brief and no 5 beef with Illinois Brick. 6 We think we are direct purchasers. We 7 satisfy the rule. We come within the bright line. That's okay with us. 8 9 What the Court decides doctrinally to do with Illinois Brick is obviously something 10 where I think you go to a different situation 11 12 if the case arises. 13 But, on your other point, I think it's the other side that is actually asking for the 14 15 opportunity to use contracts in order to 16 distort or recharacterize matters in a way that 17 evades the Illinois Brick bright-line rule. 18 JUSTICE GORSUCH: Well -- well, assume 19 for the moment that -- that I believe the 20 economics underlying the two arrangements are very similar. Hard to distinguish. I haven't 21 2.2 yet heard you give me a good argument why. 23 So let's just posit that. Then it really is just about form, isn't it? 24 25 MR. FREDERICK: No, I think in that

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1 hypothetical, I would be prepared to say if we 2 were paying the developer directly for the app 3 and the app developer could set whatever price 4 it wanted to set, okay, keep with me on that 5 assumption, the app developer operating in a free market can set whatever it wants to set, 6 7 and then Apple comes after the app developer 8 and says, hey, you bought it -- the consumer 9 bought it through our store, we want whatever we want, that becomes not a problem with the 10 11 consumer; that becomes a problem between the 12 developer and the app -- and the seller of the 13 app. 14 JUSTICE GORSUCH: Ah, so pricing 15 control is really important to proximate cause 16 then? 17 MR. FREDERICK: I beg your pardon. 18 JUSTICE GORSUCH: So pricing control 19 is really important to proximate cause? MR. FREDERICK: No, pricing control is 20 21 not important to pricing -- to proximate cause 2.2 in the sense that whether -- I think, under 23 direct proximate cause, we're buying the app 24 directly from the app developer, and, remember, 25 a key part of my answer was the app developer

51

1 can set that price competitively in a 2 competitive market. 3 What arrangements happen between Apple 4 exercising its monopoly control through the App 5 Store and the supplier is not something we are 6 proximately --7 JUSTICE KAVANAUGH: Your -- your --MR. FREDERICK: -- affected by that. 8 9 JUSTICE KAVANAUGH: Sorry to interrupt. Your point was that the other side 10 11 is putting form over the reality? 12 MR. FREDERICK: That's correct. And 13 -- and they're doing it in a way that is 14 particularly standardless, because what the 15 court in UtiliCorp held was that even when it 16 is absolutely clear 100 percent of the 17 over-charge is going from the natural gas supplier through the utility directly to the 18 19 consumer, this Court held: No, we're going to 20 keep the bright-line rule. Only the utility 21 gets to complain about the natural gas 2.2 over-charge. 23 And it was that bright-line rule that the Court said is going to apply. And the 24 25 reason is exactly, Justice Alito, for the point

52

that you made, which is that it's about judicial administration at the pleadings stage. We're just trying to figure out who has the claim and who could complain about the antitrust violation. Here, that's clearly the consumers because we're the ones who are paying Apple the money to receive the app.

And so, to -- to Justice Kavanaugh, to 8 finish off the point, what the other side is 9 essentially asking is that, instead of having a 10 11 bright-line rule, it's a very fuzzy rule, 12 because they don't have a test for what constitutes a pass-through. They don't have a 13 14 test that applies when there is no middleman. 15 There's no middleman in this particular 16 transaction. It's directly between the iPhone 17 owner and Apple.

18 And so you're going to have to figure out, do they get a one ticket good for this 19 20 case only? They happen to be the largest company in the world, or at least they were 21 2.2 some weeks ago, and they are able to extract 23 monopoly pricing by virtue of a unique 24 e-commerce monopoly on their App Store. 25 JUSTICE ALITO: What concerns me about

your argument is that it doesn't seem to be
 based on the way in which this claim was
 understood by the lower courts.

4 Maybe they misunderstood it. But, I 5 mean, the opening line of the -- the order granting Apple's motion to dismiss the second 6 7 amended complaint by the district court: "The thrust of Plaintiff's second amended complaint 8 9 is that Apple has engaged in antitrust conduct by collecting 30 percent of the price of iPhone 10 11 applications."

MR. FREDERICK: The district courtjust missed it, Justice Alito, respectfully.

JUSTICE ALITO: And where -- okay. Where -- can you point to me where in the Ninth Circuit's opinion they understood your claim in the way that you've characterized it this morning?

MR. FREDERICK: Yeah, they said on page 21a of the petition app -- I think that's the page -- that this is simply about a monopoly distribution and that it is a simple case as a result of that. If you look at the bottom of 21a, the

25 very last paragraph: "Instead, we rest our

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54

1 analysis, as compelled by Hanover Shoe, 2 Illinois Brick, UtiliCorp, and Delaware Valley, on the fundamental distinction between a 3 4 manufacturer or producer on the one hand and a 5 distributor on the other." Apple is a distributor of the iPhone apps selling them 6 7 directly to purchasers through its App Store. And because of that, we have standing 8 9 to complain that they are the seller of the That's -- it's a very simple case in 10 apps. 11 that -- as viewed through that lens. 12 Now I accept, Justice Alito, that there have been a lot of arguments and this 13 14 idea about the 30 percent has led to a certain 15 lack of clarity, but I think that the position 16 we have written in our brief is the best 17 articulation of what the underlying theory is here, and that is that the Apple monopoly App 18 19 Store over-charges iPhone owners for apps. JUSTICE KAGAN: And -- and -- and the 20 rule of the end in 99-cent requirement in that 21 2.2 theory is what? In other words, would your 23 theory be the same if no such requirement existed, or would it not? 24 25 MR. FREDERICK: It would be still an

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1	over-charge case, Justice Kagan, because the
2	theory economically is that, if you are having
3	to buy only from a monopoly, you are paying
4	more than you would if there was a, you know,
5	discount apps warehouse or you could buy
6	directly from the app's developer.
7	Our assertion is that, with multiple
8	sellers, multiple suppliers of the apps, we
9	would be able to buy them at a lower price.
10	It's that competition.
11	JUSTICE KAGAN: So what's the
12	significance of that end in 99-cent rule?
13	MR. FREDERICK: The significance of it
14	is that it informs the price elevation and the
15	price over-charge. And it also informs that,
16	contrary to Apple's assertion, they are not the
17	agent of the apps developers. I mean, they put
18	that in their contract. That's that's where
19	you get to Justice Gorsuch's form over
20	substance problem, because, at 99 cents,
21	they're telling the app developer, we're
22	foreclosing from you 99 percent of all pricing
23	options.
24	CHIEF JUSTICE ROBERTS: Well, if it's
25	that significant, why didn't you include it in

1 the complaint? 2 MR. FREDERICK: Because it's not 3 significant from this perspective, Mr. Chief 4 Justice, and that is that, with a monopoly 5 store, the prices are over-charged, our theory 6 is relatively simple. They brought up the 99 7 cents in the blue brief. I think it's at page 9 of their brief 8 where they raise the 99 cent issue. And as we 9 were thinking about what the implications of 10 11 that were, it became clear to us that that 12 meant the app developer couldn't possibly be --13 JUSTICE GORSUCH: Sounds kind of late 14 in the day --15 JUSTICE KAVANAUGH: It's another --16 JUSTICE GORSUCH: -- to come up with a 17 new litigation theory. 18 MR. FREDERICK: Well, no, we're at a 19 pleadings stage, Justice Gorsuch. 20 JUSTICE GORSUCH: In the Supreme Court, a blue brief, really? 21 MR. FREDERICK: Well, it's their --2.2 23 JUSTICE GORSUCH: I mean, should we be 24 taking that up now? I mean, maybe you can 25 amend your complaint or something like that on

57

1 remand, but should we be addressing that? 2 MR. FREDERICK: Well, Justice Gorsuch, 3 they were the ones, is what I'm saying, that 4 brought up the 99 cents. It wasn't us. 5 JUSTICE GORSUCH: But we're usually --JUSTICE KAVANAUGH: It's not --6 7 JUSTICE GORSUCH: -- a court of review, not first view, right. 8 MR. FREDERICK: Well, no, our point 9 was that when they raised the 99 cents is 10 11 somehow proof that the developer actually gets 12 to set the price, we say, no, it's actually 13 irrelevant for the reasons which I've already 14 stated. 15 But, secondly, it's just wrong because 16 if you're constraining what 99 percent of the 17 pricing options are, you know, that -- that's 18 -- it is what it is. 19 But it also has the effect 20 economically of raising the prices --21 JUSTICE KAVANAUGH: It's going to --2.2 MR. FREDERICK: -- that the consumers 23 have -- have to pay. 24 JUSTICE KAVANAUGH: It's going to add 25 to your damages, correct?

58

1 MR. FREDERICK: Well, it --2 JUSTICE KAVANAUGH: Potentially. 3 MR. FREDERICK: -- it could 4 potentially add to the damages or it could 5 subtract from the damages. 6 JUSTICE KAVANAUGH: Correct. 7 MR. FREDERICK: We don't know. What we know is what the price is in a 8 noncompetitive market and we will have to have 9 experts that will assess what the damages would 10 11 be in a competitive market. 12 JUSTICE KAVANAUGH: Your theory 13 doesn't depend on the 99 cent? 14 MR. FREDERICK: Our theory of damages 15 or our theory of the violation? 16 JUSTICE KAVANAUGH: Well, the --17 MR. FREDERICK: The theory of the violation is the wholly-owned monopoly App 18 19 Store as the place to sell apps. That is what the violation is here. And how you calculate 20 the damages is you look at what is the 21 2.2 over-charge based on what the monopoly is 23 selling the app for versus what it would be sold for in a competitive market. 24 25 The antitrust scholars, and I would

1 direct you to page 23 of their brief, they go 2 through a lot of the pricing scenarios that you 3 have explored through hypotheticals here and 4 they make very clear that, as a matter of 5 function, what is happening here is that the 6 monopoly seller of the apps here is extracting 7 an over-charge from the purchasers who are direct purchasers of those apps. 8 9 JUSTICE ALITO: If this case were to qo to trial as a class action, would every app 10 11 purchaser potentially be entitled to three 12 times the 30 percent over-charge, or would it 13 depend on the particular app? 14 MR. FREDERICK: Your Honor, I -- I 15 think that -- I don't know the answer to your 16 question fully. I'll be candid. I have not 17 thought about how the experts are actually 18 going to try to prove it up. 19 What I would say, though, is that they're probably, what will likely happen, is 20 that because there are apps that are sold at 99 21 2.2 cent, a huge number of them are free, but a 23 huge number are sold at 99 cents, some other strata is sold for \$1.99, some other strata is 24 25 sold for \$2.99 or \$6.99, and I haven't put my

1 head around, to be perfectly honest, exactly 2 how you would carve up the damages on some sort of a pro rata basis. 3 4 But the idea, of course, of the 5 Clayton Act is that treble damages is designed to deter antitrust violations. 6 7 And so this Court has made very clear in its cases that the point of having that 8 deterrence is to avoid having the monopolist in 9 this case act in a way that it's not penalized 10 11 for its monopoly behavior. 12 And if you were to suppose that it was just a single damages problem, it would be easy 13 14 for monopolists to simply act, and, if they get 15 caught, they just simply pay over what they 16 caused in damage, but the idea behind the

17 Clayton Act's treble damages remedy is designed18 to deter actions just like this.

And that is why Apple cannot point to another e-commerce distributor that does what it does. In every other instance, as we point out in the red brief, there is an alternative to buying the product.

And, in fact, Apple doesn't even do this with its own computer software. And we

61

1	have pleaded that in the complaint, Mr. Chief
2	Justice, where we say that, if you buy
3	software, you can buy it open source and you do
4	not have to buy it through Apple's monopoly
5	chain.
б	So the iPhone app monopoly App Store
7	is a unique feature of the e-commerce setting.
8	Apple has found ways using technology and
9	contractual constraints to limit the
10	opportunity of a competitive market to
11	flourish.
12	If a competitive market did flourish,
13	the prices that iPhone owners pay would be
14	lower. Thank you.
15	CHIEF JUSTICE ROBERTS: Thank you,
16	counsel.
17	Three minutes, Mr. Wall.
18	REBUTTAL ARGUMENT OF DANIEL M. WALL
19	ON BEHALF OF THE PETITIONERS
20	MR. WALL: Thank you, Mr. Chief
21	Justice.
22	I think I need to begin with the
23	experience I had in this case for its first
24	nine years, and that is it was about a
25	30 percent commission.

Paragraph 48 of the complaint is -- is 1 2 -- is the key allegation, which is the root of the damages theory, which maintains that the 3 4 30 percent commission is a monopoly price. 5 It's called a monopoly price. 6 It's elsewhere called a 7 super-competitive price. It is the root of the damages theory not just in part, not just on 8 the periphery, but entirely. 9 10 The brief in opposition at -- at pages 11 5 and 12 make this unmistakably clear. At --12 at page 5, the brief in opposition states: 13 "Respondents seek damages based solely on the 30 percent markup." 14 15 So whatever other attributes of this 16 case one may want to talk about that might 17 contribute to the liability theory, the injury theory, the damages theory, is, in their words, 18 19 solely about the -- the 30 percent. JUSTICE GINSBURG: Mr. Wall, I have a 20 question about this Court's case law, and I'd 21 2.2 -- I'd like your answer to it. 23 If Apple had in every agreement with an iPhone owner a provision that you can sue --24 25 you can't sue, you have to go to an arbitrable

1 forum, in a one-by-one, then Apple would be 2 home free in this case? MR. WALL: We -- we do not have such a 3 4 provision. In fact, the -- all of the relevant 5 agreements with both developers and consumers state that -- that there shall be litigation in 6 the Northern District of California. 7 JUSTICE GINSBURG: Yeah, I -- I know 8 -- I know you don't, but suppose you did. 9 MR. WALL: If -- if that were the 10 11 case, then this would be a matter for arbitration, and I don't think it changes the 12 13 legal question. 14 JUSTICE GINSBURG: And -- and it would 15 take this case out of this Court, put it in an 16 arbitrable forum, with a single complainant? 17 MR. WALL: Indeed, it -- it would, but 18 that's not this case. There is -- there is no 19 concern about that in this case. 20 The second point that I want to make is -- relates to this duplicative recovery 21 22 possibility. It -- there is -- we never heard 23 any suggestion prior to the Respondents' merits brief about potential lost profits claims based 24 25 upon monopsony.

64

1 To the contrary, the theory throughout 2 the life of this case is that -- that 3 developers, if they sued, would sue over the 4 same 30 percent markup. The brief in 5 opposition at 12 says any claim by the app's 6 developers -- excuse me -- a claim by the app's 7 developers, even if they had one, would not overlap the 30 percent markup paid by app's 8 purchasers. Rather, it is a piece of the same 9 10 30 percent pie. 11 So going back to what is Illinois 12 Brick about, it is about not having that apportionment fight. They admitted to the --13 to the time that this case was on this Court's 14 15 doorstep that this is all about an 16 apportionment fight between the developers. 17 As -- as to the -- the -- the -- which is the better rule, the formalistic rule or the 18 substantive rule, I suggest that -- that the 19 formalistic rule is always the one that is most 20 subject to manipulation. 21 2.2 The substantive rule that asks is your 23 damages theory a pass-on theory focuses on what is of economic substance. And here, that's 24 25 what the district court judge did.

1	In in a patient but persistent
2	manner, she required them to say what is your
3	theory. And it and at JA 137 to 143, you
4	see the transcript of the district court
5	argument when when, finally, at JA 141 they
6	said or 143, rather they said their
7	theory is that, because of the commission, the
8	developer would mark up the app.
9	That is a classic over-charge case.
10	Now, to be sure, in a new setting, it's a new
11	world setting. It's not the brick-and-mortar
12	setting of the three cases that this case
13	that this Court has decided before. But it is
14	the same economics that should have the same
15	outcome prohibiting pass-through damages
16	claims.
17	CHIEF JUSTICE ROBERTS: Thank you,
18	counsel. The case is submitted.
19	(Whereupon, at 11:05 a.m., the case
20	was submitted.)
21	
22	
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Official - Subject to Final Review			
\$	90 [4] 41: 20,22 42: 17 43: 8	14 54: 12 59: 9	appropriate [1] 32:24
\$1.99 [1] 59 :24	99 [24] 24: 9,14,19 25: 15 26: 16,18	-	apps [37] 3:22,23 4:18 9:24 10:1,4,
\$10 [2] 26 :1,6	36: 13 41: 21,25 42: 17,17 43: 2,16	2	21,23 11 :1,2 15 :19 27 :4 28 :2,4 30 :
\$100.99 [1] 24:15	46 :17 55 :20,22 56 :6,9 57 :4,10,16	alleged [7] 9:7,20,23 10:9 28:9 33:	25 32 :12,14 34 :5,15 35 :10 36 :6,8
\$2.99 [1] 59:25	58 :13 59 :21,23	23 34 :24	37 :7 38 :10 39 :5 45 :10,19 54 :6,10,
\$3 [1] 26:7	99-cent [2] 54:21 55:12	allegedly [2] 3:14 9:9	19 55: 5,8,17 58: 19 59: 6,8,21
\$5 [1] 26:7	Α	alleges [2] 10:15 31:12	apps' [2] 12:22,23
\$6.99 [1] 59:25	a.m [3] 1:14 3:2 65:19	allow [3] 7:6 14:16,18	arbitrable [2] 62:25 63:16
\$7 [1] 26: 7	abandoned [1] 9:14	alluded [1] 17:16	arbitration [1] 63:12
		already [2] 14:15 57:13	aren't [2] 22:20 26:16
1	ability [1] 38:18	alternately [1] 10:24	argue [1] 9:13
10 [1] 12: 21	able [10] 25:1,3 35:5 36:12,13 37:	alternative [2] 26:7 60:22	argument [20] 1:13 2:2,5,9,12 3:4,
10:05 [2] 1: 14 3: 2	11 47 :22 48 :5 52 :22 55 :9	ambiguity [3] 23:10,11,12	7 14: 21 20: 1,23 32: 6 36: 10 40: 4,8,
100 [5] 7 :18 14 :19 19 :13 34 :10 51 :	above [1] 44:24	ambit [1] 25:10	22 42:1 49:22 53:1 61:18 65:5
16	above-entitled [1] 1:12	amend [1] 56:25	arguments [1] 54:13
11:05 ^[1] 65: 19	absence [1] 16:5	amended [2] 53:7,8	arises [1] 49:12
12 [2] 62 :11 64 :5	absolutely [1] 51:16	American [1] 18:9	around [2] 47:19 60:1
137 [1] 65 :3	absorb [3] 22:18 39:22 41:15	amicus [5] 1:22 2:7 17:3 20:2 40:2	arrangements [2] 49:20 51:3
141 [1] 65 :5	abuses [1] 32:24	amount [1] 37:8	articulation [1] 54:17
143 [2] 65: 3,6	accept [1] 54:12	analogy [1] 11:10	aside [2] 42:4,6
17 [1] 18 :12	account [1] 5:20	analysis [2] 5:5 54:1	asks [2] 30:13 64:22
17-204 [1] 3 :4	accounts [1] 16:22	Another [4] 11:6 28:20 56:15 60:	asserting [2] 33:18,19
	achieve [2] 42:17 43:15	20	assertion [2] 55:7,16
2	achieved [4] 29:2 42:12,13 44:7	answer [8] 9:18 15:9 27:24 31:20	assess [1] 58:10
20 [3] 2:8 43:7 46: 16	across [2] 18:15 30:5	41:18 50:25 59:15 62:22	assume [2] 25:19 49:18
2018 [1] 1:10	Act [4] 32:18 60:5,10,14	answering [1] 14:8	assuming [1] 29:16
21a ^[2] 53: 20,24	Act's [1] 60:17	anticompetitive [2] 29:4 32:10	assumption [1] 50:5
22 [2] 42 :25 43 :3	acting [1] 35:13	antitrust [25] 7:18 9:4 14:12 16:2,	attributes [1] 62:15
23 [1] 59 :1	action [3] 3:12 32:17 59:10	22 17:23 18:9 19:5 28:21,25 29:1	auction [2] 25:25 26:2
26 [1] 1 :10	actions [1] 60:18	33: 5,23,25 34: 2,8,23 38: 16 39: 15	authority [1] 31:25
	actually [7] 10:20 31:24 46:14 49:	40 :23 47 :5 52 :5 53 :9 58 :25 60 :6	automatic [1] 19:11
3	14 57: 11,12 59: 17	anyway [1] 47:7	avoid [1] 60:9
3 [2] 2:4 10: 16	add [2] 57:24 58:4	app [72] 3:13,15,24 4:12 7:3,5 9:17	avoiding [1] 13:4
30 [58] 3 :12 5 :2,7,15,20 6 :13,18,18	added [5] 9:14 19:15 31:1 45:20	10 :3 15 :18 20 :17,20 21 :4,24 22 :	aware [1] 38:15
7:1,6,9 9:9,11 11:22,25 12:20 22:	47: 3	17,22 24 :3 25 :21 26 :13 28 :6,12	awful [1] 11:4
8,13 27: 3,10,10,11,20 28: 10,22 31:	adding [2] 31:11 44:20	30: 25 31: 1,8,8,19 32: 13 34: 9,9,11	
1,11 34: 3,13 35: 12,12 36: 25 37: 1	addresses [1] 20:7	35:4 36:8 37:4 39:4 41: 14,20 42:	B
38: 1,4,6,9,11,14 41: 5 42: 21 43: 2,	addressing [1] 57:1	12 43 :7,21 45 :9,10,20 46 :2,9,18,	back [2] 47:11 64:11
14 45 :20 46 :11,16 47 :4,11 53 :10	adds [1] 22:13	19,20 47: 25 48: 14 50: 2,3,5,7,12,	background [2] 20:12 23:21
54: 14 59: 12 61: 25 62: 4,14,19 64:	administration [1] 52:2	13,23,24,25 51 :4 52 :7,24 53 :20	banana [2] 11:21,24
4,8,10	admitted [1] 64:13	54: 7,18 55: 21 56: 12 58: 18,23 59:	bar [4] 18:9 40:8 48:19 49:2
31 [2] 17:2 48:2 0	admittedly [1] 17:4	,	barred [1] 3:16
32 ^[2] 2 :11 24 :22	advice [2] 12:5,5	10,13 61: 6,6 65: 8 app's ା 12:16 55:6 64:5,6,8	based [9] 5:7 25:23 26:13 41:10
	advising [2] 11:16 12:3	appeals [1] 32:19	43:20 53:2 58:22 62:13 63:24
4	affect [4] 22:14 42:19 46:21 48:6	••	basic [3] 20:12 30:13 45:7
4 [2] 18: 24 32: 17	affected [1] 51:8	APPEARANCES [1] 1:16	basically [2] 47:6 48:7
48 [1] 62: 1	affecting [1] 22:8	APPLE [76] 1 :3 3 :5,13 4 :13,24 5 :9,	basis [2] 15:4 60:3
5	affirmed [1] 32:20	14,17 6 :25 7 :6,8,11,22,23 9 :14 10 :	bearing [1] 23:5
	aftermarket [1] 10:25	20 15 :20 21 :1,4,6,8,9,10 22 :3 24 :	became [1] 56:11
5 ^[2] 62: 11,12	agency [2] 16:3 39:13	1,25 25: 8 28: 5 29: 16 30: 25 31: 6,	become [1] 12:2
53 [1] 10: 16	agent [2] 16:20 55:17	17,17,18 32: 10,14,18,23,25 33: 2	becomes [3] 38:24 50:10,11
55 [1] 24: 20	ago [1] 52:22	34: 4,21 35: 4,13 36: 7,14 37: 11,13	beef [1] 49:5
6	J.	38: 9 40: 18,18 41: 1,4,21 43: 10 45:	
	agree [4] 14:3 31:2 38:23 41:22	19 46: 15,20 47: 2,16,16,24 48: 12,	beg [1] 50:17
61 ^[1] 2 :14		15 50: 7 51: 3 52: 7,17 53: 9 54: 5,18	begin [4] 11:15 14:9 20:6 61:22
7	agreeing [1] 45:2	60:19,24 61:8 62:23 63:1	behalf [8] 1 :19,25 2 :4,11,14 3 :8 32 :
	agreement [1] 62:23	Apple's [15] 20:21 21:4,18,22 31:7,	7 61:19
70 [3] 41 :9 43 :1,9	agreements [1] 63:5	10,13 32 :12 34 :10 36 :5 43 :2 47 :	behavior [2] 31:14 60:11
77 [1] 24: 20	agrees [1] 7:4	22 53 :6 55 :16 61 :4	behind [1] 60:16
8	Ah [1] 50 :14	application [1] 20:12	believe [2] 14:22 49:19
8 [1] 10 :16	ahead [1] 46:25	applications [1] 53:11	belongs [1] 18:15
80 [1] 11: 2	AL [1] 1:6	applied [1] 18:23	benefits [1] 43:15
	Alcoa [3] 29:6,8 44:5	applies [1] 52:14	best [2] 15:17 54:16
9	ALITO [14] 14:25 15:22 17:1,16 37:	apply [5] 13:18 30:5,6 33:6 51:24	better [2] 17:22 64:18
9 [1] 56: 8	21,25 38: 3,6 51: 25 52: 25 53: 13,	apportionment [2] 64:13,16	between [20] 5:9,17 16:20 20:25

Official - Subject to Final Review			
21 :17 28 :19,21 30 :16 36 :18 39 :2,	Case [55] 3:4,16 4:17,23 6:1 9:2,7	collected [1] 47:8	contribute [1] 62:17
4,10 41: 24 42: 11,17 50: 11 51: 3	10: 16,18,24 11: 4 13: 24 14: 6,21	collecting [1] 53:10	control [6] 25:21 48:6 50:15,18,20
52: 16 54: 3 64: 16	15: 6,18 18: 7 22: 20,22 25: 19 29:	collects [1] 7:11	51 :4
beyond [1] 3:21	23 33: 11,17,21 37: 25 38: 4,15 39:	come [3] 21:9 49:7 56:16	controls [1] 28:5
bid [2] 26: 1,5	18 41: 2 44: 5,10 45: 7 49: 3,4,12 52:	Comes [3] 34:13 45:8 50:7	controversial [2] 18:4,14
bidders [1] 26:3	20 53: 23 54: 10 55: 1 59: 9 60: 10	commission [28] 3:13,19,21 5:3,8,	core [1] 35:3
Bill [4] 8:22 11:10,11 28:17	61: 23 62: 16,21 63: 2,11,15,18,19	20 9: 10,11 11: 22,25 12: 15 21: 12	correct ାର 10:11,14 31:3 37:19 40:
bit [1] 13:4	64: 2,14 65: 9,12,18,19	25: 9 28: 10,14,22 30: 18 36: 25 37:	2 44:19 51:12 57:25 58:6
block [1] 6:2	cases [7] 13:12 19:8 23:19,20,20	1 42: 20,25 43: 3,6,13 46: 15 61: 25	correctly [1] 45:4
bloody [1] 44:25	60 :8 65 :12	62:4 65: 7	couldn't [1] 56:12
blue [2] 56:7,21	caught [1] 60:15	common ^[1] 5 :5	counsel [4] 19:24 32:4 61:16 65:
board [1] 30:5	causal [1] 3:18	community [1] 16:6	18
boats [1] 11:17	cause [14] 18:25 20:13 21:16,23,	companies [1] 16:8	course [1] 60:4
both [7] 8:16 13:12,14 25:1 34:22	24 23:22 26:22 30:14,22 32:17 50:	Company [4] 11:16 12:7 45:24 52:	COURT [36] 1:1,13 3:10 9:13 13:1
48 :21 63 :5	15,19,21,23	21	14 :15,22 17 :3 18 :19,22,23 20 :5,
bottom [2] 20:9 53:24	caused [1] 60:16	compelled [1] 54:1	13 23: 18 32: 9,19 33: 10,13 34: 7
bought [6] 8:23,24 30:25 47:2 50:		competition [1] 55:10	38 :16 40 :9 41 :19 45 :8 49 :9 51 :15,
8,9	cent [11] 24 :9 25 :15 26 :16,18 41 :	competitive [21] 3:22 12:19,20 29:	
break [1] 33:20	24 42 :1 43 :2 46 :17 56 :9 58 :13 59 :	9,18 32 :15 35 :10 38 :21 41 :20 42 :	15 64:25 65:4,13
BREYER [20] 7:15,23 8:11,14,19 9:		14,21,25 43 :9,13 44 :24 45 :17 51 :	Court's [10] 3:16 8:16 14:24 15:4,
19 10 :8 11 :3,9 13 :19 28 :15,24 29 :		2 58:11,24 61:10,12	4,6,13 32 :16 62 :21 64 :14 COURTS ^[2] 19 :17 53 :3
8,14,22 30 :1,9 44 :3,20 45 :6 Brick ^[49] 3 :17 4 :2,22 6 :1 7 :14 8 :7,	21,21,22 42 :17,18 43 :1,8,8,10,16, 17,23 55 :20 56 :7 57 :4,10 59 :23	competitively [1] 51:1 competitors [1] 11:18	courts [2] 19:17 53:3 create [2] 45:13 46:25
10 13 :2,7,10,12,17,25 14 :5,14 15 :	certain [1] 54:14	complain 5 45:9 47:22 51:21 52:	created [2] 18:19,22
2,10 16 :16 17 :2,4,9,9,15 18 :5 20 :	Certainly [1] 7:15	4 54 :9	credit [1] 21:5
9 23 :3,10,17 25 :10,13 30 :5,7,13	chain [10] 3:19 13:8,15,21 14:20	complainant [1] 63:16	curiae [3] 1:22 2:8 20:2
32: 21 33: 3,11,13 39: 8,19 40: 1,16	33 :20 35 :6.6 48 :2 61 :5	complaint [8] 10:15 25:18 53:7,8	curious [1] 40:5
41:2 48: 17,20 49: 5,10,17 54:2 64:	chains [1] 14:6	56 :1,25 61 :1 62 :1	customer [4] 5:14,15 6:4 7:9
12	change ^[8] 3:23,24 12:23,23,24 31:	· · · · · · · · · · · · · · · · · · ·	
brick-and-mortar [1] 65:11	25 32 :2 33 :5	complicated [1] 18:4	D
brief [12] 17:3 49:4 54:16 56:7,8,	changed [1] 18:13	complication [1] 14:12	D.C ^[3] 1 :9,21,24
21 59:1 60:22 62:10,12 63:24 64:	changes [2] 25:20 63:12	computer [1] 60:25	damage [4] 9:15 19:7 43:22 60:16
4	characterized [1] 53:17	conceded [1] 5:6	damages [50] 3:11,20,24 4:2 5:7 7:
briefing [1] 18:6	charge [7] 11:25 22:8 24:10,20 29:	concedes [1] 46:8	7 8:3,6,17 19:1 20:15 23:23 26:24
bright [1] 49:7	9 36 :12 44 :25	concern [1] 63:19	27 :14,19,20 29 :15 33 :1,24 34 :16,
bright-line [10] 32:21 33:3,10,14	charged ^[1] 5:8	concerns [1] 52:25	18 35 :8,11 36 :17,21 37 :15 38 :15,
39: 9 40: 18 49: 17 51: 20,23 52: 11	charges [1] 3:13	concluded [1] 7:16	17 42 :23 43 :4,6,7,12 44 :14 57 :25
bringing [1] 30 :6	charging ଓ 21:10 28:9 41:21	concrete [1] 6:2	58 :4,5,10,14,21 60 :2,5,13,17 62 :3,
broad [1] 23:15	cheaper [1] 6:17	conduct [2] 21:18 53:9	8,13,18 64: 23 65: 15
brought [2] 56:6 57:4	chew [2] 40:13,15	conflict [1] 9:4	danger [1] 48:11 DANIEL [5] 1:18 2:3,13 3:7 61:18
brunt [1] 23:6	CHIEF [22] 3:3,9 19:23 20:4 32:3,8	conflicts [3] 8:7,13 9:6	DAVID [3] 1:24 2:10 32:6
build [1] 17:8	34: 1,12 35: 1,15,21,24 36: 2,5,16	confronted [1] 14:17	day [1] 56:14
building [1] 17:1	43 :18 55 :24 56 :3 61 :1,15,20 65 :	confusion [1] 35:3	dealt [1] 19:2
built [2] 17:15 23:22		Congress [1] 18:12	decide [2] 20:20 28:12
bunch [1] 40:12	choice [1] 22:18	connects [1] 28:6	decided [1] 65:13
burden [1] 44:9	chooses [1] 5:11	constitutes [1] 52:13	decides [1] 49:9
buy ^[12] 11:20 27:4 34:9 37:6 40:	Circuit [1] 7:12	constraining [1] 57:16 constraint [1] 36:12	deciding [1] 14:4
21 48 :4 55 :3,5,9 61 :2,3,4	Circuit's [1] 53 :16	constraint 1036:12	decision [8] 5:19 8:16 12:25 15:5
buyer [6] 4 :5,9,18,23 39 :10 43 :21	claim ^[20] 7 :20,20 23 :8 27 :18 31 :3, 15 35 :16,18,23 36 :6 37 :23 42 :8,9,	constraints [1] 61:9 consumer [16] 3:19 9:25 12:22 21:	20 :18 21 :25 23 :7 26 :20
buyers [2] 4:11 45:10 buying [8] 4:13 13:22 31:7 32:12	10 43 :19 52 :4 53 :2,16 64 :5,6	1 22 :14 31 :2,12,12 35 :7 36 :23 41 :	decisions [2] 3:18 9:17
37 :7 47 :16 50 :23 60 :23	claiming [3] 6:13,16 33:24	23 43 :22 46 :22 50 :8,11 51 :19	decried [1] 16:11
buys 5 8:22 11:10,11,12 28:17	claims [3] 19:4 63:24 65:16	consumer's [1] 46:18	deducted [1] 5:10
	clarity [1] 54:15	consumers [24] 3:15,23 9:10 10:4	defendants [1] 33:18
C	class [1] 59:10	11:24 20:19 21:20 22:20,25 25:4	defense [3] 14:10,13,16
calculate [1] 58:20	classic [2] 47:4 65:9	26 :16,18 28 :1,11,23 34 :9 35 :6 44 :	defenses [1] 8:17
calculation [1] 15:6	Clayton [3] 32:18 60:5,17	17 46 :3 49 :3,4 52 :6 57 :22 63 :5	Delaware [1] 54:2
California [2] 1:18 63:7	clear [5] 51:16 56:11 59:4 60:7 62:	context [1] 19:3	deny [1] 33:4
called [2] 62:5,6		contract [6] 4:12 5:8 7:4 16:23 45:	Department [1] 1:21
came [1] 1:12	clearly [2] 7:3 52:5	12 55:18	depend [4] 9:19 39:15 58:13 59:
candid [1] 59:16	clerks [1] 43:25	contracts [3] 40:23 48:12 49:15	13
cannot [3] 16:6 34:9 60:19	closed [4] 6:8,9,25 27:5	contractual [6] 16:19 17:5 39:10,	depends [2] 39:17 42:15
card [1] 21:5	colleagues [1] 13:6	16 40: 21 61 :9	described [1] 10:24
carve [1] 60:2	collect [2] 8:2,6	contrary [2] 55:16 64:1	designed ^[2] 60:5,17
	1	L	

	Official - Subjec	t to Final Review	
deter [2] 60:6,18	each [2] 37:12,12	facts [2] 13:10,11	G
determination [1] 12:13	earned [1] 44:12	factual [2] 14:20,23	
deterrence [1] 60:9	easily [1] 32:22	fair [1] 18:22	gas [2] 51:17,21
developer [35] 5:10,18,19 7:4,10	easy [3] 29:10,20 60:13	faith [1] 38:19	GEN [3] 1:20 2:6 20:1
16: 6 30: 25 31: 1,8 37: 4 42: 23 43: 1,	economic [7] 15:3,5 16:17 17:6	fanciful [2] 16:12,12	General [40] 1 :20 19 :6,21,25 20 :4,
4,5,7,8,16,19 45: 20 46: 10,21 47: 9,	39 :20 41 :16 64 :24	farmers [3] 11:20,21,21	22 21 :14 22 :6,10,15 23 :2,14,16
10 50 :2,3,5,7,12,24,25 55 :6,21 56 :	economically [2] 55:2 57:20	feature [1] 61:7	24 :1,6,11,21 25 :6,14 26 :8,11,23
12 57 :11 65 :8	economics [7] 16:23 33:15 39:17	federal [1] 16:2	27 :1,6,12,16,22 29 :7,13,21,25 30 : 3,11 31 :4,9,16 45 :25 46 :8,8 47 :1
developer's [1] 42:7	40 :24,25 49 :20 65 :14	few [1] 18:2	generally [2] 5:25 20:13
developers [22] 3:13,14,22,24 4:	effect [1] 57:19	fewer [1] 37:7	gets [9] 19:8,12,15 23:8 35:2 45:8
12,25 5 :1,9 9 :17 10 :3 15 :19 24 :4	effective [1] 15:7	fight ^[2] 64:13,16	47 :19 51 :21 57 :11
25 :2 27 :18 34 :17 35 :18 55 :17 63 :	efficient [2] 15:7,16	figure [3] 27:13 52:3,18	GINSBURG [7] 4:4,8,21 18:18 62:
5 64: 3,6,7,16	effort [1] 9:12 efforts [1] 18:12	final [2] 22:17 32:1	20 63: 8,14
developers' [2] 3:17 36:8 dictate [2] 25:1,3	eight [1] 43:17	finally [1] 65:5 find [2] 9:2 20:23	give [6] 12:4,5 24:7 43:16 47:10
difference [4] 12:9 24:1 42:11,16	either ^[4] 10:24 16:3 22:18 26:14	finish [2] 31:20 52:9	49 :22
differences [1] 42:19	elevation [1] 55:14	first [27] 3:4 4:5,8,23 5:2,14 7:1,3	given [2] 17:10 22:3
different [20] 4:11 6:8 14:1 28:16	elsewhere [1] 62:6	9 :9 10 :14 14 :9 18 :3,20 19 :1,12 20 :	gives [1] 46:20
35 :23 36 :13,18,21 37 :16 43 :19,24	emphasis [1] 8:15	16,17 23 :6,24 24 :9 25 :15,17 32 :	good-faith [1] 10:19
44 :1,13,14 45 :13,19,22 46 :13 48 :	End [5] 8:6 24:18 44:9 54:21 55:12	21 33:8 49:1 57:8 61: 23	goods [1] 4:19
1 49 :11	enforce [1] 17:22	flip [1] 33:21	GORSUCH [32] 16:14,25 17:21,25
differential [1] 41:24	engaged [3] 21:7 23:19 53:9	floor [1] 18:14	37: 20 38: 22 40: 7,11,20 41: 6,10,
difficulties [1] 14:11	engaging [1] 47:17	flourish ^[2] 61:11,12	13,25 42: 3 44: 11 45: 12 46: 24 47:
direct [24] 8:25 11:11 15:15,15 17:	enormous [1] 29:2	flow [1] 7:13	17 48 :8,23 49 :1,18 50 :14,18 56 :
14,17,19 19 :17,18 21 :23,24 30 :22	enormously [1] 18:3	focuses [1] 64:23	13,16,19,20,23 57 :2,5,7
33 :4,9,14 36 :14 39 :2 46 :9 47 :12,	entire [2] 24:24 36:25	forced [1] 8:5	Gorsuch's [2] 19:9 55:19
15 49: 6 50: 23 59: 1,8	entirely [3] 13:25 37:15 62:9	foreclosing [1] 55:22	got [4] 23:4 42:6 44:16 45:3
directed [2] 32:10,23	entitled [1] 59:11	foresight [1] 29:3	gotten [1] 18:13
directly [12] 21:4 31:17 32:18 33:	ESQ [6] 1:18,24 2:3,6,10,13	form [11] 28:11,23 30:16,18 41:11	granting [1] 53:6 great [1] 11:16
22 47 :21 48 :13 50 :2,24 51 :18 52 :	essentially [2] 25:12 52:10	45 :11,13 47 :17 49 :24 51 :11 55 :19	grief [1] 35:19
16 54 :7 55 :6	ET [1] 1:6	formal [1] 16:20	gripe [1] 37:13
disaggregating [1] 39:5	evades [1] 49:17	formalistic [4] 14:5 40:21 64:18,	grocery [1] 48:2
disagree [3] 18:17 27:23 36:4	evaluation [1] 15:13	20	ground [1] 5:6
disallows [1] 8:18	even [5] 7:12,16 51:15 60:24 64:7	formalities [2] 16:19 39:16	guess [1] 39:7
discount [1] 55:5	event [1] 25:7	formality [1] 17:5	
discussed [2] 13:12 33:12 dismiss [1] 53:6	Everything [2] 8:9 12:25 evidence [2] 16:5 45:1	forms [1] 16:23 forth [1] 4:16	<u> </u>
disputes [1] 16:1	exactly [2] 51:25 60:1	forum [2] 63:1,16	hand 5 21:18,20 28:7 29:10 54:4
distinction [1] 54:3	Excuse [2] 4:7 64:6	found [2] 14:15 61:8	Hanover [8] 13:1 14:9 16:16 19:14
distinguish [1] 49:21	exercising ^[2] 12:12 51:4	foundational [1] 18:24	20 :9 23 :4 30 :8 54 :1
distinguishing [1] 39:18	exist [1] 37:17	framing [1] 14:14	happen [3] 51:3 52:20 59:20
distort [2] 35:5 49:16	existed [2] 38:21 54:24	Francisco ^[34] 1:18,20 2:6 19:25	happened ^[3] 12:6 15:12 25:9
distorted [1] 36:7	existence [1] 39:9	20: 1,4 21: 14 22: 6,10,15 23: 2,14,	happening [2] 48:7 59:5
distribution [10] 4:14 9:8,21 10:2,	expand [1] 33:2	16 24: 6,11,21 25: 6,14 26: 8,11 27:	happens [3] 16:9,13 19:16
9,17,18,25 12 :7 53 :22	experience [1] 61:23	1,6,12,16,22 29: 7,13,21,25 30: 3,	hard [4] 31:23 33:6 39:18 49:21 harm [3] 23:5 28:1,22
distributor [4] 16:21 54:5,6 60:20	experts [2] 58:10 59:17	11 31: 4,9,16	harmed [8] 22:20,23 23:1 25:23
district [7] 9:13 19:17 53:7,12 63:	explained [1] 48:18	FREDERICK [53] 1:24 2:10 32:5,6,	28: 11 34: 15,17 46: 5
7 64: 25 65: 4	explaining [1] 27:23	8 34: 6 35: 1,19,22 36: 1,4,20 37: 19,	head [1] 60:1
divide [1] 44:15	exploit [1] 28:8	24 38: 2,8,22 40: 6,10,14,25 41: 8,	hear [1] 3:3
doctrinally [1] 49:9	exploration [1] 48:10	12,17 42: 2,5 44: 19 45: 5,23 47: 14	heard [2] 49:22 63:22
doctrine [5] 3:17 4:3 8:18 18:5,19	explored [1] 59:3	48 :22,25 49 :25 50 :17,20 51 :8,12	held [2] 51:15,19
doing [4] 31:13 47:7 48:16 51:13	extend [1] 17:4	53 :12,19 54 :25 55 :13 56 :2,18,22	help [4] 39:8 40:24 48:20,21
done [2] 17:11 25:11	extent [3] 25:22,22 34:20	57: 2,9,22 58: 1,3,7,14,17 59: 14	higher [17] 12:1 21:20,23,24 27:8
doorstep [1] 64:15	extra [1] 43:16	free [3] 50:6 59:22 63:2	28 :2,3,12,23 29 :9,11,17 30 :17 35 :
double [1] 17:14	extract [4] 21:12 38:11,18 52:22	Fruit [2] 11:16 12:2	9 36 :24 37 :2 46 :3
doubt [1] 5:1	extracted [1] 29:17	full [1] 23:6 fully [1] 59:16	home [2] 43:1 63:2
down [3] 8:5 26:15,15	extracting [2] 21:11 59:6	fully [1] 59:16 function [8] 9:9 21 10:2 10 45:11	honest [1] 60:1
dramatically [1] 6:7	extracts [1] 35:14	function [8] 9:8,21 10:2,10 45:11,	Honor [9] 21:15 23:2,14 26:12 30:
drop [1] 22:23 dropped [1] 46:15	F	13 47 :18 59 :5 fundamental [2] 32 :1 54 :3	11 31: 4,21 40: 15 59: 14
duplicative [4] 19:3,10,16 63:21	face [1] 22:23	funds [1] 7:12	house [2] 25:25 26:2
	fact [9] 16:7 17:10 24:16,19 25:20	further [2] 39:25 48:10	huge [3] 17:12 59:22,23
E	29: 16 47: 2 60: 24 63: 4	fuzzy [1] 52:11	hurts [1] 36:8
e-commerce [3] 52:24 60:20 61:7	factors [1] 42:15		hypothetical [12] 12:18 19:10 28:

	Official - Subjec	t to Final Review	
17 31 :5 41 :18 42 :22 43 :23 46 :6,	interrupt [2] 8:20 51:10	law [5] 9:3 40:22,23 43:25 62:21	mathematical [1] 19:11
20 47: 15,23 50: 1	intuitive [1] 20:23	laws [1] 17:23	matter [7] 1:12 16:2,8 24:13 29:15
hypotheticals [1] 59:3	involved [1] 14:2	leads [1] 46:3	59: 4 63 :11
	iOS [1] 11:1	learned [2] 9:3 29:10	matters [1] 49:16
i.e [1] 44: 23	iPhone [14] 21:3 28:7 32:11,13,16	least [2] 7:18 52:21	mean [12] 8:20 13:5 20:23 21:3,13
idea [6] 11:17 16:10 47:24 54:14	35 :7 36 :14 52 :16 53 :10 54 :6,19	led [1] 54:14	37 :10 45 :7 48 :10 53 :5 55 :17 56 :
60: 4,16	61 :6,13 62 :24	left [1] 20:6	23,24
illegal [1] 21:18	irrelevant [4] 37:5 45:24,25 57:13	legal [1] 63:13	means [1] 23:10
Illinois [49] 3:17 4:2,22 6:1 7:14 8:	irrespective [1] 43:21	lens [1] 54:11 less [2] 6:22 44:7	meant [1] 56:12
7,9 13: 1,7,10,11,17,25 14: 4,14 15:	isn't [4] 28:19 31:18 48:19 49:24 issue [7] 6:11 7:14 18:4,15 21:16,	level [3] 3:22 19:19 44:24	measure [6] 27:14,20 35:11 36:17 37:16 38:14
2,10 16 :16 17 :2,4,8,9,15 18 :5 20 :	17 56: 9	Lexmark [1] 23:20	measuring [1] 26:24
9 23: 3,10,17 25: 10,13 30: 4,7,13	issues [1] 45:12	liability [1] 62:17	mechanism [3] 13:16 14:2 16:18
32:21 33:3,11,13 39:8,19 40:1,16	itself [5] 12:15 13:22,24 16:7 32:2	lie [2] 31:3,15	meet [1] 40:17
41 :2 48 :17,20 49 :5,10,17 54 :2 64 :		life [3] 29:10,20 64:2	merits [1] 63:23
11	J	light [1] 15:12	middleman ^[5] 41:2,3,3 52:14,15
imagine [1] 12:19	JA [2] 65: 3,5	likely ^[2] 27:19 59:20	might [11] 10:1 16:16 24:12 34:20
immaterial [1] 7:14	jargon [1] 11:15	limit [1] 61:9	36:12,24,25 39:1,3 41:15 62:16
implicates [1] 12:25	Jay [1] 12:3	limiting [1] 11:1	mind [1] 17:1
implications [1] 56:10	Joe ^[2] 8:22,24	line [2] 49:8 53:5	minimal [1] 5:12
important [6] 5:5 16:18 34:7 50:	John [1] 12:4	lines [1] 16:15	minutes [1] 61:17
15,19,21	Judge [2] 16:11 64:25	link [1] 33:20	miss [1] 8:21
importantly [1] 33:11	judicial [1] 52:2	links [1] 3:19	missed [1] 53:13
imposed [1] 34:25	jurisprudence [1] 18:25	literally [1] 16:13	Mister [1] 37:20
imposes [1] 34:4	Justice [155] 1:21 3:3,10 4:4,8,21	litigation [6] 14:13 15:7 16:1,5 56:	misunderstood [1] 53:4
INC [1] 1:3	5 :13,22,25 6 :6,12,15 7 :8,15,23 8 :	17 63: 6	modify [1] 33:3
incentivizing ^[1] 48:11	11,14,19 9:18,19 10:7,8,12 11:3,9	little [1] 6:22	moment [1] 49: 19
include [2] 4:14 55:25	13: 3,19 14: 25 15: 22 16: 14,25 17:	live [2] 10:3,5	Monday [1] 1: 10
including [3] 23:19,20,23 increase [10] 3:15 20:20 21:25 22:	1,16,21,25 18: 18 19: 8,23 20: 4,22	long [3] 13:20 17:23 46:1	money [9] 41:1,1,4 44:25 45:14 46
21 28 :13 34 :3,4,13,24 35 :25	22 :2,5,7,12,25 23 :9,15,25 24 :7,12,	look [6] 7:19 15:18 25:25 42:6 53:	21 47: 8,18 52: 7
increased [1] 22:24	22 25:7 26:5,9,23 27:2,7,13,17,24 28:4,15,24 29:8,14,22 30:1,9,24	24 58 :21	monopolist [17] 7:20,21 8:2,23,25
increases [1] 3:21	31: 7,10 32: 3,9 34: 1,12 35: 1,15,21,	looking [2] 20:25 23:12	11 :10,12 12 :2 13 :22,23 21 :10 24 :
increments [2] 26:1,6	24 36 :2,5,16,22 37 :20,21,25 38 :3,	loop [4] 6:8,9,25 27:5	25 30 :15,21 35 :14 38 :12 60 :9
incur [1] 35:9	6,22 40 :7,11,20 41 :6,10,13,25 42 :	lost [4] 37:9,16 43:20 63:24	monopolist's [2] 30:17,21
indeed [5] 13:11 14:21 16:24 26:9	3 43: 18 44: 3,10,20 45: 5,12,18 46:	lot [7] 11:4,6 24:19 27:8 35:3 54:13	monopolistic [3] 21:19,22 31:13
63: 17	6,23,24 47: 1,17,23 48: 8,9,23 49: 1,	59: 2	monopolists [2] 17:18 60:14
independent [2] 9:16 12:12	18 50: 14,18 51: 7,9,25 52: 8,25 53:	low [1] 11:22	monopolization [4] 3:12 9:7,20, 23
independently [1] 24:5	13,14 54: 12,20 55: 1,11,19,24 56: 4,	low-cost [1] 24:16 lower [6] 7:25 26:15 36:13 53:3 55:	
indirect [5] 8:24 11:12 17:13,21	13,15,16,19,20,23 57: 2,5,6,7,21,	9 61 :14	monopolizes [2] 6:3 10:21
39: 2	24 58: 2,6,12,16 59: 9 61: 2,15,21		monopolizing [1] 38:10
indisputably [1] 33:4	62:20 63:8,14 65:17	M	monopoly [50] 6:2,21 10:1,2,4,9
indulge [1] 41:19	К	made [3] 4:19 52:1 60:7	28 :9 29 :12,17 32 :13,23 34 :8,11
industry [1] 29:3		maintained [1] 46:17	35: 4 36: 11 38: 18,24 39: 23 41: 15,
influencing [1] 24:2	KAGAN [19] 9:18 10:7,13 13:3 20:	maintains [1] 62:3	24 42: 12 43: 3,11,15 44: 6,12,15,22
information [1] 21:5	22 22 :5 23 :25 24 :7,12,22 25 :7 26 :	major [1] 16:8	45 :2,9,10 46 :2,11 47 :25 48 :5 51 :4
informs [2] 55:14,15	5,9 27 :24 28 :4 36 :22 54 :20 55 :1,	maker [1] 31:19	52 :23,24 53 :22 54 :18 55 :3 56 :4
initial [2] 12:14 23:5		maker's [2] 20:18 21:25	58 :18,22 59 :6 60 :11 61 :4,6 62 :4,5
injured [7] 8:1,4 12:22 20:19 23:	KAVANAUGH [22] 22:2,7,12,25	makers [8] 20:20 22:17,22 25:21	monopsony [1] 63:25
13 26: 17,18	23 :9,15 30 :24 31 :7,10 45 :18 46 :7	26 :13 28 :6,12 39 :4	morning [2] 3:4 53:18
injury [8] 6:10,13,16 21:19 26:12	51 :7,9 52 :8 56 :15 57 :6,21,24 58 :2, 6,12,16	manifest [1] 12:15	most [4] 15:16,16 24:17 64:20
30 :16,23 62 :17		manifacte [1] 0.0	motion [1] 53:6
		manifests [1] 9:9	1101011 11 55.0
	keep [4] 22:19 47:24 50:4 51:20	manipulate [1] 31:23	moved [1] 47:19
instance [3] 5:2 23:7 60:21	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15	manipulate [1] 31:23 manipulation [1] 64:21	
instance [3] 5:2 23:7 60:21 instead [6] 9:15 11:2 13:8 43:9 52:	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2	moved [1] 47:19
instance [3] 5:2 23:7 60:21 instead [6] 9:15 11:2 13:8 43:9 52: 10 53:25	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4 key [4] 14:4 31:22 50:25 62:2	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2 manufacturer [3] 6:3 16:21 54:4	moved [1] 47:19 much [2] 37:18 44:25
instance [3] 5:2 23:7 60:21 instead [6] 9:15 11:2 13:8 43:9 52: 10 53:25 Institute [1] 18:9	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4 key [4] 14:4 31:22 50:25 62:2 kind [6] 4:1 14:2 30:12 35:2 39:12	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2 manufacturer [3] 6:3 16:21 54:4 many [4] 15:18 17:10 20:7 22:4	moved [1] 47:19 much [2] 37:18 44:25 multiple [2] 55:7,8 must [1] 30:1
instance [3] 5:2 23:7 60:21 instead [6] 9:15 11:2 13:8 43:9 52: 10 53:25 Institute [1] 18:9 intellectual [1] 4:15	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4 key [4] 14:4 31:22 50:25 62:2 kind [6] 4:1 14:2 30:12 35:2 39:12 56:13	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2 manufacturer [3] 6:3 16:21 54:4 many [4] 15:18 17:10 20:7 22:4 mark [1] 65:8	moved [1] 47:19 much [2] 37:18 44:25 multiple [2] 55:7,8 must [1] 30:1 N
instance [3] 5:2 23:7 60:21 instead [6] 9:15 11:2 13:8 43:9 52: 10 53:25 Institute [1] 18:9 intellectual [1] 4:15 interesting [1] 37:21	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4 key [4] 14:4 31:22 50:25 62:2 kind [6] 4:1 14:2 30:12 35:2 39:12 56:13 L	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2 manufacturer [3] 6:3 16:21 54:4 many [4] 15:18 17:10 20:7 22:4 mark [1] 65:8 market [34] 6:4 10:17,18 11:6 21:	moved [1] 47:19 much [2] 37:18 44:25 multiple [2] 55:7,8 must [1] 30:1 N natural [2] 51:17,21
instance [3] 5:2 23:7 60:21 instead [6] 9:15 11:2 13:8 43:9 52: 10 53:25 Institute [1] 18:9 intellectual [1] 4:15 interesting [1] 37:21 intermediary [1] 12:11	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4 key [4] 14:4 31:22 50:25 62:2 kind [6] 4:1 14:2 30:12 35:2 39:12 56:13 L lack [1] 54:15	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2 manufacturer [3] 6:3 16:21 54:4 many [4] 15:18 17:10 20:7 22:4 mark [1] 65:8 market [34] 6:4 10:17,18 11:6 21: 13 25:1 29:2 32:15 34:21,23 35:5,	moved [1] 47:19 much [2] 37:18 44:25 multiple [2] 55:7,8 must [1] 30:1 N natural [2] 51:17,21 nature [2] 25:4 32:2
instance [3] 5:2 23:7 60:21 instead [6] 9:15 11:2 13:8 43:9 52: 10 53:25 Institute [1] 18:9 intellectual [1] 4:15 interesting [1] 37:21 intermediary [1] 12:11 intermediate [3] 6:3 39:11,22	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4 key [4] 14:4 31:22 50:25 62:2 kind [6] 4:1 14:2 30:12 35:2 39:12 56:13 L lack [1] 54:15 largest [1] 52:20	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2 manufacturer [3] 6:3 16:21 54:4 many [4] 15:18 17:10 20:7 22:4 mark [1] 65:8 market [34] 6:4 10:17,18 11:6 21: 13 25:1 29:2 32:15 34:21,23 35:5, 10,17 36:7,19 37:14 38:21 41:20	moved [1] 47:19 much [2] 37:18 44:25 multiple [2] 55:7,8 must [1] 30:1 N natural [2] 51:17,21 nature [2] 25:4 32:2 necessarily [5] 3:18 10:19 19:15
instead (6) 9:15 11:2 13:8 43:9 52: 10 53:25 Institute (1) 18:9 intellectual (1) 4:15 interesting (1) 37:21 intermediary (1) 12:11 intermediate (3) 6:3 39:11,22 intermediating (1) 26:20	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4 key [4] 14:4 31:22 50:25 62:2 kind [6] 4:1 14:2 30:12 35:2 39:12 56:13 L lack [1] 54:15 largest [1] 52:20 last [1] 53:25	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2 manufacturer [3] 6:3 16:21 54:4 mark [4] 15:18 17:10 20:7 22:4 mark [1] 65:8 market [34] 6:4 10:17,18 11:6 21: 13 25:1 29:2 32:15 34:21,23 35:5, 10,17 36:7,19 37:14 38:21 41:20 42:14,21 43:1,3,9,11,13 45:16,17	moved [1] 47:19 much [2] 37:18 44:25 multiple [2] 55:7,8 must [1] 30:1 N natural [2] 51:17,21 nature [2] 25:4 32:2 necessarily [5] 3:18 10:19 19:15 29:11 35:12
instance [3] 5:2 23:7 60:21 instead [6] 9:15 11:2 13:8 43:9 52: 10 53:25 Institute [1] 18:9 intellectual [1] 4:15 interesting [1] 37:21 intermediary [1] 12:11 intermediate [3] 6:3 39:11,22	keep [4] 22:19 47:24 50:4 51:20 keeping [1] 45:15 kept [1] 41:4 key [4] 14:4 31:22 50:25 62:2 kind [6] 4:1 14:2 30:12 35:2 39:12 56:13 L lack [1] 54:15 largest [1] 52:20	manipulate [1] 31:23 manipulation [1] 64:21 manner [1] 65:2 manufacturer [3] 6:3 16:21 54:4 many [4] 15:18 17:10 20:7 22:4 mark [1] 65:8 market [34] 6:4 10:17,18 11:6 21: 13 25:1 29:2 32:15 34:21,23 35:5, 10,17 36:7,19 37:14 38:21 41:20	moved [1] 47:19 much [2] 37:18 44:25 multiple [2] 55:7,8 must [1] 30:1 N natural [2] 51:17,21 nature [2] 25:4 32:2 necessarily [5] 3:18 10:19 19:15

4	,	
negative [1] 43:12	13 21 :19,22 22 :1,19,22 23 :6 30 :7,	45: 20 46: 11,16,16 47: 4,11 51: 16
never [4] 5:21 30:21 41:1 63:22	12,22 51 :17,22 55 :1,15 58 :22 59 :	53 :10 54 :14 55 :22 57 :16 59 :12 61 :
new [3] 56:17 65:10,10	7,12 65: 9	25 62: 4,14,19 64: 4,8,10
next [3] 6:3,21 26:17	over-charged [1] 56:5	percent-owned [1] 34:10
nine [3] 41:23 43:22 61:24	over-charges [2] 32:19 54:19	perfectly [1] 60:1
	•	
Ninth [2] 7:12 53:15	overall [1] 25:21	perhaps [1] 17:10
nobody [1] 26:1	overlap [1] 64:8	periphery [1] 62:9
NOEL [3] 1:20 2:6 20:1	overpaying [1] 46:19	
		persistent [1] 65:1
noncompetitive [1] 58:9	overrule [1] 44:4	person [4] 6:2 13:21,23 23:13
None [2] 15:24 16:1	overruled [1] 40:17	perspective [4] 21:6 42:7 46:18
normally [1] 16:22	overturn [1] 48:19	56 :3
Northern [1] 63:7	own [2] 27:18 60:25	petition [1] 53:20
nothing [2] 6:23 38:7	owner [3] 36:15 52:17 62:24	Petitioner [8] 1:4,19,23 2:4,8,14 3:
notwithstanding [2] 14:1 33:15	owners [6] 32:11,13,17 35:8 54:19	8 20 :3
November [1] 1:10	61: 13	PETITIONERS [1] 61:19
nowadays [1] 16:8		pick [1] 21:3
	Р	•
number [4] 17:12 24:19 59:22,23		picture [3] 4:6,9,11
	package [2] 4:13,19	pie [1] 64:10
0	PAGE [6] 2:2 53:20,21 56:8 59:1	-
obviously [2] 24:14 40:10	62 :12	piece [2] 45:1 64:9
obviously [2] 34:14 49:10		pipeline [3] 10:22 28:6,8
offensively [1] 14:18	pages [1] 62:10	pitch [1] 18:1
often [1] 29:12	paid [11] 6:22 8:2 22:14 32:14,15	
Okay [10] 17:24 40:14 41:17 42:2,	40: 18,25 41: 4 47: 3,9 64: 8	place [3] 18:20 48:4 58:19
-		plainly [1] 40:17
16,21 48: 25 49: 8 50: 4 53: 14	paragraph [2] 53:25 62:1	plaintiff's [2] 18:8 53:8
once [1] 18:13	paragraphs [1] 10:15	
		plaintiffs [3] 4:17 29:19 33:22
One [27] 11:5 15:22 17:15,16 21:1,	pardon [1] 50:17	plaintiffs' [4] 30:16 40:7 48:19 49:
13,18 24: 23 28: 6,20 34: 2 36: 11	part [8] 12:14 23:4 24:17 25:19 27:	2
37: 16 38: 23 42: 16,24 44: 6,11,20,	25 45 :24 50 :25 62 :8	—
		plead [1] 38:16
21 45 :2 49 :1 52 :19 54 :4 62 :16 64 :	partially [2] 39:1,3	pleaded [1] 61:1
7,20	particular [4] 20:15 29:18 52:15	pleadings [3] 33:7 52:2 56:19
one-by-one [1] 63:1	59 :13	
-		please [4] 3:10 20:5 32:9 46:25
one-step [1] 21:7	particularity [1] 38:17	plenty [1] 15:25
ones [3] 5:1 52:6 57:3	particularly [1] 51:14	
		plus [1] 11:22
only [18] 3:11 5:6,11 12:24 17:5 20:	parties [1] 28:19	point [27] 6:24 8:21 12:8 15:14 16:
20 21: 1,12 28: 10 35: 8 38: 12,23	party [6] 23:5,8 30:15 31:18,19,25	15,25 19 :9,22 22 :16 23 :3 25 :17
44: 11 45: 2 48: 4 51: 20 52: 20 55: 3	pass [2] 3:25 39:23	
	-	26: 12,16,18 27: 9 33: 9 48: 17 49:
open [1] 61:3	pass-on [7] 8:16 14:10,13,16,18,	13 51 :10,25 52 :9 53 :15 57 :9 60 :8,
opening [1] 53:5	19 64: 23	19.21 63: 20
operates ^[1] 22:4	pass-through [13] 13:9,16 14:2,7	
•		points [4] 10:12 12:21 22:5 25:15
operating [2] 47:25 50:5	16:18 19:4 20:11 25:24 26:13,19	policy [1] 25:16
opinion [1] 53:16	39:20 52:13 65:15	political [1] 18:15
opportunity [2] 49:15 61:10	passing [1] 43:10	
		portion [1] 37:1
opposition [3] 62:10,12 64:5	past [1] 19:1	posed [1] 46:7
oppressed [1] 16:6	patents [1] 29:3	posit [1] 49:23
optimizes [1] 19:19	patient [1] 65:1	
		position [3] 15:1,17 54:15
options [2] 55:23 57:17	pay [12] 5:2 7:24 9:10 11:21 21:4	positive [2] 7:5 43:5
oral [7] 1:13 2:2,5,9 3:7 20:1 32:6	28:2,3 38:20 46:4 57:23 60:15 61:	Posner [1] 16:11
order [7] 18:11 20:21 22:1 28:13	13	
	-	possibilities [1] 42:24
44: 22 49: 15 53: 5	paying [11] 28:11 36:23 37:2,18	possibility [3] 39:21 41:14 63:22
other [25] 9:25 17:16 21:20 24:2,	38:20,25 45:14,15 50:2 52:6 55:3	possibly [1] 56:12
24 25 :11 28 :7 30 :15,20 32 :12 34 :	payment [1] 7:13	
		potential [4] 14:12 19:3,9 63:24
10,20 36: 22 37: 17 38: 2 49: 13,14	pays [1] 5:15	Potentially [3] 58:2,4 59:11
51:10 52:9 54:5,22 59:23,24 60:	penalized [1] 60:10	
21 62: 15	penny [1] 6:23	power [6] 21:13 29:2 44:6,23,23
		46 :12
others [1] 7:25	people [6] 7:25 29:19 37:7,10,12	practices [2] 29:5 44:8
out [11] 6:20 20:7 22:5 25:13,17 40:	48: 13	-
		precedents [1] 32:16
24 43 :24 52 :3,19 60 :22 63 :15	PEPPER [2] 1:6 3:5	precisely [1] 4:1
outcome [1] 65:15	per [1] 43:17	premised [1] 39:9
outlet [1] 48:5	percent [68] 3:12 5:2,7,15,20 6:13,	
	-	prepared [2] 44:4 50:1
output [1] 48:6	18,18 7: 1,6,9 9: 9,11 11: 2,22,25	presents [1] 39:21
outside [1] 27:5	12:20 14:19 19:13 22:8,13 27:3,	prevent [1] 32:11
over [8] 9:8 19:21 47:9,17 51:11	10,10,13,20 28: 10,22 31: 1,11 34: 3,	
		price [55] 5:10 6:17 7:5 8:5 11:22
55 :19 60 :15 64 :3	13 35: 12,12 36: 25 37: 1 38: 1,4,6,9,	12 :1,12,16,19,20,20 21 :11 22 :9,14,
over-charge [22] 4:1 12:14 19:4,8,	11,14 41: 5,9 42: 21,25 43: 2,3,14	17 24.17 25.2 21 26.2 3 10 16 18

27:4 30:19.20 31:8.11.23 32:1 34: 24 35:10,25 36:13,24 37:3 41:20, 24 42:14 43:16 44:23 46:1,10,17 **50**:3 **51**:1 **53**:10 **55**:9,14,15 **57**:12 58:8 62:4,5,7 price-setting [2] 31:18,19 prices [31] 3:15,23,25 7:24 12:22, 23 **20**:21 **21**:21,23,24,25 **22**:19,21, 24 **24:**2,5 **26:**7 **28:**2,3,12,13,23 **29:** 9,11,18 30:17 46:3 48:6 56:5 57: 20 61:13 pricing [15] 3:18 5:18 9:16 20:18 23:7 25:16 26:20 50:14,18,20,21 52:23 55:22 57:17 59:2 principle [2] 18:24 19:1 principles [4] 20:12 23:21 26:21 30:14 prior [1] 63:23 pro [1] 60:3 probably [1] 59:20 problem [11] 19:5,6 26:24 41:14, 16 45:7.14 50:10.11 55:20 60:13 problems [3] 17:13,15 39:21 proceeding [1] 44:18 process [1] 7:13 producer [2] 41:14 54:4 product [4] 36:24 37:3,6 60:23 products [2] 24:17 47:2 profit [4] 44:12,15 45:3 48:15 profits [7] 36:9 37:9,16 42:11,13 43:20 63:24 prohibit [1] 20:10 prohibiting [1] 65:15 prohibits [1] 4:3 promise [1] 40:1 proof [3] 29:15 35:13 57:11 properly [1] 20:10 property [1] 4:15 protect [1] 33:22 protected [1] 33:17 prove [4] 6:20 29:17 44:22 59:18 proven [1] 16:12 provider [1] 48:14 provision [2] 62:24 63:4 proximate [10] 18:25 20:13 21:15 **23:**22 **26:**21 **30:**14 **50:**15,19,21,23 proximately [2] 46:5 51:6 proximity ^[5] 21:17,17 28:18,19, 21 purchase [3] 16:20 36:14 48:13 purchased [2] 33:23 45:19 purchaser [10] 7:1,3 11:11,13 19: 12 33:9 39:11,22 47:13 59:11 purchasers [21] 15:16 17:13,14, 17,19,22 19:17,18 33:4,14 34:14 **39:**2,3,4 **46:**9 **47:**15 **49:**6 **54:**7 **59:** 7,8 **64:**9 purchasing [1] 47:21 purposes [1] 17:7 put [7] 13:6 25:18 34:5 42:3 55:17 59:25 63:15 puts [2] 7:5 25:10 putting [1] 51:11

17 24:17 25:2,21 26:2,3,10,16,18

Q	resp
qualify [1] 4:23	Res
question [26] 4:21 13:4,17 14:8,14,	22 2
17 15 :9 17 :7,9 27 :25 28 :5,15,19	25 6
35: 2 38: 24 39: 5,20,24,25 41: 18	Res
44:13,14 48:9 59:16 62:21 63:13	resp rest
questioned [1] 17:2	rest
questions [3] 13:5 20:8 48:24	rest
quickly [1] 40:1	rest
quintessentially [1] 18:14	rest
quite [2] 6:7 44:11	resu
R	33: 1
raise [3] 7:24 44:23 56:9	retai
raised [1] 57:10	retai
raises [1] 39:24	retu
raising [1] 57:20	retu
rata [1] 60:3	reve reve
rather [7] 16:18,23 29:4 39:13 40:	reve
23 64 :9 65 :6	rewa
read [3] 15:5 16:16 38:4	RICO
	ROE
realities [2] 16:17 17:6	ROE
reality [1] 51:11 really [9] 13:6 15:11 22:4 33:21 40:	1,12
5 49: 24 50: 15,19 56: 21	61: 1
reason [5] 9:2 28:3,10,16 51:25	Roc
reasoning [1] 14:24	root
reasons [2] 32:20 57:13	root
REBUTTAL [2] 2:12 61:18	rour
receive [1] 52:7	rule 24 3
receiving [1] 17:14	18 4
recharacterize [1] 49:16	21 5
recoup [4] 20:21 22:1,21 28:13	run
recover ^[3] 34:16,16,18 recovered ^[1] 19:14	runs
recovery [4] 17:14 19:10,19 63:21	
red [1] 60:22	
reflect [1] 20:11	sale 45:2
reflects [1] 23:17	sale
relates [1] 63:21	42:1
relationship [5] 20:25 39:10,13,	Sam
14 41: 11	sam
relatively [1] 56:6	12 3
relevant [2] 37:6 63:4	64 :4
remand [1] 57:1	San
remedy ^[2] 33:5 60:17 remember ^[1] 50:24	satis
rent [4] 38:18,24 39:23 41:15	sayi
rents [1] 17:19	3,18
repeal [2] 18:8,10	3 says
repealed [1] 17:11	37:4
repeatedly [1] 10:15	scer
reported [1] 17:13	sche
represent [2] 49:2,3	scho
representing [1] 35:7	seco
represents [1] 37:8 required [1] 65:2	18 4
requirement [2] 54:21,23	Seco
requires [1] 48:9	Sect see
reserve [1] 19:20	see seek
resolved [1] 23:12	seek
respectfully [2] 27:22 53:13	seek

ects [1] 22:4 pondents [12] 1:7,25 2:11 9: . 20:19 25:23 26:4 32:7,22,24, 2·13 pondents' [2] 14:21 63:23 onding [1] 10:7 [2] 19:20 53:25 raints [1] 32:11 riction [2] 5:12 46:17 rictive [3] 29:5 44:7,8 ructurina [1] 48:11 **JIT** [7] **22:**24 **26:**19 **31:**13 **32:**13 .24 53:23 il [2] 32:15 35:6 iler [2] 22:4.13 rn [1] 33:8 rns [1] 48:14 enue [1] 42:19 erse [1] 47:8 ew [1] 57:8 ard [1] 29:11 O [1] 23:20 **BERT** [1] 1:6 BERTS [13] 3:3 19:23 32:3 34: 2 35:15.21.24 36:2.16 55:24 5 65:17 kefeller [2] 12:4,4 [3] 5:5 62:2.7 ed [1] 3:12 nd [4] 26:14,15,15,17 [26] 20:15 23:23 25:13 31:24, **2:**22 **33:**3,5,9,10,14 **39:**9 **40:** 9:7.17 51:20.23 52:11.11 54: **55**:12 **64**:18,18,19,20,22 [2] 43:24 25 s [1] 9:16 S [7] 5:14 10:23 25:4 38:10.12 21 48:2 s [6] 6:19 16:20 22:23 39:13 6.18 1 [2] 11:11 28:17 e [16] 12:5,5 17:6 22:12,19 25: 35:21,23,25 36:3 44:1 54:23 3 1,9 **65:**14,14 [1] 1:18 24.25 sfy [2] 32:22 49:7 ng [12] 9:22 18:8 24:17,19 27: 3 34:14 36:17,23 42:9 47:6 57: 8 [10] 8:18.19 9:25 30:13 36:23 38:16 40:3 50:8 64:5 narios [2] 44:1 59:2 eme [1] 15:8 olars [1] 58:25 ond [8] 26:12 27:25 32:23 42: 9:1 53:6,8 63:20 ondly [1] 57:15 tion [2] 18:24 32:17 [5] 7:19 8:7 12:8 18:6 65:4 k [1] 62:13 king [1] 6:18 (s [1] 33:2

seem [1] 53:1 seems [3] 20:24 25:8 40:22 sell [2] 11:23 58:19 seller [4] 39:12 50:12 54:9 59:6 sellers [1] 55:8 selling [3] 31:11 54:6 58:23 sells [2] 6:4 34:5 sending [1] 41:8 sense [2] 39:19 50:22 separate [2] 13:13 48:23 separates [1] 13:24 services [2] 4:13.20 set [10] 5:11 22:17 25:9 32:1 50:3, 4.6.6 51:1 57:12 sets [3] 31:22 46:1,10 setter [2] 30:19,20 setting [11] 12:11 14:20,23 24:4 **26:**2,3,10 **61:**7 **65:**10,11,12 shall [1] 63:6 share [1] 17:19 shared [1] 41:1 Shoe [9] 12:6 13:1 14:10 16:16 19: 14 20:10 23:4 30:8 54:1 Shouldn't [2] 17:9 23:11 show [3] 42:10 44:5.16 side [7] 25:19 33:21 35:17 38:2 49: 14 51:10 52:9 sides [3] 25:1 34:23 36:18 significance [2] 55:12,13 significant [2] 55:25 56:3 significantly [1] 44:24 similar [1] 49:21 simple [7] 7:17 9:1 11:9 12:17 53: 22 54:10 56:6 simply [9] 10:22 11:1 14:5 35:13 46:10.20 53:21 60:14.15 since [1] 15:12 single [4] 34:23 38:12 60:13 63:16 situation [3] 46:9 47:20 49:11 situations [1] 47:18 skill [1] 29:3 Smith [2] 8:22.24 so-called [2] 10:25 15:15 software [4] 4:14 10:21 60:25 61: sold [7] 15:19 31:2 58:24 59:21.23. solely [2] 62:13.19 Solicitor [5] 1:20 19:21 45:25 46:7, somebody [2] 30:6,20 somehow [1] 57:11 sorry [4] 5:13 17:25 46:25 51:9 sort [4] 20:14 24:4,8 60:2 SOTOMAYOR [15] 5:13,22,25 6:6. 12,15 7:8 26:23 27:2,7,13,17 46: 23 47:1,24 Sotomayor's [1] 48:9 Sounds [1] 56:13 source [1] 61:3 spoke [1] 6:25 spot [1] 17:6 spread [2] 39:1,3

56:19 standardless [2] 33:6 51:14 standing [3] 4:24 30:15 54:8 stands [1] 15:13 started [1] 12:16 state [2] 16:2 63:6 stated [2] 45:4 57:14 STATES [10] 1:1,14,22 2:7 17:2,10 18:7 20:2 48:20 62:12 statute [2] 23:13 22 statutes [1] 20:14 statutory [1] 23:18 stay [1] 27:19 stayed [1] 43:14 step [7] 6:21 19:2 20:16,17 21:2, 13 23:24 still [11] 13:16 25:21 26:3 46:19 47: 12,14,21,22,25 48:18 54:25 stop [2] 20:15 23:23 store [22] 15:20 21:4 32:13 34:9, 11 35:4 36:11 42:12 45:9.11 46:2 47:25 48:2.5 50:9 51:5 52:24 54:7. 19 56:5 58:19 61:6 strata [2] 59:24.24 street [1] 18:16 structure [1] 25:2 structured [1] 37:14 stuck [2] 39:7 41:16 subject [3] 5:11 34:22 64:21 submitted [2] 65:18,20 substance [3] 14:23 55:20 64:24 substantive [2] 64:19.22 subtract [1] 58:5 succinctly [1] 40:15 sue [11] 4:24 15:17 17:17 31:16 17 32:25 37:11 41:23 62:24 25 64:3 sued [4] 15:23.24 16:3 64:3 suffer [1] 3:23 suffering [1] 36:11 suggest [1] 64:19 suggesting [2] 13:20 24:3 suggestion [1] 63:23 suing [3] 16:8 19:18 35:8 suit [1] 34:22 suited [1] 17:22 sum [1] 14:23 super-competitive [3] 21:11 37: 2 62:7 supplied [1] 21:5 supplier [4] 8:5 36:5 51:5,18 suppliers [4] 8:1 16:9 47:3 55:8 supply [5] 13:8,15,21 35:5 36:7 supporting [3] 1:23 2:8 20:3 Suppose [5] 11:15 41:19 46:15 60: 12 63:9 suppression [1] 6:16 SUPREME [3] 1:1.13 56:20 sustains [2] 43:7.22 т tack [1] 46:10 talked [1] 13:1 technology [1] 61:8 tend [1] 11:4 stage [6] 29:16,23 33:7 44:14 52:2

Official - Subject to Final Review

	Official - Subjec	t to Final Review
Tens [1] 15:21	understood [4] 9:21 20:10 53:3,	Without [2] 5:1 6:21
terms [3] 6:10 46:14 47:18	16	wonder [1] 15:11
test [2] 52:12,14	unique [3] 19:5 52:23 61:7	words [7] 9:25 11:4 24:2 34:20 36:
testing [1] 4:15	UNITED [8] 1:1,14,22 2:7 11:16 12:	
text [1] 23:13	2,6 20 :2	works [1] 44:1
themselves [2] 4:18 9:24	unless [3] 12:22 44:3,4	world [3] 11:24 52:21 65:11
theoretically [1] 27:8	unmistakably [1] 62:11	worry [1] 45:1
theories ^[3] 8:17 19:7 20:11	up [14] 12:21 15:13 21:3 25:9 26:	wrestling [1] 39:6
theory [42] 3:11 4:2 5:7 6:10 7:7,		written [1] 54:16
	14,17 39: 25 56: 6,16,24 57: 4 59: 18 60: 2 65: 8	
17 8:6 9:1,15 13:9 15:3,5 19:19 26:19 30:5,7,12 34:3,15 37:22,22		Y
	users [1] 28:7	years [2] 7:19 61:24
45 :3 54 :17,22,23 55 :2 56 :5,17 58 :	using [1] 61:8	
12,14,15,17 62 :3,8,17,18,18 64 :1,	UtiliCorp [4] 33:12,17 51:15 54:2	Z
23,23 65 :3,7	utility [2] 51:18,20	zero [3] 42:24 43:4,6
there's [14] 4:10,10 14:1 17:18,25	V	
21: 13 34: 1,2 40: 11 41: 3 44: 11 45:	validity [1] 15:10	
2,11 52 :15	Valley [1] 54:2	
thereby [1] 12:7	-	
They've [2] 17:11 29:19	variety [1] 23:19	
thinking [1] 56:10	vegetables [2] 48:3,4	
thinks [1] 26:1	versus [4] 3:5 42:13 45:13 58:23	
third [3] 15:14 33:2 42:20	vertical [6] 6:2 13:8,15,21 14:6,20	
third-party [1] 12:11	view [2] 4:5 57:8	
though [3] 25:8 43:12 59:19	viewed [1] 54:11	
thousand [1] 25:11	violation [15] 28:21,25 29:1 30:17	
thousands [1] 15:21	33 :25 34 :2,8 46 :2,4 47 :5,22 52 :5	
threat [1] 17:18	58: 15,18,20	
three [7] 8:16 32:20 42:15,23 59:	violations [2] 33:1 60:6	
11 61:17 65:12	violator [1] 33:23	
throughout [2] 11:24 64:1	virtue [4] 12:24 43:10 46:11 52:23	
thrust [1] 53:8	W	
ticket [1] 52:19		
today [2] 12:19 33:12	WALL [44] 1 :18 2 :3,13 3 :6,7,9 4 :7,	
tomorrow [1] 12:21	10,25 5: 16,24 6: 5,9,14 7: 2,11,22	
took [1] 7:8	8 :9,13,15 9 :6 10 :6,12 11 :8 12 :9	
torpedo [1] 11:17	13 :3 14 :3,25 15 :21,24 16 :14,24	
transacting [3] 13:23 28:20 37:11	17: 20,24 18: 2,21 20: 6 61: 17,18,	
transaction [5] 5:17 21:7 32:2 43:	20 62 :20 63 :3,10,17	
17 52:16	wanted [2] 30:4 50:4	
transactional [2] 21:16 28:18	wants [2] 25:3 50:6	
transcript [1] 65:4	warehouse [1] 55:5	
treble [2] 60:5,17	Washington [3] 1:9,21,24	
trial [2] 30:9 59:10	way [12] 22:12 24:9 28:8 36:8 37:	
trouble [1] 11:5	13 43: 18 44: 2 49: 16 51: 13 53: 2,	
troubles [1] 15:1	17 60: 10	
true [5] 7:16,24 24:8 26:6 37:10	ways [2] 24:8 61:8	
truly [1] 24:25	weeks [1] 52:22	
try [4] 9:13 40:14 41:17 59:18	welfare [1] 46:22	
trying [2] 38:3 52:3	whatever [8] 5:10 19:18 25:2 27:	
turn [2] 19:21 25:15	10 50: 3,6,9 62: 15	
two [10] 4:11 10:12 13:13 24:8 36:	whenever [1] 30:19	
	Whereupon [1] 65:19	
18 37:9,10 44:6 48:23 49:20 two-sided [2] 11:6 34:21	whether [10] 12:13 14:17 15:11 16:	
two-sided [2] 11:6 34:21 type [1] 23:17	19 29: 16,19 40: 1 42: 20 43: 21 50:	
<u>, , , , , , , , , , , , , , , , , , , </u>	22	
UU	who's [1] 38:25	
ultimate [3] 22:14 30:20 39:11	whole [5] 22:16 23:3,8 40:12,12	
under [13] 26:21 30:13 31:24 32:	wholly-owned [2] 35:4 58:18	
16,17 34: 2,15 36 :11 43 :24 46 :19	will [8] 7:6 11:21 14:16 17:18 33:6	
47 :15,23 50 :22	58: 9,10 59: 20	
underlying [3] 39:17 49:20 54:17	win [1] 30:2	
understand [9] 11:13 21:15 27:2,	wind [1] 39:25	
15 31 :5 34 :7 35 :16,16 41 :25	wind-up [1] 17:23	
understanding [1] 11:5	within [4] 4:22 27:9,19 49:7	