

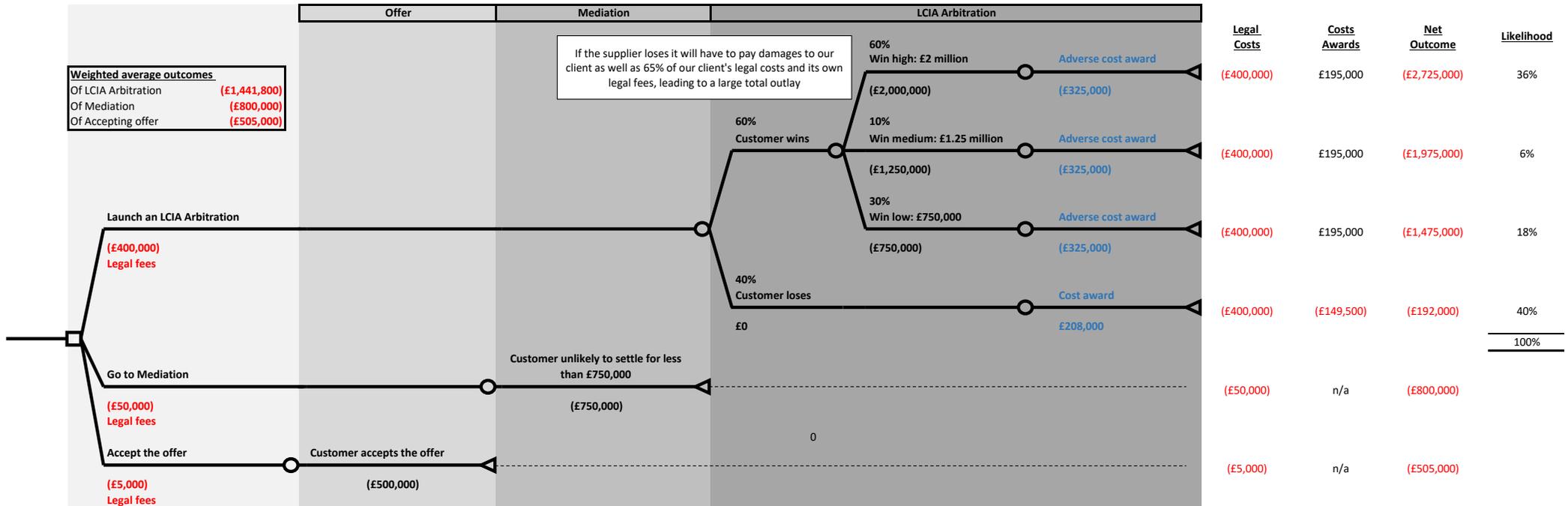


Potential LCIA Arbitration - dispute with supplier

Decision Tree - opponent's perspective

Case Facts:

Our client is involved in a contractual dispute with a supplier and is claiming damages of £2 million. The supplier has made an offer to settle of £500,000 and the client's initial view is that this offer is too low. The client has asked for advice on whether to accept the offer, the options available to it, the associated costs and likely outcomes. This decision tree has been prepared from the supplier's perspective to aid with determining a realistic settlement range.



Weighted average outcomes

Of LCIA Arbitration	(£1,441,800)
Of Mediation	(£800,000)
Of Accepting offer	(£505,000)

If the supplier loses it will have to pay damages to our client as well as 65% of our client's legal costs and its own legal fees, leading to a large total outlay



Assumptions:

- The weighted average is the "expected value" of each option. This can be used to compare and evaluate alternatives. The option with the highest expected value is the most favourable.
- We have assumed that the successful party at Arbitration will recover 65% of its legal costs.
- We have assumed that the supplier's legal costs are less than our client's costs, being only £400,000, as it is the defendant rather than the claimant.

Analysis and Conclusion:

The client's decision tree demonstrated that the most favourable financial outcome is likely to be achieved by seeking settlement at mediation. The above decision tree, prepared from the opponent's perspective, demonstrates that based on our current view of the merits of the claim, the opponent's weighted average expected outcome from trial is a net financial outlay of £1.4 million. Therefore, the opponent should be willing to settle for an amount up to this value, to avoid the risk of proceeding to arbitration, where it could find itself in the position of having to pay out as much as £2.7 million in total. The client can make use of this information in any settlement negotiation.