

## Seventeenth Intercollegiate Negotiation Competition

### Problem (Nov. 6 version)

1. The nation of Negoland located in the Northern Hemisphere with a population of about 60 million is a constitutional democracy. Over 1/2 of its 400,000 square kilometers of land is in a humid subtropical climate zone with four distinct seasons. Its capital is Negotown (population: about five million). The nation has well-developed secondary and tertiary sectors instrumental to its per capita GDP of about US\$35,000. In particular, the nation has an established reputation as a supplier of the world's top-ranked industrial technology, and it is home to some of the world's leading companies in the automobile, electronics, IT and materials industries.
2. One challenge faced by Negoland is its changing demographics characterized by increasingly fewer children and more elderly adults. According to its 2016 census, persons over 60 years of age accounted for more than 30% of its population, whereas only 15% were children aged 14 or under. If the recent birth-rate trend of about 1.5 children per couple continues, its population decline and ageing will accelerate, hampering economic growth and creating an increasingly heavier burden on healthcare and other social welfare. The government has yet to come up with strong measures to fight this issue.
3. About five years ago, Negoland began to witness frequent extreme weather conditions. In the summer of 2016 for instance, many cities which rarely experienced temperatures exceeding 35 degrees Celsius in the past, were hit by record high temperatures exceeding 37 degrees Celsius for consecutive days. In the winter of the same year, the areas along its shoreline which were previously considered snow-free, saw heavy snowfalls. Like 2016, the summer of 2017 saw consecutive days of scorching weather. Negotown's daily highs exceeded 39 degrees Celsius for many days. The winter was the warmest in history. Record-breaking high temperatures for two years in a row are likely attributable to global warming.
4. In 2010, Negoland hosted a world basketball tournament for women and a world volleyball tournament for men at the same time. The Negoland national teams did extremely well, winning both categories after beating the favored contenders: the Brazilian national team for women's basketball and the U.S. national team for men's volleyball. The double-win result has taken the already strong public interest in sports to a new level, resulting in more

televised sports events and more people engaged in athletic activities as evidenced by the growth of people joining fitness clubs.

5. In 2014, the government of Negoland created a Sports Agency in its executive branch, giving it a broad mandate over athletic and sporting matters. By setting up the Sports Agency, the government hoped to accomplish the national objectives of reducing medical costs by keeping the public fit and healthy through greater engagement in athletic activities, gaining more national recognition in the sports world through the improved competitiveness of its athletes, and fostering its sport industry.
6. Negoland and its neighbor, Arbitria have been on good terms with each other for many years. With a population of about 40 million, Arbitria is a constitutional democracy whose 500,000 square kilometers of land is in the humid subtropical climate zone offering four distinct seasons. The capital city of Abu-Abu has a population of two million.
7. Arbitria's per capita GDP, which stands at about US\$35,000, is supported by a broad range of prosperous sectors from agriculture and manufacturing to tourism and other services. In recent years, the international competitiveness of its agricultural produce and industrial products has eroded due to the emergence of inexpensive produce and products produced in other countries. On the domestic front, Arbitria's market is affected by the growth of inexpensive imports, which has prompted farmers and manufacturers to call for import restrictions. Rather than propping up these dwindling sectors however, some are calling for the government to funnel more resources to the already thriving sectors of finance, tourism, education, entertainment and others in the tertiary sector with established global competitive advantages, to reap further benefits.
8. Arbitria's public is highly interested in sports and entertainment, as evidenced by a large number of people citing sports or music as their favorite pastime. Backed by strong public interest in sports, the nation has developed an environment designed to foster elite athletes from a very young age, which has produced numerous successful professional athletes in the fields of tennis and golf, for instance. In addition, Arbitria offers a variety of sports channels on cable TV and sports streaming services over the Internet, to which many Arbitrian households subscribe.
9. Like Negoland, Arbitria has been suffering from extreme weather conditions lately. The average temperatures of three major Arbitrian cities in the most recent three-year period

are two degrees higher than the average temperatures in the last ten years. The capital city of Abu-Abu was hit by a series of heatwaves exceeding 38 degrees Celsius, the highest on its meteorological record, in the summer of 2016. The blazing heat returned the following year, as demonstrated by the daily highs of 35 degrees or above hitting many cities for days in a row. The sweltering heat caused heat exhaustion and other conditions in many people.

10. The map of Negoland and Arbitria is shown in Exhibit 1. *(For the purpose of this negotiation competition, only the cities mentioned in Exhibit 1 need to be considered.)* There is no time difference between the two countries. The currency of Negoland is the Nego Lira, and the currency of Arbitria is the Abu Dollar. *(For the purpose of this competition, the prevailing exchange rate is 1 Nego Lira = 1 U.S. Dollar = 1 Abu Dollar; hence the U.S. dollar serves as the benchmark currency for this negotiation competition.)*
11. Red Corp. is a leading company in Negoland, with extensive business offerings from electric equipment and construction to IT solutions and electronic components. Red Corp. is outlined in Exhibit 2. Since 2000, Red has come up with technologies needed for optical imaging equipment, air-conditioning systems and electronics and has supplied related products to sports complexes and training centers. For instance, Red's jumbotron large-screen displays, acoustic systems, lighting equipment and air-conditioning systems, among others, are used in stadiums in Negoland and abroad. Red's equipment and devices supported by its video analytical technology and sensor technology are utilized by Negoland National Athletic Training Centers operated by the Sports Agency, as well as by professional teams, clubs and universities around the globe for the analysis of sport movements and the physical condition of athletes.
12. In Negoland, corporations often sponsor professional sports, with many owning professional athletic teams or clubs to gain greater publicity. Red Corp. is no exception. It owns many professional teams and clubs including both men's and women's teams for football, volleyball and basketball. Regardless of the sport category, all teams under Red's ownership are among the highest rated. In particular, its men's volleyball and women's basketball teams have always been the favorite contenders in national championship tournaments for the past ten years and have produced many outstanding players who go on to play leading roles on the Negoland national teams, as demonstrated during the world tournaments hosted by Negoland in 2010. The availability of training centers fitted with Red's technologies and motion analytical tools is believed to be the reason behind the

consistent strength exhibited by Red's teams.

13. In 2015 Red Corp. decided to set up a Sports Business Department for more active engagement in sports. This was in anticipation of a greater impetus to be created by the newly founded Sports Agency, and of more opportunities that a renewed level of sport promotion and the development of the sports industry would bring. The Sports Business Department set forth four primary areas of focus: (1) provision of optical imaging, acoustic, air-conditioning and other technologies to sport complexes and centers, among others; (2) provision of analytical technology geared for athletes based on Red's video analytical technology and sensor technology to training centers and teams, among others; (3) organization and operation of athletic events by taking advantage of the fitness clubs Red owns while seeking greater sponsorship opportunities; and (4) sports event streaming that utilizes its optical imaging and IT technologies and electric product expertise, in addition to the development of souvenirs and other goods sold to spectators. In promoting sports business, Red attaches great importance to the relationship with the Sports Agency, which is essential to be involved in government projects for athletes performance enhancement and to get various sports business information. Fortunately, Red has built very good relationship with the Negoland Sports Agency through the activities of Red's sports teams and others.

14. The Sports Business Department has produced solid results. Exhibit 2 lists notable projects embarked on by the Department between 2015 and 2017. In January 2017, Red constructed Red Stadium, a covered sports stadium showcasing all the latest in Red's technological prowess in optical imaging, acoustic and air-conditioning fields in Nego-Town

With a capacity of 40,000, the Stadium can be adapted to a variety of sports events including track and field, football and rugby, and, it doubles as a venue for concerts and other non-athletic events, since it is equipped with the necessary production equipment. In addition, the Stadium has wings for an international conference center, which is fully equipped with simultaneous interpretation equipment, and a shopping mall, among others, which allow Red to earn consistent revenue even when the Stadium is not rented out for sports events or concerts.

15. Blue Corp. is a company based in Arbitria. It is engaged in professional athlete management, athlete training and development, operation of sports channels on cable TV and sports event streaming over the Internet, and planning and implementation of sports

events, among others. Blue Corp. is outlined in Exhibit 3. It serves as sports agent for some 500 professional athletes both in Arbitria and across the globe, booking engagements for games, tournaments and other appearances and handling endorsement deals on their behalf. Its initial focus on golf pros has expanded to cover tennis, volleyball, basketball and baseball pros, for whom it negotiates a variety of contracts. It sometimes contracts and books professional players in its own management portfolio for appearances in sports events and games run by Red. Blue Corp. owns no place of business or establishment in Negoland.

16. Blue has an athletic training center in a suburb of Abu-Abu. Known as Blue Village, it has, among other things, a golf course, a driving range, 50 tennis courts, 10 football fields, a baseball field, three swimming pools, a gym dedicated to volleyball, another gym dedicated to basketball, five multi-purpose gyms, training rooms at five locations within the premises and a stadium adaptable to track and field and football, among others, with a capacity of about 5,000, in addition to accommodations, all of which are available for the training of the professional athletes under Blue's management as well as youth athletes.
17. Blue operates a training institute for youth athletes called Blue Sports Academy (BSA). Once enrolled, students are trained under first-class coaches at Blue Village. Promising students can apply for scholarships, which cover BSA's annual tuition of US\$30,000 and up. BSA has produced a string of successful professional athletes. BSA Alumni who are Arbitrian nationals include Margaret Williams with many wins under her belt on the international women's tennis circuit; Jack Tiger, a regular on the men's golf top earners list; Carl Bolt, a world renowned 100-meter sprinter; Sarah Hosszu, a leading swimmer who excels in freestyle, butterfly and medley; and LeBron Jordan, a basketball star, to name a few. They were all coached by BSA faculty from an early age and have climbed their way up to the top. Needless to say, Blue Corp. acts as their sports agent.
18. In addition, Blue Corp. operates Blue TV, a cable TV franchise dedicated to sports events. About 50 percent of the households in Arbitria subscribe to Blue channels to satisfy their strong interest in sports. From 2015, it began sports-related streaming services over the Internet, attracting new subscribers from outside Arbitria.
19. Blue Corp. is also involved in planning and running sports events. One of the well-known events run independently by Blue Corp. is Blue Festa, held twice a year at Blue Village. Kids in elementary, junior high and high schools can attend youth sports clinics taught by

guest pros contracted by Blue and have a chance to play games with them. Blue also runs events and games in cooperation with other organizations from Negoland and abroad, and plans, runs and supports programs commissioned by organizing committees of various sports events and games. Blue enjoys an established reputation around the world for excellent planning and successful event execution.

20. Red and Blue have often teamed up with each other since 2012, but Blue became interested in Red's technology as early as 2010, when Negoland's national teams for women's basketball and men's volleyball led by players from Red's teams did extremely well in world tournaments. Reasoning that the strong techniques exhibited by Red's players on the national teams owed much to Red's training facilities that make the full use of Red's technology, as well as its analytics, Blue wanted Red to supply the same to Blue Village.

21. On March 1, 2011, Sapphire, who oversees Blue Village operations and Ruby, who runs day-to-day business at Blue Village made a visit to Red Corp. to discuss their interest with Swan and Hawk, the heads of the optical imaging department and the sensor department of Red Corp. respectively.

Sapphire: We believe your technology is the force behind Negoland national teams' outstanding play in world basketball and volleyball tournaments. We did some research on your technology. Sure enough, your technology is undoubtedly in the world's top league. We operate Blue Village, which is a training center for top athletes, and we would like to use your technology at Blue Village.

Swan: We've heard about Blue Village. I hear it is a superb training complex.

Sapphire: Thank you for your compliment. We are proud of Blue Village in terms of its size and the environment it offers to athletes. But one area that isn't quite sophisticated is its technology. We've got to revamp the optical imaging and sensor technology for motion capture and motion analysis to aid our athletes to improve their techniques. To make Blue Village the best training facility in the world, we need your technology.

Swan: Thank you for thinking so highly of our technology. What equipment do you have in mind in particular?

Ruby: Well, we are very much interested in your cutting-edge motion capture and instant replay equipment and analytical equipment. We want to use them at our driving range, a tennis court, a football field, a baseball field, a

swimming pool, a volleyball gym, a multipurpose gym, a stadium and two training rooms. I understand that your  $\alpha$  series for sports motion capture is packed with the latest in technology, which allows ultra-high-speed, three-dimensional motion tracking for precision recording of fast movements made by an athlete or by a ball or some other moving object. And your  $\beta$  series, which consists of wearable sensors and analytics, is world-class technology. Ultra-compact sensors do not bother athletes and help us track and analyze in detail not just movements of athletes but also their mental state. I am sure your technology can make the training we give at Blue Village more effective and contribute greatly to better performance by our athletes.

Swan: I see. We developed the initial version of the  $\alpha$  and  $\beta$  series in 2008. They were used by our own volleyball and basketball teams. We have continuously upgraded both series since then with newer, improved versions based on the feedback from our players and coaches. The latest models are  $\alpha$ -4 and  $\beta$ -4 series. We plan to make further improvements frequently on an ongoing basis.

Sapphire: We are interested in your latest models.

Swan: All right. Then, I'll send my team to Blue Village to arrange details with you.

22. Subsequent to the meeting that took place on March 1, 2011, Red sent a five-member team including Swan and Hawk to Blue Village on April 1, 2011. After a tour of the Village, Swan and Hawk (Red) met with Sapphire and Ruby (Blue) to discuss details.

Swan: Thank you for the tour of Blue Village. We asked questions to your staff along the way. What an amazing place you have here. I hope you will make the best use out of our products throughout Blue Village. I believe our  $\alpha$ -4 and  $\beta$ -4 series are ready for use at all locations without any change except at the swimming pool.

Ruby: Is there any problem in using your products at the swimming pool?

Swan: For swimming pools, you need cameras and sensors specifically designed and waterproofed for underwater motion capture for optimal results, and we are not quite satisfied with our technology in these areas. If you are looking for the world's most advanced technology, Yellow Corp. is the best in trade. Yellow is based in Negoland and we worked with Yellow for a training center project in Negoland. We fitted our  $\alpha$ -3 and  $\beta$ -3 models

with Yellow's waterproof rubber, underwater cameras and sensors for the project, and the combination has worked extremely well. I think our  $\alpha$ -4 and  $\beta$ -4 series will work just fine in combination with Yellow's products. Yellow has a staff of about 30 and isn't a large company by any measure, but it has excellent technology. Its president is a friend of our president from their college days. We have worked with Yellow on many occasions, and they are hard-working people and reliable.

Sapphire: I see. We would like to have the system installed for our swimming pool too, but we don't know anybody at Yellow. I am wondering if you could introduce us to Yellow.

Hawk: Of course.

Sapphire: We would like to put the equipment into service on a full-fledged basis by January 2012. If this request is acceptable to you, I think we are ready to sign a contract.

Swan: We are glad to hear that.

Ruby: You told us frequent improvements will be made. I hope we don't have to buy the entire products again every time you introduce a new improvement.

Swan: Not every time. Some improvements are major improvements requiring significant changes to the specifications of the equipment, but many improvements only involve improvements on select parts or select sensor replacements or program updates. When we upgraded from the  $\alpha$ -2 series to the  $\alpha$ -3 series, some major changes were made, including the basic design changes and significant changes to the specifications of the equipment that resulted in the major improvements in the product performances. But having done that, we plan to improve the products' performance through a series of minor changes for the time being, like improving select parts here and there and programs, rather than massive changes affecting the equipment. The equipment may be used for at least 10 years.

Sapphire: Do we have to pay for each version upgrade?

Swan: We will replace parts and offer program updates free of charge, if you sign up for our maintenance service. Without a maintenance agreement, you would have to pay substantial costs for the replacement of parts and program updates. But we will still charge you for any major change. Many of our customers sign a maintenance contract at the same time with the purchase agreement. The maintenance contract is renewable each



year.

Sapphire: I see. I guess we'd better sign up for maintenance too. That means we will need to sign a purchase agreement for the  $\alpha - 4$  and  $\beta - 4$  series and another one for maintenance.

Hawk: You're right.

Sapphire: How much are you asking for the equipment?

Swan: The combined price for the  $\alpha - 4$  and  $\beta - 4$  series is US\$10 million. For the swimming pool, you need to set aside an extra US\$500,000 or so, I think, for the products to be supplied by Yellow. For the maintenance contract, I wonder if US\$1 million per year is acceptable to you.

Sapphire: We're looking to spend US\$10 million in total for it, including the products supplied by Yellow. Also, I wonder if you could reduce the maintenance fee.

Swan: It is difficult to slash the maintenance fee, but since you are a bulk customer looking to buy equipment for 10 locations at once, we'll try to work out details with Yellow so that the total price to you, including the price of Yellow's products, will be reduced to US\$10 million.

Sapphire: Great. I truly appreciate your effort.

23. Following the meeting between Red and Blue on April 1, 2011, Swan and Hawk (Red Corp.) accompanied Ruby (Blue Corp.) to Yellow Corp. on April 15 to meet with Orange, Yellow's president.

Ruby: We've decided to purchase Red's  $\alpha$  series and  $\beta$  series for our sports facilities. To use them at our swimming pool, we need your technology, which I hear is the best in trade.

Orange: We are very confident of the quality of our products. Our compatibility with Red's products is also outstanding. Please be assured that we will meet your delivery deadline.

Swan: There are two ways of arranging assembly and delivery to Blue Village. If Yellow's rubber, cameras and other supply are shipped to Arbitria, then, we will bring our  $\alpha$  and  $\beta$  series to Arbitria and assemble the products there by integrating Yellow's products into ours for delivery to Blue Village. If Yellow's rubber and other supplies are shipped to our premises in Negoland, we will assemble the products here in Negoland by integrating Yellow's products into ours and then bring the finished products to Blue Village. Which option would you prefer?

Orange: It would be a bother if we would need to send my people all the way to Arbitria. It would be more convenient for us, if we could ship our products to Red right in Negoland. This way, my technical staff can work with Red's technical team on the premises of Red for assembly before finished products are shipped to Blue Village.

Hawk: Would it be all right with you too?

Ruby: As far as Blue is concerned, we have no objection. I guess we are signing a contract involving three parties.

Orange: That's fine with me.

Swan: For details our legal team will contact your legal department.

Orange: Yellow doesn't have a legal department. I will directly handle the agreement.

24. After the April 15/2011 meeting at Yellow's office, Red and Blue worked out details of the contracts. Yellow was also involved in preparing an agreement for the products installed at the swimming pool. Red was responsible for drafting, and the drafts it prepared were submitted to Blue's Legal Department (and also to Yellow for the swimming pool portion) for their review. Blue requested the inclusion of a liquidated damages clause, under which Blue can recoup damages (which amount cannot be easily ascertained or substantiated) in the event of failed product delivery or failed execution of the maintenance service. Yellow refused the request, while Red accepted it. Yellow requested no revision of the drafts. The finalized contracts for the sales of the products are given in Exhibits 4.

25. The  $\alpha$ -4 and  $\beta$ -4 series were delivered to Blue Village as scheduled in December 2011. Red and Blue entered into the maintenance contract as shown in Exhibit 5 in December 2011 and the  $\alpha$ -4 and  $\beta$ -4 were put into service in January 2012. The  $\alpha$ -4 and  $\beta$ -4 series were welcomed by the athletes and their coaches, who wanted to make the best use out of them. As a result of more effective training offered at Blue Village, a number of athletes training there experienced improvements in their scores and performance compared with the previous year. In December 2012, Sapphire of Blue Corp. visited Red's head office to inform them of the success Blue enjoyed after its purchase of the  $\alpha$ -4 and  $\beta$ -4 series.

Sapphire: Your  $\alpha$ -4 and  $\beta$ -4 exceeded our expectations. I am so glad we got them.

Swan: I'm very happy for you.

Sapphire: We will definitely continue to use them. But I have one suggestion. I wonder if you could have your staff come visit Blue Village to get feedback

from our athletes and coaches. I am sure their opinions will be useful when you work on your next upgrade. We would love to see you reflect our feedback on your future versions. And we would like to see  $\alpha$  - 4 and  $\beta$  -4 made specifically for golf and tennis too.

Swan: Very attractive suggestions, indeed. For user feedback and data, we always rely on the athletes belonging to our teams and clubs. Feedback from first-rated athletes and promising youth from across the globe who gather at Blue Village for training and their coaches will take the quality and quantity of data and opinions we gather to a higher level.

Sapphire: I don't want to sound too presumptuous, but in return, we would like you to restrict the distribution of future upgraded versions you create based on the feedback and data you obtain from us. In other words, could you make the upgraded versions available only to us? We all live in a highly competitive world.

Hawk: Well, I find it rather difficult to accommodate your request. You see, for a future version upgrade, we will use feedback and data we get from Blue Village and other sources as well. And we also have to consider other customers.

Sapphire: How about making an upgrade as test version first and releasing it only to us. After two years of "testing," you will be free to release the upgraded version to anyone you like.

Swan: I think we could do it, if the "testing period" would be one year instead of two.

Sapphire: Fine. Let's draft an MOU on this.

Subsequently, the MOU shown in Exhibit 6 was signed between Red and Blue in January 2013.

26. From March 2013, Red frequently dispatched its staff to Blue Village to gather opinions on the  $\alpha$  and  $\beta$  series from the athletes and coaches there. They also validated data on the  $\alpha$  and  $\beta$  series. In January 2015, a new "test" version of an  $\alpha$  and  $\beta$  update, which were named  $\alpha$  -5 and  $\beta$  -5 respectively, was created based solely on the feedback and data obtained from Blue Village, and was released to Blue Village. Compared to the previous version,  $\alpha$  -5 and  $\beta$  -5 provide athletes with more information by making image processing easier and offering a broader array of analytical tools, which owed much to improved programs. The "test" version was enthusiastically received by the athletes and coaches at Blue Village. In January 2016, the version was made available

for general release and was bought by dozens of customers around the world.

27. Red continued to gain feedback and data from Blue Village after  $\alpha$ -5 and  $\beta$ -5 were completed in 2015. From January 2015, Red decided to station two staff members at Blue Village on a full-time basis to provide maintenance, to teach how to use the products and to collect feedback and data at Blue Village. In August 2016, the test version of another upgrade known as  $\alpha$ -6 series and  $\beta$ -6 series was released to Blue. Improved image processing software used in  $\alpha$ -6 allowed more detailed image data while  $\beta$ -6 came with an additional new functionality of spotting and identifying, through AI-driven analyses of the data the sensors obtain, an athlete's weaknesses and areas requiring improvements. Again, the new version was well received by the athletes and the coaches at Blue Village and contributed greatly to performance enhancements.  $\alpha$ -6 and  $\beta$ -6 were released for general use in August 2017. There was no upgrade of Yellow's products when  $\alpha$ -5 and  $\beta$ -5 as well as  $\alpha$ -6 and  $\beta$ -6 series were provided to Blue.
28. In June 2017, Blue made some specific requests in connection with a future version upgrade from the  $\alpha$ -6 and  $\beta$ -6 series, hoping to solve an issue it encountered during their use at the swimming pool. Blue had discovered that some subtle inaccuracies were occasionally spotted with respect to the images and the sensors, when using the  $\alpha$ -6 and  $\beta$ -6 series at the swimming pool, depending on water conditions and water temperatures. In order to help swimmers push harder to improve their performance even by one one-hundredth of a second, which can make a difference in competitive swimming, all inaccuracies, however slight or subtle, must be eliminated. When Blue approached Red's staff stationed at Blue Village and asked for the latest, cutting-edge equipment causing no such inaccuracies, Red's staff informed Blue that the problem was attributable to the underwater cameras and underwater sensors supplied by Yellow and asked Blue to take the matter to Yellow. So, Ruby (Blue Corp.) headed for Yellow Corp. in Negoland to discuss the issue with Orange of Yellow Corp.

Orange: Regarding your problem, I did my homework. You came to me at the right time, indeed. We just completed the latest models of underwater cameras and underwater sensors. The development was a secret project and was not disclosed to anyone outside of Yellow. The new underwater cameras and underwater sensors will completely solve the issue you have. I am confident that the new cameras and sensors are the best in the world in terms of quality. They cost a little more, but I think you'll find them helpful in your bid to become the world's No. 1 training facilities. And

they work very well with the  $\alpha$ -6 and  $\beta$ -6 series.

Ruby: Your new cameras and sensors sound very attractive. We insist on products delivering the best performance in the world. Please let us run performance tests.

29. After that meeting, Blue asked Orange to bring the new underwater cameras and sensors developed by Yellow for testing at Blue Village.

Sapphire: We are quite satisfied with the performance of the new underwater cameras and sensors of yours. We are focusing strongly on swimming for the 2018-2020 seasons, and we would love to have your products. May we ask how much they are?

Orange: US\$3 million per set.

Sapphire: When can we have the product delivered?

Orange: We should be able to deliver it by mid-July.

Sapphire: We would love to take delivery by mid-July. But we have one problem. We have almost used up our budgets for the training facilities for this year. Would it be possible to defer our payment until the next business year?

Orange: It would be difficult.

Sapphire: If you agree with the payment due date of January 2018, we'll agree to your asking price of US\$3 million. If not, I am sorry, but the deal is off.

Orange: In that case, I guess I'll accept your request. By the way, the new underwater cameras and the new sensors require periodic maintenance every month or so. They are built on very special technologies and only my technical team can perform maintenance. And for maintenance, you will be billed US\$30,000 each year.

Sapphire: Do you mean we need to have a maintenance contract?

Orange: Yes, maintenance is absolutely necessary. Ours is a high-performance product. However, if you forget the maintenance, it will quickly become in bad shape. Please consider a maintenance contract as attached to the product purchase.

Sapphire: If maintenance costs us an extra US\$30,000 each year, can you lower the price of the products to US\$2.5 million?

Orange: I already told you that we'll wait for your payment until January next year; we can't afford to offer you any discount on the product.

Sapphire: I see. To summarize, the product will be delivered in mid-July; the product is priced at US\$3 million; and a three-year maintenance contract will be

signed for the product.

Orange: That's a deal. I'll prepare the contracts for you.

30. Following the above discussion, Yellow and Blue signed the contracts which are shown in Exhibits 7 and 8. Red was informed by Blue of the above discussion and the agreements reached between Blue and Yellow. Yellow's new product was delivered to Blue as scheduled in mid-July. Yellow's and Red's staff worked together to remove the old cameras and sensors from the  $\alpha$ -6 and  $\beta$ -6 series already installed at the swimming pool to replace them with Yellow's new models. Red performed this work as part of its regular maintenance work. Once installed, the new cameras and sensors outperformed the previous ones by unveiling their superb capabilities and Blue was satisfied with the products very much.
31. In September 2017, Yellow approached Red for a three-month loan of US\$3 million. Yellow claimed it was facing a working capital squeeze as a result of the payment deferral granted to Blue until January 2018 for the underwater cameras and sensors it sold to Blue. When Yellow signed the sale and purchase agreement with Blue in June 2017, Yellow thought it would somehow stay liquid without the payment from Blue until next year, but due to a series of unexpected expenditures, the company's working capital plummeted. Yellow told Red that Yellow was expecting to receive funds from another customer in November, at which point Yellow could repay the loan to Red. Yellow was unable to obtain a loan from the bank with which it did business, because Yellow had already borrowed up to its credit limit. As collateral, Yellow was willing to pledge the US\$3 million claim it had against Blue. Red, having taken into consideration the good, reliable standing of Yellow Corp., the short (three month) term of the loan and the likelihood of being able to recoup the funds from Blue even in the event of default by Yellow, loaned US\$3 million to Yellow on October 1, 2017 repayable by December 31, 2017. On the same day, Yellow notified Blue that Yellow's claim against Blue was pledged to Red to secure debt. Sapphire of Blue, which had received the notice, made a phone call to Swan of Red, and had the following phone conversation on October 3, 2017.

Sapphire: We have received a notice of assignment from Yellow. Does the fact Red has to make a loan to Yellow mean the business condition of Yellow is bad? The new cameras and sensors need regular maintenance, so we have purchased them as a set. We would have a serious trouble, if Yellow has some trouble and fails to perform a regular maintenance.

Swan: We will make a loan to Yellow for the working capital. The loan was made

because the due date of your payment of the purchase price was agreed to be the end of January. We have not heard that the business condition of Yellow is getting bad. Yellow is the important partner of Red and is essential to the function of  $\alpha$  series and  $\beta$  series, so we will give the best support possible to keep proper maintenance by Yellow. We had the right to the payment of the sales price assigned because our internal rule requires collateral. However, I do not expect that we will enforce our security right.

Sapphire: I see. You mean we do not need to worry. If so, we will inform Yellow that we acknowledge the assignment.

Swan: Yes, please.

On October 5, Blue informed Yellow of its acknowledgment of the assignment.

32. Bankruptcy proceedings were commenced on behalf of Yellow Corp. on January 5, 2018. Yellow went broke when the anticipated incoming payment in November, which Yellow had counted on to replenish its cash, never came, due to the payer's bankruptcy. Before the bankruptcy, on December 15, 2017, Yellow had approached Red and asked for US\$3 million emergency loan without collateral. Red had replied that it was unable to make such an urgent loan and it refused the request. In the wake of Yellow's bankruptcy, Red's loan to Yellow was not repaid, and Red notified Blue and the trustee in bankruptcy that Red exercised the security interest in the claim previously held by Yellow against Blue, which Yellow had pledged to Red as collateral for the loan Red granted to Yellow. There is no dispute in regard to the validity of the creation of the collateral in favor of Red and the exercise of the security interest by Red under the bankruptcy and collateral laws of Negoland and of Arbitria. In this Problem, UNIDROIT Principles for International Commercial Contracts 2016 is the only rule to be considered in relation to the content and effect of the assignment. Because of Yellow's financial difficulty, the maintenance work on the underwater cameras and sensors scheduled in late November was not performed, and the failed maintenance began to take its toll on the performance of the cameras and sensors in the middle of December 2017. By the idle of January 2018, the performance of the cameras and sensors deteriorated to such a degree that the previous cameras and sensors would work better. Therefore, Blue removed the sensors and cameras and re-installed the old ones.
33. In August 2017, Red came up with a new  $\beta$  - 7 series. It allows the coach to read data on athletes' movements, physical conditions and mental state in addition to providing results

of AI-driven analyses, which are transmitted real-time directly to a PC or other mobile device, and it does all of the above without physical sensors worn by athletes. The new feature has broadened applications, as it helps the coach analyze the performance and identify weaknesses and flaws of his own players AND of the opponent's during a game. Furthermore, by setting up the device in advance to suit the characteristics of a specific sport, the coach receives advice on the opponent's specific weaknesses and flaws that his team can attack. The  $\beta$  - 7 series was built on the previous  $\beta$  - 6 series, to which Red added a new set of technologies it developed by testing and experimenting with them on the players on its teams. Note that Red never sought the specific cooperation of Blue in developing the  $\beta$  - 7. (however,  $\beta$  - 7 would not have been developed without the development of its predecessor,  $\beta$  - 5 and  $\beta$  - 6). During the development of  $\beta$  - 7 from August 2016 to August 2017, Red's staff stayed in Blue Village, and obtained the feedback and data on  $\alpha$  - 6 and  $\beta$  - 6 series. With these feedback and data,  $\beta$  - 7 resolved some bugs which had been found in  $\beta$  - 6 and the visibility of the display screen which shows the analyzed results was improved by making a minor changes of the design of the display screen and the color of the text. However, the feedback and data were never used to make other improvements. Because the new  $\beta$  - 7 series identifies opponents' weaknesses and flaws and sends strategic advice on how to attack the opponent's weaknesses to the devices held by team managers, coaches and analysts, it is expected to work miracles during baseball and other games and matches requiring real-time analysis of the counterparties. Armed with the test version of the  $\beta$  - 7 series, Red's volleyball and basketball teams accumulated many wins during the 2017 Negoland national league season.

34. Blue, having discovered that the  $\beta$  - 7 series was ready, requested that Red supply the  $\beta$  - 7 series to Blue as a test version, just as Red had created test versions for the  $\beta$  - 5 and  $\beta$  - 6 series for it before. However, the request was met by Red's refusal. On January 15, 2018, Hawk (Red) and Sapphire (Blue) discussed the matter face to face.

Sapphire: Could you explain to me why you can't give us the  $\beta$  - 7 series?

Hawk: We are just following the instructions of the Negoland Sports Agency. As I informed you earlier, Negoland will host international tournaments for volleyball, basketball and badminton in 2018. The Sports Agency plans to achieve its objective of taking the public interest in sports to a higher level by taking advantage of these tournaments. To draw the attention of the public to the tournaments, our national teams must win. For this reason, even during the development, the Sports Agency issued a directive



asking us to refrain from distributing the  $\beta$ -7 series to any party outside of Negoland. The  $\beta$ -7 series can be a very powerful weapon; it is no wonder the Sports Agency gave us such a directive.

Sapphire: But according to the agreement between you and us, you are required to give us a test version of each upgraded version of the  $\alpha$  and  $\beta$  series before you make the upgrade available to others.

Hawk: We developed the  $\beta$ -7 independently. So, we are not required to give you a test version in advance of distribution to anyone else.

Sapphire: I don't think so. Without  $\beta$ -6, the predecessor of  $\beta$ -7, you couldn't have developed the  $\beta$ -7 series, and the  $\beta$ -7 series was developed by you using the feedback and data you obtained from us. And besides, according to the agreements, you are under obligation to furnish us with a version upgrade at least, if not a test version, when you come up with a new version.

Hawk: The  $\beta$ -7 series involved massive changes to the main body of the equipment and it is not covered by the complimentary upgrade.

Sapphire: The previous version upgrades on the  $\beta$  series involved replacements of the main body of the sensors and amended programs and so forth and yet, you never charged anything for these upgrades. How come the  $\beta$ -7 alone is not covered by your complimentary upgrade?

Hawk: That's because the  $\beta$ -7 boasts capabilities that are several levels higher than the previous ones, so in that sense, the  $\beta$ -7 series is in a different league altogether, rather than being a mere upgraded version of the previous one.

Sapphire: Even if we hypothetically accept your argument that the  $\beta$ -7 is in a different league, we still request that you supply the  $\beta$ -7 series, and we are willing to pay for it.

Hawk: Unfortunately, according to our legal department, as far as the version upgrade to the  $\beta$ -7 series is concerned, we are in a position to decide whether or not to grant an upgrade to you, and it is not within your rights to request an upgrade. And the Sports Agency made it clear that if we don't comply with the directive, the Agency will pressure the Ministry of External Trade so that export control and restrictions will be imposed on the  $\beta$ -7 series, banning its exports without the permission of the Ministry of External Trade. If we dare to supply  $\beta$ -7 to you, the relationship with the Agency would definitely deteriorate, and the Ministry of External Trade would most likely stop the export immediately.

Sapphire: If you cannot give us the  $\beta$ -7 series, we will be forced to seek damages pursuant to the agreements.

Hawk: I hope you will understand the situation we are in, but if your legal interpretation differs from ours, we will be forced to take the matter to arbitration. If damages are awarded to you, we will offset the damages with the US\$3 million claim we obtained from Yellow.

Sapphire: Let me talk about the US\$3 million claim against us which was previously held by Yellow and now in your possession. The new underwater cameras and sensors are now useless, because no one has performed maintenance since Yellow's bankruptcy. As a result, we suffered damages amounting to US\$3 million, at least (there is no dispute between Red and Blue that Blue suffered US\$3 million loss due to lack of maintenance). Therefore, we have a claim for damages of US\$3 million with which we set off the debt of US\$3 million for the purchase price, so we are not under obligation to pay US\$3 million. There was no arbitration clause in the agreements we signed with Yellow, so arbitration may not be used for your proposed offsetting with the claim you have.

Hawk: As far as we are concerned, the claim which is payable by you for your purchase of the underwater cameras and sensors is a completely separate matter from the maintenance contract. Only the claim was transferred to us and we have nothing to do with the maintenance contract.

Sapphire: Your company fully understood that the maintenance is absolutely necessary for these cameras and sensors. We cannot accept that we have to pay while the maintenance is not available.

35. Red and Blue continued their negotiations, but they have yet to settle the dispute. At the end of January, the US\$3 million claim against Blue, which had been previously held by Yellow and subsequently transferred to Red, became due, but Blue, claiming that it incurred damages arising from Yellow's failure to perform the maintenance contract, refused to pay the amount to Red. At the same time, Blue demanded that Red provide the  $\beta$ -7 series to Blue or else it will seek damages from Red. Blue continues to pay the maintenance fees as stipulated in the Agreement as shown in Exhibit 5. So far, Negoland Sports Agency is the only customer that Red has provided  $\beta$ -7. The dispute concerning the above is referred to as the " $\beta$  Case."

36. Another dispute has arisen between Red Corp. and Blue Corp. It concerns a sports

event which the two companies planned together. In October 2016, Swallow, the head of Red's Sports Business Department, and Diamond, the head of Blue's Marketing Department, agreed to organize a series of team events between Negoland and Arbitria to celebrate 150 years of diplomatic relations between the two nations, as well as the unveiling of the new Red Stadium and the twentieth anniversary of Blue Village. Red wanted to use the sports event to accomplish its own agenda of expanding its sports business through greater publicity it is expected to gain for its sports business and for the Red Stadium not just from the people in Negoland but also from its neighboring country Arbitria, known for avid sports fans. Blue aimed to use the event to showcase Blue Village and make it a recognized name in Negoland and among Negoland's outstanding athletes, in particular, thereby attracting them to Blue Village for training and to Blue Corp. for athlete management contracts.

37. Red and Blue approached Negoland's Sports Agency and Arbitria's Sports Ministry with the proposal. The two governments showed great interest in the event and agreed to support it. Named "Nego-Abu Cup" by Red and Blue, the event was to be run as a joint venture between the two. Specific details decided by the two companies for the Nego-Abu Cup are given below:
  - (1) Red and Blue will jointly organize a steering committee. The steering committee will be made up of 10 members who will oversee the operation of the Nego-Abu Cup. Red and Blue will send five members each to work for the steering committee.
  - (2) The cost needed for the operation will be equally borne by Red and Blue. However, the cost incurred in Negoland will be the responsibility of Red, while the cost incurred in Arbitria will be the responsibility of Blue.
  - (3) Track & field, swimming, volleyball, basketball, golf and tennis will constitute the Nego-Abu Cup, and all games will be team games to be fought between Negoland and Arbitria.
  - (4) Games will be held during the July 1 - July 22, 2018 period.
  - (5) Track & field, swimming and tennis games will be held in Nego-Town in Negoland. Specific venues are: the Red Stadium for track & field, the National Swimming Center for swimming and the Nego-Town Tennis Center for tennis.
  - (6) Volleyball, basketball and golf will be held at Blue Village in Arbitria.
  - (7) The teams under Red's ownership will participate in volleyball and basketball games. The Blue Rockets, which is the basketball team Blue owns, and for which LeBron Jordan plays, will participate in the men's basketball games.
  - (8) Margaret Williams, Jack Tiger, and Carl Bolt, all of whom are managed by Blue, will

participate in tennis, golf and track & field respectively.

(9) Ticket sales for all the games held at venues located in Negoland will be the responsibility of Red, and sales revenue will go to Red.

(10) Blue will be responsible for ticket sales for all the games held at venues located in Arbitria and sales revenue will go to Blue.

(11) Videography/photography at venues in Negoland and in Arbitria and the cost thereof will be the responsibility of Red and Blue respectively.

(12) Videos of the event will be distributed in Negoland by Red via Red's streaming programs. In Arbitria, Blue will televise the event on Blue's own cable TV channels. In addition, the broadcasting rights will be sold to terrestrial TV networks in Negoland and Arbitria for broadcasting. Blue will be in charge of the sales of broadcasting rights to TV networks. Profits from event telecasting will be shared equally between Red and Blue.

Based on the above arrangements, Red and Blue signed the agreement shown in Exhibit 9 and organized a steering committee. The steering committee started the preparation for Nego-Abu Cup.

38. Initially, Sarah Hosszu was not scheduled to come to the event, due to a prior commitment elsewhere, but she became available when that event was called off. As a condition for her to come and compete during the Nego-Abu Cup, she requested first-class air travel to Nego-Town from Western Europe, where she was scheduled to appear immediately before the Nego-Abu Cup. The steering committee accepted her request, and Blue informed the steering committee of her participation. For Hosszu's participation, Blue made a notice to the steering committee, which was copied to Red, as shown in Exhibit 10. Both the steering committee and Red Corp. replied to Blue that they would welcome the participation of Hosszu.

39. Red and Blue planned to organize a massive publicity drive for the Nego-Abu Cup. The fact that it will be team competition where Negoland and Arbitria fight face to face as countries helped elevate the public's interest in both countries. Also, the roster of globally renowned teams and athletes, including Red's volleyball and basketball teams, Margaret Williams, Jack Tiger, Carl Bolt and Sarah Hosszu, bolstered sales of tickets, which were sold out immediately. TV stations in Arbitria took great interest in the event and bought broadcasting rights primarily for games featuring well-known teams and athletes. Internet streaming in Negoland is based on pay-per-view. Revenue from Internet streaming will depend on how many viewers purchase events for viewing via the

Internet. Revenue generated from the sold-out ticket sales, operating costs and income from sales of broadcasting rights based on the prices agreed by TV networks are outlined below for each sport category.

(US\$ Thousands)

Sport category	Date	Ticket sale	Operating cost	Sale of Broadcasting rights	Ticket sale+Sale of Broadcasting Rights- Operating costs
Volleyball	7/1-8	500	800	600	300
Basketball	7/3-8	750	1,300	1,000	450
Tennis	7/8-15	750	1,200	1,000	550
Golf	7/11-15	600	900	800	500
Field and Track	7/7-15	750	1,200	1,000	550
Swimming	7/14-22	500	900	800	400

40. Volleyball, basketball and golf went ahead as planned without problems and were a huge success. However, track & field, tennis and swimming were jeopardized by serious troubles. First, the appearance of Carl Bolt, who was scheduled to compete in track & field, was canceled on account of a doping violation. In January 2018, a surprise doping test was conducted by Arbitria's Anti-Doping Organization and a prohibited substance was found in Bolt. Bolt was on 10 different supplements which were given under the supervision of his trainer, who was Blue's employee. It was discovered that one of the supplements administered to Bolt contained a banned substance. According to the trainer, he had tested not all but only a few of the ten supplements administered to Bolt and he failed to discover a prohibited substance in one of the untested supplements. The presence of a banned substance went unnoticed, and Bolt was given the supplement in question all along. On April 16, 2018, the Anti-Doping Organization of Arbitria imposed a four-year suspension on Bolt. Bolt in reply claimed that he took the supplement without "gross error or negligence." Paragraph 10.5.1.2 of Arbitria's Anti-Doping Rules (its content is the same as the World Anti-Doping Code) stipulates that disciplinary action may be reduced to a reprimand or the term of suspension may be reduced to two years or less, if "no gross error or negligence is found." Blue informed Red of the incident, and on May 7, 2018, a meeting was held between them to discuss the issue.

Diamond: I expect that Bolt's suspension will be reduced to one month or so at the longest, because there was no gross error or negligence. We have filed a petition requesting emergency arbitration of the Sports Arbitration Tribunal of Arbitria seeking an annulment of the suspension or a reduction. It won't take longer than two weeks for the Sports Arbitration Tribunal of Arbitria to decide on the case, so there won't be a problem in letting him compete in July.

Swallow: Bolt did commit a doping violation whether or not it was committed by gross error or negligence, so I'm afraid it would be difficult to invite Bolt to the event. Besides, at this point, the decision by the Arbitration Tribunal hasn't been made yet.

Diamond: I think the Arbitration Tribunal is highly likely to reduce the suspension of Bolt to less than a month. To settle the matter, why don't we set up a press conference for Bolt after a decision by the Arbitral Tribunal is made, and let him declare that he made no mistake and that he will be extra cautious in the future about the supplements he takes?

Swallow: We disagree.

Diamond: Then why don't we wait until an arbitral decision is made, and come up with appropriate action then?

Swallow: We should declare right away that we have canceled his appearance on account of his doping violation to show our resolute stand against doping. Also, we need time to find an athlete who will take the place of Bolt.

Diamond: Do you have any athlete in mind?

Swallow: I must find one ASAP.

Diamond: We don't really agree with your opinion, but since track race will be held in Negoland, we respect your opinion on this.

Subsequent to the above discussion, Red announced the cancellation of Bolt's appearance. Later, the Sports Arbitration Tribunal of Arbitria accepted Bolt's claim and, as expected by Blue, greatly reduced his suspension term to one month (the commencement date is April 16, 2018 when the Anti-Doping Organization of Arbitria imposed the suspension). The decision by the Arbitration Tribunal was made only two weeks before the Nego-Abu Cup, because the arbitral tribunal asked a foreign laboratory to analyze the supplements as part of the examination of evidences requested by Bolt and such analysis took much time.

41. As soon as the news of the canceled appearance became viral, ticket holders rushed to the steering committee for a refund. According to the attorneys retained by Red, Red, which was responsible for ticket sales in Negoland, would have to refund the tickets in the event of Bolt's appearance cancellation, to comply with the Consumers Act of Negoland (the Consumer Act of Arbitria has the provision to the same effect), given the large publicity drive Red had run with advertisements featuring Bolt as a key participating athlete. In their opinion, there is a slim chance of winning a lawsuit if we go to court, though it would be wise to refund the tickets considering the reputation risk. As a result of refunds, ticket sales shrank to US\$500,000 (The costs remained unchanged). The TV stations which had agreed to buy broadcasting rights for track & field games canceled their purchases, which were allowed under the purchase contract they signed with Blue (pursuant to a clause stating that the purchaser may cancel the purchase of broadcasting rights in the event of non-appearance by a key athlete scheduled for participation. Red had agreed with the content of the contract)
42. For tennis matches, the appearance by Margaret Williams was canceled. Due to extreme weather conditions, it was announced that the temperatures of Nego-Town in July were expected to be over 35 degrees Celsius for 10-15 consecutive days and 40 degrees Celsius for some days, according to weather forecasts in one month prior to the Nego-Abu Cup. Fearing the heatwave, Williams requested the steering committee implement anti-heat measures. Williams made a specific request for a change of venue, so that her games will be held indoors at the air-conditioned Negoland Tennis Coliseum instead of the outdoor courts with no roofs at Nego-Town Tennis Center. Williams claimed that she would not be able to play tennis at a temperature near 40 degrees Celsius. Red, which was responsible for the operation of the tennis games, decided not to honor her request for the following reasons: first, a cancellation charge of US\$50,000 would be required to cancel the Nego-Town Tennis Center, which had been already booked; second, the capacity of the Negoland Tennis Coliseum is two-thirds of the capacity of the Nego-Town Tennis Center, and the switch would reduce ticket sales to US\$500,000 (Note that the operating cost would increase to US\$1.6 million due to various costs for the change of venue); and third, according to the Meteorological Agency, there is about 50% possibility that the temperatures do not reach 40 degrees Celsius during the event.
43. Concerned about playing games in 40-degree heat, as well as the potential health hazards it would bring, Williams refused to appear for the event (two other players from Negoland cancelled the participation). Blue honored the decision by Williams, who was one of the

stellar athletes under its management. Blue decided to excuse her from the games and notified to Red two weeks prior to the event. Once the decision became viral, ticket holders again rushed to the steering committee for refund. According to the attorneys retained by Red, Red, which was responsible for ticket sales in Negoland, would have to refund the tickets in the event of Williams' appearance cancellation for the same reason as the case of track & field, i.e. to comply with the Consumers Act (the Consumer Act of Arbitria has the provision to the same effect), Red would have to refund the tickets already sold, given the large publicity drive Red had run with advertisements featuring Williams as a key participating athlete. In their opinion, there is a slim chance of winning a lawsuit if we go to court, though it would be wise to refund the tickets considering the reputation risk. As a result of refunds, ticket sales shrank to US\$500,000 (The costs remained unchanged). Likewise, the TV stations, which had agreed to buy broadcasting rights for tennis games, reacted to Williams' appearance cancellation by canceling their purchases, which were allowed under the purchase contract they signed (pursuant to a clause stating that the purchaser may cancel the purchase of broadcasting rights in the event of non-appearance by a key athlete scheduled for participation.), just like they did before for track & field events. Instead of showing up for the Nego-Abu Cup, Williams ran a fee-based tennis clinic at an outdoor court at Blue Village (the temperature was 32 degrees Celsius), and Blue netted US\$100,000 in profit as a result. For your reference, the average temperature of Nego-Town during the tennis matches was on July 8-15 was 35 degrees Celsius.

44. Swimming games were also overshadowed by a no-show. Sarah Hosszu did not come to the event. According to the contract signed between the steering committee and Blue, Hosszu was scheduled to fly to Nego-Town by first class from Europe, the place of her engagement immediately preceding the Nego-Abu Cup. The steering committee told Hosszu that it had booked a first-class seat for her as requested by Hosszu so she could fly first class to Nego-Town after her appearance in Europe. At the steering committee, Emerald, a committee member seconded by Blue, was responsible for booking her flight, but he inadvertently booked an economy-class seat for her. Upon arriving at the airport in Europe, Hosszu realized that the seat the steering committee had booked for her was economy-class. Enraged by the arrangement made by the steering committee despite the contract stipulating first-class travel, Hosszu did not take the flight. (No business-class or first-class seats were available on that flight.) Emerald apologized to Hosszu and booked a first-class seat on the next-day flight, but that very night, the airport unexpectedly shut down for a week due to volcanic eruptions nearby, making it



impossible for Hosszu to arrive in time for the Nego-Abu Cup by any means (Without the volcanic eruptions, Hosszu could have boarded the flight and arrived in Nego-Town in time for the event). Emerald gave a notice to the steering committee that Hosszu would not be able to join the Nego-Abu Cup due to the closure of the airport after the volcanic eruptions, and the steering committee gave such a notice to Red.

45. Again, ticket holders rushed to the steering committee for refund, as soon as Hosszu's non-appearance was announced. Red refunded tickets for the same reason as the ticket refunds for tennis and track & field events (Under both the Consumers Act of Negoland and the Consumer Act of Arbitria, the obligation to refund would not have arisen when there had been notes on posters and/or tickets regarding the possibility of the absence of Bolt, Williams and Hosszu. However, in this case, two persons in charge in the Steering Committee (one staff member sent from Red and another member from Blue) decided not to make such notations, because the contract between Red and Blue expressly stated that those athletes would participate. Ticket sales were reduced to US\$300,000 (Costs remained unchanged). And TV stations canceled their purchases of broadcasting rights for swimming games, just like they did for the track & field and tennis games, pursuant to the provision entitling the purchaser to cancel his purchase of broadcasting rights in the event of non-appearance by a key athlete scheduled for participation.
46. After the Nego-Abu Cup came to an end, Red decided to seek from Blue a total of US\$2.1 million in damages (damages were broken down into: USD700,000 from lost ticket sales (which were further broken down into US\$250,000 for tennis, US\$250,000 for track & field and US\$200,000 for swimming) and US\$1.4 million from lost revenue from sale of broadcasting rights (1/2 each of US\$1 million for tennis, US\$1 million for track& field and US\$800, 000 for swimming), all of which were allegedly caused by a series of breaches by Blue of its promises of appearances by Bolt, Williams and Hosszu.
47. In response, Blue argued that Bolt's non-appearance was attributable to Red's decision to exclude Bolt, who committed an insignificant doping violation, as shown by the decision of the Sports Arbitration Tribunal to reduce his suspension to one-month, which was subsequently lifted before the Nego-Abu Cup. Blue also argued that the non-appearance by Williams was justified by valid reasons. As for Hosszu, Blue claimed that the promise in connection with her appearance was made to the steering committee. Even if Blue hypothetically has any liability, Hosszu's failure to appear was ultimately caused by volcanic eruptions for which Blue was not liable. It should be noted in this

connection that Red is holding Blue responsible for the non-performance of its obligations and Red has no intention of holding Bolt, Williams and Hosszu personally responsible.

48. In the wake of the announcement on Bolt's non-appearance and later on Hosszu' non-appearance, Red embarked on the urgent mission of booking athletes to fill the posts vacated by the two. At that point, it was already too late to look for replacements in Arbitria. Therefore, Red decided to give promising young athletes in Negoland a chance to take part in the event. For track & field, Red found an athlete named Asuka, who was a promising young athlete representing Negoland, to fill the void created by Bolt. During preliminaries on Day 1, Asuka set a national record for Negoland and went on to win the finals on Day 2 by setting another national record. For swimming, Erika, a young hopeful from Negoland who replaced Hosszu as a result of Red's effort, set a new national record for Negoland during preliminaries on Day 1 and won the finals by setting another national record on Day 2. Record-breaking performances by young athletes from Negoland boosted the viewership of Internet streaming by Negoland people. Many Arbitrian people viewed the Red's internet streaming, because no game was broadcast by TV networks in Arbitria. In total, the net profit from the internet streaming amounted to US\$1 million (80% of the profit was made from Negoland 's viewing and 20% was from the Arbitrian viewing). Red argues that the profit generated from Internet streaming does not need to be shared with Blue, because it was a result of Red's efforts to minimize the effect of defaults made by Blue (there is no dispute that the profit from the internet streaming would have been about US\$800,000 if Bolt, Williams and Hosszu had participated the event, and US\$300,000 without the great performance of Asuka and Erika). Blue argues that the contract shown in Exhibit 9 stipulates that the profit from Internet streaming must be shared equally by Red and Blue and therefore Blue is entitled to receive US\$500,000 from Red. The Nego-Abu Cup was broadcast on Blue TV, but it did not generate any profit (Blue TV did not make pay-par-view services), though it resulted in better services to the existing customers and new customers who wanted to watch the Nego-Abu Cup (the profit from Blue TV in July increased by US\$100 thousand due to such new customers. No payment from Blue to Red has been made relating to this US\$100 thousand). No broadcast was made in internet streaming by Blue TV. On the internet streaming by Red, not only the sports events held in Negoland videotaped by Red, but also the sports events held in Arbitria whose videos were taken and provided by Blue, were delivered. At the same time, on the cable TV of Blue, not only the sports events held in Arbitria videotaped by Blue, but the events held

in Negoland whose videos were taken and provided by Red, were broadcast. The above case is referred to as the “Event Case.”

49. Red and Blue have agreed to resolve the disputes relating to the  $\beta$  Case and the Event Case through arbitration. The two parties have also agreed that for the purpose of the arbitration proceedings, the laws applicable to the substantive matters of the cases will be UNIDROIT Principles of International Commercial Contracts 2016, irrespective of the dates on which the relevant facts arose. The claims made by each party, and the issues in dispute that must be addressed on December 1, are shown in Exhibit 11.

<Round B>

50. Red's president, Nomura, and Blue's president, Ohta, had a chance to meet with each other for a chat when the Nego-Abu Cup was over, and the arbitration proceedings began. The presidents of the two companies agreed on the following:
- (1) The idea of organizing the Nego-Abu Cup was a fine one, but it was unfortunate that the event was troubled by non-appearances by key athletes, which led to the games not televised on terrestrial TV networks and ticket refunds, among others;
  - (2) Despite all the troubles, the individual games were a blast and well received by the public, highlighted by the emergence of young athletes;
  - (3) Some spectators voiced their desire to see the Nego-Abu Cup held on a regular basis;
  - (4) The people of both countries are highly interested in sports, and there is still plenty of room for sports business to grow further in both countries;
  - (5) Sports business is significant not only in and of itself but also in boosting the health of the public;
  - (6) As for arbitration, disputes will be resolved by reaching a settlement by and between Red and Blue;
  - (7) Red and Blue will search for areas where the two companies can collaborate with each other within the sphere of sports business; and,
  - (8) The second Nego-Abu Cup will be held in one year on a larger scale than the first one.
51. Another round of negotiations began between Red and Blue to discuss and negotiate details on the above agreements reached by their presidents. Red sent the director in charge of sports business, the head of the sports business department, the head of the legal department and other concerned parties to the meeting. Blue were represented by the executive vice president, the head of the event business department, the head of the legal department and other concerned parties at the meeting. The meeting will be held at a hotel in Tokyo.
52. During the first negotiation session, Red and Blue had a discussion on arbitration. In regard to the  $\beta$  Case, it was disclosed that the Negoland Sports Agency had changed its policy and it no longer objected to the provision of the  $\beta$  - 7 series to a party outside of Negoland; therefore Red is now allowed to supply the same to Blue. However, the two companies still need to negotiate with each other whether it will be supplied to Blue free of charge or for a fee. According to Red, the price of the  $\beta$  - 7 series was US\$100,000

per set, when Red sold five sets to the Negoland Sports Agency in October 2017. This price was a special discount to support Negoland national team. As for the Event Case, the two companies have already agreed to withdraw their petitions.

53. During the first negotiation session, Red told Blue that it had a plan to build a Negoland version of the BSA and asked for Blue's cooperation for the project, which Red suggested as one possible area where the two companies could collaborate. A planning team was already created within Red's Sports Business Department with the aim of launching an academy in Negoland similar to BSA in two years. More specifically, Red requested that Blue second two of its employees to the planning team. Blue made a counterproposal that, given the number of athletes from Negoland already accepted for training at the BSA, Red and Blue should strengthen its collaboration to further promote and enhance the training-abroad program for Negoland athletes interested in attending the BSA in Arbitria.
54. During the first negotiation session, Red and Blue also talked about the second Nego-Abu Cup to be held in one years' time. They sorted out issues that need to be addressed before moving on further. It was decided that the following issues will be on the agenda of the second negotiation session:
  - (1) Dates;
  - (2) Types of sports;
  - (3) Venues;
  - (4) Governance and assignment of duties; and,
  - (5) Sales of broadcasting rights.
55. As for the dates of the second Nego-Abu Cup, Red wants to hold the event in July, just like the first Nego-Abu Cup. The key reason behind it is the absence of major athletic games or events, whether professional or amateur, scheduled for July in Negoland. If the event would be held in July, it would be easier for Red to obtain the consent of the clubs and teams for which athletes play and easier to book athletes for engagement. Blue wants to stage the event in October. Blue prefers October primarily because both Negoland and Arbitria are prone to extreme heat exceeding 35 degrees Celsius in July, and it could trigger health hazards in athletes. Blue also said it would have no problem booking the athletes under its management for October engagement.
56. During the first negotiation session, the companies agreed that the six sports contested

at the Nego-Abu Cup this year will be played again at the second Nego-Abu Cup, and that the number of sports contested will be drastically increased from six sports contested at the first Nego-Abu Cup to 15 sports. During the second negotiation session, the two companies are scheduled to decide, through negotiation, which nine sports will be added to the list. Results of surveys on popular sports in Negoland and Arbitria are given in Exhibit 12. It has been decided that the nine additional sports will be selected from among the sports listed in Exhibit 12 upon consultation between the two companies. Among sports events listed in Exhibit 12, it has been decided that equestrian, football, athletics, canoe, golf, rugby, shooting, cycling, sailing and baseball will take place outdoors.

57. For the first Nego-Abu Cup, Negoland and Arbitria secured venues for three sports each on their respective lands, and it turned out that all games in Negoland were held in Nego-Town while all games in Arbitria were held at Blue Village. Red said that in addition to having Negoland and Arbitria host 1/2 of the sports each, there is another option, that is, the two countries alternate in serving as host country, assuming that the Nego-Abu Cup will be a periodically held event. In other words, if Negoland hosts all sports for the next Nego-Abu Cup, then Arbitria will host all sports for the following Nego-Abu Cup and so forth. Red also suggested that games for the second Nego-Abu Cup be held at places other than Nego-Town and Blue Village. Blue expressed its wish to unveil the new, improved Blue Village during the next Nego-Abu Cup. Blue Village is being revamped with plans to renovate the existing stadium and to construct a large gymnasium equipped with spectators' seats. The new gymnasium is designed to be used for all indoor sports except swimming. The estimation of ticket sales, operating cost and price of broadcasting right will not change depending on the scale and owner of venue, dates of the event and time of matches. No more than two sports events may be held at one facility (each facility in Blue Village may hold only one sports event).
58. For governance and allocation of duties, it has been decided that the governance structure will be based on the structure of the first Nego-Abu Cup, while the steering committee will be enlarged with each company seconding 15 employees to the committee to work there on a dedicated basis to accommodate the additional sports to be scheduled for the next Nego-Abu Cup. The two companies are scheduled to decide, during the next negotiation session, whether operations of games and ticket sales should be centralized in the hands of a subcommittee to be set up for each sport and placed under the steering committee or, like before, Red and Blue will separately be in charge of specific sports in

terms of operations and ticket sales.

59. During the first negotiation session, the two companies agreed that event shooting, the streaming of programs over the Internet by Red and the televised event over cable TV channels by Blue, as well as sales of broadcasting rights to terrestrial TV networks, should be handled in a more strategic manner than the first Nego-Abu Cup in which Red's and Blue's responsibilities in this regard were disconnected with each other. Because the next Nego-Abu Cup will be held on a larger scale, it is important to plan carefully on how to fund the event. In addition, the two companies are aware that sales of broadcasting rights will be a large source of income.
60. Operating results of the first Nego-Abu Cup are summarized in Exhibit 13. Although the first Nego-Abu Cup faced unexpected issues including the cancellation by terrestrial TV networks of broadcasting rights for three sports, and ticket sales in Negoland falling short of targets, both Red and Blue managed to run the games without running into the red beyond their initial financial contribution, thanks to the sold-out games in Arbitria, higher-than expected income from Internet streaming in Negoland and cost savings achieved by the use of Red Stadium and Blue Village owned by Red and Blue respectively. However, neither company can afford the same type of troubles for the next Nego-Abu Cup, which will be larger in size and incur much higher costs than the first one. During the first negotiation session, the following discussion was held between Red and Blue. It has been agreed that all income and expenses, such as financial contribution by Red, Blue and other sponsors, income and cost of games, sales profit of broadcasting rights, profit from internet streaming, etc., will be managed in the account of the steering committee, and the remaining profit, if any, would be equally distributed to Red and Blue.

Red: We have made a material to share the rough image of the projected income and expenses of the next Nego-Abu Cup. We have made a rough estimation based on the forecast that the size of the event will be 2.5 – 3 times larger than our first event.

Blue: We don't have any specific comment at this stage. It would be ideal if we achieve this amount of net profit. However, the figures will significantly change, for example, if we choose different sets of sports. It all depends on our further negotiation.

Red: Yes, you may be right.

The material presented by Red is as shown in Exhibit 14. It is expected that the figures for "other sponsors", "other income", "advertisement and marketing" and "other

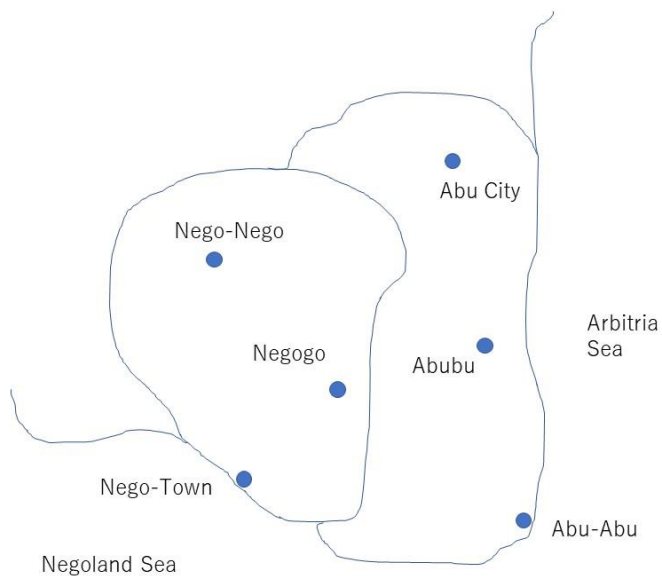
expenses” will be as shown in Exhibit 14, regardless of the choice of sports.

61. For broadcasting rights, two groups have approached Red and Blue. One such group is made up of Nego TV, the largest TV network in Negoland, and Abu TV, the second largest TV network in Arbitria. This group is willing to buy broadcasting rights for all games for a total price of the sum of US\$3.5 million (fixed amount) and 50% of the total amount of the estimated price of broadcasting rights (see Exhibit 12) of 15 sports which are to be decided to be held (floating amount). Its purchase, however, will come with strings attached, that is, it will not permit any real-time streaming or distribution of the games, including the videos produced by either Red or Blue, other than real-time terrestrial broadcasting by the group. The other group is composed of TV Negoland, the second largest TV network in Negoland, and Arbitria Broadcasting, the largest TV network in Arbitria. This group is willing to buy broadcasting rights for 10 out of the 15 sports to be contested for the sum of US\$4.5 million (fixed amount) and 40% of the total amount of the estimated price of broadcasting rights (see Exhibit 12) of 10 sports of 15 sports (floating amount), and they will decide which 10 sports to buy later when all sports are finalized. This group will not prevent either Red or Blue from doing simultaneous streaming or televising of the video content it produces over its own channels. During the next negotiation session, Red and Blue are to decide which group should be given priority in negotiating the deal.
62. During the next negotiation session, you are not prevented from discussing matters in addition to the settlement regarding the disputes brought to arbitration, collaboration between Red and Blue in the sphere of sports business, and the second Nego-Abu Cup, but you are required to decide on a direction in which these matters will be processed, at least. Details may be decided later, but if no agreement is reached during the next negotiation session on the basic direction in which to take future action, the arbitration proceedings must resume. In addition, your inability to reach an agreement may result in a decision not to stage the second Nego-Abu Cup.

[End]



# Exhibit 1



	City	Population (1,000)	Dates that recorded more than 30.0C*		Dates that recorded more than 35.0C*		Sports that can be held in this city **
			July	October	July	October	
Negoland	Nego-Town	5,000	30	2	20	0	All
	Negogo	100	20	0	15	0	Canoe, Table Tennis
	Nego-Nego	200	15	0	7	0	Baseball, Volleyball, Basketball
Arbitria	Abu-Abu	2,000	25	0	20	0	All
	Blue Village	-	18	0	15	0	Golf, Tennis, Football, Swimming, Volleyball, Basketball, Athletics
	Abubu	100	15	0	10	0	Shooting, Table Tennis
	Abu-City	300	15	0	5	0	Basketball, Volleyball
* The average number of 2016-2018							
** Due to the limitation of facilities and the desire of cities, the sports that can be held in some cities are limited as follows.							

## An Outline of Red Corp.

Corporate Name: Red Corporation

Principal Office: Nego-Town, Negoland

Shares: Traded on the Negoland Stock Exchange

## 1. Consolidated Financial Statements

(US\$ millions)		2013	2014	2015	2016	2017
	Electronic Equipment	19,500	19,600	18,900	17,900	17,000
	Construction	15,100	15,900	20,300	19,500	20,700
	IT Solution	18,100	17,600	16,500	18,500	16,900
	Electronic Components	14,300	14,900	15,500	16,700	16,400
	Sports	-	-	500	1,400	2,000
	Others	1,000	2,000	1,300	1,000	1,000
Revenue		68,000	70,000	73,000	75,000	74,000
	Electronic Equipment	1,200	2,000	1,100	1,200	1,200
	Construction	1,100	1,000	800	2,000	1,000
	IT Solution	1,000	1,100	1,500	1,600	1,700
	Electronic Components	1,000	1,200	1,000	1,200	1,500
	Sports	-	-	20	100	150
	Others	30	50	40	30	40
Net Income		4,330	5,350	4,460	6,130	5,590

## 2. Some notable projects embarked on by Sports Business Department

- Provision of its technologies to the construction of Nego-Nego Gymnasium (2015) and to Negoland National Stadium in Nego-Town (2017).
- Provision of analytical technology to Blue Village.
- Organization and operation of World Volley Ball Club Competition (2015), International Basket Ball Club Championship (2016), Nego-Abu Cup (2018)
- Red Cup Volley Ball and Basket Ball Tournament for high school students in Negoland (2015-)

## An Outline of Blue Corp.

Corporate Name: Blue Corp.

Principal Office: Abu-Abu, Arbitria

Shares: Traded on the Arbitria Stock Exchange

Consolidated Financial Statements

(US\$ millions)		2013	2014	2015	2016	2017
	Athlete Management	600	550	600	580	600
	Village, BSA	560	600	650	700	750
	Media (TV, Internet)	400	500	550	600	600
	Events	300	250	320	300	300
	Others	50	45	50	55	60
Revenue		1,910	1,995	2,170	2,235	2,310
	Athlete Management	70	60	75	80	75
	Village, BSA	40	35	30	40	45
	Media (TV, Internet)	40	40	45	50	40
	Events	30	20	30	20	25
	Others	3	5	4	3	4
Net Income		183	160	184	193	189

## AGREEMENT

This Agreement, entered into on May 15, 2011, by Red Corp., a corporation duly organized and existing under the laws of Negoland ("Red"), Yellow Corp., a corporation duly organized and existing under the laws of Negoland ("Yellow") and Blue Corp., a corporation duly organized and existing under the laws of Arbitria ("Blue"),

### WITNESSES THAT:

WHEREAS, Red has developed  $\alpha$  series, the sports motion capture system, and  $\beta$  series, the sensors and analytics for sports ("Red Products");

WHEREAS, Yellow has developed the water proof rubber, underwater cameras and sensors ("Yellow Products");

WHEREAS, Blue desires to purchase Red Products and Yellow Products (jointly the "Products") for use of the Blue Village;

WHEREAS, both Red and Yellow desire to sell the Products to Blue.

NOW, THEREFORE, it is agreed among the parties as follows:

### Article 1 PRODUCTS

1. Blue agrees to purchase and Red agrees to sell the 9 sets of  $\alpha$ -4 and  $\beta$ -4 series as specified in Schedule A to this Agreement.
2. Blue agrees to purchase and Yellow agrees to sell Blue the Yellow Products as specified in Schedule A to this Agreement.
3. Red and Yellow agrees to assemble 1 set of the Red Products and the Yellow Products for the use of the swimming pool at Blue Village, and produce the Swimming Pool Version of  $\alpha$ -4 and  $\beta$ -4 series.

### Article 2 DELIVERY

1. Trade term shall be DDP (Blue Village) Incoterms  $\text{®}$  2010.
2. The Products shall be delivered to the Blue Village by Red, and Red shall equip the Products at the location as specified in Schedule B to this Agreement by December 31, 2011.

### Article 3 PRICE AND PAYMENT

1. Blue shall pay US\$9,500,000 for the Red Products to Red. US\$5,000,000 shall be paid by September 30, 2011, and US\$4,500,000 shall be paid within one month from the date when all the Products have been equipped in the location as specified in Schedule B.
2. Blue shall pay US\$500,000 for the Yellow Products to Yellow by September 30, 2011.
3. Payments under the previous paragraphs shall be made to the bank account designated by Red (for the payment to Red) and Yellow (for the payment to Yellow).

### Article 4 WARRANTY

Red and Yellow make no warranty or condition, expressly or impliedly, including without limitation warranty as to the fitness of the Products for any particular purpose or the merchantability thereof.

. . .

### Article 10 LIQUIDATED DAMAGES

In case Red fails to deliver the Products under this Agreement, Red shall pay US\$5,000,000 to Blue upon the written request from Blue, as liquidated damages.

### Article 11 FORCE MAJEURE

No party shall be liable for failure to perform or delay in performing any obligation hereunder to the extent that such failure or delay is attributable to force majeure. The term force majeure shall mean such acts, happenings, causes or circumstances as, including, but not limited to, war, civil disturbance, labor difficulties or direction of a governmental authority which are beyond the reasonable control of the party affected.

### Article 12 GOVERNING LAW

This contract shall be construed in accordance with and governed by UNIDROIT Principles for International Commercial Contracts 2016.

## Article 13 ARBITRATION

Any dispute arising out of or under this contract shall be settled by arbitration in accordance with UNCITRAL Arbitration Rules, in the edition current at the date of this contract, in Japan.

## Article 14 ENTIRE AGREEMENT AND MODIFICATION

This Agreement sets forth the entire agreement between the parties hereto with respect to the subject matter hereof and is intended to supersede all prior negotiations, understandings and agreements. No provision of this Agreement may be waived or amended, except by a writing signed by the parties hereto.

Red Corp.  
<Signed>

Yellow Corp.  
<Signed>

Blue Corp.  
<Signed>

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### Schedule A

#### Specification of the Products

##### <Standard Version of the Red Products>

- 9 sets of  $\alpha$ -4 series (the sports motion capture system) developed and produced by Red.
- 9 sets of  $\beta$ -4 (the sensors and analytics for sports) developed and produced by Red.

##### <Swimming Pool Version>

- 1 set of  $\alpha$ -4 series (the sports motion capture system) developed and produced by Red Corp combined with the water proof rubber and underwater cameras developed and produced by Yellow.
- 1 set of  $\beta$ -4 (the sensors and analytics for sports) developed and produced by Red, combined with the water proof rubber and sensors developed and produced by Yellow.

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### Schedule B

#### Location where the Products to be equipped

The Products shall be equipped at the following 10 locations in the Blue Village.

- The Driving Range
- No. 1 Tennis Courts
- No. 1 Football Field
- Baseball Field
- No. 1 Swimming Pool (NOTE: Swimming Pool Version)
- Volleyball Gymnasium
- No. 1 Multi-Purpose Gymnasium
- The Stadium
- No. 1 and 2 Training Room

### Maintenance Agreement

This Maintenance Agreement (the “Agreement”) is made and entered effective as of December 15, 2011 by and between Red Corp. and Blue Corp.

1.       Equipment Schedules: This Agreement covers the equipment listed on the Equipment Schedule. If Red replaces equipment that is under warranty with the same model number, such replaced equipment shall also be covered under this Agreement.
2.       Services: For the fees set forth below, Red shall inspect on a regular basis, replace parts and offer program updates, and maintain in good operating condition, the equipment itemized on such Equipment Schedule (the “Services”).
3.       Fees: The fee for services to be performed under this Agreement is US\$1,000,000. Blue shall pay the fee upon its receipt of the invoice from Red.
4.       Limited/Warranty:
  - a.       Red will re-perform any Services that proves defective during the term of this Agreement. If Red cannot provide any maintenance service due to Red’s fault, we will refund that portion of the fee to Blue.
  - b.       Any materials provided during maintenance services are covered by that materials specific warranty. This agreement does not warrant any materials.
5.       Term: The term of this Agreement shall be for one year starting on the Commencement date as specified in the Equipment Schedule. This Agreement shall automatically renew for additional terms of one (1) year each unless either party gives notice of cancellation in writing to the other at least thirty (30) days prior to the expiration of the then current term. In the event of any such renewal period, the maintenance fee Blue shall pay during such period shall be as set forth above.
6.       Exclusions: Except as otherwise set forth in the Equipment Schedule, the Services to be provided for the fee as set forth in Article 3 shall not include:
  - a.       Service required as a result of abuse, misuse, electrical storms, power failures or fluctuations, glass breakage or damage, failure to follow user maintenance and operating instructions, or the failure or results of failure of interconnected equipment not specified on an Equipment Schedule,



including, but not limited to, wiring, conduit, or voice or data transmission equipment or facilities;

b. Consumable items including, but not limited to, batteries, recording devices, waterproof rubbers.

c. Services required because of service, inspection, or tampering with equipment by anyone other than Red.

d. Requested service outside Red's normal hours of operation.

e. Provision of the new version of the equipment.

If Red determines that the service requested by Blue is excluded pursuant to the above, and Blue requests Red to perform such service, the service will be provided under section 10.

7. Liquidated Damages: In case Red fails to perform its obligation under this Agreement, Red shall pay US\$5,000,000 to Blue upon the written request from Blue, as liquidated damages.

. . .

9. Parts: Unless an Equipment Schedule indicates that parts are included, Blue shall pay Red then current list price for any replacement parts necessary for the performance of service on equipment.

10. Other Services: Blue may from time to time request that Red provides other services not included in the fee set forth in Article 3. Red will use reasonable efforts to provide such service at 90% of its then current and standard hourly rates.

. . .

12. General Terms:

a. This Agreement shall be governed by and interpreted in accordance with UNIDROIT Principles for International Commercial Contracts 2016.

b. Any dispute arising out of or under this contract shall be settled by arbitration in accordance with UNCITRAL Arbitration Rules, in the edition current at the date of this contract, in Japan.

c. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Contra Proferentem is not applied to this Agreement.

Red

<Signed>

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Blue

<Signed>

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EQUIPMENT SCHEDULE:

<Standard Version of the Red Products>

- 9 sets of  $\alpha$ -4 series (the sports motion capture system) developed and produced by Red.
- 9 sets of  $\beta$ -4 (the sensors and analytics for sports) developed and produced by Red.

<Swimming Pool Version>

- 1 set of  $\alpha$ -4 series (the sports motion capture system) developed and produced by Red combined with the water proof rubber and underwater cameras developed and produced by Yellow.
- 1 set of  $\beta$ -4 (the sensors and analytics for sports) developed and produced by Red combined with the water proof rubber and sensors developed and produced by Yellow.

<Commencement Date>

January 1, 2012

### Memorandum of Understanding

Regarding the  $\alpha$  and  $\beta$  series equipped in Blue Village that were provided by Red Corp. ("Red") to Blue Corp. ("Blue"), in addition to the existing Maintenance Agreement dated on December 15, 2011 between the parties, Red and Blue agree as follows:

1. Red will send 1 or 2 staffs to Blue Village who will stay on site to get feedback from athletes and coaches and collect the data regarding the  $\alpha$  and  $\beta$  series.
2. Blue will use its reasonable efforts to provide support to the staffs of Red, including providing the room to the staffs and allowing the access to the equipment and data.
3. Red will keep the feedback and the data collected at Blue Village confidential and use them only to reflect to develop the  $\alpha$  and  $\beta$  series and to make their upgrades.
4. When Red upgrades the  $\alpha$  and/or  $\beta$  series using the feedback and data collected at the Blue Village, Red will provide the new version as the test version to Blue for a one year period before Red will release them to other customers.
5. After one year testing period, Red is free to release the upgraded version to anyone.

January 25, 2013

Red Corp.  
<Signed>

Blue Corp.  
<Signed>

Sales Agreement

This Sales Agreement (hereinafter referred to as this “Agreement”), made and entered into by and between Yellow Corp. and Blue Corp., concerns the provision of the underwater cameras and sensors newly developed by Yellow to Blue.

Article 1 Products

1. Blue agrees to purchase and Yellow agrees to sell the underwater cameras and sensors (the “Products”) specified in Schedule A to this Agreement.
2. Yellow shall deliver the Products at Blue Village by July 20, 2017.
3. Trade Terms shall be CIF (Abu-Abu) Incoterms ® 2010.

Article 2 Payment

1. Blue shall pay US\$3,000,000 for the Products to Yellow by January 31, 2018.
2. Payments under the previous paragraphs shall be made to the bank account designated Yellow.

. . .

Article 4 Warranty

Yellow makes no warranty or condition, expressly or impliedly, including without limitation warranty as to the fitness of the Products for any particular purpose or the merchantability thereof.

. . .

Article 10 Force majeure

Neither party shall be liable for failure to perform or delay in performing any obligation hereunder to the extent that such failure or delay is attributable to force majeure. The term force majeure shall mean such acts, happenings, causes or circumstances as, including, but not limited to, war, civil disturbance, labor difficulties or direction of a governmental authority which are beyond the

reasonable control of the party affected.

Article 11 Governing law

This contract shall be construed in accordance with and governed by UNIDROIT Principles for International Commercial Contracts 2016.

Article 12 Dispute Resolution

The parties submit to the non-exclusive jurisdiction of the Nego-Town District Court of Negoland in respect to all controversies arising from or in relation to the Agreement.

June 15, 2017

Yellow Corp.  
<Signed>

Blue Corp.  
<Signed>

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Schedule A

PRODUCTS:	Underwater Cameras (Version X)	1 set
	Underwater Sensors (Version X)	1 set

## Maintenance Agreement

Further to the Sales Agreement made between Yellow and Blue dated on June 15, 2017 (the “Sales Agreement”), this Maintenance Agreement (the “Agreement”) is made and entered effective as of June 15, 2017, by and between Yellow Corp. and Blue Corp.

1.       Equipment: This Agreement covers the underwater cameras and sensors that Blue purchased from Yellow under the Sales Agreement (the “Products”).
2.       Services: For the fee set forth below, Yellow will inspect on a regular basis, replace parts and offer program updates, and maintain in good operating condition of the Products (the “Services”).
3.       Fees: The fee for the Services to be performed under this Agreement is US\$30,000 per one year. Blue shall pay the fee upon its receipt of the invoice from Yellow.
4.       Limited/Warranty:
  - a.       Yellow will re-perform any Services that proves defective during the term of this agreement. If Yellow cannot provide any Services due to Yellow’s fault, Yellow will refund that portion of the fee to Blue.
  - b.       Any materials provided during maintenance services are covered by that materials specific warranty. This agreement does not warrant any material.
5.       Term: The term of this Agreement shall be for three years starting on the date of this Agreement. This Agreement shall automatically renew for additional terms of one (1) year each unless either party gives notice of cancellation in writing to the other at least thirty (30) days prior to the expiration of the then current term. In the event of any such renewal period, the maintenance fee Blue will pay during such period shall be as set forth above.
6.       Exclusions: The Services to be provided for the fee as set forth in Article 3 do not include:
  - a.       Service required as a result of abuse, misuse, electrical storms, power failures or fluctuations, glass breakage or damage, failure to follow user maintenance and

operating instructions, or the failure or results of failure of interconnected equipment not specified on an Equipment Schedule, including, but not limited to, wiring, conduit, or voice or data transmission equipment or facilities;

b. Consumable items including, but not limited to, batteries, recording devices, waterproof rubbers;

c. Services required because of service, inspection, or tampering with equipment by anyone other than Yellow;

d. Requested service outside Yellow's normal hours of operation; or

e. Provision of the new version of the equipment.

If Yellow determines that the service requested by Blue is excluded pursuant to the above, and the Blue requests Yellow to perform such service, the service will be provided under section 10.

. . .

9. Parts: Blue will pay Yellow then current list price for any replacement parts necessary for the performance of service on equipment.

10. Other Services: Blue may from time to time request that Yellow provides other services not included in the fee set forth in Article 3. Yellow will use reasonable efforts to provide such service at 90% of its then current and standard hourly rates.

. . .

12. General Terms:

a. This Agreement shall be governed by and interpreted in accordance with UNIDROIT Principles for International Commercial Contracts 2016.

b. Any dispute arising out of or in connection with this contract shall be settled by arbitration in accordance with UNCITRAL Arbitration Rules, in the edition current at the date of this contract, in Japan.

c. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Contra Proferentem is not applied to this Agreement.

Yellow  
<Singed>

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Blue  
<Signed>

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Agreement

This Agreement is made as of December 15, 2016 by and between Red, Corp., a corporation organized and existing under the laws of Negoland (“Red”) and Blue Corp., a corporation organized and existing under the laws of Arbitria (“Blue”).

WITNESSETH:

WHEREAS, Red and Blue desire to jointly organize a series of team events between Negoland and Arbitria (the “Event”) to celebrate 150 years of diplomatic relations between the two nations, as well as the unveiling of the new Red Stadium and the twentieth anniversary of Blue Village,

NOW THEREFORE, the Parties hereto agree as follows:

1. STEERING COMMITTEE

(1) Red and Blue will organize a Steering Committee. The Steering Committee will be made up of 10 members who will oversee the operation of the Nego-Abu Cup. Red and Blue will send five members each to work for the Steering Committee.

(2) Final authority, management and control of the business and affairs of the Steering Committee shall be vested in the Parties. The powers of the Parties may be exercised by resolution passed at the meeting of the Steering Committee. The Parties may at any time and from time to time by resolution passed at the meeting of the Steering Committee delegate any power or authority relating to the management of the business and affairs of the Steering Committee to any Party and the exercise of any such authority or authority by such Party shall be valid and binding upon all Parties until such power or authority has been rescinded by resolution.

(3) If a decision is not made at a meeting of the Steering Committee because of a tie vote, the matter shall be referred to a meeting of the top managements of Red and Blue.

(4) Parties shall use their best efforts and shall cooperate with each other in good faith to make the Event to be successful.

2. EVENT

(1) The name of the Event is “Nego-Abu Cup”.

- (2) Track & field, swimming, volleyball, basketball, golf and tennis will constitute the Nego-Abu Cup, and all games will be team games to be fought between Negoland and Arbitria.
- (3) Games will be held during the July 1 - July 22, 2018 period.
- (4) Track & field, swimming and tennis games will be held in Nego-Town in Negoland. Specific venues are: the Red Stadium for track & field, the National Swimming Center for swimming and the Nego-Town Tennis Center for tennis.
- (5) Volleyball, basketball and golf will be held at Blue Village in Arbitria.
- (6) The teams under Red's ownership will participate in volleyball and basketball games.
- (7) The Blue Rockets, which is the basketball team Blue owns, and for which LeBron Jordan plays, will participate in the men's basketball games.
- (8) Margaret Williams, Jack Tiger, and Carl Bolt, all of whom are managed by Blue, will participate in tennis, golf and track & field respectively.

### 3. DIVISION OF ROLES, COST, PROFIT

- (1) Planning, organization, management, promotion, ticket sales of the games held at venues located in Negoland will be the responsibility of Red, and planning, organization, management, promotion, ticket sales of the games held at venues located in Arbitria will be responsibility of Blue.
- (2) Parties understand that the participation of the teams and players as mentioned in Article 2(6)(7)(8) is important element for the success of the Event. Red is responsible for the participation of the teams as mentioned in Article 2(6) in good condition and Blue is responsible for the participation of the team and players specified in Article 2(7) and (8) in good condition.
- (3) The Parties shall be responsible to arrange the venue suitable for the games.
- (4) Ticket sales revenue for all the games held at venues located in Negoland will go to Red, and ticket sales revenue for all the games held at venues located in Arbitria will go to Blue.
- (5) Videography/photography at venues in Negoland and in Arbitria and the cost thereof will be the responsibility of Red and Blue respectively.
- (6) The cost needed for the operation will be equally borne by Red and Blue, provided that, the cost incurred in Negoland will be the responsibility of Red, while the cost incurred in Arbitria will be the responsibility of Blue.
- (7) Videos of the Event will be distributed in Negoland by Red via Red's streaming programs. In Arbitria, Blue will televise the Event on Blue's own cable TV channels, and it will sell broadcasting rights to terrestrial TV networks for broadcasting.
- (8) Profits from Event telecasting will be shared equally between Red and Blue.
- (9) Each party shall indemnify and hold harmless the other party from and against all damages, costs and expenses, for which either party might liable, in whole or in part, arising out of or related to

the breach of this Agreement of the indemnifying party and its employees.

#### 4. GENERAL MATTERS

(1) In the event of any failure or delay in the performance of this Agreement due to war, civil commotion, labor dispute, fire, natural disaster, or any other cause whatsoever beyond the reasonable control of a party so affected, the said party shall not be liable for such failure or delay, or results thereof. Upon the occurrence of any of the above events, the party affected by such event shall, without delay, notify in writing the other party of the same, and the parties hereto shall meet and discuss appropriate or necessary steps or actions to be taken to cope with the situation.

(2) Any dispute, controversy or difference which may arise between the parties out of or in relation to this Agreement or for the breach thereof shall be amicably settled by consultation among the parties. All such disputes, controversies and differences, if not settled amicably, shall be finally settled by arbitration to be held at Tokyo, Japan, under UNCITRAL Arbitration Rules by three arbitrators.

(3) This Agreement shall be governed by and interpreted in accordance with UNIDROIT Principles for International Commercial Contracts 2016.

(4) The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Contra Proferentem is not applied to this Agreement.

Red

<Signed>

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Blue

<Signed>

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Exhibit 10

April 1, 2018

The Steering Committee of Nego-Abu Cup  
Copy to Red Corp.

Dear Steering Committee

I have good news. Sarah Hosszu was not scheduled to come to the event, due to a prior commitment elsewhere, but she became available because that event was called off. So, we would like to add Sarah to the list of athletes (see Article 2(8) of the Agreement) who will participate in the Nego-Abu Cup. We are sure that Sarah's participation will drastically increase the level and attractiveness of the swimming in the Nego-Abu Cup. As we have already discussed, please note that as a condition for her to come and compete during the Nego-Abu Cup, she requested first-class air travel to Nego-Town from Western Europe, where she was scheduled to appear immediately before the Nego-Abu Cup.

Sincerely,

Blue Corp.

○  $\beta$  Case

▪ Arbitral award sought by Blue Corp.

1. Red shall provide the  $\beta$ -7series to Blue. In addition, Red shall pay US\$5 million as liquidated damages for its breach of obligation to provide the  $\beta$ -7series.

▪ Arbitral award sought by Red Corp.

1. Confirm that Red shall have no obligation to provide the  $\beta$ -7series to Blue.
2. Blue shall pay US\$3 million to Red.

▪ Points at issue

1. Is Red under obligation to provide  $\beta$ -7series to Blue?
2. If Red is under obligation to provide  $\beta$ -7series to Blue, should the tribunal order Red to provide  $\beta$ -7series to Blue?
3. If Red is obliged to pay US\$5 million as liquidated damages to Blue (there is no need to dispute the amount of US\$5 million), is Red allowed to set-off Blue's obligation of US\$3 million to Red against its obligation to pay liquidated damages?

Note: The law applied to the arbitral agreement is UNIDROIT Principles for International Commercial Contracts 2016. The requirement under Article 23, Section 2 of UNCITRAL Arbitration Rules (as revised in 2010) is satisfied by mentioning the issues either in the preliminary memorandum or the response to be submitted under the Rule of this Competition.

○ Event Case

▪ Arbitral decision sought by Red

1. Blue shall pay US\$ 2.1 million to Red.

▪ Arbitral decision sought by Blue

1. Red shall pay US\$500,000 to Blue.

▪ Points at issue

1. Is Blue in breach of obligation under the Agreement between Red and Blue (Exhibit 10) by failing its promises of appearances of Bolt, Williams and Hosszu to Nego-Abu Cup?  
If Blue is in the breach, what is the amount of damages to be awarded?
2. Is Red obliged to share the profit of US\$ 1 million from Internet streaming with Blue?

## Exhibit 12

						* US\$1,000
Sports		Popularity	Ranking	Estimated	Estimated	Estimated Price of
		Negoland	Arbitria	Ticket Sales*	Operating Cost*	Broadcasting Right*
ボクシング	Boxing	17	21	600	500	200
バドミントン	Badminton	11	14	400	900	500
馬術	Equestrian	19	23	500	1,200	200
バスケットボール	Basketball	9	2	750	1,300	1,000
フェンシング	Fencing	13	17	400	700	500
サッカー	Football	1	1	800	800	1,200
体操	Gymnastics	22	13	500	900	500
ホッケー	Hockey	3	20	400	900	650
レスリング	Wrestling	20	15	500	800	300
水泳	Swimming	8	4	500	900	800
バレーボール	Volleyball	4	8	500	800	600
陸上競技	Athletics	5	11	750	1,200	1,000
カヌー	Canoe	24	25	400	900	200
ゴルフ	Golf	16	9	600	900	800
ハンドボール	Handball	10	22	400	800	400
柔道	Judo	25	12	500	400	200
ラグビー	Rugby	18	6	400	800	650
セーリング	Sailing	26	26	400	900	200
射撃	Shooting	21	10	400	900	500
テニス	Tennis	2	3	750	1,200	1,000
卓球	Table Tennis	12	5	450	900	600
ウェイトリフティング	Weight Lifting	23	24	400	400	200
自転車	Cycling	14	16	400	1,000	600
アーチェリー	Archery	15	18	400	700	400
野球	Baseball	6	7	500	1,300	600
空手	Karate	7	19	400	900	500

1. The estimation assumes that the same venues are used for the sports that were held in the 1st Cup.

2. In case a sport is held either in Negogo or Abubu, the operating cost would be 20% less but the ticket sales will be 10% less than the above list.

3. In case a sport is held either in Nego-Nego or Abu-City, the operating cost would be 10% less than the above list.

Exhibit 13

Operating Result of the 1st Nego-Abu Cup		
		(US\$1,000)
Income		
Financial Contribution	Red	500
	Blue	500
Other Sponsors		0
Ticket Sales	Negoland	1,300
	Arbitria	1,850
Sale of Broadcasting Right		2,400
Internet Streaming		1,000
Other Income (Marchandising Sales, Licensing, etc.)		500
Total		8,050
Expenses		
Operating Cost (Venue cost, labor cost, security, and other cost for operation of games)	Negoland	3,300
	Arbitria	3,000
Advertisement and Marketing		800
Other Expenses		300
Total		7,400



Projected Income and Expenses of 2nd Nego-Abu Cup

(US\$1,000)

Income	
Financial Contribution	1,800
Other Sponsors	500
Ticket Sales	8,000
Sale of Broadcasting Right	11,000
Internet Streaming	3,000
Other Income (Marchandise Sales, Licensing, etc.)	500
Total	24,800
Expenses	
Operating Cost (Venue cost, labor cost, security, and other cost for operation of games)	14,500
Advertisement and Marketing	4,000
Other expenses	1,000
Total	19,500

The above estimation assumes that all games are held either in Nego-Town or Abu-Abu.

Other sponsors will be the government of Negoland and the government of Arbitria, which will make financial contribution of US\$250,000 each.

Income from the Internet Streaming will not change depending on the sports, but will be 2,000 when the first group is chosen, because real-time streaming is not available.