

THE PATENTS ACT 1977

IN THE MATTER OF applications under
Section 46(3) by Slatewell Limited and Rees
Construction Services Limited for the settlement
of terms of licences of right in relation
to Patent No 1449455 in the name of
Insituform Technical Services Limited

licences

DECISION

Patent Number 1449455 has a date of 5 December 1973 and, under the terms of paragraph 3(1)(b) of Schedule 1 to the Patents Act 1977, is a "new existing patent" which, under paragraph 4(2)(c) of that Schedule, became subject to licences of right on 5 December 1989. The patent will expire on 5 December 1993. Slatewell Limited ("Slatewell") and Rees Construction Services Limited ("Rees") filed applications under section 46(3) on 26 June 1991 and 8 October 1991 respectively asking the Comptroller to settle the terms of licences of right. The patentees, Insituform Technical Services Limited, opposed the terms suggested in the two applications in statements filed on 18 September 1991 and 21 April 1992 respectively. The applicants filed their respective counterstatements on 7 November 1991 and 3 July 1992.

Subsequently, the patentees filed evidence in connection with the two applications, comprising statutory declarations in both actions from Mr Eric Wood, a director of Insituform Group Limited, the patentees' parent company, and the inventor in both the patent in suit and patent number 1340068, to which I shall refer later, a statutory declaration in the Rees application by Mr Roger Wilson, Commercial Director of Insituform Permaline Limited who were, until the patents entered the "licence of right" period, exclusive licensees of the process to which the invention relates, and, in the Slatewell application, a statutory declaration by Mr William King, Managing Director of Insituform Permaline Limited. Rees

filed evidence in support of their application comprising a statutory declaration by Mr T V Manlow, their Managing Director.

Slatewell then indicated that they did not intend to file evidence. Subsequently the patentees filed further evidence, some in reply to Rees, and later added corresponding evidence to that they had already filed in connection with Slatewell's application. This comprised further statutory declarations by Mr Wood and Mr Wilson.

The Patent Office indicated its preference to deal with the two applications at a joint hearing, and numerous attempts were then made to find a mutually acceptable date. A hearing was eventually appointed for 21 October 1993. Rees' patent agents wrote on 15 October 1993 indicating that Rees did not wish to be represented at the hearing and adding some further observations that they wished me to take into account when settling the terms of the licence. No response was received from the other applicant, Slatewell, and in the event only Mr Denmark of Bailey Walsh, representing the patentees, appeared before me.

At the time the applications were originally made they related to licences not only under the patent now in suit, 1449455 ("455"), but also under patent number 1340068 ("068"), which expired on 21 December 1991. In order to put the action in its proper context, it is necessary briefly to consider the earlier, expired patent 068. This patent disclosed the idea of relining a worn or otherwise damaged passageway by inserting into the passageway a laminate consisting of an impermeable membrane and a fibrous sheet impregnated with an uncured synthetic resin, the fibrous sheet lying between the original inner surface of the passageway and the impermeable membrane. The laminate is urged against the inner surface of the passageway by fluid pressure and the resin is cured, for example by heat generated chemically within the resin, to form a new, hard lining in the passageway so that inaccessible passages such as sewers may be relined and renewed in situ without any need for large scale excavations.

Against that background, the patent in suit, 455, describes and claims a particular way of inserting the laminate into the passageway. The laminate is assembled inside out, with the impermeable sheet on the outside and the fibrous, impregnated sheet on the inside. The end

of the laminate is folded out and attached to the inner surface of the passageway with the fibrous sheet between the inner surface of the passageway and the impermeable membrane. The laminate is then inserted into the passageway by eversion (ie by being turned inside out) through the action of fluid pressure, the fluid also serving to support the laminate buoyantly as it is drawn along the passageway.

In his evidence Mr Wood sets out the difficulties the patentees had in persuading those responsible for the upkeep of sewers in the United Kingdom of the value of the process. Mr Wilson's and Mr King's evidence explains that the in situ relining process undertaken by their company necessarily involves additional, ancillary tasks. At the hearing Mr Denmark sought to examine Mr Wilson and, while I permitted this, I made it clear, and I now emphasize, that since neither of the applicants had been made aware that Mr Wilson was to be examined, and since therefore they had no opportunity to consider whether they might wish to cross-examine him, I shall take account of what Mr Wilson said at the hearing only to the extent that he reiterated what he had already given in evidence in his statutory declarations.

In his evidence for Rees Mr Manlow explains the distinction between the general in situ lining process set out in the expired patent 068, and the particular lining process set out in the patent in suit, 455.

At the hearing, Mr Denmark indicated that he was concerned only with two areas of dispute, namely the extent and nature of the works on which royalties should be paid, and the rate at which royalties should be paid on those works. For the rest, Mr Denmark indicated that he would be content to accept the proposals made by either of the two applicants, or indeed any other arrangements which I felt were appropriate given the very limited time for which the licences would exist. Mr Denmark did however allude to the possibility of the terms I settle being used as the basis for a wider agreement with one or other of the two applicants in relation to actions taken in the past. However, as I pointed out, any such actions are not relevant to the matter I have to decide which concerns only the terms of licences under 455 which come into effect on the date of this decision and which will expire with the patent on 5 December 1993. Thus, the licences with which I am concerned have only a very short

duration and the terms I settle will therefore be specifically tailored to these short term licences. It is perhaps appropriate for me to observe that this decision would have been far more meaningful, and the time spent on the applications by all concerned would have far better used, if the Patent Office's efforts to arrange an early hearing had received more positive responses.

Since it is established that it is essentially the patentees', rather than the licensees', circumstances which determine the terms to be settled in a licence of right, especially in relation to royalty, I consider it appropriate to deal with both applications in this common decision, differentiating between the arguments presented in the two only to the extent necessary. I have, however, for the avoidance of doubt, appended to the decision separate licences pertaining to Rees and Slatewell respectively.

On the broad question of the royalties payable, the proposals made by all the parties are consistent with the view that royalties should be based upon the charges made by the licensees. In the absence of any alternative proposal, for example for a flat rate royalty per lining length, I am satisfied that the licensees' charges should be used as the basis for assessing royalties because the patent relates to a method, each application of which will be unique.

As to the extent and nature of the works on which royalties should be paid and the rate at which royalties should be paid, the two issues addressed by Mr Denmark, the proposals made by the parties range from 2.5% (Rees) and 5% (Slatewell) of the licensees' charges relating to lining passageways as claimed in 455, to 10% of the licensees' charges relating to lining passageways as claimed in 455 and to the performance of certain additional works, net of various outgoings including taxes, transport charges and the like as proposed by the patentees.

It is appropriate at this stage to reiterate what is well-established in the authorities in relation to the settlement of royalties in licences of right, perhaps most comprehensively by the Court of Appeal in Smith Kline and French Laboratories Ltd's Patents [1990] RPC 203, namely that the rate should be that which would be agreed between a willing licensor and a willing

licensee, that guidance on this is afforded by section 50(1)(b) which requires the Comptroller to secure that the patentee should receive reasonable remuneration having regard to the nature of the invention, and that the best evidence of reasonable remuneration is what other licensors and licensees have in fact agreed in the most closely comparable cases. It is perhaps self-evident that earlier licences granted under the same patent provide potentially the best examples of such evidence, though it is well-established that in such cases it is necessary to take account of any differences between the circumstances and conditions of the prior licence and those of the licence applied for.

As to the extent of the works in respect of which royalty should be paid under the licence, the patentees' statement argues that their existing licences provide for payment of a royalty not only in respect of the installation of a lining, but also in respect of any work deemed to be part of the lining process and which is awarded because the licensee is capable of performing the lining process. This extra work includes inspection, cleaning, traffic control, overpumping (ie diverting the flow around the part of the passageway being relined), and finishing work such as reconnecting branching pipes and passages. Mr Denmark argued at the hearing that the ability to line a passageway in situ automatically generates this additional work, and it is therefore reasonable that extra remuneration should accrue to the patentees on this basis. Moreover, he pointed out that some work such as overpumping is in fact essential if in situ relining is to be possible. I was referred to extracts from invoices exhibited to Mr Wilson's evidence showing which additional work was included in the calculations under existing licences. Mr Wilson stated that these items were typical of the arrangements which had hitherto prevailed between the patentees and the licensees. Mr Denmark argued that in practice in the real world, a contractor's ability to perform the in situ lining operation meant that that contractor was also awarded the contract for all the associated ancillary work. As a result the presence of licensees in the market place would cause the patentees to lose business not only in relation to relining particular passageways, but also in relation to all the additional ancillary work associated with each contract. On the "reasonable remuneration" principle Mr Denmark argued that in this case it was proper that the royalties should be based not only on the charges relating to the relining operations, but also on the charges relating to the necessary additional ancillary work.

Having considered this carefully, I am unable to agree that it would be right to base the royalties on the ancillary work in addition to the work involved directly in relining passageways by the method of the patent in suit. The Court of Appeal held in Smith, Kline & French that, despite the fact that it is an inevitable effect of granting a licence in a limited market that sales made by the licensee will reduce those made by the patentee, the licensee should nevertheless compensate the patentee only for his proper use of the invention per se. There should be no additional compensation for lost sales. By analogy in this case, I am satisfied that there should be no element in the royalty to reflect the fact that the patentees or their former exclusive licensees may lose business in the form of contracts to perform ancillary work as a result of the new licensees' activities under the licenses. My task under section 46(3)(a) is to settle a royalty rate in relation to the use of the invention itself, and not to make additional provision for matters lying outside the terms of the invention.

I turn next, therefore, to a consideration of what licences have previously been agreed in relation to the patent in suit, acknowledging that these have the potential to provide the best guidance as to what royalty I should settle in the present applications. I must, however, take note of any significant differences between the circumstances of the prior licences and those emerging from the evidence before me. Mr Wood exhibited a full list of licensees for the Insituform process world-wide, including royalty rates and minimum royalty provisions, but I am satisfied that the most relevant ones to my consideration are those operating in the United Kingdom.

Mr Wood's evidence shows that in 1973 an exclusive licence in the United Kingdom was granted to Edmund Nuttall Limited in relation to the Insituform process. The licence covered all current and future patents relating to in situ lining of pipes, as well as technical information and know-how, and consultancy services provided by Insituform. Its scope was such as to cover at least the now-expired patent 068 as well as 455, the patent in suit. Mr Wood states that Nuttall's payment for the licence included £20,000 in cash and approximately the same value in machinery and equipment. I have some difficulty in relating this to the licence itself as exhibited, which shows only a £20,000 cash payment as well as a royalty of 5% on Nuttall's sales and a further 5% on their profit from sales under the licence as long as Mr Wood and a named colleague remained in Nuttall's service. Nuttall

established a division they called Permaline to carry out the Insituform process. The Permaline division was later taken over by the Insituform Group, becoming a separate company, Insituform Permaline Limited, who are the current licensees. In their statement the patentees state that where new licences had been granted or old ones re-negotiated the royalty rate had been increased from 5% to 10%, and I have taken this to refer to the royalty on sales rather than that based on the consultancy services. However, Mr Wilson's evidence appears to differ from the statement, in that he states that from 1991 the Insituform Permaline licence was changed to provide that Insituform Permaline would pay 5% on total sales turnover, including all ancillary work. He states that this represents 7% of sales as calculated on the original basis. The revised licence was not exhibited. In the light of this apparently contradictory information from the patentees and their former exclusive licensees as to the exact terms of the licence, past and present, it might have been helpful had Mr Wood and Mr Wilson been cross-examined. That opportunity did not arise as a result of the absence from the hearing of either applicant for a licence.

In these circumstances it is difficult to draw clear conclusions from the Nuttall/Permaline licence as to the royalty I should settle in the present applications. Setting aside Mr Wood's unsupported account of the original licence and concentrating on the licence itself as exhibited, I can plainly disregard the consultancy element for comparison purposes, with the result that the royalty comes down to 5% of licensees' sales plus a £20,000 lump sum. It covers, however, a great deal more than merely the invention of patent 455, including in addition at least the broad process protected by the now-expired patent 068 as well as technical information and know-how. The patentees' statement and Mr Wilson's evidence are at odds as to the royalty rate later adopted, but in any event it is clear to me that by this time the licensees were part of the same group as the patentees, so the licence could no longer be regarded as at arm's length. In using existing voluntary licences as a guide to what a willing licensee and willing licensor would agree upon I consider that terms settled between two constituent members of the same organisation are of limited value. The best guidance I can draw from the Nuttall/Permaline licence therefore appears to be that 5% of licensees' sales plus £20,000 was regarded as a fair royalty in 1973 for a much broader licence than that currently sought or justified.

The only other licence not internal to the Insituform Group relating to patent 455 and operating in the United Kingdom is a sub-licence granted by Insituform Permaline to a company called Maximain Limited, an associate company of Slatewell. In their counter-statement Slatewell state that this was granted on 1 June 1989, but Mr Wilson differs from them in this. Unfortunately he also contradicts himself, in that in his evidence in the Slatewell case he states that the Maximain sub-licence was granted in 1983, whereas in the Rees case he states that it was in 1982. In a list of licences exhibited to Mr Wood's evidence it is stated that there was a renewal dated 1 June 1992. I find the evidence as to the date of the Maximain sub-licence most unsatisfactory. I have been shown only two clauses of this sub-licence, annexed to Slatewell's counter-statement. One clause states that Maximain will purchase only from Insituform Permaline all or any linings or other products manufactured under or embodying the inventions of the "licensed patents" and "licensed technical information" under the terms of the agreement, and the other, also exhibited to Mr Wilson's evidence in Rees application, states the royalty to be "10% of the invoiced value of sales made which arise from the use by Maximain of the licensed patents and/or licensed technical information under the terms of the agreement". In their counter-statement Slatewell characterise the basis of the royalty as being sales of drain-lining materials (my emphasis), but, in discussing the Maximain sub-licence Mr Wilson neither confirms nor expressly denies this interpretation of the basis for royalty, and Mr Wood seems to imply in his evidence in the Slatewell application that, contrary to the Slatewell interpretation, the basis in the Maximain sub-licence does not differ from that in the draft licences in the present proceedings when he compares the 5% offered by Slatewell in their draft licence with the 10% allegedly paid by Maximain. Furthermore, these extracts do not tell me precisely what constitutes the "licensed patents" and "licensed technical information", though it seems reasonable to assume that this corresponds broadly to the same terms in the original Nuttall licence. The position regarding the Maximain licence is further confused by Rees' assertion in their counter-statement, unsupported in their own evidence, that it was their understanding that Maximain had refused to renegotiate the licence when Insituform Permaline required an increase in the royalty from 5%. The absence of evidence from Slatewell themselves on this or any other matter, and the silence of Insituform's evidence on this point, leaves me unable to accept the Rees assertion as a fact to be taken into consideration. By the same token, however, only a small part of the Maximain sub-licence has been put in evidence as an

exhibit to a sworn declaration, so I have been given only a very incomplete picture of it. Mr Wilson states that it is limited to small pipes of 6 inches and less, and the list exhibited by Mr Wood indicates that the Maximain sub-licence is limited to London and the SouthEast of the United Kingdom. In all, I have been given such an incomplete and inconsistent account of the Maximain sub-licence that I do not feel able to use it in any constructive way as a guide to the royalty terms I should settle in the two applications before me.

The best guidance that I can draw from existing licences, established by the authorities as in principle the securest basis for settlement of royalty, is therefore of limited value to me. In these circumstances I do not think I can do better than to settle at 5%, which is within the range commonly adopted in mechanical engineering licences. It corresponds to the basic figure in the original Nuttall licence, setting aside the £20,000 payment which in my judgement would be wholly inappropriate in a licence which has at most a handful of weeks to run. Deducting the £20,000 from the Nuttall formula might also be regarded as taking account of the narrower scope of the licences I am now settling. To the extent that 5% differs from the figure in the Maximain sub-licence this presents me with no difficulty, since I have already indicated how unsatisfactory I have found the evidence in relation to this sub-licence. Mr Denmark argued that rates above 5% had been set in a number of previous cases and that a higher figure, specifically 10%, was appropriate in this case. In this connection, Mr Wilson also alleges that the present invention is not mechanical engineering but is an environmentally important method which enables the rehabilitation of sewers with the minimum of disruption. I do not find these arguments persuasive, especially given that all that is being licensed is a particular way of inserting and attaching a lining by eversion, and not a more general process of relining and refurbishing passageways in situ. On the other hand, Rees have argued in correspondence that they had proposed a royalty of 5% at a time when there were two patents in suit, and that it follows that a proper rate would be 2.5% now that only one patent is involved. I am not persuaded by this argument, since as I have indicated, I am of the opinion that 5% represents the appropriate royalty in respect of the single patent now in suit. I therefore find that the royalty to be paid by both Slatewell and Rees should be 5% of the licensee's invoiced charges relating solely to relining as defined in the claims of patent number 455, net of specified costs and taxes.

Having dealt with the size of royalties, and thus with all the matters with which Mr Denmark was principally concerned, it is still necessary for me to deal with all the other areas covered by the draft licences. It is convenient to start with other matters concerning the payment of the royalties. The first of these concerns the question of a minimum annual royalty of £20,000, as has been proposed by the patentees. Both applicants objected to this provision, and Mr Denmark did not press it at the hearing. I consider that a minimum royalty provision, especially one as high as £20,000, is entirely inappropriate in licences which have only a very few weeks at most to run. I therefore conclude that no minimum royalty should be specified.

There is also a clause in Slatewell's draft licence which proposed a financial penalty in the form of interest to be paid on late royalty payments. Rees also made a similar proposal, with the minor difference that the base rate was to be that of Lloyds Bank rather than the average of the base rates of a number of different banks as proposed by Slatewell. The patentees followed these suggestions, though it proposed that the rate of interest payable should be 2% per month rather than 2% over bank base rate. Both applicants have objected to this increased rate as excessive. As I observed at the hearing, this has not in my experience been a usual provision in licences of right settled by the Comptroller and, in the normal case, it would seem to me that the standard provisions for terminating licences in the event of non-payment would cover the situation sufficiently. However, in this case, where there is only a matter of a very few weeks at most before the licences will expire, a provision of this nature would serve to protect the licensor against late payments and I am therefore prepared to include it. As to the rate, 2% per month does strike me as excessive, whereas 2% over base rate seems not inappropriate and, for simplicity, I shall use the base rate of a single bank, Lloyds, as proposed by Rees.

For the other proposals on the payment of royalties, these would normally specify quarterly payments and include provisions for the licensor periodically to inspect the books. In this case, however, because the licence will only have effect for a very short period, it seems to me that rather than provide for regular payments, it would be more sensible to provide for a single payment in respect of each licence. In the absence of any assistance from the parties on this question, and given that the licence will expire with the patent on 5 December 1993,

a pragmatic solution, and the one I shall adopt, is to provide for the licensees each to make a single royalty payment on 31 January 1994.

As to record keeping by the licensees, all the parties have suggested terms requiring the licensee to keep records and giving the licensor rights to inspect the records, and it is I think right that such a provision should be included. In this connection, the provision suggested by Rees would appear to give the licensor significantly greater rights to inspect the records than would the terms suggested by either Slatewell or the patentees, both of whom specify the licensor's right to inspect the books annually. In the present case however, given that I have decided that there should only be a single royalty payment, I think it would be sensible to give the licensor one opportunity to examine the books before the end of February 1994, and for any compensating or other late payments or repayments of royalties as a result of the inspection to be made by the end of March 1994. For the rest, both Slatewell's and the patentees' proposals include a provision whereby inspections are to be at the licensor's expense unless the inspection reveals that the licensee has underpaid royalties by more than five per cent in any year, whereupon the licensee must pay for the inspection. In the present unusual circumstance I do not think that any proposal making the licensee responsible for paying for the inspection is necessary and I shall therefore not include it.

On the question of security for royalties, when I put the question to him directly at the hearing, Mr Denmark indicated that since this had been proposed by the applicants, he was content to accept their proposal. Although there is in fact no dispute over this, it seems to me that the very short duration of the licence means that there is likely to be very little in the way of royalties and that, consequently, it would be quite unnecessary to require the licensees to provide any security. I shall therefore not include any such term.

The very short remaining duration of the licences is also relevant to the other matters to be covered by the licences. Mr Denmark indicated at the hearing that, apart from the matters on which he addressed me and which I have decided above, he was content for me to make any arrangements which seemed sensible in the circumstances and, given that the applicants did not feel it necessary to attend the hearing, I have felt it right to use the Comptroller's

discretion in relation to the proposals made by the various parties as seems to me necessary to make provisions which are appropriate to the circumstances which now prevail.

The first area in which there has been dispute is the requirement in the preamble to the patentees' proposed licence that the licensees acknowledge the technical or commercial value of Insituform's process. Both applicants have objected to this provision, essentially on the ground that it is unnecessary. I agree with them and shall not include it.

Slatewell have also argued that there is no justification for the licences to refer to companies associated with the licensees since any additional work which such associates might perform separately should not give rise to royalties in any event. Since I have decided that additional work should not be used to determine royalties, it follows that this provision is indeed not needed and I shall not include it.

As to the licence indemnifying the patentees for the actions of the licensee, this is I think appropriate regardless of the remaining period of the licence. There are in fact only very minor differences in wording between the proposals made by Slatewell and the patentees and, apart from including a clause giving a very wide indemnity to the patentees in their own proposal, Rees have not commented on this aspect of the licence and can I think be assumed to be content with what the patentees has proposed. In my view the patentees' proposed wording is clearer and is to be preferred.

On the issue of termination of the licences because of non-compliance with its terms, I do not consider that any such provision is necessary. The term of the licences will be so short that any such provision giving the usual 30 days of grace would have no significance.

Rees have objected to the patentees' proposed clause prohibiting any use of the Insituform trade mark, pointing out that there is no indication that any marks are registered and that it would be inappropriate for the licence to give Insituform any rights they may not otherwise have (and by inference unnecessary for the licence to give rights they do already have). It seems to me that trade mark rights are quite separate from and unaffected by any patent and

I see no reason to include any provision specifically prohibiting the use of the patentees' trade marks.

Similarly, in connection with the patentees' proposed clause prohibiting the use by the licensee of the name of the patentees, Rees have objected on the basis that the Courts have held that it is inappropriate for a licence to include provisions prohibiting "passing-off" and the making of statements to the effect that the licensee is licensed by the patentees. I agree that this would indeed be inappropriate and I shall not include the provision.

The patentee had proposed a Quality Control clause which would not normally be allowed. Since Mr Denmark accepted at the hearing that such a provision was no longer appropriate given the short time for which the licences will run, I need not go into this beyond saying that I shall not include any such provision.

There has been no real dispute over the need for a term on the delivery of notices and I agree that this is indeed necessary despite the short term of the licence. I shall therefore include such a provision.

On the question of sub-licensing and sub-contracting, Slatewell originally proposed that no assignments should be allowed but have subsequently made no reference to the patentees' proposal whereby only the licensee may not assign the licence and no sub-licences may be issued. Similarly, Rees have made no comment on the patentees' proposal, having previously tabled their own clause which would not allow sub-licensing or assignments though it would specifically have allowed sub-contracting. The authorities make it clear that, although the Comptroller has jurisdiction to grant sub-licensing rights, this should be done only in exceptional circumstances, the more usual practice being that a potential sub-licensee should be joined as a party to the application. The same considerations apply to sub-contracting when this amounts in practice to sub-licensing (ie when the sub-contractor would be carrying out acts which, in the absence of a licence, would infringe monopoly rights under the patent). Although it seems possible to me that, where a single firm has successfully tendered to perform in situ lining at various locations throughout the country, it may well find it convenient to employ local sub-contractors or, perhaps more correctly, sub-licensees,

to do at least some of the work, and this might in principle provide just such an exception as would warrant my allowing sub-licensing, the evidence does not indicate clearly that this is justified and I therefore conclude that I should follow the more usual practice of declining to permit sub-licensing.

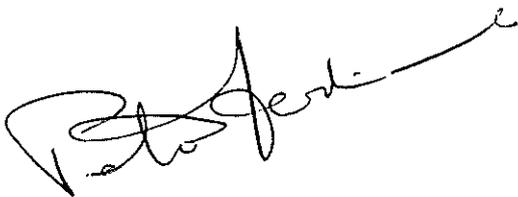
For the rest, I have considered all the other proposals which have been made by the parties for particular terms in the licences and the only one which I consider to be essential is that providing a statement of the applicable law.

Thus, in the light of the above, I order that the patentees grant to each of the applicants, Slatewell and Rees, licences under patent number 1449455 in the terms appended to this decision, to take effect from the date of this decision.

Although Rees and, at the hearing, the patentees have asked for costs, in the circumstances of the present case I see no reason to depart from normal practice in cases of this kind and, accordingly, I make no order as to costs.

Any appeal against this decision must be lodged within six weeks of the date of the decision.

Dated this 17th day of NOVEMBER 1993.



DR P FERDINANDO

Superintending Examiner, acting for the Comptroller

THE PATENT OFFICE

LICENCE OF RIGHT

THIS LICENCE is made between INSITUFORM TECHNICAL SERVICES LIMITED of 10 Harrowden Way, Brackmills, Northampton, (hereinafter referred to as "the Licensor") and SLATEWELL LIMITED of 14 and 16 David Road, Poyle Trading Estate, Colnbrook SL3 0DG (hereinafter referred to as "the Licensee")

WHEREAS:

- (1) The Licensor is the proprietor of British Patent No 1 449 455 ("the Patent") entitled IMPROVEMENTS RELATING TO THE LINING OF PASSAGEWAYS.
- (2) Licences under the Patent are available as of right by virtue of Schedule 1 paragraph 4(2)(c) of The Patents Act 1977.
- (3) Upon application by the Licensee the Comptroller has settled the terms of a Licence of Right as herein set forth to come into effect on the date of the decision to which this Licence of Right is appended.

NOW THIS LICENCE IS GRANTED AS FOLLOWS:-

1. Definitions

As used herein, the following terms shall have the following meanings:-

- 1.1 "Drainlining" shall mean the lining of surfaces defining passageways as defined in the claims of British Patent 1449455.
- 1.2 "Territory" shall mean the United Kingdom of Great Britain, Northern Ireland and the Isle of Man.

1.3 "Net Sales" shall mean the aggregate amounts invoiced or charged by the Licensee for Drainlining net of any actual trade discounts and allowances and direct transport charges paid by the Licensee. Any Government taxes levied directly on the invoiced amounts which are separately itemised or invoiced, such as excise taxes and value added taxes shall be excluded in whole. The Licensee shall perform Drainlining only by sales in arms length transactions at commercial rates.

2. Grant of Licence

2.1 Subject to the terms and conditions of this Licence the Licensee is hereby granted a non-exclusive licence within the Territory under the Patent to install and use Drainlining in the Territory.

3. Licence Fees and Royalty Payments

3.1 The Licensee shall pay to the Licensor a Royalty of five percent (5%) of Net Sales as herein set forth.

3.2 The Royalty shall be paid by the Licensee to the Licensor on or before the thirty first (31st) day of January 1994 in respect of all Drainlining (as hereinbefore defined) installed by the Licensee during the period of the Licence. With the Royalty payment, the Licensee shall furnish to the Licensor a written statement, signed by the Licensee, showing the value of Drainlining installed, the invoice price thereof, deductions therefrom, the Net Sales, and the amount of Royalty payable.

3.3 In the event that the Royalty payment is not paid when due under this Licence it shall bear interest at a rate equal to 2 percent (2%) above the base rate of Lloyds Bank Plc from time to time during the period such payment is overdue.

3.4 The Licensee shall keep full and accurate records and books of account with respect to its sales of Drainlining in sufficient detail to permit computation of the Royalty payable by the Licensee to the Licensor. The Licensor shall have the right to have such records and books of account examined, at the Licensor's expense, by independent chartered accountants on one occasion at any reasonable time on or before 28 February 1994. Any additional payment or repayment of royalties as a result of such examination shall be made on or before 31 March 1994.

4. Term

4.1 The term of this Licence, and of the rights granted hereunder, shall begin on the date of the decision to which this Licence is appended and shall continue until the date of expiry of the Patent.

5. Indemnity

5.1 The Licensee hereby indemnifies the Licensor from any costs damages expenses or fatal accident or product liability action or threatened action brought against the Licensor on account of Drainlining sold or installed by the Licensee under this Licence. This provision shall survive the termination of this Licence.

6. Notices

6.1 All notices sent, communicated or delivered to either of the parties shall be in writing addressed to such party at its respective address as first set forth in this Licence or at such other address as such party shall designate by written notice to the other party, and shall be deemed given at the expiration of ten (10) days from the date mailed or at the expiration of two (2) days from the date of despatch of a

cable, telegram or telex, provided such notice is subsequently received. Notices delivered by hand or facsimile transmission shall be deemed given when delivered or upon completion of the transmission respectively.

7. Applicable Law

7.1 This Licence shall be governed and construed in accordance with the laws of England.

8. Assignment

8.1 This Licence shall not be assignable by the Licensee and the Licensee shall not have any right to grant sub-licences.

LICENCE OF RIGHT

THIS LICENCE is made between INSITUFORM TECHNICAL SERVICES LIMITED of 10 Harrowden Way, Brackmills, Northampton, (hereinafter referred to as "the Licensor") and REES CONSTRUCTION SERVICES LIMITED of Blackwater Way, Ash Road, Aldershot, Hampshire GU12 4DG (hereinafter referred to as "the Licensee")

WHEREAS:

- (1) The Licensor is the proprietor of British Patent No 1 449 455 ("the Patent") entitled IMPROVEMENTS RELATING TO THE LINING OF PASSAGEWAYS.
- (2) Licences under the Patent are available as of right by virtue of Schedule 1 paragraph 4(2)(c) of The Patents Act 1977.
- (3) Upon application by the Licensee the Comptroller has settled the terms of a Licence of Right as herein set forth to come into effect on the date of the decision to which this Licence of Right is appended.

NOW THIS LICENCE IS GRANTED AS FOLLOWS:-

1. Definitions

As used herein, the following terms shall have the following meanings:-

- 1.1 "Drainlining" shall mean the lining of surfaces defining passageways as defined in the claims of British Patent 1449455.
- 1.2 "Territory" shall mean the United Kingdom of Great Britain, Northern Ireland and the Isle of Man.

1.3 "Net Sales" shall mean the aggregate amounts invoiced or charged by the Licensee for Drainlining net of any actual trade discounts and allowances and direct transport charges paid by the Licensee. Any Government taxes levied directly on the invoiced amounts which are separately itemised or invoiced, such as excise taxes and value added taxes shall be excluded in whole. The Licensee shall perform Drainlining only by sales in arms length transactions at commercial rates.

2. Grant of Licence

2.1 Subject to the terms and conditions of this Licence the Licensee is hereby granted a non-exclusive licence within the Territory under the Patent to install and use Drainlining in the Territory.

3. Licence Fees and Royalty Payments

3.1 The Licensee shall pay to the Licensor a Royalty of five percent (5%) of Net Sales as herein set forth.

3.2 The Royalty shall be paid by the Licensee to the Licensor on or before the thirty first (31st) day of January 1994 in respect of all Drainlining (as hereinbefore defined) installed by the Licensee during the period of the Licence. With the Royalty payment, the Licensee shall furnish to the Licensor a written statement, signed by the Licensee, showing the value of Drainlining installed, the invoice price thereof, deductions therefrom, the Net Sales, and the amount of Royalty payable.

3.3 In the event that the Royalty payment is not paid when due under this Licence it shall bear interest at a rate equal to 2 percent (2%) above the base rate of Lloyds Bank Plc from time to time during the period such payment is overdue.

3.4 The Licensee shall keep full and accurate records and books of account with respect to its sales of Drainlining in sufficient detail to permit computation of the Royalty payable by the Licensee to the Licensor. The Licensor shall have the right to have such records and books of account examined, at the Licensor's expense, by independent chartered accountants on one occasion at any reasonable time on or before 28 February 1994. Any additional payment or repayment of royalties as a result of such examination shall be made on or before 31 March 1994.

4. Term

4.1 The term of this Licence, and of the rights granted hereunder, shall begin on the date of the decision to which this Licence is appended and shall continue until the date of expiry of the Patent.

5. Indemnity

5.1 The Licensee hereby indemnifies the Licensor from any costs damages expenses or fatal accident or product liability action or threatened action brought against the Licensor on account of Drainlining sold or installed by the Licensee under this Licence. This provision shall survive the termination of this Licence.

6. Notices

6.1 All notices sent, communicated or delivered to either of the parties shall be in writing addressed to such party at its respective address as first set forth in this Licence or at such other address as such party shall designate by written notice to the other party, and shall be deemed given at the expiration of ten (10) days from the date mailed or at the expiration of two (2) days from the date of despatch of a

cable, telegram or telex, provided such notice is subsequently received. Notices delivered by hand or facsimile transmission shall be deemed given when delivered or upon completion of the transmission respectively.

7. Applicable Law

7.1 This Licence shall be governed and construed in accordance with the laws of England.

8. Assignment

8.1 This Licence shall not be assignable by the Licensee and the Licensee shall not have any right to grant sub-licences.