

Petroleum Equipment Suppliers Association

It's 10:00 pm: Do you Know Where Your Data Is?

March 27, 2008

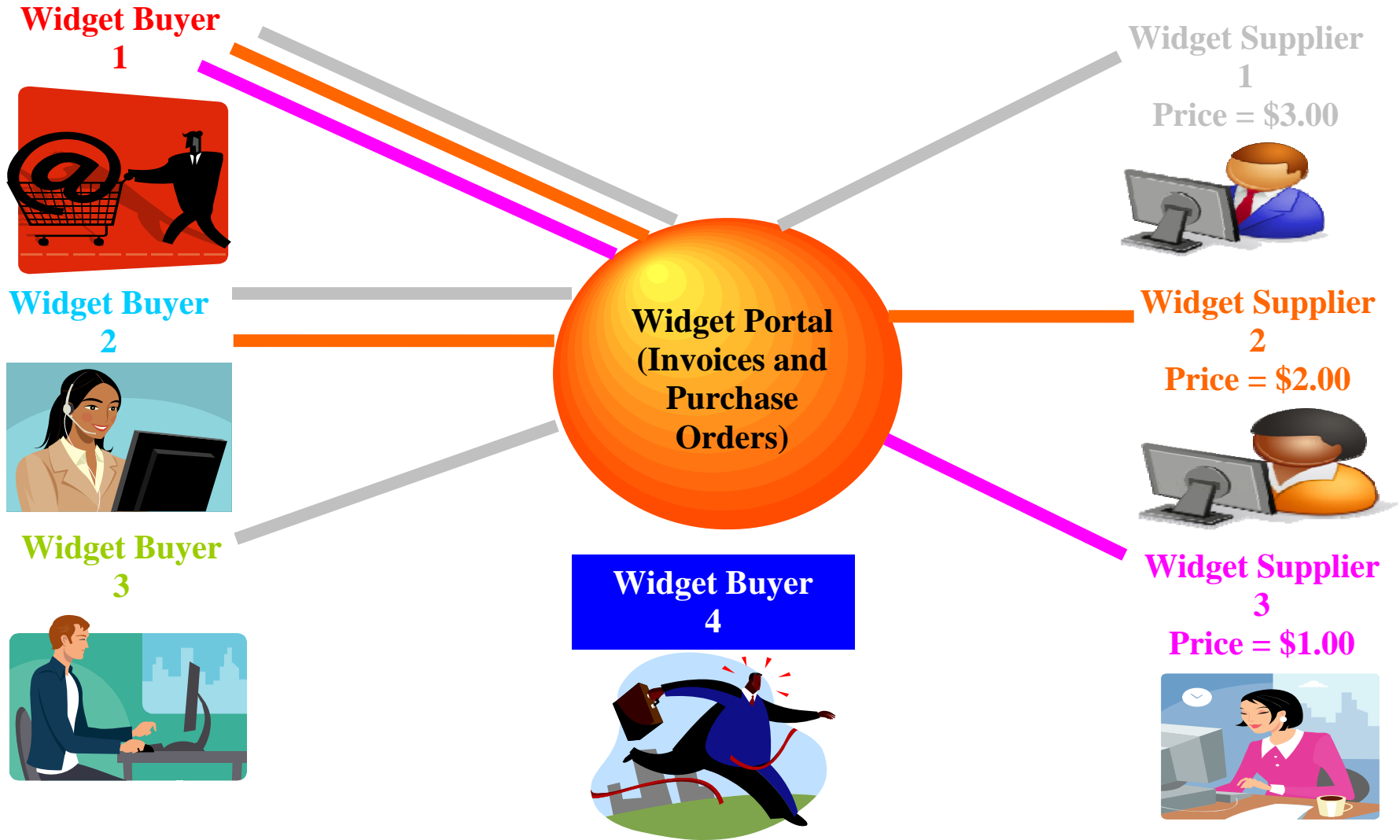
Phillip H. Schmandt

McGinnis, Lochridge & Kilgore, L.L.P.

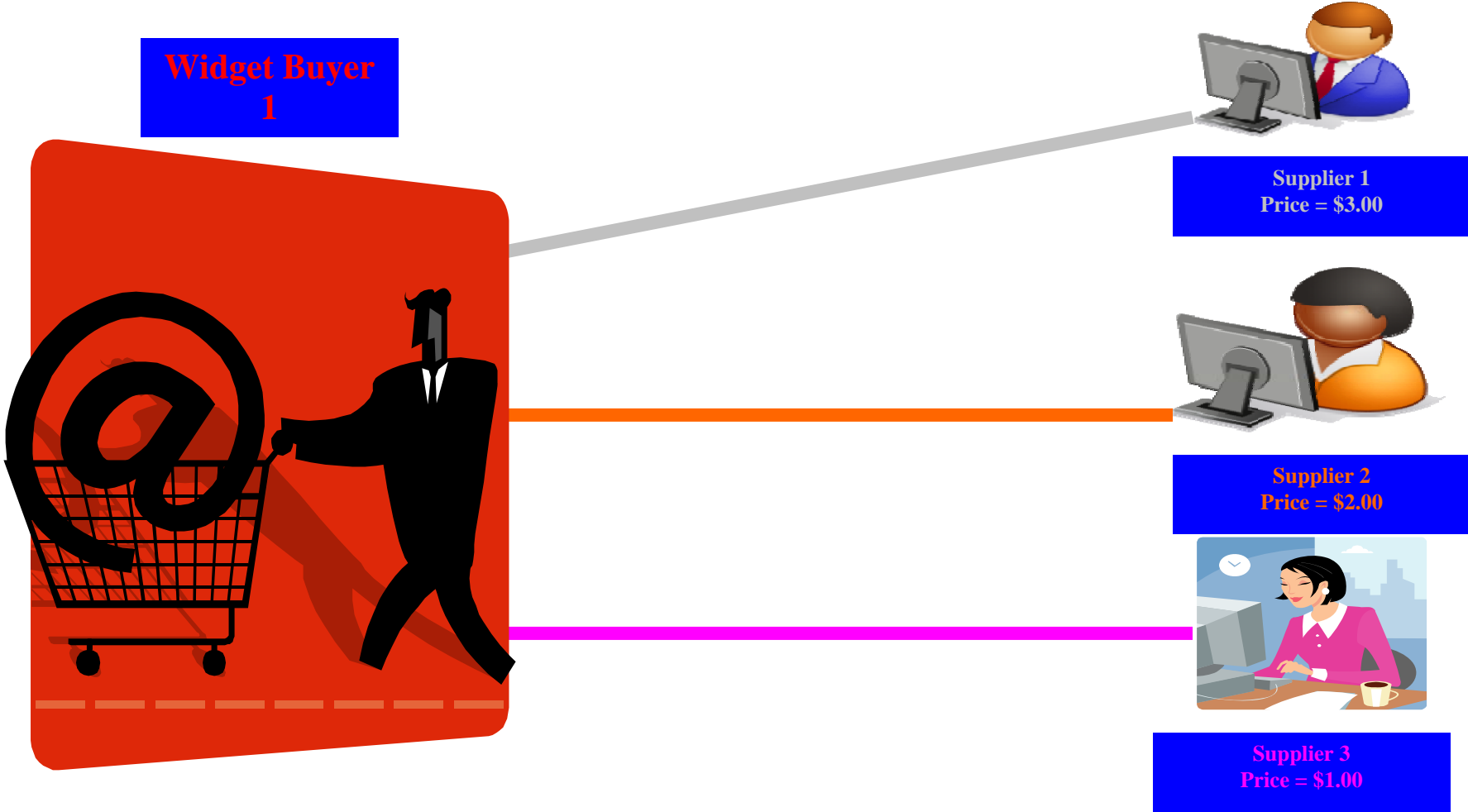
Peter Robertson, Vice chairman of Chevron Corp, March 25, 2008 speaking at Microsoft Global Energy Forum:

Upstream oil and gas industry experiencing a “Digital Tidal Wave” of electronic documents and data.

E-Marketplace “The Widget Portal”



Widget Portal Aggregation Services



Buyer #1's Aggregated Data:

Average Price for Buyer #1 : \$1.50

Low Price for Buyer #1: \$1.00

High Price for Buyer #1: \$3.00



Supplier 1
Price = \$3.00



Supplier 2
Price = \$2.00



Supplier 3
Price = \$1.00

Widget Portal Aggregation Services

**Widget Buyer
2**



**Supplier 1
Price = \$3.00**



**Supplier 2
Price = \$2.00**

**Average Price = \$2.50
Low Price = \$2.00**

Portal's Overall Aggregated Data:

**Average of Widget Portal's Prices:
\$1.50**

Low Price on Widget Portal: \$1.00

High Price on Widget Portal: \$3.00



Supplier 1
Price = \$3.00



Supplier 2
Price = \$2.00



Supplier 3
Price = \$1.00

Buyer #2's Aggregated Data:

Average Price for Buyer #2: \$2.50

Low Price for Buyer #2: \$2.00

High Price for Buyer #2: \$3.00



Supplier 1
Price = \$3.00



Supplier 2
Price = \$2.00

Sample Terms and Conditions

“Widget Portal also retains the right to analyse, aggregate and report statistically sound summaries of the transactions flowing through the Marketplace.”

“Widget Portal may publish or otherwise use information about activity on the Marketplace using transaction data that has been combined with other transaction data and that does not identify any Member who participated in a transaction...Initially, Widget Portal will age all data at least three months, but once there is a sufficient monthly flow of transactions, Widget Portal may shorten that aging period if statistically sound.”

Aggregated Price Comparisons

Market Data Report to Widget Buyer 2:

During the prior week the average price of Widgets paid by your competitors was \$1.50

During that same week the average price you paid for Widgets was \$2.50

Widget Portal Aggregation Services

**Widget Buyer
3**



**Supplier 1
Price = \$3.00**



**Average Price = \$3.00
Low Price = \$3.00**

Portal's Overall Aggregated Data:

**Average of Widget Portal's Prices:
\$1.50**

Low Price on Widget Portal: \$1.00

High Price on Widget Portal: \$3.00



Supplier 1
Price = \$3.00



Supplier 2
Price = \$2.00



Supplier 3
Price = \$1.00

Buyer #3's Aggregated Data:

Average Price for Buyer #3: \$3.00

Low Price for Buyer #3: \$3.00

High Price for Buyer #3: \$3.00

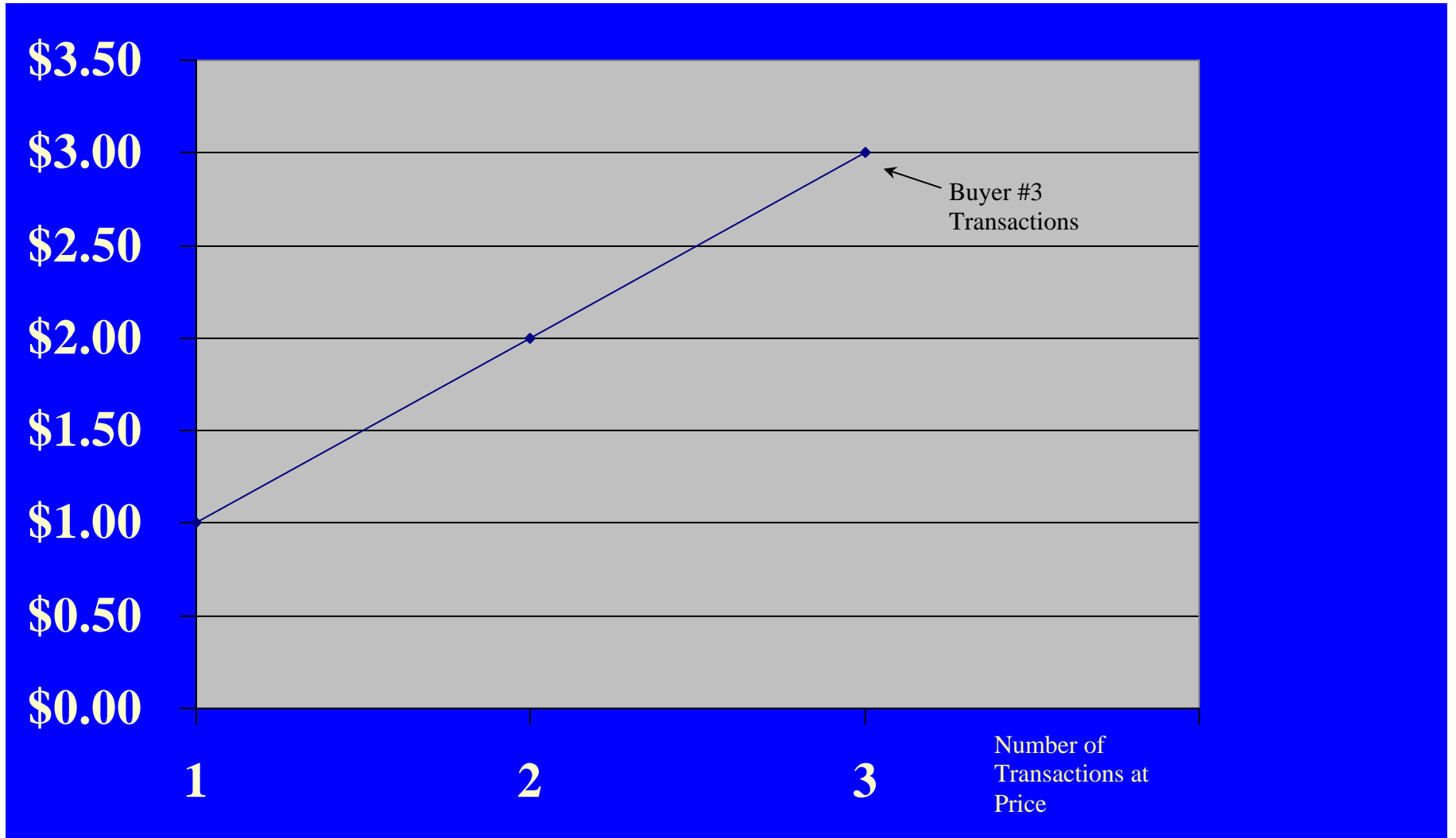


Supplier 1
Price = \$3.00

Sample Terms and Conditions

Widget Portal will use anonymized information gleaned from registrations and from auctions conducted on our web site to provide better service to our customers. Widget Portal may also analyze the information including performing a trend analysis to better serve its customers.

Price Trends



Costs of Goods Sold Analysis

Market Data Report to Widget Buyer #3 shareholders:

The price paid by Buyer #3 for Widgets exceeds market average by 100%

or

The price paid by Buyer #3 for Widgets has risen by 50% in last three months

Widget Portal Aggregation Services

Widget Buyer
4



Portal's Overall Aggregated Data:

**Average of Widget Portal's Prices:
\$1.50**

Low Price on Widget Portal: \$1.00

High Price on Widget Portal: \$3.00



Supplier 1
Price = \$3.00



Supplier 2
Price = \$2.00



Supplier 3
Price = \$1.00

Buyer #4's Aggregated Data:

None

Market Analysis for New Entrants

Market Analysis for Widget Buyer #4:

Average price for widgets is \$1.50

Lowest price offered for widgets is \$1.00

In the last three weeks, the prices for widgets offered in North America went up by 5%

Some Commercial Dangers

Price terms are divorced from contract terms and products

One competitor benefits from another's price advantage

Price signaling among suppliers

Monopsony powers by Buyers (monopoly powers exerted by buyers)

Reverse Engineering of Catalog Data or other rich data

Environmental, Safety or Price Trends Misunderstood by Media

Digital Data Best Practices

- **Scrutinize website Terms and Conditions**
- **Implement Business Processes to identify who can click “I Agree”**
- **Scrutinize your vendors**
 - **Who owns them?**
 - **Are they Judgment proof?**
 - **Sarbanes Oxley Compliant – SAS 70 Audit?**
- **Assess what Data is being transmitted and protect accordingly**
- **Pay attention to Anti-Trust Issues**

Department of Justice and Federal Trade Commission Statements of Antitrust Enforcement Policy in Health Care

Three requirements for the “safe harbor for information exchanges sharing electronic information among competitors in the HEALTH CARE industry:

1. Neutral third party manages the data;
2. Data is more than three months old;
3. Data based on at least five suppliers and no individual supplier represents more than 25% of data pool

Key Provisions to Look For

Always Scrutinize Data and Privacy Policies

Widget Portal may use the bidding information submitted by Suppliers in the course of Widget Portal Sourcing Services projects, to determine general price trends in various supply industries, to create predictive analyses useful for estimating likely market prices, and to determine suppliers appropriate for inclusion in future spend management projects in similar markets. Widget Portal may also use such bidding information in the publication of sourcing project results, provided that such publication (i) does not directly or indirectly identify Supplier by name or provide a third party with sufficient information to allow a third party to identify Supplier, (ii) is aggregated with data from at least four (4) comparable suppliers (including Supplier) from a single project, (iii) does not specifically identify Supplier's products or services, or the prices of those products or services, and (iv) does not identify Supplier as a participant of any specific project.

In addition, Widget Portal maintains the right to disseminate Data you send to Widget Portal, so long as such Data is in an anonymous, aggregated form so as not to identify you.

Data License Provisions

“By sending Widget Portal any information or material, you grant Widget Portal an unrestricted, irrevocable license to use, reproduce, display, perform, modify, transmit and distribute those materials or information, and you also agree that Widget Portal is free to use any ideas, concepts, know-how or techniques that you send us for any purpose.”

- Catalog Specifications?
- Pricing?
- Bids and Proposals?
- Safety Data?
- Environmental Compliance Data?
- Product Data?

Liability Exclusions

LIMITED LIABILITY. BIDDER HEREBY RELEASES WIDGET PORTAL FROM ANY LIABILITY ARISING FROM OR CONNECTED WITH ACCESS TO OR USE OF THIS SITE OR THE ON-LINE AUCTIONS, INCLUDING ANY CONDUCT OF WIDGET PORTAL OR ANY BIDDER IN THE ON-LINE AUCTIONS, REGARDLESS OF WHETHER SUCH LIABILITY ARISES UNDER CONTRACT, TORT OR ANY OTHER THEORY.

Amendments Provisions

Widget Portal reserves the right at its discretion to add to, modify, change or withdraw portions of its Privacy Policy without notice. Widget Portal recommends reviewing the Policy on a regular basis for changes.

Key Provisions to Insist Upon

Clear Statement on Ownership of Data

No Commercial Use of Data without Consent of Owner

Define Permitted Aggregation and Uses

Commercially Reasonable Liability Provisions that Address
Consequential Damages

No Unilateral Amendment

Company Selecting E-Marketplace Accepts Responsibility for the E-
Marketplace

Questions?