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Microsoft's New Law Firm Diversity Program:
Executive Summary

Microsoft's Law Firm Diversity Program is a new initiative that uses a "pay for performance" approach to promote increased diversity in the legal profession.

We launched this initiative because we believe diversity in our legal teams is a business necessity. We cannot be effective if we cannot understand and appreciate the interests and needs of the incredibly diverse individuals who make up our stakeholder groups. This is important both for our own department and for the law firms on which we rely. We also recognize a historical imbalance has existed for diverse lawyers at most major law firms, particularly at the senior levels. This program is designed with this imbalance in mind.

We were inspired by many other individuals and groups who are taking important strides to advance diversity. Yet despite their hard work, there's still a lot of room to progress. We concluded that it was important for us to add to their initiatives by becoming more proactive ourselves.

Under this plan, our 17 Premier Preferred Provider (PPP) firms generally are eligible this year for a rate increase on legal fees of up to three percent, but they can earn an additional two percent bonus by achieving concrete diversity results. We expect to maintain this program in its current or a similar form for a period of three to five years, after which we will evaluate what progress has been made in addressing the concerns motivating the program.

We are creating two alternative formulas to measure diversity progress, and each PPP firm can choose the formula it wishes to use.

- The first formula will pay the two percent bonus if the firm achieves in the U.S. a two percentage point increase in the hours worked by diverse attorneys as a percentage of total attorney hours worked on Microsoft matters, compared to the same time period in the preceding year.
- The second formula will pay the two percent bonus if the firm achieves a .5 percentage point increase in total diverse attorneys as a percentage of the firm's total attorneys in the U.S., compared to the same time period in the preceding year.

Because we recognize the importance of aligning our own activities with the goals we are asking others to achieve, we also are adopting for our new fiscal year a new bonus formula for Microsoft's most senior inside attorneys – including myself. For these LCA leaders, five percent of our annual bonuses will depend on the level of success our PPP

firms achieve improving diversity and earning their bonus from us. This ensures that we're all working on the same basis and share a common interest in helping each other succeed.

We are also focused on three other measurable goals for ourselves for the fiscal year – increasing the percentage of legal fees we spend on women and minority business enterprise (WMBE) firms by .5 percentage points; increasing diverse representation of women worldwide at the more senior levels within our department by 1 percentage point; and increasing diverse representation of minorities in the U.S. at all levels by .5 percentage points. We will pursue a wide variety of activities to help achieve these goals.

We know that we at Microsoft don't have all the answers, and we fully expect this program may change in coming years as we gain experience and gather feedback. But we believe that in business the best form of learning often comes from doing.

We welcome your thoughts and look forward to working with you to make this program a success.



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