



To: Microsoft's Premier Preferred Provider Firms

From: Brad Smith

Date: July 31, 2015

Re: The Next Generation of Microsoft's Law Firm Diversity Program

I'm writing to provide you with information about the next version of Microsoft's Law Firm Diversity Program (LFDP) for Microsoft's Premier Preferred Provider (PPP) law firms. It will be effective for our fiscal year 2016 (FY16), which started on July 1.

First, I want to thank you for your thoughtful input, and your commitment, over the past seven years to our Law Firm Diversity Program. Together we have crafted and implemented a successful program that we believe has helped to advance diversity in the legal profession. As a group, the LFDP law firm participants have increased the percentage of hours worked by diverse lawyers on Microsoft matters from 33.6% to 48%. And we are very encouraged to see that in FY15, for the first time since the inauguration of the LFDP, the demographics of the LFDP firms as a whole became slightly more diverse. Just as important, Microsoft is firmly convinced that your legal support of our business is better than even before in terms of legal quality and contextual advice. Thank you.

We continue to learn from you and others about the important drivers with respect to increasing diversity, and increasing it at a more rapid rate, in our profession. And we have confirmed with our LFDP program that measurements and visible incentives are helpful to the progress of our efforts in diversity. Microsoft wants to take the best of what we have learned over the last seven years in order to take the next step in our efforts with participants in the LFDP.

In FY16, we are implementing a change in approach to our program by rewarding, with both economic incentives and public recognition, progress made with respect to increasing diversity in firm leadership. This memo includes an appendix that details this new LFDP program, which will replace the current version. As described in detail in the appendix, each PPP firm is eligible to earn a bonus based on whether it achieves concrete diversity results related to three components: 1) firm leadership, 2) leadership of the firm's relationship to Microsoft, and 3) partnership leadership on Microsoft matters. Our new program enables participating firms to achieve a bonus in a range from one-half-of-one percent to two percent, a significant change from our previous "all or nothing" bonus model. An additional bonus will be provided to the highest achieving firm, along with public recognition from Microsoft.

Some elements of the new program are similar to the old. As has been the case over the last seven years, my most senior leaders and I have made a commitment, with accompanying financial accountability, to partner with our law firms to help ensure that you achieve your goals. In addition, we will undertake a process to assess our progress a year from now to learn from our collective experience and decide on improvements for the future. As with the old program, we expect to maintain this program in its current form, or something close to this form, for a period of three to five years, after which we will evaluate what progress has been made in addressing the concerns which have motivated this new version of our LFDP.

As we have reflected over the last seven years, we have come to appreciate every more deeply the importance of diverse representation from across a variety of groups. It is however, only a first step. Representation without attitudes, behaviors and a culture that reflect inclusion will result in law firm demographics that show many diverse lawyers beginning their practices each year, but fewer experienced diverse lawyers leading the management, practice areas and key account relationships of the firm.

In fact, recent survey data from AmLaw360's 2015 Minority Report found that while more than 20 percent of U.S. law school enrollees have been minorities over the past decade, just 7 percent of equity partners at U.S. law firms are minorities. Overall, less than 1 percent of U.S. attorneys are African-American partners. The data regarding women is somewhat better, but progress remains very slow. Survey participants in AmLaw350's 2015 Glass Ceiling Report reported that about 33.5 percent of attorneys in their law firms were women, but the women comprise only 21.5 percent of law firm partners.

We know that the largest law firms can lead the way on progress towards more representation and more inclusion. Large firms have the advantage of great work, locations in large cities, and generally higher compensation than small to medium firms; you are much more likely to have minority equity partner representation above the overall average of 7 percent. And while goals that measure firm leadership as a proxy for cultural and systemic change are imperfect, we believe that it is a good place to start. As always we hope to learn by doing, and to improve on our measurements as we do so.

We also want to confirm that we plan to continue to work in close partnership with you. In July we hosted our now traditional "Summer Associates at Microsoft Day" for our Pacific Northwest premier firms. We will continue this in FY16. In addition, we will once again organize our Advocacy Academy for counsel at our LFDP firms, conducted by our Litigation Practice Group. We look forward to your participation in these events, and to your thoughts on how we might better tailor these programs, or implement new programs, to address our new leadership goals.

Our own work on diversity continues as well. This year's summer legal intern program at Microsoft for students who have completed their first year of law school is well underway. We have ten interns from five law schools, including one Historically Black law school. As you likely remember, we were an original sponsor of the MCCA Lloyd M. Johnson Scholarship program. We continue to fund three first year law students a year, and have done so for ten years. We are active participants, along with many of you, in a number of organizations dedicated to the advancement of diversity in the legal profession, including MCCA and the Leadership Council for Legal Diversity (LCLD), whose Board I currently chair. I am particularly excited by the preliminary results of LCLD's career development program for annual cohorts of lawyers early in career from participating law firms and law departments.

In addition to our own activities and our accountability to the success of our LFDP program, Microsoft's legal department continues to measure its own diversity results. Over the last several years we have had consistent year over year goals: 1) increase the percentage of senior women worldwide in the department by 1% a year; 2) increase the percentage of minorities at all levels in the United States by 0.5% a year; and 3) sustain a commitment to WMBE firms, this year at 7% of annual U.S. spend. This year, we also are implementing a measure on inclusion, which will commit us to department wide training, and will measure inclusion by means of an improved favorable response to several questions on our annual MS Poll. Since we started the conversation on diversity internally twelve years ago, we have increased our percentage of senior women worldwide in the department by 14.5 percentage points. We have been able to meet our cumulative annual goal with a commitment to recruiting, as well

as to career development. And in that time, we have increased the percentage representation of minorities at all levels in our department located in the United States 6.9 percentage points. But we know that we need to continue to do better.

We remain committed and optimistic that our work to improve diversity, individually and collectively, will result in forward progress. Our team, led by Amy Jacoby, looks forward to hearing from you regarding your election to participate in this program. I especially appreciate the continuing candid and direct feedback that so many of you have provided. We're excited about the opportunity to retool and improve our Law Firm Diversity Program. Moving forward, we hope that together we will develop and pursue new and creative ways to advance diversity for us all. Thank you for your commitment to diversity in your firms and in our profession.

Sincerely,

A handwritten signature in blue ink, appearing to read "Brad Smith", with a long horizontal flourish extending to the right.

Bradford L. Smith
Executive Vice President and General Counsel,
Microsoft Corporation