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IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
FOR KING COUNTY

GEORGE E. ENGSTROM, an individual,
and JOHN E. STOCKWELL, an individual,

Plaintiffs,

vs.

MICROSOFT CORPORATION, a
Washington corporation,

Defendant.

Case No.: 15-2-04785-0 SEA

COMPLAINT FOR DAMAGES AND
DEMAND FOR JURY TRIAL

I. JURISDICTION

1.1 Plaintiffs, George E. (“Eric”) Engstrom and John E. (“Ted”) Stockwell (hereinafter referred to jointly as “Plaintiffs” and individually by their last names), are citizens of King County, Washington.

1.2 The defendant, Microsoft Corporation (“Microsoft”), is a Washington corporation, and is organized and exists under the laws of the State of Washington.

Microsoft has its principal place of business in King County.

1 **II. FACTS**

2 **A. Background**

3 2.1 Engstrom worked for Microsoft in the 1990s, and is credited with being one
4 of three inventors of DirectX, which are the application programming interfaces, upon
5 which Xbox is based. Engstrom was in charge of creating technology for Windows that
6 allows software developers to incorporate audio, video, and animation into their programs.
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8 2.2 Stockwell started at Microsoft directly from University of Waterloo in 1987
9 working as a developer Microsoft's OS/2, and left Microsoft as a Program Manager in
10 1998 with a "Director of Audio Technologies" title, working in MSN on acquisition
11 integrations, business partnerships and agile production of weekly content for MSN 2.0.

12 2.3 In the second quarter of 2008, Stockwell returned to Microsoft as a Level 67
13 employee, earning him the distinction of being at the top level of the "Principal Band" at
14 Microsoft. Approximately 3% of Microsoft's employees hold this title.
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16 2.4 Engstrom joined Microsoft on October 1, 1991, as a Level 11 employee, the
17 equivalent of a Level 62 under Microsoft's modern system. He was promoted in
18 September 1995 out of band to Level 13, the modern equivalent of a Level 65, for his
19 contributions to DirectX. This was a very rare "double promotion" at the time, but moved
20 him two whole bands in the modern system. Engstrom was instrumental in 1997
21 negotiations with Intel Corp. He convinced the chipmaker to adopt the Microsoft
22 multimedia package, DirectX, rather than a competing product from Sun Microsystems.
23 Engstrom was also successful in convincing Microsoft to allow his team to enable
24 Windows 98 to play DVDs, making it the first Operating System that could play movies.
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1 2.5 In another Engstrom-piloted deal, Microsoft purchased a company called
2 Dimension X, which, at the time, was working with a third company, Marimba, that had
3 ties to Netscape Communications Corp.

4 2.6 In his June 1997 review, Engstrom was promoted to a Level 14 employee,
5 the equivalent of a Level 68 under Microsoft’s modern system. When Microsoft changed
6 its leveling system in 1999, Engstrom was made a Level 69 employee, earning him the
7 distinction of being a “Partner” at Microsoft. Approximately 1% of Microsoft’s employees
8 hold this title.

9 2.7 The plaintiffs left Microsoft in 1998 and 1999, respectively, and both
10 returned in 2008.

11 2.8 In or about January 2010, General Manager Eric Engstrom began working
12 for Qi Lu in Microsoft’s Online Services Division (OSD). This is the division responsible
13 for both Bing and MSN globally.

14 2.9 Engstrom was hired to lead Bing Mobile Program Management after
15 interviewing with the President of the Online Services Division Qi Lu, Sr. Vice President
16 Satya Nadella and Corporate Vice President Erik Jorgensen.

17 2.10 Qi Lu joined Microsoft in 2008. Lu had been an executive at Yahoo for
18 many years. At Microsoft, Lu held the positions of president, executive vice president,
19 and senior partner.

20 2.11 Over time, Lu surrounded himself with other Yahoo alumni including David
21 Ku, who was hired in October 2010 as Corporate Vice President, OSD New Initiatives.

1 2.12 Heung-Yeung “Harry” Shum, Corporate Vice President of Bing Product
2 Development, was a close friend of Lu’s from their time together at Carnegie Mellon
3 University. Lu credited Shum with getting him the job as President of Microsoft’s Online
4 Services Division.

5 2.13 Engstrom worked directly for CVP Erik Jorgensen, who reported to Satya
6 Nadella. Nadella at that time reported to President of the Online Services Division Qi Lu.

7 2.14 In approximately April 2010, Eric Engstrom hired Senior Director Ted
8 Stockwell to run Bing Mobile International, at that time, a new group whose charter was
9 to increase online search share internationally.
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11 2.15 The plaintiffs observed a cultural shift from when they worked at Microsoft
12 in the 1990s. In the 1990s, innovation drove Microsoft, but under Lu, it began to appear
13 that innovation was replaced with managing loyalty to one’s supervisors as the primary
14 concern.
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16 2.16 In or about September 2010, Engstrom and Stockwell developed a strategic
17 initiative known as Bing as a Platform (“BaaP”).

18 2.17 At that time, a Microsoft employee who will hereinafter be referred to as
19 John Doe was working in Microsoft’s Search Technology Center Asia, Harry Shum’s
20 organization. On information and belief, Doe and Shum are close friends, and there was a
21 mentor relationship between the two.
22

23 2.18 Based in part on Doe’s close friendship to an executive of a Microsoft
24 corporate partner, Shum’s organization loaned Doe to Engstrom and Stockwell’s team in
25 Bing Mobile International to assist them in pitching a pilot project to the corporate partner.

1 2.19 In October 2010, Stockwell attended meetings with Doe pitching the pilot
2 project. Stockwell was impressed with Doe’s abilities. Doe continued working for
3 Engstrom and Stockwell.

4 2.20 While working in Korea, Doe incurred travel and business expenses, which
5 he submitted in expense reports to Stockwell for approval. Stockwell approved a number
6 of Doe’s expense reports after a cursory review.
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8 2.21 Doe’s expense reports were difficult to analyze because the expenses were
9 incurred in South Korean Won and then converted to Japanese Yen in the report. It
10 required a further conversion to U.S. Dollars, which was not provided in the report, for
11 Stockwell to make sense of it. Stockwell initially believed he was approving \$700 expense
12 reports for dinners with executives from the corporate partner. He later determined that
13 some of reports he approved were in excess of \$7000.
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15 **B. Protected Activity**

16 2.22 In or about the end of February or beginning of March 2011, Stockwell
17 became concerned with vaguely described “entertainment expenses” that Doe submitted
18 for reimbursement. When the two next met, Doe told Stockwell that he was meeting with
19 corporate partner executives at “*hostess bars*”. Stockwell asked Doe if he was “expensing
20 prostitution services of hostesses,” which Doe denied.
21

22 2.23 Stockwell soon realized that the expense reports Doe had filed were an
23 entire order of magnitude greater than what Stockwell initially understood. Stockwell
24 notified Engstrom, his manager, about the size of the expenses he had approved and told
25 him that he believed Doe was “expensing hostess bars” and potentially prostitution.

1 Stockwell and Engstrom were both aware that in Korea and other parts of Asia, “hostess
2 bars” often provide sexual services to their customers.

3 2.24 Engstrom reported to his boss, Corporate Vice President Erik Jorgensen,
4 that he and Stockwell believed Doe was “expensing hostess bars” and potentially
5 prostitution. Jorgensen referred Engstrom and Stockwell to Human Resources Manager
6 Jeff Williams, who received the same report from Plaintiffs.
7

8 2.25 The Foreign Corrupt Practices Act is a clear expression of public policy that
9 companies such as Microsoft must make and keep books, records, and accounts, which, in
10 reasonable detail, accurately and fairly reflect and do not mischaracterize the transactions
11 and dispositions of the assets of the company.
12

13 2.26 On March 22, 2011, Stockwell provided Williams a spreadsheet showing
14 more than \$22,000 in “entertainment expenses” that Doe incurred while assigned to work
15 on Stockwell’s team in Korea.

16 2.27 Microsoft commenced an investigation into Doe’s expense reports.
17 Engstrom and Stockwell then asked to not have to approve further expense reports from
18 Doe until the investigation was complete.

19 2.28 As a part of the annual performance evaluation, Microsoft employees
20 receive a rating. “1” is the highest rating and 5 is the lowest rating given. Most
21 employees receive ratings of “3”. A “4” rating is below average and can subject an
22 employee to difficulties transferring, below average stock options (if any), and lower
23 bonus and pay increase (if any). A “5” rating is a poor performance rating that has certain
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1 consequences, including preventing the employee from transferring out of his division, no
2 stock options, no bonus, no salary increase, and likely discharge.

3 2.29 In or around June 2011, Stockwell’s rating of Doe reflected the expense
4 voucher issue and other performance issues.

5 2.30 In or about June 2011, as Microsoft’s investigation was ongoing, HR
6 Manager Williams called Stockwell at home after hours and asked him to drop the
7 complaint against Doe and to raise his performance rating of Doe.

8 2.31 Stockwell responded that he would do as requested, but only if CVP
9 Jorgenson sent him an email asking that he agree to the plan and confirming what was
10 requested. HR Director Williams responded, “Oh, wow” and dropped the request.

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12 **C. Retaliation**

13 2.32 Microsoft retained John Doe. The company raised Doe’s performance rating
14 without Stockwell or Engstrom’s involvement, which is a significant departure from
15 company practice. It also permitted Doe to transfer out of the division. Stockwell was told
16 that Harry Shum had stepped in to dismiss the charges against Doe.

17 2.33 Management of the Bing as a Platform initiative that Engstrom and
18 Stockwell developed was taken away from the pair. Following their removal from the
19 initiative they developed, their former managers released and publicly touted the immense
20 potential of Bing as a Platform. Qi Lu, the President of the Online Services Division, was
21 quoted in the press as saying, “Bing as a platform presents the universal platform.”

22 2.34 Still, after Engstrom and Stockwell reported Doe’s expense reports, their
23 success in developing the BaaP initiative went unacknowledged. During the 2011 annual
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1 review process, Engstrom's manager told him that Stockwell and his team would receive
2 performance ratings of "4", signifying that it would likely be an "improvement" if
3 Microsoft replaced them. Engstrom and Stockwell reported to management that this
4 appeared to be retaliation and the ratings for Stockwell and his team were adjusted to "3."

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6 2.35 Engstrom, for his part, still received a performance rating of "4" in the 2011
7 annual review. Additionally, within months of reporting concerns that Doe could be
8 "expensing hostess bars", Engstrom was threatened with a demotion from Level 70 to
9 Level 68. CEO Steve Ballmer blocked this demotion in 2011.

10 2.36 After reporting Doe, Engstrom and Stockwell were unassigned from the
11 potent BaaP initiative and given a significantly smaller team than before (down from
12 approximately 100 to roughly 5). They developed and presented phased plans for their
13 new assignment, but their managers declined to implement their plans.

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15 2.37 Sensing that his efforts in Bing Mobile International went unsupported,
16 Engstrom took the position of Engineering Manager of the User-Centric Advertising team
17 within CVP David Ku's organization (Microsoft Advertising). There, Engstrom reported
18 to Peter Mansour, his former subordinate. After Mansour left Microsoft, Engstrom took
19 over Mansour's General Manager role, but then only as "interim," which was announced
20 to Engstrom's team in an email without Engstrom's prior knowledge. This was a
21 significant departure from company practice. Engstrom was subsequently rolled into the
22 team of another direct report of David Ku's, who had worked for Lu and Ku at Yahoo.

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24 2.38 In or about February 2012, Stockwell was told that Bing Mobile
25 International no longer had a role for him to fill. Stockwell joined Engstrom's team as the

1 Senior Director of Online Advertising, within the Online Service Division’s Advertising
2 group; despite the fact that Corporate Vice President David Ku initially indicated to
3 Stockwell that there were no openings in the Advertising group for him.

4 2.39 In or about June 2012, Engstrom invited CVP David Ku to meet with him
5 and his User-Centric Advertising (“UCA”) team. At the meeting, to the team’s surprise
6 David Ku referred to Engstrom as “his brother” but forbade Engstrom from speaking.
7 When Stockwell attempted to fill the role of team lead and ask “soft-ball” questions of Ku
8 for the team’s benefit, Ku began to dismiss Stockwell as well, asking at one point “Does
9 anyone else other than Ted [Stockwell] have a question?”

10 2.40 In or about June 2012, Engstrom and Stockwell were both given
11 performance ratings of “4” in the annual review process, again signifying that it would
12 likely be an “improvement” for Microsoft to replace them. Qi Lu and David Ku each
13 participated in and influenced the review process. Engstrom’s numeric rating was not
14 reflective of the glowing written review he was given for the same time period by Ku, who
15 was not his direct manager. Neither Stockwell nor Engstrom’s ratings were reflective of
16 their actual performance during that time period.

17 2.41 In 2012, Qi Lu, President of the Online Service Division successfully
18 demoted Engstrom from Level 70 to Level 69. On information and belief, Engstrom was
19 the first partner demoted in band from Level 70 to Level 69. Lu did so only after devising
20 and applying a new, heretofore unwritten rule that allowed him to demote Engstrom
21 through a wholly subjective determination of whether he, Lu, would later support
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1 Engstrom to become a Corporate Vice President, Level 80. Lu determined Engstrom
2 would not and demoted him to Level 69.

3 2.42 In 2012, Engstrom and his team developed the “Brazil” initiative, including
4 the creation of a commercial app. and partnering with large consumer brands in an effort
5 to compete with Amazon. Additional personnel were promised to Engstrom and necessary
6 for the success of Brazil, which were not provided.

7
8 2.43 Despite not getting promised resources for the project, Stockwell was
9 successful in lining up numerous potential partners and identifying technology
10 acquisitions that proved the concept and would support the project.

11 2.44 Stockwell sourced for Microsoft two of the Bing Venture funds’ first three
12 announced partnerships, including Selectable Media, which became a high priority
13 investment of the Bing Fund. Following this significant contribution, Ku rated Stockwell’s
14 performance as a “5.”

15
16 2.45 One potential corporate acquisition discovered by Stockwell received
17 Approval to Negotiate by 2 of the 3 required decision makers. CVP David Ku was the
18 lone dissenter. Ku refused to authorize proceeding with the acquisition, claiming he could
19 only approve funding for 25 additional “heads.” The deal in fact only required 20 “heads”.
20 This was one of several actions that Ku and his managers took to sabotage the Brazil
21 project developed by Engstrom, Stockwell, and their team.

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23 2.46 Within days of denying approval to negotiate, Ku shuttered the larger Brazil
24 project, effectively killing the acquisition for good. Ku’s actions robbed Engstrom and
25 Stockwell of what would have been an undeniable and significant “win” that management

1 would have had to recognize. This action enabled the terminal reviews used to “justify”
2 Plaintiffs’ terminations.

3 2.47 In the 2013 annual review process, Engstrom and Stockwell were both given
4 performance ratings of “5,” Microsoft’s lowest possible rating. Qi Lu and David Ku each
5 participated in and influenced the review process. Engstrom and Stockwell were rendered
6 unable to transfer within the company, based on their “5” ratings.
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8 2.48 Yet, in October 2013, Engstrom was recognized with a
9 “OneG.R.E.A.T_Team” award for his leadership and technical abilities, based on multiple
10 nominations from across the Microsoft Advertising organization. His picture was hung on
11 the wall in recognition of his undeniable success.

12 2.49 In or about July 2013, CVP David Ku took away Engstrom’s entire team,
13 excepting Stockwell and his direct reports.
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15 2.50 In December 2013, Stockwell was terminated with the few remaining
16 members of his team. Microsoft contacted Engstrom in December 2013 to terminate him,
17 but upon being informed that he was on paternity leave at the time, his termination was
18 delayed until he returned from paternity leave in January 2014.

19 2.51 After Engstrom and Stockwell were terminated, Microsoft restarted portions
20 of the Brazil project that they had conceived under another name.
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22 **D. Damages**

23 2.52 The plaintiffs suffered damages proximately caused by the actions of the
24 defendant as set forth below.
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V. DEMAND FOR JURY

5.1 Plaintiff hereby demands that this case be tried before a jury of twelve.

DATED this 25th day of February, 2015.

THE SHERIDAN LAW FIRM, P.S.

By: s/John P. Sheridan
John P. Sheridan, WSBA # 21473
Attorney for Plaintiffs