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SUPERIOR COURT OF WASHINGTON IN AND FOR KING COUNTY

MICHAEL DOUGHERTY and DAVID
SELINGER,

Plaintiffs,

v.

REDFIN CORPORATION,

Defendant.

No.

COMPLAINT FOR DAMAGES

I. PARTIES, JURISDICTION & VENUE

1. Redfin Corporation is headquartered in and conducts business in King County.
2. Michael Dougherty is a resident of King County.
3. David Selinger is a California citizen.
4. Jurisdiction is proper under this Court’s general jurisdiction.
5. Venue is proper because the defendant resides and conducts business in King

County.

II. BACKGROUND

6. Michael Dougherty and David Selinger were instrumental in the creation and initial success of Redfin. Dougherty began advising the company in 2003, and in 2004 he became a co-founder and one of the original investors. Around that same time, Selinger became a consultant to the company and later joined the company as Chief Technology Officer.

1 7. Both Dougherty and Selinger were given Restricted Stock Agreements in
2 connection with their employment. Pursuant to, and subject to the terms of those agreements,
3 Dougherty received two million shares and Selinger received 924,000 shares. The
4 agreements provided that the shares became fully vested if (i) the individual left the company
5 for “Good Reason”; or (ii) there was a “Change in Control.”

6 8. Redfin was a classic startup. The company had almost no money. People
7 worked largely for stock instead of salary. Selinger recruited and led the programming team,
8 working out of his apartment, which was jammed with computers, servers, and the like.
9 They, like Dougherty, worked long days, nights and weekends. Their goal: create a web-
10 based interactive mapping application, overlay geographic data on top of the interactive map,
11 and import MLS listings and display them next to historical sales data. It had never been
12 done, but they all believed it was possible.

13 9. Ultimately, and as people worked to the breaking point and beyond, Redfin
14 was launched. In just days, the site had tens of thousands of visitors.

15 10. Following Redfin’s launch, the company’s future looked bright. The team set
16 out to conduct a Series A investment round. Unfortunately, after considerable effort, and as
17 the closing neared, the lead investor concluded that the company needed a new CEO. David
18 Eraker, the existing CEO, refused to step aside. As a result, the investor backed out and the
19 round fell apart. This was a major disappointment to Dougherty, Selinger, and the others who
20 had worked so hard.

21 11. After the financing effort collapsed, conditions deteriorated at Redfin. The
22 failure to close its Series A financing left the company with few options for securing other
23 investment. Meanwhile, Eraker’s relationships with employees and several key investors
24 became increasingly contentious, and the employees and investors concluded that Eraker was
25 violating his fiduciary obligations. The company was ultimately forced to negotiate
26

1 repayment terms with several of its existing investors. At the same time, various apparent
2 improprieties by Eraker came to light, in addition to other erratic and bizarre behavior.

3 12. Ultimately, from late Spring to early Summer 2005, Selinger, Dougherty, and
4 all of the employees except Eraker left the company, viewing the situation as intractable. For
5 his part, Dougherty was no longer willing to serve as a board member or executive for the
6 company given what was occurring. The circumstances leading to the departures of Selinger
7 and Dougherty constituted Good Reason as that phrase is defined in the Restricted Stock
8 Agreements.

9 13. In connection with their departures, both Selinger and Dougherty signed a
10 Settlement Agreement and Release. Those agreements acknowledged that all of Selinger's
11 and Dougherty's shares of common stock were fully vested. The Agreements, however, gave
12 Redfin a Right of Repurchase – i.e., the right to purchase Selinger's and Dougherty's shares
13 in the future – for \$.40 per share. The Agreements provided that the Right of Repurchase
14 lapsed, however, upon the happening of a Change in Control, as defined in the Restricted
15 Stock Agreement.

16 14. In negotiating the Settlement Agreements, the Company told Selinger and
17 Dougherty (and others) that the company was broke. In fact, the Company was in the process
18 of securing significant financing for the company from Madrona Capital, a prominent venture
19 capital fund. Securing the settlement agreements with the repurchase right was key to the
20 Madrona financing, as evidenced by the fact that the Company delivered them to Madrona (at
21 Madrona's request) the day after they were signed. Had plaintiffs known of the status of the
22 Madrona deal (while being told the company was broke), they would not have granted a
23 repurchase right.

24 15. In September 2005, Redfin completed a Series A financing round. This
25 constituted a Change in Control under both the Settlement Agreements and the Restricted
26 Stock Agreements because, as a result, more than 50 percent of the combined voting power of

1 the entity became owned by persons who were not shareholders of the company immediately
2 prior to the transaction. In connection with the financing, however, Redfin did not disclose to
3 Selinger and Dougherty that a Change in Control had occurred. In fact, at no time did Redfin
4 ever advise that the Change in Control had occurred. To the contrary, Redfin later even
5 purported to negotiate with Selinger and Dougherty to eliminate the repurchase right (which
6 no longer existed) in exchange for a significant amount of their shares.

7 16. In January 2014, and apparently in anticipation of an initial public offering,
8 Redfin purported to exercise its Right of Repurchase from Messrs. Dougherty and Selinger,
9 and purported to cancel their shares. That right never existed, however, because it was
10 obtained by misrepresentation. Even if it had not been so obtained, it had lapsed due to the
11 Change in Control.

12 **III. CAUSES OF ACTION**

13 **A. Breach of Contract**

14 17. By canceling plaintiffs' shares, Redfin has breached the Settlement
15 Agreements and/or the Restricted Stock Agreements. Plaintiffs have been damaged in an
16 amount to be proven at trial.

17 **IV. PRAYER FOR RELIEF**

18 Plaintiffs pray for judgment:

- 19 a. For damages in an amount to be proven at trial;
 - 20 b. For plaintiffs' costs and attorney's fees; and
 - 21 c. For such other relief as the Court deems just and proper.
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DATED this 24th day of March, 2014.

BYRNES KELLER CROMWELL LLP

By 

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SUPERIOR COURT OF WASHINGTON IN AND FOR KING COUNTY

MICHAEL DOUGHERTY and DAVID
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Plaintiffs,

v.
REDFIN CORPORATION,

Defendant.

No.
SUMMONS

TO: REDFIN CORPORATION

A lawsuit has been started against you in the above-entitled court by plaintiffs Michael Dougherty and David Selinger. Plaintiffs' claims are stated in the written complaint, a copy of which is served upon you with this summons.

In order to defend against this lawsuit, you must respond to the complaint by stating your defense in writing and by serving a copy upon the person signing this summons within twenty (20) days after the service of this summons, excluding the date of service, or a default judgment may be entered against you without notice. A default judgment is one where plaintiffs are entitled to what they ask for because you have not responded. If you serve a notice of appearance on the undersigned person you are entitled to notice before a default judgment may be entered.

1 You may demand that the plaintiffs file this lawsuit with the court. If you do so, the
2 demand must be in writing and must be served upon the person signing this summons.


3 Within 14 days after you serve the demand, the plaintiffs must file this lawsuit with the court,
4 or the service on you of this summons and complaint will be void.
5

6 If you wish to seek the advice of an attorney in this matter, you should do so promptly
7 so that your written response, if any, may be served on time.

8 This summons is issued pursuant to Rule 4 of the Superior Court Civil Rules of the
9 State of Washington.

10 DATED this 24th day of March, 2014.

11 BYRNES KELLER CROMWELL LLP

12
13 By 
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