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Case No. 2023-0383-

IN THE COURT OF CHANCERY FOR THE STATE OF DELAWARE

MATTHEW MCKNIGHT, Plaintiff, v. ALLIANCE ENTERTAINMENT HOLDING CORP. F/K/A ADARA ACQUISITION CORP., ADARA SPONSOR LLC, THOMAS FINKE, PAUL G. PORTER, BEATRIZ ACEVEDO-GREIFF, W. TOM DONALDSON III, DYLAN GLENN, and FRANK QUINTERO, Defendants.	Case No.:

VERIFIED CLASS ACTION COMPLAINT

INTRODUCTION

Plaintiff Matthew McKnight ("Plaintiff"), on behalf of himself and similarly situated stockholders of Alliance Entertainment Holding Corp. ("Alliance") [1] f/k/a Adara Acquisition Corp. ("Adara," or the "Company"), bring this Verified Class Action Complaint (the "Complaint") asserting breach of fiduciary duty claims stemming from the Company's merger (the "de-SPAC Acquisition" or "merger")

[1] In the interest of clarity, Alliance will refer to the combined entity after the de-SPAC Acquisition (defined below), while Adara will refer to the SPAC (defined below) before the de-SPAC Acquisition

with Alliance Entertainment ("Legacy Alliance") against: (a) Thomas Finke, Beatriz Acevedo-Greiff, W. Tom Donaldson III, Dylan Glenn, and Frank Quintero, in their capacities as members of SPAC's board of directors (the "SPAC board"); (b) Defendants Thomas Finke and Paul G. Porter in their capacity as Adara officers and (c) Adara Sponsor LLC ("Defendant Sponsor").

The allegations are based on Plaintiff's knowledge as to himself, and on information and belief, including counsel's investigation and review of publicly available information.

NATURE OF THE ACTION

1. Over the past few years, special purpose acquisition companies ("SPACs" or "SPAC") have emerged as a popular way for the public to invest in private entities. Despite certain structural differences between SPACs and operating businesses, SPACs that incorporate in Delaware are, in fact, Delaware corporations, and their fiduciaries are bound by the State's common law and statutory regime. This action highlights how important it is to reinforce that principle, lest public investors continue to lose billions of dollars due to SPAC controllers' and directors' self-interested actions.

2. After a SPAC goes public and investor capital is placed into a trust account that will typically invest in government securities pending a business combination, the board of directors and the sponsor (i.e., controller) of the SPAC

have two jobs: (a) conduct a fair process and sound diligence to select an acquisition target; and (b) give the SPAC's public investors sufficient disclosure to informedly decide whether to exercise their right to redeem their shares, or invest in the private company that will go public through the "de-SPAC transaction."

3. This case arises because, despite having no operational responsibility and simply needing to find a proper target and disclose the positives and negatives of a deal, the Adara Board completely abdicated and violated their duty of loyalty.

4. Rapidly approaching the term limit of the Adara SPAC's window to identify and close a deal with an acquisition target, Adara closed a deal with Legacy Alliance, a distributor of products such as movies, video games, compact disks ("CD's"), and vinyl records, among other offerings. This deal was closed even though Adara investors would have been better off if the acquisition had not closed, and without Adara informing the stockholders of updated risks that had materialized since the definitive Proxy statement was filed on December 12, 2022.

5. In closing the de-SPAC Acquisition of Legacy Alliance, Adara did not take into account the interests of the remaining post-redemption investors in Adara. Specifically, Adara did not inform investors until February 13, 2023, after closing the deal on February 10, 2023 (the "Closing Date") that, on February 8, 2023, Legacy Alliance had received a notice of default letter from a creditor, subjecting it to a deferred action by the lender.

6. Further, Adara failed to inform the NYSE American Exchange of the pending de-SPAC Acquisition, leading to it being delisted from the NYSE American Exchange and onto the OTC Markets, harming investors.

7. Where, as here, the transaction triggering entire fairness review arose from a deeply flawed and unfair process, including severe disclosure defects, and resulted in a grossly mispriced transaction, the entire fairness standard will not be satisfied, giving aggrieved stockholders the right to judicial recompense.

8. As a result of Defendants' breaches of duty, Adara SPAC investors who did not redeem when they had the right to do so are now left holding stock trading below the redemption value (the "Class"). Defendants should be held accountable to the Class for their breaches of fiduciary duty.

JURISDICTION

9. This Court has jurisdiction over this action pursuant to 10 Del. C. § 341. This Court has personal jurisdiction over the Defendants because they either are domiciled, reside, were officers and directors or control persons of the Company, or have sufficient minimum contacts with this forum.

PARTIES

Plaintiff

9. Plaintiff Matthew McKnight is a former Adara stockholder, from prior to the de-SPAC Acquisition until after the de-SPAC Acquisition.

Non-Party Alliance and the Defendants

10. Non-Party Alliance is a Delaware corporation originally formed as a SPAC. Following the de-SPAC Acquisition, Alliance is a "top tier distributor of music, movies and consumer electronics." It "proudly offer[s] thousands of compact disks, vinyl LP records, DVDs, Blu-rays, video games, and a full line of complementary electronics accessories."

11. Defendant Sponsor is a Delaware limited liability company.

12. Defendant Adara is a Delaware Corporation.

13. Defendant Thomas Finke has served as Chairman of Adara from the time of Adara's inception through the de-SPAC Acquisition. He also served as Adara Acquisition Corp.'s CEO from June 1, 2022 through the de-SPAC Acquisition. He currently serves on Alliance's Board of Directors.

14. Defendant Beatriz Acevedo-Greiff has served as an Adara Director from the time of Adara's inception through the de-SPAC Acquisition.

15. W. Tom Donaldson III has served as an Adara Director from the time of Adara's inception through the de-SPAC Acquisition. He currently serves on Alliance's Board.

16. Dylan Glenn has served as an Adara Director from the time of Adara's inception through the de-SPAC Acquisition.

17. Frank Quintero has served as an Adara Director from the time of

Adara's inception through the de-SPAC Acquisition.

18. Defendant Paul G. Porter served as Adara's Chief Financial Officer ("CFO") from its inception until the de-SPAC Acquisition.

19. Defendants Finke, Acevedo-Greiff, Donaldson, Glenn, and Quintero are herein referred to as the "Director Defendants."

20. Defendants Finke and Porter are referred to herein as the "Officer Defendants."

FIDUCIARY DUTIES OF THE INDIVIDUAL DEFENDANTS

21. By reason of their positions as officers, directors, and/or fiduciaries of Adara and because of their ability to control the business and corporate affairs of Adara, the Individual Defendants owed Adara and its stockholders fiduciary obligations of trust, loyalty, good faith, and due care, and were and are required to use their utmost ability to control and manage Adara in a fair, just, honest, and equitable manner. The Individual Defendants were and are required to act in furtherance of the best interests of Adara and its stockholders so as to benefit all shareholders equally.

22. Each director and officer of the Company owes to Adara and its stockholders the fiduciary duty to exercise good faith and diligence in the administration of the Company and in the use and preservation of its property and assets and the highest obligations of fair dealing.

23. The Individual Defendants, because of their positions of control and authority as directors and/or officers of Adara, were able to and did, directly and/or indirectly, exercise control over the wrongful acts complained of herein.

24. To discharge their duties, the officers and directors of Adara were required to exercise reasonable and prudent supervision over the management, policies, controls, and operations of the Company.

25. Each Individual Defendant, by virtue of his or her position as a director and/or officer, owed to the Company and to its stockholders the highest fiduciary duties of loyalty, good faith, and the exercise of due care and diligence in the management and administration of the affairs of the Company, as well as in the use and preservation of its property and assets. The conduct of the Individual Defendants complained of herein involves a knowing and culpable violation of their obligations as directors and officers of Adara, the absence of good faith on their part, or a reckless disregard for their duties to the Company and its shareholders that the Individual Defendants were aware or should have been aware posed a risk of serious injury to the Company. The conduct of the Individual Defendants who were also officers and directors of the Company has been ratified by the remaining Individual Defendants who collectively comprised Adara's Board at all relevant times.

26. As senior executive officers and directors of a publicly-traded company whose common stock was registered with the SEC pursuant to the Exchange Act and

traded on the NYSE American exchange, the Individual Defendants had a duty to prevent and not to effect the dissemination of inaccurate and untruthful information with respect to the Company's financial condition, performance, growth, operations, financial statements, business, products, management, earnings, internal controls, and present and future business prospects, including the dissemination of false information regarding the Company's business, prospects, and operations, and had a duty to cause the Company to disclose as omissions of material fact in its regulatory filings with the SEC all those facts described in this Complaint that it failed to disclose, so that the market price of the Company's common stock would be based upon truthful and accurate information. Additionally, the Individual Defendants had a duty not to cause the Company to waste corporate assets by making the Company repurchase its own stock at artificially inflated prices, to the detriment of the Company and its shareholders.

27. To discharge their duties, the officers and directors of Adara were required to exercise reasonable and prudent supervision over the management, policies, practices, and internal controls of the Company. By virtue of such duties, the officers and directors of Adara were required to, among other things:

(a) ensure that the Company was operated in a diligent, honest, and prudent manner in accordance with the laws and regulations of Delaware, North Carolina and the United States.

(b) conduct the affairs of the Company in an efficient, business-like manner so as to make it possible to provide the highest quality performance of its business, to avoid wasting the Company's assets, and to maximize the value of the Company's stock;

(c) remain informed as to how Adara conducted its operations, and, upon receipt of notice or information of imprudent or unsound conditions or practices, to make reasonable inquiry in connection therewith, and to take steps to correct such conditions or practices;

(d) establish and maintain systematic and accurate records and reports of the business and internal affairs of Adara and procedures for the reporting of the business and internal affairs to the Board and to periodically investigate, or cause independent investigation to be made of, said reports and records;

(e) maintain and implement an adequate and functioning system of internal legal, financial, and management controls, such that Adara's operations would comply with all applicable laws and Adara's financial statements and regulatory filings filed with the SEC and disseminated to the public and the Company's stockholders would be accurate;

(f) exercise reasonable control and supervision over the public statements made by the Company's officers and employees and any other reports or information that the Company was required by law to disseminate;

(g) refrain from unduly benefiting themselves and other Company insiders at the expense of the Company; and

(h) examine and evaluate any reports of examinations, audits, or other financial information concerning the financial affairs of the Company and to make full and accurate disclosure of all material facts concerning, *inter alia*, each of the subjects and duties set forth above.

28. Each of the Individual Defendants further owed to Adara and the stockholders the duty of loyalty requiring that each favor Adara's interest and that of its stockholders over their own while conducting the affairs of the Company and refrain from using their position, influence or knowledge of the affairs of the Company to gain personal advantage.

29. At all times relevant hereto, the Individual Defendants were the agents of each other and of Adara and were at all times acting within the course and scope of such agency.

30. Because of their advisory, executive, managerial, and directorial positions with Adara, each of the Individual Defendants had access to adverse, non-public information about the Company.

31. The Individual Defendants, because of their positions of control and authority, were able to and did, directly or indirectly, exercise control over the wrongful acts complained of herein, as well as the contents of the various public

statements issued by Adara.

SUBSTANTIVE ALLEGATIONS

(A). Overview of the Inherently Conflicted Structure of Most SPACs

32. A SPAC is a publicly traded blank check company. It has no operations of its own and is formed with the sole goal of acquiring one or more companies (the “Target”). After a SPAC’s initial public offering (“IPO”), money raised by the SPAC is placed into a trust, which is later used to purchase the Target (the "de-SPAC"). The SPAC must typically complete the de-SPAC within two years of either its creation or the IPO. In the case of Adara Acquisition Corp. the last day for a de-SPAC transaction was February 11, 2023.

33. A SPAC is publicly traded before the de-SPAC is completed, meaning that the SPAC itself is effectively just a place for investors to park their capital while waiting for identification of the de-SPAC target. The basis for SPAC investing is to enjoy an option to acquire equity interests in the formerly private Target.

34. Importantly, investors in a SPAC, unlike investors in the typical publicly traded company, are not required to sell shares into the market or continue with the investment post de-SPAC Acquisition. Instead, SPAC investors are given a contractual option to redeem their shares immediately prior to the de-SPAC Acquisition, and they can then receive their cash back, plus interest. Thus, the SPAC

structure effectively allows investors to park cash, while collecting interest, in exchange for the option to participate in a future "IPO" of a private venture.

35. The SPAC and subsequent de-SPAC structure, however, differ substantively from the traditional IPO process. In the context of a traditional IPO, the investing public receives extensive disclosures on a specific company before deciding whether to invest in it. To complete a traditional IPO, a company must be able to prepare adequate reporting systems equipped to meet the exacting reporting standards required by the Securities and Exchange Commission (the "SEC").

36. SPACs offer an alternative means for companies to go public. It starts with the people who plan to manage the SPAC creating a "sponsor" for the SPAC. In the vast majority of SPACs, the sponsor capitalizes the SPAC by purchasing shares of Class B stock (commonly referred to as founder or sponsor shares) for a nominal amount (typically $25,000, which was the case in this matter).

37. The terms of the sponsor shares typically give the Sponsor and other holders of sponsor shares both complete control over the SPAC during its existence between the IPO and any de-SPAC transaction and the potential for an economic windfall if the de-SPAC is approved.

38. Specifically, these sponsor shares typically give the Sponsor and other holders of sponsor shares both complete control over the SPAC during its existence

between the IPO and any de-SPAC transaction and the potential for an economic windfall if the de-SPAC is approved.

39. Specifically, these sponsor shares are structured to provide a far greater financial payout opportunity for the Sponsor than is typically paid to bankers running an IPO (who can get up to a 5-7% commission) or even to hedge fund managers (who get paid up to 2% of the fund's net asset value ("NAV") plus 20% of any profits above the prior year's NAV). Sponsor shares ultimately can convert into 20% of the SPACs total equity (i.e, its NAV) at the time of the de-SPAC transaction.

40. There is a catch, however. Sponsor shares only convert into 20% of the SPAC's equity if a de-SPAC transaction is both approved and closes. SPACs also have a limited amount of time to complete a de-SPAC transaction, often 24 months. Thus, after the SPAC's IPO, its founders have a strong incentive to find a deal, even if it is a bad deal, if they wish to receive a return. This creates a strong conflict of interest between SPAC founders and the everyday stockholders who invest in SPACs.

41. Once the SPAC is initially funded, officers and directors ("SPAC Insiders") are selected by the sponsor. The SPAC Insiders are often compensated in sponsor shares or other shares contingent upon the completion of the de-SPAC transaction.

42. Next comes the SPAC's IPO. The process of registering a SPAC for an IPO is simpler than registering an operating company, as the SPAC has no operations, and the risks to a particular SPAC are rarely unique. As a result, preparing documents and obtaining the necessary approvals from the SEC are less burdensome for a SPAC than an operating company.

43. After completing its IPO (and receiving investors' money and placing it in a trust account), SPAC Insiders begin searching for a target, which is typically a private company. When such a target is identified, SPAC Insiders negotiate a merger agreement.

44. Because of the ability to turn $25,000 into 20% of the SPAC's equity immediately before the de-SPAC transaction occurs, SPAC Insiders are positioned to receive an economic windfall even if the stock price of the de-SPAC entity performs poorly. To get their windfall, SPAC Insiders must overcome two threats to their big payday: (a) redemption rights and (b) a stockholder vote. Thanks to the crafty capital structure engineering of SPAC designers, the former is a more meaningful threat than the latter.

45. As noted above, SPACs are required to offer redemption rights due to listing requirements. Redemption rights allow stockholders to elect to receive their pro-rata share of the assets held in trust, rather than remain invested in the de-SPAC company. Accordingly, SPAC stockholders who do not believe in the proposed

de-SPAC company can exercise a right to exchange their shares for a set amount of cash, usually the IPO price plus interest. The redemption level can pose a risk to SPAC sponsors, however, because a common condition for SPACs to close their proposed de-SPAC transaction and receive the additional funding needed for the deal (which often comes through private investment in public equity ("PIPE") commitments) is having a certain level of cash at closing. If too many investors redeem, the sponsor's ability to close can be challenged.

46. Second, investors are typically asked to approve the de-SPAC deal through a stockholder vote. Unlike a traditional stockholder vote, however, votes on SPACs are not a genuine indication of endorsement of the transaction by the stockholders. This is because many SPAC investors (including many of the more sophisticated holders), hold "units" rather than just "shares" in the SPAC. These units contain both warrants and shares.

47. As redemption only requires giving up shares, a stockholder who holds warrants as well as shares may well choose to approve the deal despite believing it is a bad one. This peculiar result occurs because the stockholder can redeem his or her shares for an amount modestly exceeding the initial investment, while maintaining cost-free warrants. Such warrants retain option value until and unless the Target goes bankrupt, but would be rendered worthless if no transaction occurs.

48. Provided enough investors either genuinely support the deal or choose to redeem their equity while voting for the deal in order to enjoy the option value of the warrants, the de-SPAC transaction occurs. Upon closing, the SPAC's insiders receive their compensation, oftentimes subject to certain lock-ups.

(B). Adara Acquisition Corp. is Formed and Raises $115 Million from Investors in its IPO.

49. Adara was formed in Delaware on March 16, 2021 "for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses, which we refer to as our initial business combination. [. . .] While we may pursue an initial business combination target in any business or industry, we intend to focus on companies in the consumer products industry and related sectors."

50. Shortly after Adara was formed, the Sponsor acquired 2,875,000 Class B common stock shares, or founder shares ("Founder Shares"), for the nominal price of $25,000, or approximately $0.009 per share.

51. Then, the Sponsor sold 50,000 Founder Shares each to Defendants Finke, Sumichrast, and Porter for $5,000 each. The Sponsor also sold 25,000 Founder Shares to Defendants Donaldson, Quintero, Glenn, and Beatriz Acevedo-Greiff for a purchase price of $2,500.

52. The Founder Shares provided the Sponsor complete control over Adara, as well as the opportunity to convert into shares of Class A common stock at the

time of the initial business combination.

53. On September 25, 2020, Adara filed its Draft Registration Statement with the SEC. In this document, Adara announced that it planned to offer 11,500,000 Units in its upcoming IPO. Each unit would include one share of Class A Common Stock (with $0.0001 par value) and one-half of one redeemable warrant. [2] In total, there would be 11.5 million shares of Class A common stock and 5.75 million redeemable warrants included as part of the units, with an offering of the units at $10.00 per security.

54. As is typical with other SPACs, Adara gave its investors the opportunity to redeem their shares. Specifically, Adara's amended Registration Statement dated February 3, 2021 stated:

> "We will provide our public stockholders with the opportunity to redeem all or a portion of their shares of our Class A common stock upon the completion of our initial business combination, subject to the limitations described herein. If we are unable to complete our initial business combination within 24 months from the closing of this offering, we will redeem 100% of the public shares for cash, subject to applicable law and certain conditions as further described herein."

55. On February 11, 2021, Adara consummated its IPO on the NYSE American Exchange. Ultimately, 11.5 million units, including the full exercise of the underwriters' over-allotment, were sold in the IPO, rating a total of $115 million.

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[2] Each whole warrant would entitle the holder to purchase one share of Class A Common Stock at a price of $11.50 per share.

In connection with the IPO, the Sponsor purchased a total of 4,120,000 private placement warrants (the "Private Placement Warrants") for $1 per Private Placement Warrant, for a $4,120,000 total purchase price.

56. The $115 million raised was then placed into a trust account (the "Trust Account"). The Trust Account would be used to pay stockholders who exercised their option to redeem their shares in connection with the anticipated de-SPAC Acquisition, with the balance being used to finance all or part of the deal.

57. Any acquisition would also have to comply with the NYSE American Exchange's rule that a target in a SPAC Acquisition must have a fair market value of at least 80% of the value of the trust account. In this case, that would be $92,000,000.

58. In its Amended Registration Statement Filed on Form S-1 on February 3, 2021, Adara discussed at length the type of business it was targeting for an eventual de-SPAC Acquisition. It stated that its "goal is to consummate an initial business combination with a high-performing consumer products company valued between $150 million and $500 million."

59. Adara further stated, "[o]ur business strategy is to identify and complete our initial business combination with a company that fits within the experiences and skills of our team. Our selection process will leverage our relationship network, industry experiences and proven deal sourcing capabilities to access a broad

spectrum of differentiated opportunities, ***including opportunities that will have significant value in a post COVID-19 market***." (Emphasis added).

60. Adara further stated:

> Our objectives are to generate attractive returns for shareholders and enhance value through improving performance of the acquired company and possibly providing access to needed growth capital. We expect to favor opportunities with certain industry and business characteristics. ***Key industry characteristics include stable long-term growth trends and industry fundamentals, attractive competitive dynamics, opportunities to benefit from secular changes in consumer behavior (including shifting consumer demographics, changing consumer shopping behaviors and evolving consumer preferences), limited "fad" or technological disruption risks and potential consolidation opportunities. Key business characteristics include recurring revenues, attractive market positions, stable channels of distribution, competitive advantages, strong operating margins and free cash flow characteristics, opportunities for operational improvement and scalable business models***.
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> (Emphasis added).

61. Adara also included the following non-exhaustive list of acquisition criteria:

> "Consistent with our business strategy, we have identified certain criteria and approaches that we believe are important in evaluating prospective target businesses. We will use these criteria and approaches in evaluating acquisition opportunities, but we may decide to enter into our initial business combination with a target business that does not meet these criteria and guidelines. We intend to seek to acquire companies that we believe:
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> - offer opportunities to enhance financial performance through organic initiatives and/or inorganic growth opportunities that we identify in our analysis and due diligence;
> - are ***fundamentally sound but are underperforming their potential***;
> - exhibit unrecognized value or other characteristics that we believe have been misevaluated by the marketplace;
> - are at an inflection point where we believe we can drive improved financial performance;

- are undervalued relative to their existing cash flows and potential for operational improvement;
- ***offer an attractive potential return for our shareholders, weighing potential growth opportunities, operational improvements and the ability to access capital growth in the target business against any identified downside risks***; and
- can benefit from our directors' and officers' knowledge of the target sectors, proven collection of operational strategies and tools, and past experiences in profitably and rapidly scaling businesses.

(Emphasis added).

62. With the completion of the IPO, the clock started ticking, and Adara began its search for a target. After February 11, 2021, Adara would have, at most, 24 months, or until February 11, 2023, to complete a transaction.

63. On June 22, 2022, Adara, Adara Merger Sub, Inc. (a Delaware corporation and wholly-owned subsidiary of Adara, "Merger Sub"), and Alliance Entertainment Holding Corporation, entered into a business combination agreement and reorganization plan, pursuant to which, Legacy Alliance would merge with and into Merger Sub, with Alliance surviving the de-SPAC Acquisition as a wholly owned subsidiary of Adara.

(C). Adara Approves the de-SPAC Acquisition with Legacy Alliance

64. On December 12, 2022, Adara filed its Proxy with the SEC. By this time, the Adara Board had engaged in negotiations with Legacy Alliance for months, and had been able to assess the health of the Company. As a result, Adara

was able to warn, for example, of the risk surrounding Alliance's credit agreement with, among others, Bank of America.

65. Specifically, the Proxy statement gave the following warning to investors regarding Legacy Alliance's debt:

> ***Alliance's existing and any future indebtedness could adversely affect its ability to operate its business.***
>
> > ***On June 30, 2022, the credit line with Bank of America was amended for the current period which ends September 29, 2023 and increased from $175 million to $225 million with a variable annual interest rate equal to the higher of the Prime rate, Federal Funds rate plus .5% or Bank of America SOFR rate plus 2.11% (Libor rate plus 2% is the prior agreement). As of September 30, 2022, the interest rate was 5.07% (SOFR 2.96% plus a spread of 2.11%). As of September 30, 2021, the interest rate was 2.25%*** (Libor .25% plus a spread of 2%) with borrowing above the contracted Libor at 4.25% (Base Rate 3.25% plus a spread of 1%). The weighted average interest rate on the revolver for quarters ended September 30, 2022, and 2021 was 3.96% and 2.76% respectively.
> >
> > All assets (with certain capitalized lease exceptions) and interest in assets of the Company are pledged as collateral under the Credit Facility. ***In addition, the Credit Facility contains certain financial covenants with which the Company is required to comply. Failure to comply with the financial covenants contained in the Credit Facility could result in an event of default***. An event of default, if not cured or waived, would permit acceleration of any outstanding indebtedness under the Credit Facility.
> >
> > Availability under the Credit Facility is limited by the Company's borrowing base calculation, as defined in the Credit Facility. In addition, there is a commitment fee of 0.25% for unused credit line with fees for year ended June 30, 2022, and 2021 of $100 thousand and $300 thousand, respectively. Availability at September 30, 2022, was $6 million with an outstanding revolver balance of $184 million.

Availability on September 30, 2021 was $24 million with an outstanding revolver balance of $126 million.

Revolver Balance consists of the following at:

($ in thousands)	September 30, 2022	June 30, 2022
Bank of America Revolving Credit Facility	$183,691	$136,176
Less: Deferred Finance Costs	(167)	(208)
Revolving Credit, Net	$183,524	$135,968

Alliance's outstanding indebtedness, including any additional indebtedness beyond our borrowings from Bank of America, combined with its other financial obligations and contractual commitments could have significant adverse consequences, including:

• requiring us to dedicate a portion of our cash resources to the payment of interest and principal, reducing money available to fund working capital, capital expenditures, potential acquisitions, international expansion, new product development, new enterprise relationships and other general corporate purposes;

• ***increasing our vulnerability to adverse changes in general economic, industry and market conditions***;

• ***subjecting us to restrictive covenants that may reduce our ability to take certain corporate actions or obtain further debt or equity financing***;

• limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and

• placing us at a competitive disadvantage compared to our competitors that have less debt or better debt servicing options.

Alliance obtained a waiver for non-compliance with one non-financial covenant related to its delivery of the monthly unaudited financial statements and compliance certificates for the periods pertaining to June 30, 2022, July 31, 2022, and August 31, 2022. This non-compliance resulted in events of default under the

> ***Revolving Credit Facility. As a result of this non-compliance as of the balance sheet date and periods thereafter, the Company has classified the outstanding balance of the Revolving Credit Facility Net of $135,968 as a current liability as of June 30, 2022.*** The Company ***expects that it will comply with this non-financial covenant for a period of at least one year from the issuance of these financial statements.*** Therefore, the Company reclassified its debt to a non-current liability beginning with its September 30, 2022 consolidated balance sheet and does not believe that payments will be due under the credit facility for at least the following 12 months.
>
> We intend to satisfy our current and future debt service obligations with our then existing cash and cash equivalents. However, we may not have sufficient funds, and may be unable to arrange for additional financing, to pay the amounts due under the Credit Facility or any other debt instruments. Failure to make payments or comply with other covenants under our existing credit facility or such other debt instruments could result in an event of default and acceleration of amounts due, which would have a material adverse effect on our business.
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> (Emphasis added).

66. On January 18, 2023, the de-SPAC Acquisition was approved, subject to the minimum cash requirement and the listing of the surviving corporation's securities on a national securities exchange. There were 12,328,562 shares (including 11,500,000 shares of Class A common stock, and 2,875,000 Founder Shares). There were 11,188,846 votes in favor of the de-SPAC Acquisition, and 1,139,717 against.

67. While investors were given what may be considered an accurate read of Legacy Alliance's risks when it came to its outstanding debts, Adara breached its fiduciary duties towards the investors by not disclosing until *after the completion*

of the merger on February 10 that Alliance had received notice of non-compliance with its loan agreement with Bank of America.

68. On February 13, 2023, after the February 10, 2023 merger, Alliance disclosed in a current report filed with the SEC on Form 8-K that it had received a notice of default from Bank of America. In pertinent part, the 8-K stated:

> Covenants and events of default in Alliance's revolving credit facility could limit our ability to undertake certain types of transactions and adversely affect our liquidity. Alliance's revolving credit facility contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest,
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> ***Alliance recently failed to meet the covenant requirements of its revolving credit facility, being notified on February 8, 2023 that a Fixed Charge Coverage Ratio has been recently breached, with the letter indicating that is subject to a deferred action by the lender. The Company also has obtained a waiver for non-compliance with one non-financial covenant related to its delivery of the monthly unaudited financial statements and compliance certificates for the periods pertaining to June 30, 2022, July 31, 2022, and August 31, 2022. These non-compliances resulted in events of default under the revolving credit facility. We cannot provide any assurance that our lender would provide us with a waiver should we not be in compliance in the future. A failure to maintain compliance along with our lender not agreeing to a waiver for the non-compliance would cause the outstanding borrowings to be in default and payable on demand which would have a material adverse effect on us and our ability to continue as a going concern.***
>
> ***A breach of the covenants under our revolving credit facility could result in an event of default under the applicable indebtedness.*** Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under our revolving credit facility could permit the lenders under our revolving credit facility to

> terminate all commitments to extend further credit under the facility. Furthermore, if we were unable to repay the amounts due and payable under our revolving credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lender accelerates the repayment of our borrowings, we may not have sufficient assets to repay that indebtedness. ***You should read our more detailed descriptions of our revolving credit facility in our filings with the Securities and Exchange Commission, including the Proxy Statement/Prospectus at page 54 as well as the documents themselves which are also attached as exhibits to this Current Report on Form 8-K, for further information about these covenants.***

(Emphasis added).

69. It is particularly egregious that Alliance stated that investors should read more detailed descriptions of the revolving credit facility in the Proxy statement. While Defendants may have fully stated the risk regarding the revolving credit facility at the time the Proxy was filed, they failed to then warn investors before the de-SPAC Acquisition that a potential risk event that was outlined in the Proxy had in fact happened. Rather than do right by the investors and call off the Merger (and return the capital that was raised in the IPO to the investors), or at least warn the investors once the notice was received, Adara decided to sit on the information until after the Merger. The issue with that, of course, would be that the Defendants would not have been paid in the event that there was no merger.

70. Defendants have shown no remorse over subjecting the shareholders to such a disastrous deal. In the February 10, 2023 press release after completion of the Merger, Defendant Finke, commented, "[w]e congratulate Alliance Entertainment

on today's accomplishment and look forward to their continued evolution as a leading DTC and eCommerce provider for the entertainment industry. ***We are confident Alliance Entertainment will provide shareholders with a diversified investment alternative as one of the largest physical media and entertainment product distributors in the world. We believe their expanding use of automation technology to further impact efficiency, cost, and capacity for future growth will deliver long-term value***. We look forward to collaborating with Alliance Entertainment as they strategically position the company to achieve its growth objectives." (Emphasis added).

71. Further, Defendants closed this Merger even though almost no capital was left for the merger, in breach of the Proxy statement. Specifically, Page 11 of the December 12, 2022 Proxy/Prospectus states:

> "***In no event will Adara redeem Public Shares in an amount that would cause its net tangible assets (as determined in accordance with Rule 3a51-1(g)(1) of the Exchange Act) to be less than $5,000,001 after giving effect to the exercise of redemption rights and the Business Combination***. If enough Public Stockholders exercise their redemption rights such that Adara cannot satisfy the net tangible asset requirement, ***Adara would not proceed with the redemption of our Public Shares or the Business Combination, and instead may search for an alternate business combination***."

72. Then, in a January 17, 2023, current report filed with the SEC on Form 8-K, Adara stated:

> ***In connection with the stockholder meeting to approve the Proposed Transactions, stockholders of Adara have submitted redemption requests to redeem approximately 11.39 million shares of Class A common stock of***

> ***Adara, out of the 11.5 million outstanding shares of Class A common stock of Adara***. As a result, it is unlikely that Adara will be able to satisfy the NYSE American Stock Exchange initial listing requirements to list the common stock and warrants of the Surviving Corporation upon closing of the Business Combination. ***Closing of the Business Combination would also likely require Alliance to waive certain conditions, such as listing of the Surviving Corporation's securities on a national securities exchange and the minimum cash requirement. There can be no assurance that Alliance will waive any conditions to closing which are not met***.

(Emphasis added).

73. In the February 13, 2023 Current Report filed with the SEC on Form 8-K, Adara revealed that, after stockholders exercised their redemption rights, there was less than $5,000,001 remaining in the Trust Account. In pertinent part, the 8-K stated:

> "In connection with the Special Meeting and the Business Combination, ***holders of 11,332,830 shares of Adara Class A common stock, par value $0.0001 per share ("Adara Common Stock"), or 99.1% of the shares with redemption rights, properly exercised their right to redeem their shares for cash at a redemption price of approximately $10.22 per share, for an aggregate redemption amount of $116,581,703. After giving effect to the redemption of public shares, there are currently 167,170 shares of the Company's Class A common stock issued outstanding and there was $1,719,690.75 remaining balance in the trust count.*** The remaining amount in the trust account was used to fund the Business Combination."

> "As of the Closing and following the completion of the Transactions, including the redemption of public shares as described above, ***the Company had 49,167,170 shares of Class A common stock outstanding held of record by 22 holders and no shares of preferred stock outstanding***. Such amounts do not include DTC participants or beneficial owners holding shares through nominee names."

> "***As a result of the reduced amount of cash proceeds paid at Closing to fund the Combined Company, and therefore the Company may not be able to***

> ***pursue its business plans, operations and strategies, which could have an adverse effect on the Company's growth in revenue and income***. Additionally, the reduced number of shares of Public Common Stock will adversely impact the Company's public float and market liquidity."

(Emphasis added).

74. While Adara did state in prior SEC filings that it could proceed with a Merger if Alliance were to waive certain conditions before the closing (such as the minimum cash requirement (i.e., the $5,000,001 requirement for funds in the Trust Account), and the listing of the securities on a national securities exchange), it never told investors prior to the merger date that Alliance had in fact waived those conditions, leading investors to believe that if there was fewer than $5,000,001 in the Trust Account after the right of redemption was exercised, that the de-SPAC Acquisition would not occur.

75. To add insult to injury, Adara received notice on February 10, 2023, after the closing of the Merger, that the surviving entity was not eligible for listing on the NYSE American Exchange, and would be de-listed. The February 13, 2023 8K warned about the effects of this delisting, but of course, this was too late for those investors who had not exercised their redemption rights. The 8-K stated, in pertinent part:

> "***As a result of Adara's receiving a notice of delisting from the NYSE American after the Closing on February 10, 2023, if the delisting proceeds after any appeal period, there may be no active public market for our Common Stock or Public Warrants***. Whether or not our Common Stock or Public Warrants trade on OTC Pink Market will depend on the actions of

> shareholders and independent third parties, including securities broker-dealers. ***Any public market that develops will likely be characterized by decreased liquidity and greater volatility, which may materially and adversely affect the value of our Common Stock and Public Warrants***. If no active market develops on OTC Pink Market or otherwise, you may be unable to find a buyer for our Common Stock or Public Warrants and may be forced to hold the securities for an indefinite period with no practicable means of recouping any significant part of your investment. [. . .]"

(Emphasis added).

76. Adara did not reveal in the February 13, 2023 8-K that the reason for the delisting was its reckless malfeasance. On February 10, 2023, after the markets had closed, NYSE American released a press release entitled "NYSE American to Suspend Trading Immediately in Adara Acquisition Corp. (ADRA) and Commence Delisting Proceedings." In this press release, NYSE American announced that it would suspend trading for all Adara securities. It stated, "NYSE Regulation reached its decision to delist the Company's Securities pursuant to Section 119(f) of the NYSE American Company Guide because the Company failed to satisfy the requirements for initial listing following a business combination."

77. Section 119(f) of the NYSE American Company Guide states,

> "Until the company completes a business combination where all conditions in paragraph (b) above are met, ***the company must notify the Exchange on the appropriate form about each proposed business combination***. ***Following each business combination, the combined company must meet the requirements for initial listing. If the company does not meet the requirements for initial listing following a business combination or does not comply with one of the requirements set forth above, the Exchange shall commence delisting proceedings under Section 1010 to delist the company's***

> ***securities***. The company shall not be eligible to follow the procedures to cure deficiencies outlined in Section 1009 of the Guide."
>
> (Emphasis added).

78. Paragraph (b) of Section 119, as discussed in paragraph (f) of Section 119, states the following:

> Within 36 months of the effectiveness of its initial public offering registration statement, or such shorter period that the company specifies in its registration statement, the company must complete one or more business combinations having an aggregate fair market value of at least 80% of the value of the deposit account (excluding any deferred underwriter's fees and taxes payable on the income earned on the deposit account) at the time of the agreement to enter into the initial combination.

79. As such, the only pertinent requirement that Adara had to fulfill to be in complaint with Section 119(f) of the NYSE American Exchange after the de-SPAC Acquisition was to notify the Exchange on the appropriate form about each proposed business combination. The failure to file the necessary forms with the NYSE American Exchange constitutes gross negligence in violation of the duty of care.

80. The market response to the de-SPAC Acquisition is reflective of how terrible a deal this was for investors. Upon disclosure of the breach, ADRA (class A common stock) went from $8.15 on February 10, 2023 (prior to disclosure) to $3.65 after the February 13th disclosure, and then $3.37 on the 14th. Overall, it went down 58% from close on the 10th to the close on 14th. ADRAU went from

$8.7 a share on the 10th to $0.02 cents on the 14th, a decline of over 99%. ADRAW declined a comparatively paltry 40% between February 10th and the 13th.

81. In sum, the Directors and Officers of Adara raised capital from investors and used it to effect a Merger with a Target that could not competently manage its own affairs (as evidenced by the fact that it failed to comply with basic terms on a loan with Bank of America, such as delivering non-audited financial documents). Further, Legacy Alliance was in a business focused on the sale of increasingly obsolete products and shrinking market profile, such as CD's, physical copies of video games, and DVD's, indicating that it would not be able to provide investors long-term value. As a result of this, the overwhelming majority of investors in the SPAC decided to exercise their right of redemption.

82. The unlucky investors who did not exercise their right of redemption would have been reasonable in thinking that the deal would not close. Specifically, Adara said in the Proxy that it would not pursue a merger if it did not have $5,000,001 dollars in the trust account after investors exercised their right of redemption. Further, it did not warn in the pertinent section of the Proxy that this requirement could be waived by Legacy Alliance.

83. While it did say in pre-Merger 8-K's that this requirement could be waived by Legacy Alliance, Adara never told investors prior to the de-SPAC

Acquisition that Alliance had actually waived the requirement and accordingly that the de-SPAC Acquisition could proceed.

84. Desperate to close the deal so that Founder Shares would not be rendered worthless, Adara closed the Deal even though Legacy Alliance had received a notice of non-compliance from Bank of America on February 8, 2023, giving Bank of America the right to call in the loan. Legacy Alliance's dependence on creditors and its serial failure to comply with terms of its agreements further indicates that the Merger was consummated with the welfare of the SPAC organizers in mind, and not the investors.

85. Further, Adara failed to exercise due care in consummating the de-SPAC Acquisition. Specifically, it failed to file basic paperwork with the NYSE American Exchange informing it of the merger, resulting in the de-listing of Adara securities and harm to investors.

CLASS ACTION ALLEGATIONS

86. Plaintiff, a stockholder in the Company, brings this action individually and as a class action pursuant to Rule 23 of the Rules of the Court of Chancery of the State of Delaware on behalf of himself and all record and beneficial holders of Company common stock who held such stock between and including the record date of December 8, 2022 and the closing date February 10, 2023 (except for the Defendants named herein, and any person, firm, trust, corporation or other entity

related to or affiliated with any of the Defendants) to redress the Defendants' breaches of fiduciary duties and other violations of law.

87. This action is properly maintainable as a class action.

88. A class action is superior to other available methods of fair and efficient adjudication of this controversy.

89. The Class is so numerous that joinder of all members is impracticable. As of the Closing Date, there were 11.5 million shares of Class A Common Stock. The number of Class members is believed to be in the thousands, and they are likely scattered across the United States.

90. Moreover, damages suffered by individual Class members may be small, making it overly expensive and burdensome for individual Class members to pursue redress on their own.

91. There are questions of law and fact which are common to all Class members and which predominate over any questions affecting only individuals, including, without limitation:

- whether the Individual Defendants controlled the Company;
- whether Defendants owed fiduciary duties to Plaintiff and the Class;
- whether “entire fairness” is the applicable standard of review;
- which party or parties bear the burden of proof;

- whether Defendants breached their fiduciary duties to Plaintiff and the Class;
- the existence and extent of any injury to the Class or Plaintiff caused by any breach; and
- the proper measure of the Class's damages.

92. Plaintiff's claims and defenses are typical of the claims and defenses of other Class members and Plaintiff has no interests antagonistic or adverse to the interests of other Class members. Plaintiff will fairly and adequately protect the interest of the Class.

93. Plaintiff is committed to prosecuting this action and has retained competent counsel experienced in litigation of this nature.

94. Defendants have acted in a manner that affects Plaintiff and all members of the Class alike, thereby making appropriate injunctive relief and/or corresponding declaratory relief with respect to the Class as a whole.

95. The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for Defendants; or adjudications with respect to individual members of the Class would, as a practical matter, be dispositive of the interest of other members or substantially impair or impede their ability to protect their interests.

COUNT I
DIRECT CLAIM FOR BREACH OF FIDUCIARY DUTY AGAINST ALL DEFENDANTS

96. Plaintiff repeats and realleges each and every allegation above as if set forth in full herein.

97. As Adara directors and officers, the Director and Officer Defendants owed Plaintiff and the Class the utmost fiduciary duties of care, loyalty, good faith, candor, and disclosure in their capacity as Adara directors and officers.

98. These duties required the Director and Officer Defendants to place the interests of Adara stockholders above their personal interests.

99. Through the events and actions described herein, the Director Defendants breached their fiduciary duties to Plaintiff and the Class by failing to disclose key issues regarding Legacy Alliance prior to the de-SPAC Acquisition, and pursuing the de-SPAC Acquisition despite Legacy Alliance's highly uncertain future.

100. As a result, Plaintiff and the Class were harmed by not exercising their redemption rights prior to the de-SPAC Acquisition. Plaintiff and the Class do not have an adequate remedy at law.

COUNT II
DIRECT CLAIM FOR BREACH OF FIDUCIARY DUTY AGAINST OFFICER DEFENDANTS

101. Plaintiff repeats and realleges each and every allegation above as if set forth in full herein.

102. As Adara officers, the Officer Defendants owed Plaintiff and the Class the utmost fiduciary duties of care in their capacity as Adara officers.

103. Through the events and actions described herein, the Officer Defendants breached their fiduciary duty of care to Plaintiff and the Class by failing to inform the NYSE American Exchange of the pending de-SPAC Acquisition, leading to a notice of de-listing on February 10, 2023.

104. As a result, Plaintiff and the Class were harmed by having their shares delisted from a national exchange onto the OTC Pink exchange. Defendants themselves warned about the negative effects of a delisting onto the OTC Markets, and the failure to take basic steps to prevent a delisting from the NYSE American Exchange constitutes a violation of the duty of care.

PRAYER FOR RELIEF

105. WHEREFORE, Plaintiff demands judgment and relief in his favor and in favor of the class, and against Defendants, as follows:

- Declaring that this Action is properly maintainable as a class action;
- Finding the Director Defendants liable for breaching their fiduciary duties, in their capacity as Adara Board members, owed to Plaintiff and the Class;

- Finding the Officer Defendants liable for breaching their fiduciary duties, in their capacity as Adara officers, owed to Plaintiff and the Class;
- Certifying the proposed Class;
- Awarding Plaintiff and the other members of the Class damages in an amount which may be proven at trial, together with interest thereon;
- Awarding Plaintiff and the members of the Class pre-judgment and post-judgment interest, as well as their reasonable attorneys' and experts' witness fees and other costs; and
- Awarding Plaintiff and the class such other relief as this Court deems just and equitable.

Dated: March 31, 2023

Respectfully submitted,

FARNAN LLP

/s/ Brian E. Farnan ________________
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