

IN THE SUPREME COURT OF THE STATE OF NEVADA

INDICATE FULL CAPTION:

LISA GUZMAN, on behalf of herself and all Others Similarly
Situating,
Plaintiff,

vs.

ROBERT L. JOHNSON, MIGUEL PENELLA, JOHN HSU,
ARLENE MANOS, H. VAN SINCLAIR, ANDOR M. LASZLO,
SCOTT ROYSTER, DAYTON JUDD, JOHN ZIEGELMAN, AMC
NETWORK, INC., DIGITAL ENTERTAINMENT HOLDINGS, LLC,
and RIVER MERGER SUB, INC, DOES 1 through 100, inclusive,
and ROE CORPORATIONS 1 through 100, inclusive,
Defendants.

No. 79818

Electronically Filed
Nov 06 2019 09:41 a.m.
Elizabeth A. Brown
Clerk of Supreme Court

DOCKETING STATEMENT
CIVIL APPEALS

GENERAL INFORMATION

Appellants must complete this docketing statement in compliance with NRAP 14(a). The purpose of the docketing statement is to assist the Supreme Court in screening jurisdiction, identifying issues on appeal, assessing presumptive assignment to the Court of Appeals under NRAP 17, scheduling cases for oral argument and settlement conferences, classifying cases for expedited treatment and assignment to the Court of Appeals, and compiling statistical information.

WARNING

This statement must be completed fully, accurately and on time. NRAP 14(c). The Supreme Court may impose sanctions on counsel or appellant if it appears that the information provided is incomplete or inaccurate. *Id.* Failure to fill out the statement completely or to file it in a timely manner constitutes grounds for the imposition of sanctions, including a fine and/or dismissal of the appeal.

A complete list of the documents that must be attached appears as Question 27 on this docketing statement. Failure to attach all required documents will result in the delay of your appeal and may result in the imposition of sanctions.

This court has noted that when attorneys do not take seriously their obligations under NRAP 14 to complete the docketing statement properly and conscientiously, they waste the valuable judicial resources of this court, making the imposition of sanctions appropriate. See KDI Sylvan Pools v. Workman, 107 Nev. 340, 344, 810 P.2d 1217, 1220 (1991). Please use tab dividers to separate any attached documents.

1. Judicial District Eighth JDC Department XI
County Clark County Judge Elizabeth Gonzalez
District Ct. Case No. A-18-783643-B

2. Attorney filing this docketing statement:

Attorney Jorge L. Alvarez Telephone 702-384-7111

Firm Albright, Stoddard, Warnick & Albright

Address 801 South Rancho Drive, Suite D-4
Las Vegas, Nevada 89106

Client(s) Lisa Guzman

If this is a joint statement by multiple appellants, add the names and addresses of other counsel and the names of their clients on an additional sheet accompanied by a certification that they concur in the filing of this statement.

3. Attorney(s) representing respondents(s):

Attorney Kirk Lenhard & Maximilien Fetaz Telephone 702-382-2101

Firm Brownstein Hyatt Farber Schreck, LLP

Address 100 North City Parkway, Suite 1600
Las Vegas, NV 89106

Client(s) Defendants

Attorney John Hardiman and Charles Moulins Telephone 212-558-4000

Firm Sullivan & Cromwell LLP

Address 125 Broad Street
New York, NY 10004

Client(s) Defendnats

(List additional counsel on separate sheet if necessary)

4. Nature of disposition below (check all that apply):

- | | |
|---|---|
| <input type="checkbox"/> Judgment after bench trial | <input checked="" type="checkbox"/> Dismissal: |
| <input type="checkbox"/> Judgment after jury verdict | <input type="checkbox"/> Lack of jurisdiction |
| <input type="checkbox"/> Summary judgment | <input checked="" type="checkbox"/> Failure to state a claim |
| <input type="checkbox"/> Default judgment | <input type="checkbox"/> Failure to prosecute |
| <input type="checkbox"/> Grant/Denial of NRCP 60(b) relief | <input type="checkbox"/> Other (specify): _____ |
| <input type="checkbox"/> Grant/Denial of injunction | <input type="checkbox"/> Divorce Decree: |
| <input type="checkbox"/> Grant/Denial of declaratory relief | <input type="checkbox"/> Original <input type="checkbox"/> Modification |
| <input type="checkbox"/> Review of agency determination | <input type="checkbox"/> Other disposition (specify): _____ |

5. Does this appeal raise issues concerning any of the following?

- ☐ Child Custody
- ☐ Venue
- ☐ Termination of parental rights

6. Pending and prior proceedings in this court. List the case name and docket number of all appeals or original proceedings presently or previously pending before this court which are related to this appeal:

n/a

7. Pending and prior proceedings in other courts. List the case name, number and court of all pending and prior proceedings in other courts which are related to this appeal (e.g., bankruptcy, consolidated or bifurcated proceedings) and their dates of disposition:

n/a

8. Nature of the action. Briefly describe the nature of the action and the result below:

This is a putative class action against the former members of the board of RLJ Entertainment, Inc. ("RLJ") and AMC Networks Inc. (and, with certain entities associated and/or controlled by it, "AMC") in connection with the acquisition of RLJ by AMC. Plaintiff raises claims for breach of fiduciary duty against the former members of the RLJ board in their capacity as directors and officers and against AMC for breach of fiduciary duty in its capacity as RLJ's controlling stockholder.

The district court dismissed plaintiff's claims pursuant to Rule 12(b)(5) for failure to state a claim upon which relief can be granted.

9. Issues on appeal. State concisely the principal issue(s) in this appeal (attach separate sheets as necessary):

- (1) Whether NRS 78.138 imposes a burden of pleading on a shareholder plaintiff, or rather, a burden of proof that a shareholder must satisfy with sufficient evidence at trial;
- (2) When a shareholder challenges a fiduciary's dealings with the corporation, whether the burden is placed on the fiduciary to "show good faith and the transaction's fairness" as recognized in *Foster v. Arata*, 74 Nev. 143 (1958) and *Schoen v. SAC Holding Corp.*, 122 Nev. 621 (2006), or, rather, remains on the shareholder to satisfy the requirements of NRS 78.138(7);
- (3) Whether a controlling shareholder is entitled to the protections of NRS 78.138(7) even though the statute plainly states that it only applies to directors and officers;
- (4) Whether plaintiff adequately pled that the former members of the RLJ board breached their fiduciary duties in connection with the buyout by AMC; and
- (5) Whether plaintiff adequately pled that RLJ's controlling shareholder AMC breached the fiduciary duties it owed to RLJ's minority shareholders in connection with the buyout.

10. Pending proceedings in this court raising the same or similar issues. If you are aware of any proceedings presently pending before this court which raises the same or similar issues raised in this appeal, list the case name and docket numbers and identify the same or similar issue raised:

Unknown

11. Constitutional issues. If this appeal challenges the constitutionality of a statute, and the state, any state agency, or any officer or employee thereof is not a party to this appeal, have you notified the clerk of this court and the attorney general in accordance with NRAP 44 and NRS 30.130?

☒ N/A

☐ Yes

☐ No

If not, explain:

12. Other issues. Does this appeal involve any of the following issues?

☐ Reversal of well-settled Nevada precedent (identify the case(s))

☐ An issue arising under the United States and/or Nevada Constitutions

☒ A substantial issue of first impression

☐ An issue of public policy

☐ An issue where en banc consideration is necessary to maintain uniformity of this court's decisions

☐ A ballot question

If so, explain: This case raises issues of first impression regarding the application and scope of NRS 78.138 and the burdens of pleading and proof in an action asserting claims for breach of fiduciary against both a corporation's directors and its controlling shareholder in conjunction with a buyout by the controlling shareholder. To plaintiff's knowledge, issues 1-3 listed above are issues of first impression.

13. Assignment to the Court of Appeals or retention in the Supreme Court. Briefly set forth whether the matter is presumptively retained by the Supreme Court or assigned to the Court of Appeals under NRAP 17, and cite the subparagraph(s) of the Rule under which the matter falls. If appellant believes that the Supreme Court should retain the case despite its presumptive assignment to the Court of Appeals, identify the specific issue(s) or circumstance(s) that warrant retaining the case, and include an explanation of their importance or significance:

This case is presumptively retained by the Supreme Court pursuant to NRAP 17(a)(9) - cases originating in business court.

14. Trial. If this action proceeded to trial, how many days did the trial last? n/a

Was it a bench or jury trial? _____

15. Judicial Disqualification. Do you intend to file a motion to disqualify or have a justice recuse him/herself from participation in this appeal? If so, which Justice?

TIMELINESS OF NOTICE OF APPEAL

16. Date of entry of written judgment or order appealed from 9/12/19

If no written judgment or order was filed in the district court, explain the basis for seeking appellate review:

17. Date written notice of entry of judgment or order was served 9/12/19

Was service by:

☐ Delivery

☒ Mail/electronic/fax

18. If the time for filing the notice of appeal was tolled by a post-judgment motion (NRCP 50(b), 52(b), or 59)

(a) Specify the type of motion, the date and method of service of the motion, and the date of filing.

☐ NRCP 50(b) Date of filing n/a

☐ NRCP 52(b) Date of filing n/a

☐ NRCP 59 Date of filing n/a

NOTE: Motions made pursuant to NRCP 60 or motions for rehearing or reconsideration may toll the time for filing a notice of appeal. See AA Primo Builders v. Washington, 126 Nev. ____, 245 P.3d 1190 (2010).

(b) Date of entry of written order resolving tolling motion _____

(c) Date written notice of entry of order resolving tolling motion was served _____

Was service by:

☐ Delivery

☐ Mail

19. Date notice of appeal filed 10/11/19

If more than one party has appealed from the judgment or order, list the date each notice of appeal was filed and identify by name the party filing the notice of appeal:

20. Specify statute or rule governing the time limit for filing the notice of appeal, e.g., NRAP 4(a) or other

NRAP 4(a)

SUBSTANTIVE APPEALABILITY

21. Specify the statute or other authority granting this court jurisdiction to review the judgment or order appealed from:

(a)

☒ NRAP 3A(b)(1)

☐ NRS 38.205

☐ NRAP 3A(b)(2)

☐ NRS 233B.150

☐ NRAP 3A(b)(3)

☐ NRS 703.376

☒ Other (specify) Section 4 of Article 6 of Nevada Constitution

(b) Explain how each authority provides a basis for appeal from the judgment or order:

NRAP 3A(b)(1) provides that an appeal may be taken from "a final judgment entered in an action or proceeding commenced in the court in which the judgment is rendered." Here, the District Court has entered a final judgment in the action. In addition, Section 4 of Article 6 of the Nevada Constitution provides that "(t)he Supreme Court and the court of appeals have appellate jurisdiction in all civil cases arising in district courts..."

22. List all parties involved in the action or consolidated actions in the district court:

(a) Parties:

Plaintiff: LISA GUZMAN

Defendants: ROBERT L. JOHNSON, MIGUEL PENELLA, JOHN HSU,
ARLENE MANOS, H. VAN SINCLAIR, ANDOR M. LASZLO, SCOTT ROYSTER,
DAYTON JUDD, JOHN ZIEGELMAN, AMC NETWORK, INC., DIGITAL
ENTERTAINMENT HOLDINGS, LLC, and RIVER MERGER SUB, INC

(b) If all parties in the district court are not parties to this appeal, explain in detail why those parties are not involved in this appeal, *e.g.*, formally dismissed, not served, or other:

23. Give a brief description (3 to 5 words) of each party's separate claims, counterclaims, cross-claims, or third-party claims and the date of formal disposition of each claim.

Plaintiff - breach of fiduciary duty against former directors - dismissed 9/12/19

Plaintiff - breach of fiduciary duty against controlling shareholder - dismissed 9/12/19

24. Did the judgment or order appealed from adjudicate ALL the claims alleged below and the rights and liabilities of ALL the parties to the action or consolidated actions below?

☒ Yes

☐ No

25. If you answered "No" to question 24, complete the following:

(a) Specify the claims remaining pending below:

(b) Specify the parties remaining below:

(c) Did the district court certify the judgment or order appealed from as a final judgment pursuant to NRCP 54(b)?

☐ Yes

☐ No

(d) Did the district court make an express determination, pursuant to NRCP 54(b), that there is no just reason for delay and an express direction for the entry of judgment?

☐ Yes

☐ No

26. If you answered "No" to any part of question 25, explain the basis for seeking appellate review (*e.g.*, order is independently appealable under NRAP 3A(b)):

27. Attach file-stamped copies of the following documents:

- The latest-filed complaint, counterclaims, cross-claims, and third-party claims
- Any tolling motion(s) and order(s) resolving tolling motion(s)
- Orders of NRCP 41(a) dismissals formally resolving each claim, counterclaims, cross-claims and/or third-party claims asserted in the action or consolidated action below, even if not at issue on appeal
- Any other order challenged on appeal
- Notices of entry for each attached order

VERIFICATION

I declare under penalty of perjury that I have read this docketing statement, that the information provided in this docketing statement is true and complete to the best of my knowledge, information and belief, and that I have attached all required documents to this docketing statement.

Lisa Guzman

Name of appellant

Jorge L. Alvarez

Name of counsel of record

11/6/19

Date



Signature of counsel of record

Clark County, Nevada

State and county where signed

CERTIFICATE OF SERVICE

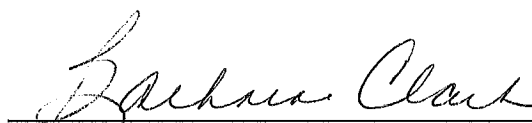
I certify that on the 6th day of November, 2019, I served a copy of this completed docketing statement upon all counsel of record:

☐ By personally serving it upon him/her; or

☒ By mailing it by first class mail with sufficient postage prepaid to the following address(es): (NOTE: If all names and addresses cannot fit below, please list names below and attach a separate sheet with the addresses.)

see attached

Dated this 6th day of November, 2019

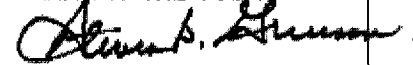

Signature

Attachment re Certificate of Service

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EXHIBIT “A”



COMP

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DISTRICT COURT

CLARK COUNTY, NEVADA

LISA GUZMAN, on behalf of herself and all
Others Similarly Situated,

Plaintiff,

vs.

ROBERT L. JOHNSON, MIGUEL PENELLA,
JOHN HSU, ARLENE MANOS, H. VAN
SINCLAIR, ANDOR M. LASZLO, SCOTT
ROYSTER, DAYTON JUDD, JOHN
ZIEGELMAN, AMC NETWORK, INC.,
DIGITAL ENTERTAINMENT HOLDINGS,
LLC, and RIVER MERGER SUB, INC, DOES
1 through 100, inclusive, and ROE
CORPORATIONS 1 through 100, inclusive

Defendants.

CASE NO.: A-18-783643-B

DEPT. NO.: Department 11

COMPLAINT

JURY TRIAL DEMANDED

**ARBITRATION EXEMPTION
CLAIMED: CLASS ACTION**

Plaintiff Lisa Guzman ("Plaintiff"), through undersigned counsel, brings this Complaint on behalf of herself and the holders of the common stock of RLJ Entertainment, Inc. ("RLJ" or the "Company") against (1) the members of the Board of Directors (as defined herein) of RLJ, and (2) AMC Networks Inc. ("AMC") and certain entities associated and/or controlled by it (collectively, the "Controlling Stockholder Defendants"), for breaching their fiduciary duties. This action seeks

damages suffered as a result of Defendants' breaches of fiduciary duty.

The allegations of this Complaint are based on Plaintiff's knowledge as to herself, and on information and belief based upon, among other things, the investigation of counsel and publicly available information, as to all other matters.

SUMMARY OF THE ACTION

1. On July 30, 2018, RLJ and AMC jointly announced that they had entered into a definitive merger agreement (the "Merger Agreement"), pursuant to which RLJ would become a wholly owned subsidiary of Digital Entertainment Holdings LLC, itself a wholly owned subsidiary of AMC (together with its wholly owned subsidiary River Merger Sub Inc., ("Merger Sub"), "Digital Entertainment") in a transaction valued at approximately \$274 million (the "Proposed Buyout" or "Merger"). Pursuant to the Merger Agreement, each share of RLJ common stock issued and outstanding at the effective time of the Merger – other than (a) shares held by the Controlling Stockholder Defendants and (b) shares held by Robert L. Johnson (RLJ's founder and the Chairman of its Board) and his affiliates (collectively, the "Johnson Entities"), which shares will be exchanged for a 17% equity interest in the post-close combined company – will be converted into the right to receive only \$6.25 per share in cash (the "Merger Consideration").

2. The Proposed Buyout is the result of insurmountable pressure from AMC, the Company's *de facto* and *de jure* controlling stockholder,¹ to sell the Company on terms that provided the Controlling Stockholder Defendants and Mr. Johnson with unique benefits not shared by the Company's common stockholders. By exploiting a combination of its holdings at multiple

¹ According to the October 5, 2018 Form DEFM14A Definitive Proxy Statement filed in connection with the Proposed Buyout (the "Proxy"), as of October 5, 2018, AMC beneficially owned approximately 51.9%, and thus a majority, of the Company's outstanding shares of common stock. To be sure, the Proxy also provides that AMC "notified the Company that it will vote all shares of Common Stock owned by AMC in favor of approval of the Merger Agreement at the Special Meeting. Accordingly, AMC has the requisite voting power and ability at the Special Meeting to *unilaterally cause the approval of the Merger Agreement by the requisite vote of the Company's stockholders (without any need for any additional votes by any other Company stockholder).*" Proxy, 3 (emphasis added).

1 levels of RLJ's capital structure, a web of contractual rights, representation on the Board, its close
2 relationships with Company insiders, and the Company's dwindling cash reserves, AMC forced
3 RLJ into handing over the Company and its future prospects to AMC and Mr. Johnson for an
4 unfair price and pursuant to an unfair process.

5 3. Specifically, as a result of a strategic partnership entered into between AMC and
6 RLJ in 2016 (the "Investment Agreement"), AMC invested \$65 million in RLJ in the form of
7 loans (which loans subsequently increased to an aggregate of \$78 million) and AMC received two
8 seats on the Board and warrants (the "AMC Warrants") which, if fully exercised – *which could be*
9 *done by AMC at any time and at its sole discretion* – would provide AMC with majority control of
10 the Company. What is more, pursuant to the Investment Agreement, RLJ was prohibited from
11 entertaining an acquisition proposal from any other company.

12 4. And, given the Controlling Stockholder's beneficial ownership (assuming the
13 exercise, in full, of the AMC Warrants) of more than 50% of the Company's total outstanding
14 voting power, RLJ's preexisting no-shop covenant in effect under the Investment Agreement, and
15 AMC's status as lender for all of the Company's outstanding senior debt, the Controlling
16 Stockholder Defendants effectively had unchecked power to not only force RLJ to engage in a sale
17 "process," but also to reject a sale to anyone but themselves. In addition, certain of AMC's
18 contractual rights, pursuant to which RLJ was responsible for maintaining a minimum cash
19 balance of \$3.5 million for all years beginning after 2017, coupled with RLJ's dwindling cash
20 reserves and recent subpar financial performance, gave AMC the financial leverage to force a sale
21 now. As a result, AMC had the ability to force a sale to it on whatever terms it wanted. And, as a
22 net buyer, it had no incentive to maximize the amount being paid for RLJ's common stock, and,
23 indeed, to the contrary, had every incentive to minimize that amount.

24 5. What is worse, to perfect this scheme, prior to the sale "process" even
25 commencing, AMC dangled carrots in front of the Company's Founder and Chairman, Mr.
26 Johnson, by reaching an agreement-in-principle with him pursuant to which he would roll over his
27
28

1 RLJ equity into a 17% ownership interest in the common equity of the private, surviving
2 company. As a result, Mr. Johnson – the person most likely to seek maximum value for the
3 Company – similarly had no incentive to maximize the amount being paid for RLJ's common
4 stock and instead had every incentive to minimize that amount so as to leave the surviving
5 company, of which he would own 17%, as strong as possible. As a result, AMC and Mr. Johnson
6 were competing with RLJ's common stockholders for the consideration AMC was willing to pay
7 to acquire RLJ.

8
9 6. The remaining Company insiders similarly had little reason to fight for a higher
10 price. In light of the fact AMC could (and later did) acquire a majority of the Company's stock at
11 any time and thus replace the Board, these insiders faced the very real risk of imminent ouster at
12 the hands of AMC – and the significant reputational, professional, and financial damages that
13 come from a public ouster from the board of a publicly traded company – if they refused AMC's
14 demands. As a result, during the process leading to the Proposed Buyout, the non-independent,
15 two-member Special Committee formed to "negotiate" with AMC conducted sham negotiations
16 with AMC – and AMC only – based on an incomplete and unreliable financial record and directed
17 the downward manipulation of the Company's projections in order to lend credence to those
18 negotiations.

19
20 7. In sum, and as set forth in detail below, each of the Defendants engaged in a
21 process that was designed to benefit AMC and Mr. Johnson to the detriment of the Company's
22 public stockholders and breached their fiduciary duties to the Company's stockholders by favoring
23 AMC's and Mr. Johnson's financial interests over those of RLJ and its public, non-insider
24 stockholders. As a result, Defendants bear the burden of demonstrating that the Proposed Buyout
25 was entirely fair – which they cannot do.

26 8. For these reasons and as set forth in detail herein, Plaintiff seeks to enjoin the
27 Proposed Buyout, or, in the event the Proposed Buyout is consummated, recover damages
28 resulting for Defendants' violations of their fiduciary duties.

PARTIES

I. Plaintiff

9. Plaintiff is, and at all relevant times was, a continuous stockholder of RLJ.

II. Defendants

10. Defendant Robert L. Johnson ("Mr. Johnson") is the founder of the Company. He has served as a director of the Company at all relevant times and as the Company's Chairman of the Board since his appointment in October 2012. From November 2010 to October 2012, Mr. Johnson served as the chairman of the board of RLJ Acquisition, Inc., a special purpose acquisition company that created the Company. Mr. Johnson founded The RLJ Companies, LLC (the "RLJ Companies"), a business network that owns or holds interests in a diverse portfolio of companies in businesses operating in hotel real estate investment; private equity; financial services; asset management; automobile dealerships; sports and entertainment; and video lottery terminal gaming. He has served as its chairman since February 2003. As of October 2, 2018, through certain of his affiliates (previously defined as the "Johnson Entities"),² Mr. Johnson beneficially owned 8,294,465 shares of RLJ common stock, or approximately 34.24%³ of RLJ's total common stock.⁴ Concurrent with the execution of the Merger Agreement, the Johnson Entities entered into a voting agreement with Digital Entertainment and the Company (the "Voting

² The RLJ Companies, LLC is the sole manager and voting member of RLJ SPAC Acquisition, LLC, and Robert L. Johnson is the sole manager and voting member of The RLJ Companies, LLC.

³ According to the Proxy, "Mr. Johnson disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. Includes 6,794,465 shares of common stock, and warrants expiring May 20, 2020 exercisable at \$3.00 per share to purchase 1,500,000 shares of common stock." Proxy, 151.

⁴ As of October 2, 2018, the record date, there were 22,723,887 shares of RLJ common stock outstanding. See Proxy, 149. The references to Mr. Johnson's holdings in the Proxy are inconsistent. In the Proxy's opening letter to its shareholders, the Proxy reports that, "[a]s of the date of this Proxy Statement, the Company's founder and his affiliates owned an aggregate of 6,794,465 shares of the Company's outstanding common stock, which constituted approximately 29.9% of the Company's outstanding common stock as of such date," and elsewhere in the Proxy it states that "Robert L. Johnson, the Company's Chairman, and certain of his affiliates that beneficially own, as of the date of this Proxy Statement, in the aggregate approximately 43.5% of the outstanding shares of Common Stock[.]" Proxy, 16, 52.

Agreement”), pursuant to which the Johnson Entities agreed to vote all of their respective shares of RLJ common stock, including any additional shares of RLJ common stock acquired by them after the date of the Voting Agreement, in favor of the Proposed Buyout.

11. Defendant Miguel Penella (“Penella”) has served as a director of RLJ since at or around the time Mr. Johnson was appointed Chairman in October 2012. Mr. Penella was appointed as the Company’s Chief Executive Officer (“CEO”) on January 18, 2013. From October 2012 until January 18, 2013, Mr. Penella served as RLJ’s Chief Operating Officer. From April 2007 to October 2012, Mr. Penella served as CEO of Acorn Media Group, Inc., which was acquired by RLJ in October 2012. As of October 2, 2018, Mr. Penella beneficially owned 283,405 shares of RLJ common stock, or approximately 1.25% of RLJ’s total outstanding shares.⁵

12. Defendant John Hsu (“Hsu”) has served as a director of the Company since his appointment in October 2016 as one of AMC’s director designees pursuant to the Investment Agreement. Mr. Hsu joined AMC Networks in June 2011. He manages the treasury and corporate development operations of AMC as its Executive Vice President Corporate Development and Treasurer, and oversees investment strategies, capital structure planning and debt portfolio management. Additionally, he is responsible for evaluating strategic business opportunities, including mergers and acquisitions, corporate development, and digital investment activities. As of October 2, 2018, Mr. Hsu did not beneficially own any shares of RLJ common stock.

13. Defendant Arlene Manos (“Manos”) has served as a director of the Company since her appointment in October 2016 as one of AMC’s director designees pursuant to the Investment

⁵ According to the Proxy, this amount includes “283,405 shares of common stock, of which 30,608 are subject to restricted stock awards. Does not include an option to purchase 700,000 shares of common stock with an exercise price of \$2.66 per share vesting on March 13, 2019, an option to purchase 700,000 shares of common stock with an exercise price of \$3.00 per share vesting on March 13, 2021, 225,000 restricted stock units vesting December 31, 2018, 2019 and 2020 in three equal annual installments and performance-based stock units with 650,000 shares of common stock as the assumed target, vesting according to specified financial performance criteria and upon confirmation by the Compensation Committee of the satisfaction of such performance criteria based upon the Company’s audited financial statements for 2017, 2018, 2019 and 2020.” Proxy, 151.

1 Agreement. Ms. Manos joined AMC in 2002 as President of National Advertising Sales. In
2 January 2017, Ms. Manos position with AMC transitioned to President Emeritus, National Ad
3 Sales. As of October 2, 2018, Ms. Manos beneficially owned 25,096 shares of RLJ common stock,
4 of which 14,752 are subject to restricted stock awards.

5 14. Defendant H. Van Sinclair ("Sinclair") has served as a director of the Company
6 since April 2017. Mr. Sinclair was a prior member of the board of directors from October 2012 to
7 June 2015. Since February 2003, Mr. Sinclair has served as president, chief executive officer, and
8 general counsel of The RLJ Companies. From January 2006 to May 2011, Mr. Sinclair also served
9 as Vice President of Legal and Business Affairs for RLJ Urban Lodging Funds, a private equity
10 fund concentrating on limited and focused service hotels in the United States and for RLJ
11 Development, The RLJ Companies' hotel and hospitality company. Mr. Sinclair previously served
12 as a member of the board of directors of Vringo, Inc. from July 2012 through March 2016 and
13 RLJ Acquisition, Inc., the predecessor company of RLJ, from November 2010 to October 2012.
14 As of October 2, 2018, Mr. Sinclair beneficially owned 55,060 shares of RLJ common stock, of
15 which 14,752 are subject to restricted stock awards.
16

17 15. Defendant Andor M. Laszlo ("Laszlo") has served as a director of the Company
18 since at or around the time Mr. Johnson was appointed Chairman in October 2012. As of October
19 2, 2018, Mr. Laszlo beneficially owned 74,096 shares of RLJ common stock, of which 14,752 are
20 subject to restricted stock awards.
21

22 16. Defendant Scott Royster ("Royster") has served as a director of the Company since
23 January 2014. As of October 2, 2018, Mr. Royster beneficially owned 70,314 shares of RLJ
24 common stock, of which 14,752 are subject to restricted stock awards.

25 17. Defendant Dayton Judd ("Judd") has served as a director of the Company since
26 May 2015. As of October 2, 2018, Mr. Judd beneficially owned 1,210,195 shares of RLJ common
27 stock, or approximately 5.13% of RLJ's total outstanding shares, which includes 68,712 shares of
28

common stock, of which 14,752 are subject to restricted stock awards, and indirect ownership of Sudbury Capital Fund, L.P. ("Sudbury").⁶

18. Defendant John Ziegelman ("Ziegelman") has served as a director of the Company at all relevant times. As of October 2, 2018, Mr. Ziegelman did not beneficially own any shares of RLJ common stock.

19. Defendants Johnson, Penella, Hsu, Manos, Sinclair, Laszlo, Royster, Judd, and Ziegelman form the Board of Directors of RLJ and are collectively referred to herein as the "Board" or the "Director Defendants."

20. Defendant AMC Networks Inc. (previously defined as "AMC") is a Delaware corporation with its principal executive offices located at 11 Penn Plaza, New York, New York 10001. As of October 2, 2018, AMC beneficially owned 27,070,967 shares of RLJ common stock, or approximately 71.23% of RLJ's total outstanding shares.⁷ However, the opening letter of the

⁶ Sudbury beneficially owns 1,141,483 shares of RLJ common stock, or approximately 4.83% of RLJ's total outstanding shares. *See* Proxy, 149. Sudbury's holdings include "96,714 shares of common stock, warrants expiring October 3, 2017 exercisable at \$36.00 per share to purchase 127,098 shares of common stock, warrants expiring May 20, 2020 exercisable at \$1.50 per share to purchase 200,000 shares of common stock, 2,000 shares of Series C-2 Convertible Preferred Stock with a conversion price of \$3.00 per share into 773,773 shares of common stock, including accrued dividends, and 183,506 shares of Series D-1 Convertible Preferred Stock with a conversion price of \$3.00 per share into 70,996 shares of common stock, including accrued dividends." Proxy, 151-52.

⁷ According to the Proxy, the "[i]nformation presented regarding AMC Networks, Inc. (or AMC) is based on the Form 4 filed on January 4, 2017, Form 3 filed on October 18, 2016, Schedule 13D filed on October 18, 2016, Schedule 13D/A filed on June 20, 2017, Schedule 13D/A filed on October 3, 2017, Schedule 13D/A filed on January 3, 2018, Schedule 13D/A filed on January 8, 2018, Schedule 13D/A filed on February 26, 2018, Schedule 13D/A filed on April 2, 2018, Schedule 13D/A filed on July 3, 2018 and Schedule 13D/A filed on July 30, 2018 Schedule 13D/A filed on August 10, 2018 and Schedule 13D/A filed on October 2, 2018. The reporting persons include (i) AMC Networks Inc., a Delaware corporation (or AMC), (ii) Rainbow Media Holdings LLC, a Delaware limited liability company, (iii) Rainbow Media Enterprises, Inc., a Delaware corporation, (iv) Rainbow Programming Holdings LLC, a Delaware limited liability company, (v) IFC Entertainment Holdings LLC, a Delaware limited liability company, (vi) AMC Digital Entertainment Holdings LLC, a Delaware limited liability company, and (vii) Digital Entertainment Holdings LLC, a Delaware limited liability company (or DEH). DEH is a direct wholly-owned subsidiary of AMC Digital Entertainment Holdings LLC. AMC Digital Entertainment Holdings LLC is a direct wholly-owned subsidiary of IFC Entertainment Holdings LLC. IFC Entertainment Holdings LLC is a direct wholly-owned subsidiary of Rainbow Programming Holdings LLC. Rainbow Programming Holdings LLC is a direct wholly-owned

1 Proxy discloses that, as of October 5, 2018, AMC owned approximately 51.9% of the outstanding
2 shares of RLJ's common stock. On October 1, 2018, AMC, through its relevant subsidiaries,
3 exercised certain of the AMC warrants, resulting in AMC owning, in the aggregate, a majority of
4 the voting power attributable to RLJ's outstanding common stock.

5 21. Digital Entertainment Holdings LLC (previously defined as "Digital
6 Entertainment") is a Delaware limited liability company and a wholly owned subsidiary of AMC
7 that was formed by AMC solely for the purpose of lending funds to RLJ and holding its interest in
8 RLJ. Digital Entertainment's principle executive offices are located at 11 Penn Plaza, New York,
9 New York 10001.

10 22. River Merger Sub Inc. (previously defined as "Merger Sub") is a Nevada
11 corporation and a wholly owned subsidiary of Digital Entertainment that was formed by Digital
12

13
14 subsidiary of Rainbow Media Enterprises, Inc. Rainbow Media Enterprises, Inc. is a direct wholly-
15 owned subsidiary of Rainbow Media Holdings, LLC. Rainbow Media Holdings, LLC is a direct
16 wholly-owned subsidiary of AMC. Includes 11,791,900 shares of common stock, 7,479,432 shares
17 of Series D-1 Convertible Preferred Stock with a conversion price of \$3.00 per share convertible
18 into 2,893,693 shares of common stock, including accrued dividends, warrants expiring May 20,
19 2020 exercisable at \$1.50 per share to purchase 747,945 shares of common stock, warrants
20 expiring October 14, 2022 exercisable at \$3.00 per share to purchase 6,637,429 shares of common
21 stock, and warrants expiring October 14, 2023 exercisable at \$3.00 per share to purchase
22 5,000,000 shares of common stock, however the exercise price and number of shares for the
23 warrants are subject to adjustment from time to time in order to prevent dilution of the purchase
24 rights granted under the warrants. The warrant expiring on October 14, 2023 provides that the
25 number of shares subject to the warrant will be increased to the extent necessary to ensure that
26 upon the full exercise of the Warrant, DEH will hold at least 50.1% of the outstanding equity
27 securities of RLJE on a fully diluted basis (less the number of shares previously issued to DEH (i)
28 upon the exercise of the warrants expiring on October 14, 2021 and October 14, 2022 and (ii) as
interest payments pursuant to a credit agreement, dated October 14, 2016, between DEH and
RLJE. No director, executive officer or controlling stockholder of the AMC Entities directly owns
any shares of Common Stock; provided, however, that because of each such person's status as a
controlling stockholder, director or executive officer of the AMC Entities, the directors, executive
officers or controlling stockholders of the AMC Entities may be deemed to be a beneficial owner
of the shares of Common Stock beneficially owned by the AMC Entities. Each director, executive
officer and controlling stockholder of the AMC Entities disclaims beneficial ownership of the
shares of Common Stock reported herein, and the filing of this Proxy Statement shall not be
construed as an admission that any director, executive officer or controlling stockholder of the
AMC Entities is the beneficial owner of any securities covered by this Proxy Statement." Proxy,
150.

Entertainment solely for the purpose of facilitating the Merger. Merger Sub's principle executive offices are located at 11 Penn Plaza, New York, New York 10001.

23. Defendants AMC, Digital Entertainment, and Merger Sub are collectively referred to herein as the "Controlling Stockholder Defendants."

24. The true names and capacities of the Defendants names herein as Does 1 through 100, inclusive, and Roe Corporations 1 through 100, inclusive, whether individual, corporate, associate or otherwise, are presently unknown to Plaintiff, who therefore sues said Defendants by such fictitious names; and when the true names and capacities of does 1 through 100, inclusive, and Roe Corporations 1 through 100, inclusive, are discovered, Plaintiff will ask leave to amend this Complaint to substitute the true names of said Defendants. Plaintiff is informed, believes and therefore alleges that Defendants so designated herein are responsible in some manner for the events and occurrences contained in this action and liable to Plaintiff for the damages sustained by Plaintiff as herein alleged.

III. Relevant Non-Parties

25. RLJ Entertainment, Inc. (previously defined as "RLJ") is a corporation organized and existing under the laws of the State of Nevada with its principal executive offices located at 8515 Georgia Avenue, Suite 650, Silver Spring, Maryland 20910.

THE DIRECTOR DEFENDANTS' FIDUCIARY DUTIES

26. By reason of the Director Defendants' positions with the Company as officers and/or directors, they are in a fiduciary relationship with Plaintiff and the other public stockholders of RLJ and owe them a duty of care, loyalty, good faith, candor, and independence.

27. By virtue of their positions as directors and/or officers of RLJ, the Director Defendants, at all relevant times, had the power to control and influence RLJ, did control and influence RLJ, and caused RLJ to engage in the practices complained of herein.

28. To diligently comply with their fiduciary duties, the Director Defendants may not take any action that: (a) adversely affects the value provided to the Company's stockholders; (b)

1 favors themselves or discourages or inhibits alternative offers to purchase control of the
2 corporation or its assets; (c) adversely affects their duty to search and secure the best value
3 reasonably available under the circumstances for the Company's stockholders; (d) will provide the
4 Director Defendants with preferential treatment at the expense of, or separate from, the public
5 stockholders; and/or (e) contractually prohibits the Director Defendants from complying with or
6 carrying out their fiduciary duties.

7 29. In accordance with their duties of loyalty and good faith, the Director Defendants
8 are obligated to refrain from: (a) participating in any transaction where the Director Defendants'
9 loyalties are divided; (b) participating in any transaction where the Director Defendants receive, or
10 are entitled to receive, a personal financial benefit not equally shared by the public stockholders of
11 the corporation; and/or (c) unjustly enriching themselves at the expense or to the detriment of the
12 public stockholders.

13 30. Plaintiff alleges herein that the Director Defendants, separately and together, in
14 connection with the Proposed Buyout, are knowingly or recklessly violating their fiduciary duties,
15 including their duties of loyalty, good faith, and independence owed to the Company.
16

17 **THE CONTROLLING STOCKHOLDER DEFENDANTS' FIDUCIARY DUTIES**

18 31. The Controlling Stockholder Defendants, as the controlling stockholders of a
19 publicly traded corporation, have a fiduciary relationship with Plaintiff and the other public
20 holders of RLJ's common stock requiring that they act in the best interest of the Company and its
21 shareholders, owing them the highest obligations of good faith, fair dealing, loyalty, due care, and
22 full and candid disclosure, as well as a duty to maximize shareholder value upon undertaking a
23 transaction that will result in either (i) a change in corporate control or (ii) a breakup of the
24 corporation's assets.
25

26 32. In addition, because the Controlling Stockholder Defendants have interests that are
27 inconsistent with the interests of the Company's non-controlling, common stockholders, the Board
28 and the Controlling Stockholder Defendants have an additional burden and duty to ensure that the

1 Proposed Buyout is inherently fair to the stockholders by demonstrating both fair dealing and fair
2 price.

3 **CLASS REPRESENTATION ALLEGATIONS**

4 33. Plaintiff brings this action on behalf of herself and as a class action pursuant to
5 Rule 23 of the Nevada Rules of Civil Procedure on behalf of all other holders of RLJ common
6 stock who are being and will be harmed by Defendants' actions described below (the "Class").
7 Excluded from the Class are Defendants herein and any person, firm, trust, corporation, or other
8 entity related to or affiliated with any of the Defendants.

9 34. This action is properly maintainable as a class action because:

10 a. The Class is so numerous that joinder of all members is impracticable. As
11 of October 2, 2018, there were approximately 22,723,887 outstanding shares of RLJ
12 common stock. The actual number of public stockholders of RLJ will be ascertained
13 through discovery.

14 b. There are questions of law and fact that are common to the Class, including:

- 15 i) whether the Defendants have breached their fiduciary duties with
16 respect to Plaintiff and the other members of the Class in connection
17 with the Proposed Buyout;
18 ii) whether the Defendants have breached their fiduciary duty to obtain
19 the best price available for the benefit of Plaintiff and the other
20 members of the Class in connection with the Proposed Buyout;
21 iii) whether the Defendants have breached their fiduciary duty to
22 disclose fully and fairly all material information within the Board's
23 control in connection with the Proposed Buyout;
24 iv) whether Plaintiff and other members of the Class would suffer
25 irreparable injury were the Proposed Buyout consummated; and
26
27
28

v) whether Plaintiff and other members of the Class are entitled to damages as a result of the Defendants' wrongful conduct.

c. Plaintiff is an adequate representative of the Class, has retained competent counsel experienced in litigation of this nature, and will fairly and adequately protect the interests of the Class.

d. Plaintiff's claims are typical of the claims of the other members of the Class and Plaintiff does not have any interests adverse to the Class.

e. 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 the party opposing the Class.

f. Defendants have acted on grounds generally applicable to the Class with respect to the matters complained of herein, thereby making appropriate the relief sought herein with respect to the Class as a whole.

SUBSTANTIVE ALLEGATIONS

I. CORPORATE BACKGROUND AND RELEVANT CORPORATE TRANSACTIONS

35. RLJ is a premium digital channel company serving distinct audiences through its proprietary subscription-based digital channels, Acorn TV and Urban Movie Channel ("UMC"). Acorn TV features British and international mysteries and dramas. UMC showcases programming, including feature films, documentaries, original series, stand-up comedy and other exclusive content, for African-American and urban audiences.

36. AMC owns and operates several cable television brands, delivering content to audiences and a platform to distributors and advertisers. AMC manages its business through two operating segments: (i) National Networks, which principally includes AMC, WE tv, BBC AMERICA, IFC, and SundanceTV; and AMC Studios, AMC's television production business; and (ii) International and Other, which principally includes AMC Networks International, AMC's

international programming business; IFC Films, AMC's independent film distribution business; and AMC's owned subscription streaming services, Sundance Now and Shudder.

37. On August 19, 2016, the Company entered into the Investment Agreement with Digital Entertainment, pursuant to which the Company agreed to (i) enter into a Credit and Guaranty Agreement with Digital Entertainment (the "Credit Agreement"), pursuant to which Digital Entertainment would provide to the Company a \$60 million seven-year term loan and a \$5 million one-year term loan and (ii) issue to Digital Entertainment warrants to purchase shares of Common Stock (previously defined as the "AMC Warrants") that, if exercised in full, would provide Digital Entertainment with at least 50.1% of the Company's outstanding common stock (on a fully diluted basis) and, therefore, a majority of the total voting power attributable to all outstanding shares of RLJ common stock (the "AMC Transaction"). The AMC Warrants are exercisable, in whole or in part, at any time in AMC's sole discretion. What is more, pursuant to the Investment Agreement, for so long as Digital Entertainment owns the AMC Warrants, or any amounts remain outstanding in respect of the term loans, AMC has the right to designate two directors for election to the Board and, upon the exercise of the AMC Warrants, in full, AMC has the right to designate a majority of the directors for election to the Board. Two such director designees of AMC currently serve on the Board.

38. Critically, the Investment Agreement also prohibits RLJ from entertaining any acquisition proposal not approved by AMC. More specifically, the Investment Agreement provides that:

the Company may not, directly or indirectly, entertain or solicit acquisition proposals, participate in any discussions or negotiations with any person regarding any acquisition proposal, provide non-public information to any person in connection with any acquisition proposal, enter into any agreement with any person relating to any acquisition proposal, grant any waiver, amendment or release under any standstill or confidentiality agreement concerning an acquisition proposal, or otherwise facilitate any effort or attempt to make an acquisition proposal.

Proxy, 21.

1 39. Notably, the above no-shop covenant “remained in effect *following* the
2 consummation of the transactions contemplated by the Investment Agreement[.]” Proxy, 21. Thus,
3 though a third party could, in theory, submit to the Special Committee or the Company an
4 acquisition proposal, on an unsolicited basis, pursuant to a certain “window shop” exception to the
5 Company’s no-solicitation covenant in the Merger Agreement, most critically, and as detailed
6 below, *during the process leading up to the Proposed Buyout*, the Company had no ability to –
7 and in fact did not – solicit proposals from or negotiate with any entities other than AMC or its
8 affiliates. Indeed, the Company acknowledged as much, conceding in the Proxy that one of the
9 “risks and potentially negative factors in deliberations concerning the merger” was

11 the fact that the Special Committee was unable to conduct a market check of
12 potential third-party buyers and business combination candidates by reason of
13 the preexisting no-shop covenant of the Company contained in the
14 Investment Agreement, AMC's ability to acquire majority voting control of
15 the Company by means of exercising its previously issued warrants, and
16 AMC's previous statements, made both publicly in its amendment to
17 Schedule 13D filed with the SEC on February 26, 2018 and privately to the
18 Special Committee, that it was only a buyer (and not a seller) of the Company
19 and would not vote for or otherwise support a transaction to sell the Company
20 to any party, at any price, or support any other alternative strategic
21 transaction involving the Company.

22 Proxy, 51-52.

23 40. Also in connection with the Investment Agreement, holders of the Company's
24 Series A-1, A-2, B-1, and B-2 preferred stock and holders of the Company's 2015 Warrants
25 exchanged their securities for shares of Preferred Stock and 2015 Warrants with revised terms. For
26 holders of the Company's Series A-1, A-2, and B-1 preferred stock, the revised terms of their 2015
27 Warrants included a reduced exercise price of \$1.50 per share, and for certain holders of the
28 Company's Series B-2 preferred stock, the revised terms of their 2015 Warrants included a
reduced exercise price of \$2.37 per share. Also, on August 19, 2016, substantially all of the
holders of the Company's Series A-1, A-2, B-1 and B-2 preferred stock and 2015 Warrants entered
into Waiver Agreements with the Company, whereby they waived all payment rights, rights of
acceleration or redemption and any other rights or preferences to which they were entitled that

1 could be triggered in connection with the transactions contemplated by the Investment Agreement.
2 In particular, under the Waiver Agreements, holders of the Company's Series A-1 and A-2
3 preferred stock agreed that the size of the Board could be increased in connection with AMC's
4 right to designate directors to the Board upon the closing of the transactions contemplated under
5 the Investment Agreement.

6 41. In further connection with the Investment Agreement, on August 19, 2016, the
7 Company, Mr. Johnson (the Company's Founder and Chairman), and certain of the Company's
8 other directors, executives, principal stockholders and their affiliates – who in the aggregate held
9 approximately 47% of the Company's outstanding common stock – entered into a Voting
10 Agreement with AMC (the "AMC Voting Agreement"), pursuant to which such parties agreed to
11 vote all of their shares of common stock in favor of (i) the AMC Transaction and appointed AMC
12 as their proxy for purposes of voting on the AMC Transaction and (ii) from and after the
13 consummation of the AMC Transaction, the election to the Board of the director-nominees
14 designated by AMC. In addition, on October 14, 2016, Robert L. Johnson, RLJ SPAC Acquisition
15 LLC ("RLJ SPAC"), Peter Edwards, Morris Goldfarb (collectively, the "Principal Stockholders")
16 and the Company entered into a Stockholders' Agreement with Digital Entertainment (the
17 "Stockholders' Agreement"), pursuant to which (i) the Principal Stockholders granted Digital
18 Entertainment certain rights of first refusal with respect to the transfer of their equity securities in
19 the Company, (ii) the Principal Stockholders and Digital Entertainment granted each other certain
20 "tag-along" rights and "drag- along" rights with respect to certain sales by them of the Company's
21 outstanding equity securities, and (iii) the Company granted the Principal Stockholders and Digital
22 Entertainment certain preemptive rights to purchase, on a pro rata basis, equity securities of the
23 Company in certain future offerings thereof by the Company and its wholly owned subsidiaries.

24
25
26 42. During the period from October 2016 through August 28, 2018, the Company
27 issued to Digital Entertainment an aggregate of 2,277,364 shares of RLJ common stock in the
28 form of interest payments due to Digital Entertainment in respect of the outstanding term loans.

During the same period, Digital Entertainment purchased from various stockholders of the Company (i) an aggregate of 738,256 shares of Common Stock, (ii) 7,479,432 shares of Series D-1 Preferred Stock of the Company, which were convertible into 2,893,693 shares of common stock at the time of the purchase, and (iii) additional warrants to purchase up to an aggregate of 747,945 shares of common stock. In addition, during the same period, Digital Entertainment, as previously noted above, added term loan debt under the Credit Agreement and partially exercised certain of the AMC Warrants and purchased 1,667,000 shares of common stock. Digital Entertainment funded such exercise by surrendering to the Company for cancellation \$5,001,000 principal amount of its outstanding term loan obligations.

43. As a result of these many contractual rights and obligations, at or around the time that AMC approached the Board to begin the process of acquiring the Company, AMC beneficially owned 25,796,226 shares,⁸ or 70.6%, of RLJ's outstanding common stock, of which 19,080,945 shares were issuable upon the exercise in full of the AMC Warrants.

44. Thus, during the entire process leading to the Proposed Buyout, AMC had the right, at its sole discretion, to (a) immediately seize majority ownership of the Company's common stock and voting rights and (b) preclude the Company from performing any sort of sales process or market check of potential third-party buyers and business combination candidates. What is more, and as outlined in greater detail below, due to the plethora of conflicts affecting the Special

⁸ As provided in AMC's SC13D/A filed February 26, 2018, "this figure is based on 3,821,588 shares of common stock, par value \$0.001 per share (the "Common Stock"), of RLJ Entertainment, Inc., a Nevada corporation (the "Issuer"), held indirectly through Digital Entertainment Holdings LLC, a Delaware limited liability company ("DEH"), plus (i) 2,893,693 shares of Common Stock of the Issuer issuable upon the conversion of all of the shares of Series D-1 preferred stock, par value \$0.001 per share (the "Preferred Stock"), of the Issuer held indirectly through DEH, (ii) 18,333,000 shares of Common Stock of the Issuer issuable upon the exercise in full of Class A, Class B and Class C warrants to purchase Common Stock with an initial exercise date of October 14, 2016 (the "Warrants") held indirectly through DEH, and (iii) 747,945 shares of Common Stock of the Issuer issuable upon the exercise in full of the warrants to purchase shares of Common Stock with an initial exercise date of May 20, 2015 (the "2015 Warrants") held indirectly through DEH."

Committee, larger Board, and remaining members of Company management, even the Company's purported ability to just say "no" to the flawed sales process with AMC was illusory.

II. THE SALES PROCESS

45. The events that gave rise to the Proposed Buyout began on February 26, 2018, when AMC delivered a letter to the Board proposing to acquire all of the outstanding shares of RLJ common stock not then-owned by AMC, Mr. Johnson, or any of their respective affiliates, for \$4.25 per share in cash (the "Initial Proposal"). The Initial Proposal indicated that it was the intention of AMC for the Company to become a privately owned subsidiary of AMC and revealed that Mr. Johnson (the Company's Founder and Chairman) would take a minority stake in the post-close company. **Critically, the Initial Proposal also indicated, in no uncertain terms, that AMC would "not sell [its] stake in [RLJ], or be part of any other process."**

46. Also on February 26, 2018, the Johnson Entities filed an amendment to their Schedule 13D, in which they revealed that, prior to the Company's receipt of the Initial Proposal, Mr. Johnson had already negotiated the terms of his continuing employment with and equity in the post-close combined company. In fact, by this time, negotiations had progressed to the point where Mr. Johnson had already reached an "agreement-in-principle" with AMC with respect to liquidity and corporate governance matters as well as his role at the company following consummation of the Proposed Buyout. **The Proxy provides absolutely no detail or disclosure regarding these communications or negotiations.**

47. Later that same day, the Board held a telephonic meeting attended by all members of the Board and a representative of Arent Fox LLP ("Arent Fox"), outside counsel to the Company and Mr. Johnson, to consider and appoint a special committee of independent directors to address the Initial Proposal. Following discussion – and in apparent recognition of the conflicts afflicting seven of the Board's nine members – the Board resolved to appoint Messrs. Laszlo and Royster as the members of a two-member special committee (the "Special Committee" or "Committee"). Indeed, the Proxy specifically notes that Messrs. Laszlo and Royster were

1 appointed because they were apparently the only members of the Board that “had no commercial,
2 financial or business affiliations or relationships with any of AMC, Robert L. Johnson or any of
3 their respective affiliates” The Special Committee was given the authority to evaluate the
4 Initial Proposal, to negotiate directly with AMC and the holders of Preferred Stock and warrants
5 with respect to the Initial Proposal, and to approve or (purportedly) disapprove (*i.e.*, “say no” to)
6 **any transaction proposed by AMC.** To be clear, at the outset and by design, **the Special**
7 **Committee did not have authority to consider bids from or negotiate with any potential**
8 **buyers other than AMC.**

9
10 48. During the period from February 28, 2018 to March 10, 2018, the Special
11 Committee determined to engage Greenberg Traurig, LLP (“Greenberg Traurig”) as its legal
12 counsel and Allen & Company LLC (“Allen & Co.”) as its financial advisor in connection with
13 the evaluation of the Initial Proposal. Notably, Greenberg Traurig previously represented RLJ
14 Acquisition, Inc., a special purpose acquisition company controlled by Mr. Johnson, in connection
15 with the acquisition by RLJ Acquisition, Inc. of Image Entertainment, Inc. and Acorn Media
16 Group, Inc. in 2012, **which transaction resulted in the creation of RLJ.**

17 49. In light of the limitations on the Special Committee’s authority (as provided by the
18 Board in apparent consultation with Mr. Johnson’s legal advisor), on March 16, 2018, the Special
19 Committee held a meeting with its legal and financial advisors at which “it was determined that
20 **the Special Committee should seek to obtain authority to explore alternative strategic**
21 **transactions,** including the solicitation of potential third-party buyers and business combination
22 candidates who may be interested in pursuing a transaction with the Company and its controllers,
23 and to obtain from AMC in connection therewith, any necessary waivers of the restrictions on
24 such solicitation activities currently prohibited by the terms of the no-shop covenant in the
25 Investment Agreement.” Proxy, 26 (emphasis added). Following further discussion, the
27 Committee requested that Greenberg Traurig prepare a draft amended and restated resolutions of
28

1 the Committee memorializing the authority that the Committee "should" have to be presented to
2 the full Board for discussion and consideration.

3 50. Also at this meeting, the Special Committee discussed their proposed compensation
4 for evaluating, negotiating, and determining whether to pursue the Initial Proposal or any
5 alternative transaction with AMC. Following discussion, the Committee determined to request
6 authorization from the full Board for the Company to pay each member of the Committee \$25,000
7 as of March 5, 2018, \$25,000 as of April 5, 2018, and \$10,000 on the fifth day of each month
8 thereafter commencing on May 5, 2018, subject to a cap of \$100,000. Not disclosed in the Proxy
9 is whether the Special Committee sought and/or received indemnification rights from the
10 Company in respect of any potential litigation arising from its role in the Proposed Buyout.
11

12 51. On March 19, 2018, the Special Committee formally retained Allen & Co. as its
13 financial advisor. Notably, despite the fact that the Committee previously determined, in
14 consultation with its legal advisor, that it should seek to obtain authority to explore alternative
15 strategic transactions, the engagement letter executed with Allen & Co. (and reviewed and
16 finalized by Greenberg Traurig) limited the scope of its engagement to its consideration, review,
17 evaluation, and negotiation of the "Initial Proposal and any alternative potential transaction with
18 AMC" – **and AMC only**. Proxy, 26.
19

20 52. On March 29, 2018, a draft of the proposed resolutions prepared by Greenberg
21 Traurig to amend and restate the authority of the Special Committee such that its members could
22 consider bids from or negotiate with potential buyers other than AMC was distributed to all
23 members of the Board for proposed adoption by unanimous written consent. Later that same day,
24 the Special Committee received a letter in response to the proposed resolutions, signed by Mr. Hsu
25 – a senior executive of AMC and an AMC designated member of the Board – in which he
26 reiterated on behalf of AMC that, as stated in AMC's Initial Proposal, **AMC would not support a**
27 **transaction to sell the Company to any party, at any price, or support any other strategic**
28 **transaction involving the Company.** In a thinly veiled threat, the letter also provided that if the

1 Committee were to explore other strategic transaction alternatives (*i.e.*, “shop the Company”),
2 *doing so would be an exercise in futility*, given AMC's beneficial ownership (assuming the
3 exercise, in full, of the AMC Warrants) of more than 50% of the Company's total outstanding
4 voting power, the Company's preexisting no-shop covenant in effect under the Investment
5 Agreement, and AMC's status as lender for all of the Company's outstanding senior debt. The
6 letter also reiterated that holders of the Preferred Stock would be paid consideration based on the
7 value paid by AMC for the common stock, calculated in accordance with the formula therefor set
8 forth in the certificates of designation for the various outstanding series of the outstanding classes
9 of Preferred Stock.

10
11 53. In response to this swift and unabashed display of AMC's sweeping leverage, on
12 April 2, 2018, the Special Committee held a telephonic meeting attended by representatives of
13 Greenberg Traurig and Allen & Co., at which it decided – contrary to its past determination – that
14 **“it would not be productive to conduct a market check of the Company”** in light of AMC's
15 reiterated statement that it was only a buyer of the Company and the no-shop covenant contained
16 in the Investment Agreement. Proxy, 28. Also at this meeting, the Committee noted that the price
17 contemplated by the Initial Proposal was “materially inadequate and not a sufficient basis upon
18 which the Special Committee would proceed to negotiate the overall terms and documentation for
19 a transaction.” Despite the Special Committee's determination that it “should” be able to shop the
20 Company and its recognition that the Initial Proposal was so materially inadequate that it did not
21 even provide a basis for further negotiation, rather than just say “no” to AMC, the Committee
22 nonetheless directed Allen & Co. to complete its preliminary valuation of the Company for the
23 purpose of granting AMC full due diligence access. What is more, this directive was apparently
24 issued before the Committee even attempted to assess the Company's liquidation value. Proxy, 28;
25 53 (noting that the Special Committee did not consider the Company's liquidation value in
26 evaluating the Proposed Buyout).
27
28

1 54. Having failed to adopt the proposed resolutions providing the Special Committee
2 with the authority it believed it should have by unanimous written consent, on April 3, 2018, the
3 full Board held a special meeting to consider the Committee's request to shop the Company.
4 Following discussion, and in view of Mr. Hsu's letter to the Special Committee reiterating that
5 AMC would not support a transaction to sell the Company to any third party, at any price, or
6 support any alternative strategic transaction, and AMC's affirmative statement that were the
7 Special Committee to seek to explore other strategic alternatives such undertaking would be an
8 exercise in futility, **the Board determined not to approve any changes to the resolutions**
9 **regarding the Special Committee's ability to shop the Company and explore strategic**
10 **alternatives.** Though the Proxy notes that the Board conceptually agreed to all of the other
11 changes and clarifications regarding the Special Committee's authority; function, and role set forth
12 in the resolutions prepared by Greenberg Traurig, the Proxy fails to disclose the nature or extent of
13 any of these "changes" or "clarifications." Proxy, 27.

15 55. On April 4, 2018, the Special Committee held a meeting with its legal and financial
16 advisors, at which they discussed the anticipated timing of providing management's five-year base
17 case financial forecasts and assumptions (the "Initial Base Case") to AMC's financial advisor,
18 Citigroup Global Markets Inc. ("Citi"). **Notably, though, the Special Committee acknowledged**
19 **that AMC's designated directors, including Mr. Hsu, had already received from**
20 **management and reviewed these base case forecasts.** Also at this meeting, the Committee
21 discussed the timeline for communicating to AMC the Committee's view that the proposed
22 purchase price of \$4.25 per share set forth in the Initial Proposal materially undervalued RLJ
23 common stock and was not an acceptable basis upon which to proceed with a substantive
24 discussion and negotiation of overall deal terms. Proxy, 29.

26 56. Plainly unable to justify a transaction with AMC based on any reading of the Initial
27 Base Case projections, and again, in apparent acknowledgement that it had no actual authority to
28 just say "no" to AMC, the Special Committee began the inevitable process of revising those

1 projections downward. In the following weeks, at the direction of the Committee, Allen & Co.
2 communicated to the Company's management the Committee's purported "concerns" that the
3 growth projections for certain new initiatives of the Company might be difficult to achieve on the
4 anticipated timetables. Proxy, 29. Based upon these communications, management began revising
5 the Initial Base Case projections downward by applying more conservative revenue growth and
6 paid-subscriber growth rate estimates and related cost assumptions.

7
8 57. The Proxy fails to disclose whether these undisclosed members of management
9 actually shared the Special Committee's "concerns" or otherwise agreed that the Initial Base Case
10 was "aggressive in nature." Proxy, 27. Notably, though, just two weeks prior to the Special
11 Committee having communicated its "concerns" regarding the "anticipated timetables" in the
12 Company's long-term projections, members of Company management made several public
13 comments calling into serious doubt the bases for these purported concerns. Indeed, on March 15,
14 2018, in commenting on the Company's fourth quarter and full year 2017 results, the Company's
15 CEO, Mr. Penella, remarked that "2017 was an instrumental year of strategic, financial and
16 operating achievement, *benchmarking well against our long-term strategic growth plan*"
17 (emphasis added). In the same announcement, Mr. Johnson commented, in pertinent part: "Given
18 the success of this strategy as demonstrated by these strong results, the tremendous opportunity
19 that the quickly expanding OTT landscape affords and the appeal of Acorn TV and UMC, we
20 expect the Company's *timely strategy* of increasing investments to drive accelerating value
21 creation for subscribers and investors" (emphasis added).
22

23 58. Further raising the specter that the Special Committee's "concerns" regarding the
24 Company's projections were not shared with the members of Company management who were
25 responsible for preparing them was the April 6, 2018 revelation that Nazir Rostom, the
26 Company's then-CFO, was departing the Company. Indeed, less than a week after the Committee
27 resolved to direct Company management to revise its projections downward, the Company
28 announced the resignation of its CFO and the in-house appointment of Mark Nunis to a newly

1 created executive position, Principal Financial Accounting Officer of the Company, in a
2 corresponding move. And, though the Company announced that it had initiated an external search
3 for a full-time successor as CFO, no such CFO was appointed during the process leading to the
4 Proposed Buyout. These circumstances strongly call into question the extent to which the
5 downward revisions to the Initial Base Case projections were fair and accurate or otherwise due to
6 coercion from AMC, the Committee, and/or larger Board.

7
8 59. On April 5, 2018, Allen & Co. informed Citi that the purchase price of \$4.25 per
9 share proposed by AMC in the Initial Proposal significantly undervalued RLJ common stock.
10 Despite the Initial Proposal not having provided a "sufficient basis upon which the Special
11 Committee would commence substantive discussions and negotiations of a potential transaction,"
12 the Committee would nonetheless permit AMC to begin its financial due diligence. Proxy, 29.

13 60. On April 6, 2018, the Special Committee held a telephonic meeting with its legal
14 and financial advisors, at which Allen & Co. reviewed with the Committee management's
15 quarterly cash flow projections as of March 31, 2018 that were recently provided to AMC and had
16 been previously provided to the full Board, including AMC's designated directors. The Committee
17 discussed with Allen & Co. and Greenberg Traurig the impact, if any, that the Company's failure
18 to maintain the Minimum Cash Balance requirement under the Credit Agreement (as defined
19 therein) could have on the Company's ability to timely and successfully execute on its current
20 business plan and achieve management's base case forecasts. In other words, the Committee
21 recognized AMC's potential to exert even more leverage over the Company while also setting the
22 stage for future downward revisions to the Company's forecasts to lend validity to the Proposed
23 Buyout.
24

25 61. On April 7, 2018, during a call with Mr. Royster (one of the two members of the
26 Special Committee) and the Committee's legal and financial advisors, Mr. Penella (RLJ's CEO)
27 acknowledged the risk of the Company not complying with the Minimum Cash Balance
28 Requirement under the Credit Agreement – and thus the additional leverage that AMC could exert

1 over the Company during the sale process – and advised that he was closely monitoring the
2 Company’s cash position and attempting to spread out the timing of the payment of certain
3 expenses given such risk.

4 62. On April 10, 2018, the Board formally adopted revised resolutions to amend and
5 restate the authority of the Special Committee – but only to clarify the Committee’s authority to
6 consider, negotiate, and approve alternative transactions **with AMC** and to make clear that the
7 Special Committee was not tasked with negotiating on behalf of the preferred stockholders. **The**
8 **Special Committee still did not have (and, indeed, never had) authority to consider bids from**
9 **or negotiate with any potential buyers other than AMC** – again, despite the Special
10 Committee’s prior recognition that the Committee “should” have that authority.

11 63. On April 14, 2018, Allen & Co. delivered to Citi a five-year base case financial
12 forecast for the Company for fiscal years 2018-2022 prepared by the Company’s management,
13 together with associated assumptions for such forecast period and supplemental financial and
14 operating information provided by management. The Proxy fails to disclose whether and to what
15 extent this five-year base case financial forecast differed from the Initial Base Case and/or
16 incorporated the downward revisions made by management in response to the Special
17 Committee’s purported “concerns” with the Initial Base Case in the weeks following April 4,
18 2018. In addition, though the Proxy discloses that Allen & Co. “subsequently delivered” to Citi an
19 updated base case financial forecast for the Company for fiscal years 2018-2022 prepared by the
20 Company’s management, which reflected an updated forecast for Agatha Christie Ltd. as well as
21 the Company’s actual Q1 2018 performance, the Proxy curiously provides that the Company’s
22 “adjusted case financial forecast, once prepared, was not provided to AMC or its representatives
23 prior to the execution of the Merger Agreement.” Proxy, 29. The Proxy fails to clearly disclose the
24 nature and extent of the adjustments made to this and other forecasts and clarify whether the data
25 and assumptions underlying them were provided to AMC or any of its representatives, including
26 the AMC designated members of the Board, prior to execution of the Merger Agreement.

1 64. On April 26, 2018, Mr. Judd and Mr. Zeigelman (representing the preferred
2 stockholders of the Company), Mr. Laszlo (one of the two members of the Special Committee),
3 and Allen & Co. held a telephonic conference in which Mr. Judd and Mr. Ziegelman expressed
4 their views as to appropriate valuation multiples for companies such as RLJ. Notably, the Special
5 Committee and the Special Committee's financial advisor engaged in this discussion despite the
6 fact that the Special Committee believed it was "inappropriate" for it to negotiate any proposed
7 AMC transaction on behalf of and with the holders of the outstanding Preferred Stock "in view of
8 its function as bargaining agent solely for the Non-Affiliate Common Stockholders" and the fact
9 that the revised Special Committee resolutions eliminated any requirement for the Special
10 Committee to participate in any such negotiations. Proxy, 29.

11
12 65. On May 2, 2018, representatives of Allen & Co. and Citi held a meeting, at which
13 Citi presented its financial valuation analysis of the Company and stated that AMC would be
14 willing to pay \$4.92 per non-affiliate share of RLJ common stock, subject to the completion of
15 AMC's business, financial, and legal due diligence (the "Second Proposal"). Later that same day,
16 Allen & Co. finally presented to the Special Committee its preliminary financial valuation analysis
17 of the Company.

18
19 66. On May 4, 2018, the Special Committee instructed Allen & Co. to advise Citi that
20 the Second Proposal, like the Initial Proposal, materially undervalued the common stock and,
21 therefore, it was yet again substantially below the price per share the Committee would even be
22 willing to engage in a process to negotiate the overall terms of a possible going-private merger
23 transaction with AMC. Again, and although Greenberg Traurig specifically informed the
24 Special Committee that it "had the full authority to just 'say no' and reject any transaction
25 proposed by AMC," the Special Committee nonetheless continued to engage with AMC.

26 67. On May 12, 2018, Allen & Co. and Citi discussed the various valuation and
27 financial assumptions underlying the base case forecast and Citi's internal adjustments to the base
28 case forecast. Again, the Proxy fails to disclose whether and to what extent this base case forecast

1 differed from the Initial Base Case and/or incorporated the downward revisions made by
2 management in response to the Special Committee's purported "concerns" with the Initial Base
3 Case in the weeks following April 4, 2018.

4 68. On May 15, 2018, Mr. Laszlo met in person in New York City with Mr. Hsu, one
5 of AMC's designated directors and AMC's lead negotiator, to discuss the Second Proposal. In yet
6 another thinly veiled threat, Mr. Hsu communicated AMC's view that a protracted transaction
7 process could adversely impact the business of the Company, due principally to management
8 distraction. Mr. Laszlo and Mr. Hsu also discussed the Company's operating performance for the
9 fiscal quarter ended March 31, 2018, as compared to management's estimates for such fiscal
10 quarter, the Company's Q2 performance trend to date, and the Company's anticipated performance
11 for the remainder of 2018.

12 69. At a meeting on May 16, 2018, the Special Committee reviewed management's
13 five-year base case and adjusted case financial forecasts for 2018-2022 and the preliminary
14 financial valuation analyses of the Company previously provided to the Committee by Allen &
15 Co. on May 2, 2018. Again, the Proxy fails to clearly identify which forecasts it is referring to.
16 Upon review, the Committee noted that management's adjusted case forecasts presented a more
17 realistic and reliable estimate of revenue growth and paid-subscriber growth rates in relation to
18 management's more aggressive base case forecasts. Again, though, the Proxy fails to disclose
19 whether this view was shared by the members of RLJ management who prepared the forecasts. At
20 the meeting, the Committee resolved to signal to Mr. Hsu (and, thus, AMC) that "it would be *very*
21 *difficult* [*i.e.* – still possible] for the Special Committee to proceed with the negotiation and
22 documentation of a potential transaction unless AMC's price exceeded \$6.00 per share, and that
23 the Special Committee would need to obtain a firm price per share that was not subject to any
24 reduction based on AMC's completion of business, financial, and legal due diligence." Proxy, 34
25 (emphasis added). In other words, despite the Second Proposal being "substantially below the
26 price per share the Committee would be willing to engage in a process to negotiate," and despite
27
28

1 the Committee purportedly having the authority to just say “no” to any proposed transaction with
2 AMC, the Committee inexplicably set its own floor for negotiations with the Company’s
3 controlling shareholder and all but invited Mr. Hsu to submit an offer just below that floor price.
4 Notably, the Special Committee never actually countered any of AMC’s proposals.

5 70. On May 21, 2018, at a meeting of the Special Committee with its legal and
6 financial advisors in attendance, the Committee “further” discussed with Allen & Co. various
7 methodologies for the implied valuation of the non-affiliate shares of RLJ common stock in
8 connection with an impending in-person meeting between the Committee and Mr. Hsu. According
9 to the Proxy, this appears to be the first time in the sales “process” that the Special Committee had
10 any discussion with its advisors regarding the implied valuation of the non-affiliated shares of RLJ
11 common stock. By failing to disclose the full nature and circumstances of the Special Committee’s
12 discussions with its financial advisor regarding the most critical issue before them – the value of
13 the non-affiliated RLJ common stock – the Proxy renders it impossible for RLJ shareholders to
14 fairly evaluate whether and to what extent the process conducted by the Special Committee,
15 including its setting of a \$6.00 per share floor in negotiations with AMC, was undertaken on an
16 informed basis.
17

18 71. Also at this meeting, the Special Committee discussed the lack of any viable
19 strategic and financial alternatives currently available to the Company as a result of AMC's ability
20 to acquire majority voting control of the Company through the exercise in full, at any time and at
21 its discretion, of the AMC Warrants, as well as AMC's previous private and publicly disclosed
22 statements that it was only a buyer (and not a seller) of the Company and the inability of the
23 Committee as a practical matter to “shop” the Company to potential third-party buyers and
24 business combination candidates. Discussion continued with respect to the likely impact on the
25 price of RLJ common stock if a proposed transaction with AMC was publicly withdrawn and the
26 historical illiquidity of the common stock. Again, according to the Proxy, this appears to be the
27 first time in the sale “process” that the Special Committee or its advisors evaluated these issues of
28

critical importance to non-affiliated RLJ shareholders. Again, by failing to disclose whether and to what extent these issues had been previously evaluated by the Special Committee, the Proxy makes it impossible for RLJ shareholders to fairly evaluate whether and to what extent the process conducted by the Special Committee, including its setting of a \$6.00 per share floor in negotiations with AMC, was undertaken on an informed basis. This information is especially material where, as here, the Special Committee purportedly had the authority to just “say no” to any transaction with AMC, yet failed to exercise that authority despite not having been presented with any proposal that even provided a basis for negotiations with AMC.

72. On May 22, 2018, Mr. Hsu accepted the Special Committee’s open invitation to offer a price just below the floor of \$6 per share that the Committee had inexplicably revealed to him the prior week, offering \$5.95 per share of common stock to acquire the Company. In response, the Committee stated that \$6.00 per share was the absolute floor at which negotiations could proceed. With little hesitation, Mr. Hsu then offered \$6.00 per share. After this offer, Mr. Laszlo and Mr. Royster left the meeting to consider it and the meeting was adjourned.

73. When the meeting reconvened, Messrs. Laszlo and Royster inexplicably resumed negotiating against themselves, indicating to Mr. Hsu that they were now willing to accept a price of \$6.25 per share. Without any negotiation of price, Mr. Hsu again agreed to the Committee’s offer. With that, the “negotiations” were over. Also at this meeting, Mr. Laszlo disclosed to Mr. Hsu that Mr. Penella had informed him that compliance with the Minimum Cash Balance requirement under the Credit Agreement (as defined therein) was becoming more difficult to maintain given the expenses incurred in connection with the Proposed Buyout, and, as a result, the Company was delaying certain vendor payments in order to maintain compliance.

74. Thereafter, at a meeting on June 5, 2018, the Special Committee and its legal and financial advisors discussed the proposed deal structure and other issues presented by the draft merger agreement, including, among other things, **the absence of a condition to closing requiring approval of the Merger Agreement by the holders of a majority of the outstanding**

1 non-affiliate shares of RLJ common stock (a “majority of the minority provision”).
2 Greenberg Traurig explained the genesis, nature, use, and legal and commercial impact of
3 imposing such conditions in controller take-private merger transactions involving Delaware
4 corporations (noting that those are useful, although not dispositive, reference points for
5 transactions involving companies incorporated in Nevada, such as the Company) and indicated
6 that it would include such a condition in its response (revised) draft of the merger agreement. In
7 other words, the Special Committee was aware that a merger agreement providing for the
8 acquisition of RLJ by its controller that did not include a majority of the minority provision
9 would be irreconcilable with the legal “reference point” that had been presented to it by its
10 legal advisor.

11
12 75. Greenberg Traurig also discussed the equity rollover component of the proposed
13 transaction that AMC would need to definitively negotiate with Mr. Johnson (and his affiliated
14 entities) prior to the signing of a definitive Merger Agreement. Greenberg Traurig further noted
15 that the initial draft of the Merger Agreement distributed by AMC suggested that AMC would
16 require a voting and support agreement, pursuant to which Mr. Johnson and his controlled
17 affiliates would be obligated to affirmatively vote all of their shares of RLJ common Stock “for”
18 approval of the Merger Agreement and to grant AMC an irrevocable proxy to secure such voting
19 obligations.

20
21 76. Greenberg Traurig then addressed the circumstances in which the Special
22 Committee could withdraw its recommendation of the Merger Agreement and terminate the
23 Merger Agreement, noting that the AMC draft did not provide for the ability of the Committee to
24 withdraw its recommendation in the case of a so-called “intervening event” (not constituting a
25 superior proposal) and that Greenberg Traurig would include such provisions in its response
26 (revised) draft of the merger agreement.

27 77. Also on June 5, 2018, having finalized price “negotiations,” the Company and
28 Digital Entertainment entered into the Third Amendment to the Credit Agreement to reduce the

1 Minimum Cash Balance (as defined in the Credit Agreement) from \$3,500,000 to \$2,000,000 for
2 the period commencing June 1, 2018 and continuing through September 30, 2018.

3 78. On June 13, 2018, at a telephonic meeting attended by the Special Committee and
4 its legal and financial advisors, Greenberg Traurig explained the features and implications of the
5 voting and support agreement that AMC intended to enter into with Mr. Johnson as a condition to
6 the transaction, and the share exchange and contribution agreement that needed to be negotiated
7 between Mr. Johnson and AMC in connection with the proposed equity rollover of Mr. Johnson's
8 shares of common stock in exchange for shares in the post-close company. It was also noted that
9 under applicable Nevada law, **the holders of common stock would not have the right to dissent**
10 **from the Proposed Buyout and seek a judicial determination of the fair value of their shares.**

11 79. The Special Committee then discussed the treatment of the Company's employee
12 equity awards and expressed the view that, if possible under the Company's incentive equity plan
13 and any outstanding individual award agreements, all outstanding options and restricted stock
14 awards should vest at the effective time of the merger. Indeed, despite its function as the sole
15 bargaining agent for the non-affiliated RLJ shareholders, the Committee engaged in negotiations
16 on behalf of insider RLJ shareholders whose interests, inclusive of their own outstanding options
17 and restricted stock awards, were at odds with non-insider RLJ shareholders – thereby raising the
18 specter that certain members of Company management were beholden to the Special Committee
19 and its apparent authority to negotiate insider interests on their behalf during the process leading
20 up to the Proposed Buyout. And, as noted above, casting further suspicion on the independence of
21 Company management is the paucity of disclosures surrounding the downward revisions to the
22 Company's projections and whether members of Company management independently
23 determined that such revisions were warranted or were simply following orders of the Special
24 Committee and/or the larger Board.

25 80. Also on June 13, 2018, AMC delivered to Mr. Johnson initial drafts of (a) a
26 Contribution Agreement (the "Contribution Agreement") and certain related documents
27
28

(collectively, the “Rollover Documents”) proposed to be entered into by the Johnson Entities in connection with the Proposed Buyout, and (ii) a Voting and Transaction Support Agreement (the “Voting Agreement”) proposed to be entered into by the Johnson Entities in connection with the Proposed Buyout. Mr. Johnson discussed the draft Rollover Documents with Arent Fox, acting in its capacity as counsel to the RLJ Companies. Mr. Johnson and Arent Fox determined that the draft Rollover Documents were substantially consistent with the agreement-in-principle that Mr. Johnson had reached with AMC in February 2018 – prior to RLJ’s receipt of the Initial Proposal – with respect to, among other terms and conditions, his ability to monetize his 17% investment in the post-close company’s common stock, various corporate governance matters, and his title and role at the post-close combined company.

81. On June 15, 2018, at a telephonic meeting attended by the Special Committee and its legal and financial advisors, further discussion was had regarding the Committee’s proposed majority of the minority provision. Greenberg Traurig also discussed certain statutory and other differences between the laws of Delaware and the laws of Nevada in the context of the proposed deal structure and certain provisions in the current draft of the Merger Agreement (including with respect to AMC’s proposed deal protection package and the Special Committee’s fiduciary outs) and the judicial review standard likely to be invoked by a Nevada court in the case of any state court litigation regarding the Proposed Buyout.

82. On June 21, 2018, at a telephonic meeting attending by the Special Committee and its legal and financial advisors, the Committee continued discussion of the quarterly (previously annual) grants of equity awards (*i.e.*, RSAs and RSUs) to employees and non-employee directors of the Company expected to be made by July 2018, the proposed treatment of such awards in the revised draft of the Merger Agreement, and the various means by which the grant and vesting of such equity grants could be accelerated. Again, despite knowingly serving as a bargaining agent solely for RLJ’s non-affiliated common stockholders, the Committee thus engaged in negotiations on behalf of RLJ insiders.

1 83. Also at this meeting, the Special Committee discussed the AMC Warrants,
2 **including AMC's stated intention to exercise, in full, such warrants prior to the record date**
3 **for the special meeting of the stockholders to vote on the Merger Agreement and the**
4 **consequences of such exercise** – namely, AMC's acquisition of a majority of the voting power
5 attributable to the outstanding RLJ common stock and its consequent ability to nominate a
6 majority of the Company's directors for the election to the Board.

7 84. On June 23, 2018, Mr. Royster had a telephone conversation with Mr. Judd, a
8 director of the Company nominated by the holders of the Company's Class C-2 preferred stock, in
9 which Mr. Judd expressed concern that he had not had any substantive discussions to date with
10 representatives of AMC regarding the anticipated timing of the Proposed Buyout and the form and
11 terms of any substitute preferred stock that would be offered to the holders of the Preferred Stock
12 in the event such holders elected not to participate in the Change of Control ("put") offer (at a
13 cash-out price equal to \$7.8125 for each share of Common Stock into which shares of the
14 Preferred Stock are convertible) required to be made by the Company under the certificates of
15 designation governing such Preferred Stock in connection with the Proposed Buyout.

16 85. During the period between June 28, 2018 and July 3, 2018, Greenberg Traurig and
17 AMC's legal advisor negotiated, among other things, the provisions of the proposed charter and
18 bylaws of the surviving company – **thereby raising the specter that Greenberg Traurig was**
19 **not working exclusively for and/or at the direction of the Special Committee.** Indeed, since
20 the Committee owed its fiduciary duties to RLJ's non-affiliated shareholders – and only RLJ's
21 non-affiliated shareholders – and the Proposed Buyout precluded non-affiliated shareholders from
22 rolling over their stock into the post-close combined company, **Greenberg Traurig's**
23 **involvement in negotiations pertaining to such post-close matters casts serious doubt on the**
24 **independence of the Committee and its legal advisor.**

25 86. On June 29, 2018, Mr. Royster had another telephone conversation with Mr. Judd
26 in which Mr. Judd communicated his concern, among other things, about the lack of
27
28

1 communication to date by AMC's representatives with the holders of the Preferred Stock and his
2 lack of involvement in the transaction process to date. In response, Mr. Royster explained to Mr.
3 Judd the mandate, function, and obligations of the Special Committee and the fact that the rights
4 of the holders of the Preferred Stock are purely contractual in nature and that they had no role at
5 the bargaining table with AMC and the Committee with respect to the Proposed Buyout, so long
6 as AMC intended to comply with the provisions in the certificates of designation governing the
7 Preferred Stock applicable to the Proposed Buyout. Despite this explanation, and Mr. Royster
8 having curiously failed to provide a similar explanation during his most recent call with Mr. Judd
9 on the same topic, later that day, Mr. Royster communicated to Mr. Hsu Mr. Judd's concerns.

11 87. On July 8, 2018, Mr. Judd delivered a letter to Mr. Johnson and the Special
12 Committee, in which Mr. Judd discussed, among other things, the rights of the Company's
13 preferred stockholders under the certificates of designation governing the various classes of the
14 Preferred Stock and expressed concerns relating to the Company's ability to complete the
15 Proposed Buyout without first reaching an understanding with the holders of the Preferred Stock
16 as to the treatment of the Preferred Stock in the Proposed Buyout.

17 88. On July 9, 2018, at a Special Committee meeting also attended by its legal and
18 financial advisors, the Committee discussed Mr. Judd's letter. Greenberg Traurig reiterated that
19 the rights of the holders of the Preferred Stock (including the holders of the Class C-2 preferred
20 stock) under the applicable certificates of designations were wholly contractual in nature and
21 further reiterated that the Committee's role with respect to the Proposed Buyout was that of an
22 agent for the economic interests and rights of the non-affiliate common stockholders. It was noted
23 that the holders of the Preferred Stock were not entitled to anything more than the \$7.8125 per
24 share cash out offer or, alternatively, substitute Preferred Stock terms provided for in the
25 certificates of designation and that they had no right or ability to vote on the Proposed Buyout in
26 their capacity as preferred stockholders. Greenberg Traurig also reported that the treatment of the
27 holders of Preferred Stock had been discussed with AMC's legal counsel, that AMC intended to
28

1 honor the terms of the certificates of designation for the Preferred Stock, and that such treatment
2 had been addressed to a certain extent in the current draft of the Merger Agreement. Greenberg
3 Traurig also advised the Committee – in apparent recognition that the Committee's role to date in
4 such negotiations had been improper – that Mr. Judd's letter must be promptly distributed to the
5 full Board. Following the conclusion of the meeting, Mr. Laszlo forwarded Mr. Judd's letter to all
6 Board members.

7 89. On July 9, 2018, Mr. Laszlo convened a telephone conference with Mr. Hsu in
8 which they discussed the status of the Proposed Buyout and the remaining open issues in the draft
9 Merger Agreement (including, among other things, the termination fee payable by the Company to
10 Digital Entertainment in certain circumstances). In addition, despite the recent reiteration from the
11 Special Committee's legal advisor that the Committee's role was that of an agent for the economic
12 interests and rights of the non-affiliate common stockholders, the treatment of the Preferred Stock
13 in connection with the Proposed Buyout was again discussed. With respect thereto, Mr. Hsu
14 informed Mr. Laszlo that he had already discussed the matter with Mr. Judd, was perplexed by
15 Mr. Judd's letter of July 8, 2018, and already advised Mr. Judd that it was AMC's intention to
16 comply with the applicable provisions of the certificates of designation governing the Preferred
17 Stock in connection with the Proposed Buyout.

18
19 90. On July 17, 2018, at a telephonic meeting attended by the Special Committee and
20 its advisors, Greenberg Traurig reported that AMC confirmed its intention to offer to the holders of
21 the Preferred Stock a cash-out price equal to \$7.8125 for each share of common stock into which
22 shares of the Preferred Stock are convertible, as provided in the applicable certificates of
23 designation governing the Preferred Stock, and, if such offer was rejected by the holders of the
24 Preferred Stock, such holders would receive preferred stock in the surviving corporation having
25 such terms as provided therefor in the applicable certificate of designation.

26
27 91. On July 26, 2018, Mr. Penella (RLJ's CEO) and Mr. Hsu had a telephone
28 conversation in which they discussed the treatment of Mr. Penella's stock options and the unvested

1 restricted stock awards held by certain employees of the Company – thereby raising the specter
2 that Mr. Penella and the other members of management who he apparently negotiated on behalf of
3 were conflicted in the process leading to the Proposed Buyout. The Proxy fails to disclose who
4 gave Mr. Penella the authority to engage in such negotiations.

5 92. On July 29, 2018, at a telephonic meeting attended by the Special Committee and
6 its advisors, the Committee discussed the fact that AMC made clear, both publicly and privately to
7 the Committee, that it would not support any third-party acquisition proposal, at any price, and
8 further discussed the illiquidity of RLJ's common stock and the possible impact thereon and on
9 the price thereof were AMC to publicly withdraw its proposed going-private merger with the
10 Company. Also at the meeting, Allen & Co. presented to and reviewed with the Special
11 Committee its financial valuation analysis of the Company as of July 27, 2018 (the last trading day
12 prior to the meeting) and the proposed per share Merger Consideration of \$6.25. At the conclusion
13 of this meeting, the Special Committee determined and resolved that the Merger Agreement and
14 the transactions contemplated thereby were advisable, fair to, and in the best interests of, the
15 Company and the non-affiliate common stockholders, adopted the Merger Agreement and the
16 transactions contemplated thereby, and further resolved to recommend that the holders of common
17 stock vote to approve the Merger Agreement.
18

19 93. On July 30, 2018, RLJ and AMC issued a joint press release, which states in
20 pertinent part:
21

22 **AMC NETWORKS INC. TO ACQUIRE RLJ**
23 **ENTERTAINMENT, INC.**

24 **NEW YORK, NY, July 30, 2018** – AMC Networks Inc.
25 (NASDAQ: AMCX), a Delaware corporation ("AMC Networks"),
26 and RLJ Entertainment, Inc. (NASDAQ: RLJE), a Nevada
27 corporation ("RLJ Entertainment" or the "Company") today
28 announced that they have entered into a definitive agreement for
AMC Networks to acquire RLJ Entertainment in a going-private
merger. The aggregate enterprise transaction value is approximately
\$274 million, and pursuant to the merger agreement, AMC
Networks will pay, in cash, an aggregate of approximately \$65
million to holders of RLJ Entertainment's outstanding common

1 stock, preferred stock and warrants not currently owned by AMC
2 Networks, Robert L. Johnson and their respective affiliates. Upon
3 completion of the merger, RLJ Entertainment will become an
indirect subsidiary of AMC Networks, with Mr. Johnson and his
affiliates owning a stake of 17%.

4 Josh Sampan, President and CEO of AMC Networks said, "Bob
5 Johnson is a legend for good reasons that we are the beneficiaries of.
6 His management team is extraordinary, having successfully
7 transitioned Acorn TV from a home video and DVD business to a
8 leading direct-to- consumer subscription service, and growing both
9 Acorn TV and UMC in a competitive environment, by offering
10 excellent, sought-after content and creating strong brands. In
11 addition, RLJ Entertainment's majority stake in the Agatha Christie
12 library—a content brand which remains one of the most popular and
13 venerable—provides AMC Networks with valuable IP
14 opportunities."

15 Added Sapan: "This acquisition furthers AMC Networks' digital
16 strategy by meaningfully accelerating our interests in direct-to-
17 consumer ad- free subscription services that we own and control, in
18 addition to providing us with access to strong IP as we continue to
19 diversify our revenue opportunities, placing AMC Networks in a
20 stronger position over the long term."

21 Scott R. Royster, RLJ Entertainment's lead independent director and
22 a member of RLJ Entertainment's Special Committee of the Board
23 established to evaluate, negotiate and determine whether to approve
24 AMC's going-private proposal, remarked: "Our mission during the
25 transaction process was to carefully evaluate AMC's proposal and
26 negotiate the best price and overall deal terms attainable for the
27 Company's non-affiliate common stockholders. The going-private
28 transaction with AMC provide immediate liquidity, and the merger
price represents a substantial premium to the Company's unaffected
stock price."

Robert L. Johnson, RLJ Entertainment's Founder and Chairman,
stated, "I fully support AMC Networks' acquisition of RLJ
Entertainment. I commend the Special Committee for negotiating
the transaction for our public stockholders."

RLJ Entertainment is a premium digital channel company which
serves distinct audiences primarily through its OTT branded
channels, Acorn TV, known for its high-quality British and
international content, and UMC (Urban Movie Channel), the first
subscription video-on-demand service created for African American
and urban audiences. The business has considerable momentum
having recently announced that combined subscribers to Acorn TV
and UMC have surpassed 800,000, an increase of over 100,000
subscribers from December 31, 2017, and representing an increase
of 45% from a year ago. Earlier this year, Acorn TV and UMC

1 launched on Comcast's Xfinity TV platform and are accessible On
2 Demand and on the go via the Xfinity Stream app and portal.

3 RLJ Entertainment also has a controlling interest in Agatha Christie
4 Limited, providing the company with extensive IP licensing
5 opportunities. Agatha Christie's work remains exceptionally
6 popular, as reflected by last year's box office success of 21st
7 Century Fox's Kenneth Branagh- directed adaptation of "Murder on
8 the Orient Express," which grossed more than \$350 million in
9 worldwide box office, and the studio's forthcoming "Death on the
10 Nile" sequel, as well as Amazon's recent multi-show deal with
11 Agatha Christie Productions for seven dramas based on the author's
12 works.

13 In the merger, RLJ Entertainment's outstanding common stock
14 (other than shares owned by Mr. Johnson, AMC Networks and their
15 respective affiliates) will be converted into the right to receive \$6.25
16 per share in cash, without interest; the holders of the Company's
17 outstanding preferred stock (other than affiliates of AMC Networks)
18 will be offered the opportunity to elect to receive \$7.8125 in cash for
19 each underlying "as converted" share of Company common stock in
20 accordance with the terms of such preferred stock; and the holders
21 of warrants (other than Mr. Johnson, AMC Networks and their
22 respective affiliates) will be paid the excess of the \$6.25 per share
23 merger consideration over the per share exercise price of their
24 warrants. In accordance with its terms, holders of preferred stock
25 who decline to accept the \$7.8125 cash offer for their shares will be
26 entitled to receive for each share of preferred stock a new share of
27 preferred stock to be issued by the Company after the merger.

28 Concurrently with the execution of the merger agreement, Mr.
Johnson and his affiliates have entered into a voting and transaction
support agreement with AMC Networks and Digital Entertainment
Holdings LLC, a wholly owned subsidiary of AMC Networks
("DEH"); whereby Mr. Johnson and his affiliates have agreed to
vote, at a special meeting of the Company's stockholders, all of their
shares of the Company's common stock "for" the approval of the
merger agreement and the merger. Mr. Johnson and his affiliates
currently own approximately 43.7% of the Company's outstanding
common stock. AMC Networks has also entered into separate
arrangements with Mr. Johnson related to the contribution of his
RLJ Entertainment securities to DEH immediately prior to the
closing of the transaction at the \$6.25 per share merger
consideration and governance matters following the closing of the
transaction.

Prior to the effective time of the merger, DEH intends to exercise, in
full, all warrants to purchase Company common stock that it
currently owns in exchange for debt owed by the Company to DEH.
Immediately following such exercise, AMC Networks will
beneficially own at least 50.1% of the Company's then-outstanding
shares of common stock on a fully diluted basis. AMC Networks,

through DEH, currently owns approximately 30.1% of the Company's outstanding common stock.

The transaction has been approved by a special committee of the Company's independent directors (the "Special Committee"). Following AMC Network's initial \$4.25 merger proposal announced on February 26, 2018, the Special Committee was constituted by the Company's Board of Directors with the plenary authority of the full Board to evaluate, on behalf of the non-affiliate holders of the Company's common stock, and to definitively approve or disapprove, AMC Network's proposal. Having evaluated, structured, negotiated and documented with AMC Networks the terms of the current transaction, the Special Committee, in consultation with its legal and financial advisors, has determined that the merger agreement, the merger and the transactions contemplated thereby, are advisable, fair to and in the best interest of the non -affiliate holders of the Company's outstanding common stock.

Consummation of the merger is subject to customary closing conditions, including the approval of the merger agreement by a vote of the majority of the outstanding shares of RLJ Entertainment common stock as of the record date for a special meeting of the Company's common stockholders that will be held to consider and vote on the transaction. The parties expect the transaction to close during Q4 2018.

The deal price represents an approximately 61% premium to the closing price of RLJ Entertainment's common stock on Friday, February 23, the Nasdaq trading day immediately prior to AMC Networks' February 26, 2018 proposal, and an approximately 219% premium to the closing price of RLJ Entertainment's common stock on the Nasdaq trading day prior to the announcement of AMC Networks' initial investment in RLJ Entertainment on August 22, 2016.

In October 2016, AMC Networks and RLJE Entertainment formed a strategic partnership pursuant to which AMC Networks invested \$65 million in RLJ Entertainment in the form of loans (which loans have subsequently been increased to an aggregate of \$78 million) and AMC Networks received warrants which, if fully exercised, would provide AMC Networks with at least 50.1% of the outstanding RLJ Entertainment common stock on a fully diluted basis.

94. Concurrent with the execution of the Merger Agreement, the Johnson Entities entered into the Voting Agreement and the Contribution Agreement.

III. THE PROPOSED BUYOUT FAILS TO ADEQUATELY COMPENSATE RLJ STOCKHOLDERS

95. Pursuant to the terms of the Merger Agreement, RLJ stockholders will receive just

1 \$6.25 in cash for each share of RLJ common stock that they own. This consideration – the result
2 of a conflicted process that placed the interests of AMC, Mr. Johnson, and the members of the
3 Board and management above those of the Company's common stockholders – is inadequate and
4 undervalues the Company.

5 96. Indeed, on March 15, 2018, in reporting its fourth quarter and full year 2017
6 financial results, the Company revealed that, for the full year, total net revenue increased 7.6% to
7 \$86.3 million, gross profit increased 40.7% to \$37.1 million, and gross margin increased over ten
8 percentage points to 43.0% in 2017 from 2016. In addition, net loss improved by \$15.7 million
9 and was \$6.1 million for the year, compared to a net loss of \$21.9 million in 2016. Net income
10 adjusted for non-cash warrant expense and 2012 fair value step up amortization would have been
11 positive \$1.0 million for 2017, compared to a loss of \$10.6 million in 2016.

12 97. Notably, the Company's fourth quarter results were even stronger and represented
13 the third consecutive quarter of total top-line growth. Indeed, for the quarter, total net revenue
14 increased 15.3% year-over-year to \$32.7 million, gross profit increased 52.0% year-over-year to
15 \$14.4 million, and gross margin of 44.2% expanded over 10 percentage points from 33.5% in
16 2016.

17 98. In a corresponding press release published that same day, Company management
18 revealed its confidence in its long-term growth plan. In particular, the Company's Chairman, Mr.
19 Johnson, remarked:
20
21

22 2017 was a year of dynamic development for RLJ Entertainment in every sense as
23 the Company wins its share of premium audiences demanding a la carte channels
24 that offer targeted, compelling programming backed by direct marketing and
25 expanding distribution. Given the success of this strategy as demonstrated by these
26 strong results, the tremendous opportunity that the quickly expanding OTT
27 landscape affords and the appeal of Acorn TV and UMC, we expect the Company's
28 *timely strategy* of increasing investments to drive accelerating value creation for
subscribers and investors.

(emphasis added).

99. In commenting on the same results, the Company's CEO, Mr. Penella, provided:

2017 was an instrumental year of strategic, financial and operating achievement, ***benchmarking well against our long-term strategic growth plan. We delivered excellent results for the year***, driving rapid Digital Channels subscriber and high-margin revenue growth, leveraging our IP licensing capability and benefiting from Agatha Christie's robust performance, and transforming our media distribution and wholesale business toward digital media distribution.

(emphasis added).

100. In addition, the Company's then-CFO, Mr. Rostom, remarked:

Fourth quarter 2017 results demonstrate the power of our strategy and the skill of our execution, driving our third consecutive quarter of total top-line growth. Our gross margin and EBITDA margin is ***expected to continue to expand*** as Digital Channels ***revenue continues to grow***. With a solid balance sheet and clear 2018 priorities, we enter 2018 with ***strong momentum to deliver another year of growth in revenue, gross margin and bottom-line profitability***.

(emphasis added).

101. These results also met market expectations. On the date of their announcement, RLJ's common stock set a new 52-week high of \$5.08.

V. THE PROPOSED BUYOUT IS THE RESULT OF A CONFLICTED PROCESS

102. The Merger Agreement and the insufficient Merger Consideration were the result of a plainly flawed and conflicted process. Specifically, for its part, AMC wanted to purchase RLJ for as little as possible. Mr. Johnson, lured by the promise of continuing equity and employment, also had no incentive to maximize shareholder value. And the Special Committee and the larger Board and Company management acceded to the sale because they had much to lose from rejecting AMC's advances and little to gain from conducting a fair sale process.

A. The Controlling Stockholder Defendants Were Conflicted

103. *First and foremost*, as of February 26, 2018 – the day of the Company's receipt of the Initial Proposal – AMC beneficially owned approximately 25,796,226 shares, or 70.6%, of RLJ's outstanding common stock. As a result of these holdings alone, AMC was RLJ's *de jure* controlling shareholder during the process leading to the Proposed Buyout and, as RLJ's ultimate acquirer, was conflicted. What is more, even if AMC was deemed to hold less than a majority of RLJ's outstanding common stock, by exploiting a combination of its holdings at multiple levels of

1 RLJ's capital structure, a web of contractual rights, representation on the Board, its close
2 relationships with Company insiders, and the Company's dwindling cash reserves, the Controlling
3 Stockholder Defendants nevertheless dominated the process leading to the Proposed Buyout to
4 such an extent that AMC acted as RLJ's *de facto* controlling shareholder. And, as a net buyer of
5 RLJ, AMC had no incentive to maximize the amount being paid for RLJ's common stock. To the
6 contrary, it had every incentive to minimize that amount. Indeed, as noted on page 65 of the
7 Proxy, "[t]he AMC Entities attempted to negotiate the terms of a transaction that would be most
8 favorable to them, and not to the Non-Affiliate Stockholders, and, accordingly, did not negotiate
9 the Merger Agreement with a goal of obtaining terms that were fair to such Stockholders." As a
10 result, AMC and RLJ's common stockholders were competing for portions of the consideration
11 AMC was willing to pay to acquire RLJ.
12

13 104. Indeed, AMC's domination over RLJ was so apparent that it openly acknowledged
14 its control during the process. As noted above, in response to the Special Committee's attempts to
15 expand its authority such that it could perform a customary market check and negotiate with other
16 potential buyers, AMC responded by letter stating, in part, that "if the Special Committee were to
17 explore other strategic transaction alternatives (i.e., 'shop the Company'), *doing so would be an*
18 *exercise in futility*, given AMC's beneficial ownership (assuming the exercise, in full, of the AMC
19 Warrants) of more than 50% of the Company's total outstanding voting power, the Company's
20 preexisting no-shop covenant in effect under the Investment Agreement and AMC's status as
21 lender for all of the Company's outstanding senior debt." Proxy, 27-28. In short, by positioning
22 itself on both sides of the transaction while brazenly outlining its conflicts of interest, AMC both
23 acted as the Company's controlling stockholder and was conflicted with respect to the Proposed
24 Buyout.
25

26 **B. The AMC Director Defendants Were Conflicted**

27 105. *Second*, two members of the Board, Mr. Hsu and Mrs. Manos, as AMC's
28 designated directors, were also conflicted with respect to the Proposed Buyout. In fact, as noted

1 above, Mr. Hsu was recognized by the Board as AMC's "lead negotiator" during the process and
2 was instrumental in the Board's decision to reject the Special Committee's request to expand its
3 authority to consider bids from or negotiate with any potential buyers other than AMC. As AMC
4 designated directors, Mr. Hsu and Mrs. Manos were incentivized to acquire RLJ at as low of a
5 price as possible.

6 **C. Director Defendant Johnson Was Conflicted**

7 106. *Third*, Mr. Johnson, the Company's Founder and Chairman, was likewise
8 conflicted regarding the Proposed Buyout as he too positioned himself on both sides of the
9 Proposed Buyout from the outset. As noted above, before the Company had even received the
10 Initial Proposal from AMC, Mr. Johnson had already negotiated his ability to monetize his 17%
11 investment in the post-close company's common stock, various corporate governance matters, and
12 his title and role at the post-close combined company. And, at a meeting on June 13, 2018, just
13 weeks before the Merger Announcement, Mr. Johnson and Arent Fox determined that the draft
14 Rollover Documents were "substantially consistent" with the agreement-in-principle that Mr.
15 Johnson had reached with AMC during these February 2018 negotiations. Having secured for
16 himself these unique benefits, none of which are shared by RLJ's non-insider shareholders, Mr.
17 Johnson was thus conflicted in connection with the Proposed Buyout.
18

19 **D. The Preferred Stockholder Director Defendants Were Conflicted**

20 107. *Fourth*, Messrs. Judd and Zeigelman, as preferred stockholders of the Company
21 and as the Board representatives of the preferred stockholders, were also conflicted with respect to
22 the Proposed Buyout as they too sought to secure (and did secure) unique benefits for themselves
23 in connection with the Proposed Buyout not shared by RLJ's common stockholders. Specifically,
24 as holders of preferred stock and pursuant to the certificates of designation governing such stock,
25 Mr. Judd and Mr. Zeigelman are entitled to a cash-out price offered by AMC equal to \$7.8125 for
26 each share of common stock into which shares of the preferred stock are convertible – which
27 amount represents a 125% premium to the per share Merger Consideration that RLJ's common
28

1 stockholders are receiving. Critically, however, Messrs. Mr. Judd and Zeigelman were also
2 entitled to reject this offer from AMC, thereby providing them the opportunity to receive
3 substitute preferred stock in the surviving corporation. Conversely, as a result of the Proposed
4 Buyout, RLJ's common stockholders were precluded from participating in the post-close
5 company's future earnings or growth.

6 108. The importance of these unique contractual rights were acknowledged by Mr. Judd
7 during the process and Messrs. Judd and Zeigelman sought to negotiate on behalf of the preferred
8 stockholders specifically. As noted above, Mr. Judd repeatedly expressed "concern" that he had
9 not any substantive discussions to date with representatives of AMC regarding the form and terms
10 of any substitute preferred stock that would be offered to the holders of RLJ preferred stock in the
11 event such holders elected to reject AMC's change in control offer. And, in a letter delivered to
12 Mr. Johnson and the Special Committee on July 8, 2018, Mr. Judd further discussed the rights
13 unique to the Company's preferred stockholders and expressed concern regarding RLJ's ability to
14 complete the Proposed Buyout without first reaching an understanding with the holders of the
15 preferred stock as to the treatment of the preferred stock in the Proposed Buyout. It is apparent
16 from these communications and concerns that Messrs. Judd and Zeigelman were pursuing their
17 own interests, not those of common stockholders.
18

19 109. Further, the divergent (if not conflicting) interests between the Company's common
20 stockholders and its preferred stockholders were recognized frequently by the Special Committee
21 and its legal advisor during the process. On June 29, 2018, Mr. Royster explained to Mr. Judd that,
22 as holders of purely contractual rights, the Company's preferred stockholders "had no role at the
23 bargaining table with AMC and the Special Committee with respect to the [Proposed Buyout], so
24 long as AMC intended to comply with the provisions in the certificates of designation governing
25 the Preferred Stock applicable to such transaction." Proxy, 41. On July 2, 2018, the Special
26 Committee and its advisors discussed, in response to Mr. Royster's July 29, 2018 conversation
27 with Mr. Judd, "the Special Committee's role as bargaining agent for Non-Affiliate Common
28

1 Stockholders and that AMC's representatives should speak directly to Mr. Judd" about AMC's
2 intentions regarding the treatment of the preferred stock. Proxy, 41-42. And, on July 9 2018, after
3 continued attempts by Mr. Judd to get a seat at the bargaining table, the Special Committee's legal
4 advisor "reiterated that the rights of the holders of the Preferred Stock (including the holders of the
5 Class C-2 preferred stock) under the applicable certificates of designations were wholly
6 contractual in nature, and further reiterated that the Special Committee's role with respect to the
7 proposed merger has been to date and continues to be that of a vigilant bargaining agent for the
8 economic interests and rights of the Non-Affiliate Common Stockholders." Proxy, 42. In other
9 words, the Special Committee was aware of and appreciated the fact that any attempts by the
10 Special Committee to negotiate with or on behalf of the preferred stockholders would be
11 irreconcilable with its role as a sole bargaining agent for the Company's common stockholders.
12

13 **E. The Remaining Director Defendants Were Conflicted**

14 110. *Fifth*, the remaining Director Defendants (excluding Messrs. Johnson, Hsu, and
15 Manos, collectively, the "Remaining Director Defendants") acceded to the AMC-induced sale to
16 protect their reputations and to avoid a potentially career-ending and reputation-killing ouster from
17 the Board, which could have affected their other business interests, their positions in other
18 companies in which they worked, and their positions on the other boards on which they served. As
19 noted above, AMC plainly stated its intention to exercise, in full, the AMC Warrants prior to the
20 record date for the special meeting of stockholders to vote on the Merger Agreement, pursuant to
21 which AMC would acquire a majority of the voting power attributable to the outstanding common
22 stock and be able to nominate a majority of the Company's directors for election to the Board.
23 Proxy, 39. **This threat of AMC exercising its warrants loomed large and was actionable**
24 **during the entire process leading to the Proposed Buyout.** As a result, not only were the
25 Remaining Director Defendants' future roles with the post-close company in peril had they just
26 said "no" to pursuing a transaction with AMC, their current positions on the Board were in
27 imminent danger as well.
28

111. As outlined below, many of these Remaining Director Defendants served on boards and/or had significant business interests beyond RLJ. A public proxy fight loss to AMC and the forced removal from the RLJ Board would have placed each of these Remaining Director Defendant's other positions in peril, thereby threatening their very livelihoods. Indeed, by way of example only, Defendants Judd, Laszlo, and Ziegelman all serve on the boards of private or publicly-traded companies or work for financial management vehicles that regularly advise buyers and sellers in public merger & acquisitions matters. A public ouster from a publicly-traded company's board would place their qualifications into doubt and would make them less attractive as a board member on the companies for which they already work, as well as for new board positions, or otherwise threaten their ability to serve existing or future clients:

- For instance, Defendant Judd is the founder and Managing Director of Sudbury Capital Management, a private equity firm, such that his business regularly requires him to sit on the boards of portfolio companies. Of course, a public ouster from the board of a publicly-traded company would place this very livelihood at risk. In addition, Defendant Judd currently serves as Chairman of the Board and the Interim CEO of FitLife Brands, Inc. A public ouster from another publicly-traded company's board would place his qualifications into doubt and would make him less attractive as a board member on the companies for which he already works, as well as for new board positions.
- Likewise, in addition to his role on the Board, since 2014, Defendant Laszlo has served as Managing Director and Head of Technology, Media & Communications Equity Origination for Sun Trust Robinson Humphrey, Inc., an investment bank that offers mergers and acquisitions, management buyout, recapitalization, private placement, spin-offs and split-offs, and fairness opinion advisory services. Mr. Laszlo also currently serves on the Advisory Board of Falconhead Capital Management, a private equity firm based in New York City. Again, his business and reputation would surely suffer if he were forcibly removed from a public company board.
- Similarly, in addition to his role on the Board, since 2013, Defendant Ziegelman has served as a Portfolio Manager at Wolverine Asset Management, LLC – an employee owned hedge fund sponsor. The firm primarily provides its services to pooled investment vehicles and also caters to investment companies. In addition, prior to joining Wolverine Asset Management, Mr. Zeigelman was the founder of Carpe Diem Capital Management and co-founder of Castle Creek Partners – both of which were engaged in private placements and restructurings. Again, his business and reputation would surely suffer if he were forcibly removed from a public company board – especially during the process leading to the going-private Proposed Buyout.

112. In addition, upon information and belief, the principle source of income for each of

Messrs. Sinclair, Royster, and Penella is derived from RLJ or its affiliates. Accordingly, an ouster from RLJ would threaten their livelihoods and prospects for continuing employment:

- For instance, Defendant Sinclair made his living as a corporate lawyer with Arent Fox – outside counsel to the Company and Mr. Johnson – with significant experience in mergers and acquisitions no less. Indeed, according to his biography page on Arent Fox’s firm website, Mr. Sinclair “has counseled clients extensively on mergers, acquisitions, and other forms of business combinations,” so much so that this experience leads the description under the “Client Work” heading in his biography. In addition, his professional work is almost exclusively tied to RLJ and its affiliated entities. Indeed, the entirety of the activities listed under the “Professional Activities” heading in his firm bio are borne out of RLJ:

An Arent Fox partner since 1986, Van changed his status to counsel in February 2001, when he became president of the RLJ Companies, a diverse group of investment companies owned by Robert L. Johnson, the founder and CEO of Black Entertainment Television. In his capacity with The RLJ Companies, Van helps manage a portfolio of companies, including the holding company that owns the Charlotte Bobcats, the National Basketball Association franchise in Charlotte, North Carolina, and a real estate development company involved in the hospitality industry. Van also serves as General Counsel to the RLJ Companies.⁹

Plainly, Mr. Sinclair’s principal source of income is derived from RLJ and its affiliates. Accordingly, his business and prospects for continued employment, to say nothing of his reputation, would surely suffer if he were forcibly removed from RLJ.

- Likewise, as a director and the Company’s CEO – and with his work experience tied exclusively to RLJ and its affiliates since 2012, Defendant Penella’s principle source of income is likely derived from RLJ and its affiliates.
- The same can be said with respect to Defendant Royster, whose only apparent current source of income not involving RLJ or its affiliates comes from his service as CFO of the United Negro College Fund – a not-for-profit philanthropic institution.

113. *Second*, the reputational and financial losses that these Remaining Director Defendants would have suffered as a result of a public ouster at the hands of AMC far outweighed any nominal increase in value they may have secured for themselves had they fairly negotiated for RLJ’s non-insider stockholders. That is because the Remaining Director Defendants were not heavily invested in RLJ and much of their investment was in the form of options, restricted shares, RSUs or PSUs.

114. For instance, as of the October 2, 2018, the Remaining Director Defendants (excluding employee Director Defendant Mr. Penella) held, collectively, only approximately 219,518 shares of RLJ common stock, as outlined below:

Name	Position	Number of Shares	Aggregate Stock Consideration Payable for Shares
Miguel Penella	Director; Chief Executive Officer	252,797	\$ 1,379,981.35
Mark Munis	Principal Financial and Accounting Officer	5,648	\$ 35,300.00
Dayton Judd	Director	53,930	\$ 337,350.00
Andor (Andy) M. Laszlo	Director	59,344	\$ 370,900.00
Scott R. Royster	Director	55,563	\$ 347,263.50
H. Van Sinclair	Director	40,308	\$ 251,925.00
John Ziegelman	Director	—	—
John Han	Director	—	—
Arlene Munos	Director	10,344	\$ 64,650.00
Total		477,963	\$ 2,987,269.75

Thus, had these Director Defendants actually secured more value for RLJ's stockholders, they would have gained very little incrementally. Indeed, and by way of example only, for every 10 cents of greater consideration they secured for stockholders, such Director Defendants stood to collectively make just \$21,951.80 more.

115. By contrast, the Remaining Director Defendants stood to gain far more by simply cashing out their options, restricted shares, RSUs and/or PSUs, all of which will fully vest and be cashed out upon the consummation of the Proposed Buyout – thanks to the Special Committee. In particular, as of August 2, 2018, Mr. Sinclair, Mr. Royster, and Mr. Laszlo each held 14,752 shares of common stock that were subject to restricted stock awards, and each of Messrs. Laszlo, Royster, Sinclair, and Judd will receive \$92,220 after the cashing out of their Company restricted shares. As a result of these insider holdings, and in addition to the potential loss of current and future employment opportunities, these Remaining Director Defendants were even less incentivized to secure additional value for RLJ's common stockholders and more incentivized to say “yes” to a deal with AMC at any price. Such is true, to an even more extreme degree, with respect to CEO and Director Defendant Penella – as outlined below:

Name	Position	Payment in Respect of Company Options (\$)(1)	Payment in Respect of Company Restricted Shares (\$)(2)	Payment in Respect of Company RSUs (\$)(3)	Payment in Respect of Company PSUs (\$)(4)	Total
Miguel Penella	Chief Executive Chairman and Director	\$ 4,787,300	\$ 391,300	\$ 1,408,250	\$ 3,893,313	\$ 9,080,163

⁹ <https://www.arentfox.com/attorneys/h-van-sinclair>

116. In other words, the Remaining Director Defendants had very little financial incentive to comport with their fiduciary duties and negotiate for the best interests of RLJ's non-insider stockholders. In exchange for any small gain, they risked an imminent ouster at the hands of the Controlling Stockholder Defendants – one that could have resulted in them losing their other lucrative employments and board positions as well as their ability to liquidate their insider equity holdings. Stated differently, the miniscule amounts of money the Remaining Director Defendants stood to gain from defying AMC and pursuing a standalone strategy simply were not financially material in comparison to the sums made in their other employments, as a result of their other board memberships, and in cashing out their stock options, restricted shares, RSUs and/or PSUs early.

F. The Remaining Members of RLJ's Management Were Conflicted

117. *Sixth*, the remaining members of Company management – who were tasked with revising the Company's projections downward during the sale process in response to the Special Committee's purported "concerns" – were similarly conflicted. As an initial matter, the Proxy referenced only two of the Company's named executive officers, RLJ's CEO, Mr. Penella, and its Principal Financial and Accounting Officer, Mr. Mark Nunis.¹⁰ Like the Remaining Director Defendants, and as noted above with respect to Mr. Penella, these individuals were not heavily invested in RLJ common stock and stood to gain far more simply by cashing out their options, restricted shares, RSUs or PSUs – all of which will fully vest and be cashed out upon the consummation of the Proposed Buyout. Indeed, Mr. Nunis held only 5,648 shares of RLJ common stock as of October 2, 2018, yet stands to reap a \$30,631 payment as a result of the cashing out of his RSUs. In addition, as noted on Page 74 of the Proxy, "[c]ertain of the executive officers of the

¹⁰ As noted above, on April 6, 2018, just two days after the Special Committee resolved to direct Company management to revise the Company projections downward, Nazir Rostom, the Company's Chief Financial Officer ("CFO"), announced his resignation. Though the Company announced that it had initiated an external search for a full-time successor as CFO, no replacement CFO was appointed during the process leading to the Proposed Buyout and, to date, the Company remains without one on its executive management team.

1 Company may enter into arrangements with [Digital Entertainment] or its Affiliates regarding the
2 terms of their employment with the Company or Parent following the Merger.” Though the Proxy
3 disclosed that the terms of any such arrangement had not yet been “determined,” implicit in such
4 terminology is the strong likelihood that such an arrangement had been considered during the
5 process. Proxy, 69. Indeed, as noted above, on July 26, 2018, Mr. Penella and Mr. Hsu had a
6 telephone conversation in which they **discussed the treatment of Mr. Penella's stock options**
7 **and the unvested restricted stock awards held by certain employees of the Company.** And,
8 likewise, prior to the Company’s receipt of the Initial Proposal, Mr. Johnson had already reached
9 an agreement-in-principle with respect to, among other things, “corporate governance matters and
10 [Mr. Johnson’s] role at the [combined] company[.]” By implication, this agreement-in-principle
11 related to the roles of members of RLJ management at the combined company other than Mr.
12 Johnson.
13

14 118. As a result of these circumstances, these members of management were
15 incentivized to facilitate the consummation of the Proposed Buyout by, for example, revising the
16 Company’s projections downward in order to tout the fairness of the Merger Consideration or
17 otherwise facilitate AMC’s acquisition of RLJ pursuant to an unfair process and for an unfair
18 price. In fact, Mr. Penella and Mr. Nunis observed firsthand what might happen to them if they did
19 not reduce the Company’s projections to the Special Committee’s liking. As noted above, on April
20 6, 2018, less than one week after the Special Committee resolved to direct RLJ management to
21 revise the Company projections downward, Nazir Rostom, then the Company’s CFO, announced
22 his resignation. Several facts call into question the circumstances surrounding Mr. Rostom’s
23 departure, and in turn, the independence of the remaining members of Company management. As
24 an initial matter, though the Company announced that Mr. Rostom’s resignation was not the result
25 of any disagreement with the Company on any matter relating to the Company’s “operations,
26 policies or practices,” absent from that announcement was the additional boilerplate language that
27 often accompanies such disclosures that provides that the resignation was not the result of any
28

1 disagreement with the Company on any matter relating to the Company's "operations, policies,
2 practices, *management or Board of Directors*" (emphasis added).¹¹ The absence of this traditional
3 boilerplate disclosure raises the inference that Mr. Rostom's departure was due to his
4 disagreement with the Special Committee in response to the Committee's directive to revise the
5 Company's projections downward. A departure under these circumstances would have served as a
6 stern warning to Messrs. Penella and Nunis to heed the Special Committee's directives. By failing
7 to disclose whether Mr. Rostom's resignation was due to any disagreement with the Company on
8 any matter relating to the Company's management or Board, the Proxy makes it impossible for
9 RLJ shareholders to fairly evaluate whether the downward revisions to the Company's projections
10 made during the sale process at the direction of the Special Committee were fair and accurate or
11 instead the result of conflicted members of management or coercion from AMC, the Committee,
12 and/or larger Board.

14 119. Further calling into question the circumstances surrounding Mr. Rostom's
15 departure is the fact that just two weeks prior to its announcement, the Company announced it had
16 realized its third consecutive quarter of total top-line growth. This financial performance clearly
17 met market expectations as, on March 16, 2018, the day the Company announced its fourth quarter
18 and full year 2017 financial results, RLJ common stock closed at a 52-week high of \$5.08. Despite
19 these demonstrable successes during his tenure with the Company, Mr. Rostom abruptly left the
20 Company less than one week after the Special Committee resolved to direct RLJ management to
21 revise the Company projections downward. These circumstances further support the inference that
22 Mr. Rostom's departure was in fact due to his disagreement with the Special Committee in
23 response to the Committee's unsupported directive to revise the Company's projections
24 downward.¹²

26
27 ¹¹ See, e.g., <https://www.marketwatch.com/press-release/flexsteel-announces-leadership-change-2018-09-11>

28 ¹² Though the Company announced that it had initiated an external search for a full-time successor as CFO (and thus acknowledged the need for one), no replacement CFO was appointed

120. In the same vein, Mr. Penella and Mr. Nunis knew firsthand what could happen if they complied with the Special Committee's mandate to lower the Company's projections. Indeed, in announcing Mr. Rostom's resignation, the Company announced Mr. Nunis' corresponding appointment to a newly created executive position – Principal Financial and Accounting Officer of the Company. Of course, by staying with the Company, Mr. Nunis also maintained his candidacy for continued employment with the post-close company and the ability to cash out his insider equity interests in RLJ, which unique benefits – not shared by RLJ's common shareholders – were negotiated during the process leading to the Proposed Buyout.

G. The Special Committee Was Conflicted and Lacked Independence

121. *Finally*, the members of the Special Committee were conflicted and lacked independence. As an initial matter, Messrs. Royster and Laszlo were conflicted with respect to the Proposed Buyout for the same reasons noted with respect to the Remaining Director Defendants – specifically, that the reputational and financial losses that the Special Committee members would have suffered as a result of a public ouster at the hands of AMC, as outlined above, far outweighed any nominal increase in value they may have secured for themselves had they fairly negotiated for RLJ's non-insider stockholders.

122. Further calling into question its independence, however, is the fact that during the process leading up to the Proposed Buyout, the Special Committee negotiated its own compensation, ultimately securing up to \$100,000 for its few months of services. By comparison, and by way of example only, for every 10 cents of greater consideration they secured for stockholders, the Special Committee members stood to **collectively** make just \$11,490.60 more. Accordingly, just serving on the Special Committee enriched its members far more than a higher merger consideration could. Of course, this is to say nothing of the strong likelihood that a rejection of the Proposed Buyout by the Special Committee or even a withdrawal from the process during the process leading to the Proposed Buyout and, to date, the Company remains without one on its executive management team.

1 leading up to it would have all but eliminated them from consideration as candidates for future
2 lucrative appointments to any similar committees.

3 123. Most important, however, is the fact that the Special Committee was not
4 legitimately empowered to explore other transactions, veto the AMC-induced sale, or even
5 withdraw from the sale process at any time. As a result of its limited authority and AMC's
6 leverage, the Special Committee had no bargaining leverage, engaged in no substantive
7 negotiations, negotiated against itself, and was ultimately powerless, by design *and* in effect, to do
8 anything other than engage with AMC and ultimately accede to its acquisition of RLJ. Even then,
9 though, it was required to artificially reduce the Company's projections in order to make the
10 Merger Consideration appear fair.
11

12 **VI. THE PROXY OMITTS MATERIAL INFORMATION**

13 124. Directors of Nevada corporations are under a fiduciary duty to disclose fully and
14 fairly all material information within the board's control when it seeks stockholder action. The
15 Board breached this duty by causing the materially incomplete and misleading Proxy to be filed
16 with the SEC on October 5, 2018. As discussed above throughout and outlined further below, the
17 Proxy omits material information that that prevents RLJ stockholders from casting an informed
18 vote with respect to the Proposed Buyout.

19 125. *First*, the Proxy fails to disclose whether the Board's decisions relating to the
20 Special Committee's authority were approved unanimously. This information is especially
21 material in light of the fact that the Proxy discloses that the "full Board" attended these meetings,
22 misleading RLJ shareholders into believing that the full Board supported the decisions made at
23 such meetings. Proxy 25, 27, 28, Through these misleading disclosures and omissions, RLJ
24 shareholders were deprived of the ability to fairly evaluate critical information directly bearing on
25 the fairness of the process leading to the going-private Proposed Buyout – the degree of AMC's
26 control over the Board and the degree to which the Board submitted to that control.
27

28 126. *Second*, the Proxy fails to disclose the identities of the members of Company

1 management who prepared the Initial Base Case projections and those subsequent projections
2 which were revised downward, and whether and to what extent Company management shared the
3 Special Committee's concerns regarding the Company's projections. This information is
4 especially material in light of the Company's former CFO's sudden departure from the Company
5 just days after the Special Committee communicated its concerns regarding the Initial Base Case
6 projections to Company management, and the fact that the Company did not appoint a successor
7 CFO during the process, despite the Company's tacit public acknowledgement that appointing a
8 successor CFO was necessary. Such information is likewise especially material in light of the
9 potential conflicts infecting the members of Company management, as discussed above.
10

11 127. Relatedly, and *third*, the Proxy fails to disclose whether the sudden departure of the
12 Company's former CFO, Mr. Rostom, was due to any disagreement with management or the
13 Board concerning the Company's projections or otherwise.

14 128. *Fourth*, the Proxy fails to disclose the nature of any personal, or non-business,
15 relationships between AMC, Mr. Johnson and any of his affiliates, and any members of Company
16 management, on the one hand, and members of the Special Committee, on the other. This
17 information is especially material in light of the Proxy's disclosure that the Committee's members
18 are not affiliated, or a party to any "extraneous business relationships" with such groups – thereby
19 raising the implication that other relationships do exist. *See* Proxy, 46. In light of the conflicts
20 tainting the Board and remaining members of Company management, discussed in great detail
21 above, and given that the Special Committee is comprised of just two members, significant non-
22 business relationships between *any* of the Committee's members, on the one hand, and AMC, Mr.
23 Johnson, or any members of Company management, on the other hand, would be material and
24 could, potentially on their own, render the Committee not independent.
25

26 129. *Fifth*, the Proxy provides no detail or disclosure regarding Mr. Johnson's pre-Initial
27 Proposal communications or negotiations with AMC, including the other "governance matters"
28 agreed to in principle by Mr. Johnson and the Controlling Stockholder Defendants prior to the

1 Company's receipt of the Initial Proposal and negotiated throughout the process leading to the
2 Proposed Buyout.

3 130. *Sixth*, as noted above, the Proxy fails to clearly disclose the nature and extent of the
4 reductions ordered by the Special Committee to the Initial Base Case projections, what projections
5 it was using at certain times (as outlined above), which forecasts were provided to AMC, and
6 whether the data and assumptions underlying them were provided to AMC or any of its
7 representatives, including the AMC designated members of the Board, prior to execution of the
8 Merger Agreement. This is especially critical because shareholders are unable to determine if
9 these changes were warranted or justified.

10
11 131. In sum, the Board engaged in wrongful conduct or procedures in the Merger
12 approval process and that go to the approval of the Proposed Buyout by conducting a flawed sales
13 process that failed to maximize stockholder value and causing a materially incomplete and
14 misleading Proxy to be filed with the SEC. As a result, the Board has prevented Plaintiff and the
15 Class from being adequately compensated for their RLJ shares, and has deprived the Company's
16 stockholders of the ability to cast an adequately informed vote with respect to the Proposed
17 Buyout. Accordingly, Plaintiff seeks damages suffered as a result of Defendants' breaches of
18 fiduciary duty.

19 FIRST CAUSE OF ACTION

20 (Against the Director Defendants for Breach of Fiduciary Duties)

21
22 132. Plaintiff incorporates by reference and realleges each and every allegation
23 contained above, as though fully set forth herein.

24 133. The Director Defendants have violated fiduciary duties owed to the public
25 stockholders of RLJ.

26 134. Each of the Director Defendants, as directors of the RLJ Board, owed stockholders
27 of RLJ the fiduciary duties of loyalty, care, and good faith. By the acts, transactions and courses of
28 conduct alleged herein, each of the Director Defendants breached his or her fiduciary duties to

1 RLJ's stockholders.

2 135. As alleged herein, the Director Defendants initiated a process to sell RLJ that
3 undervalued the Company, vested the Controlling Stockholder Defendants and other Company
4 insiders with benefits that were not shared equally by RLJ's public stockholders, and placed the
5 interests of the Controlling Stockholder Defendants' and other Company insiders above the
6 interests of non-insider stockholders. In addition, by representing the interests of the Controlling
7 Stockholder Defendants and other Company insiders on the Board and toward the Proposed
8 Buyout, the Director Defendants capped the price of RLJ stock at a price that does not adequately
9 reflect the Company's true value. Moreover, the Director Defendants disregarded the true value of
10 the Company in an effort to benefit the Controlling Stockholder Defendants and other Company
11 insiders. To this end, they engaged in wrongful conduct that goes to the approval of the Proposed
12 Buyout.
13

14 136. As a result of the actions of the Director Defendants, Plaintiffs and the Class are
15 being and will be harmed and will not receive the highest available value for their equity interest
16 in RLJ.
17

18 **SECOND CAUSE OF ACTION**

19 **(Against the Controlling Stockholder Defendants**
20 **for Breach of Fiduciary Duties)**

21 137. Plaintiff incorporates by reference and realleges each and every allegation
22 contained above, as though fully set forth herein.

23 138. The Controlling Stockholder Defendants have violated fiduciary duties owed to the
24 public stockholders of RLJ.

25 139. By the acts, transactions, and course of conduct alleged herein, the Controlling
26 Stockholder Defendants breached their fiduciary duty and the burden lies on the Controlling
27 Stockholder Defendants to demonstrate that the Proposed Buyout and the Merger Consideration
28 are entirely fair.

141. As a result of the actions of the Controlling Stockholder Defendants, Plaintiffs and the Class are being and will be harmed and will not receive the highest available value for their equity interest in RLJ.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands relief in her favor and in favor of the Class and against Defendants, as follows:

A. Declaring that this action is properly maintainable as a Class action and certifying Plaintiff as the Class representative;

B. Preliminarily and permanently enjoining Defendants and their counsel, agents, employees, and all persons acting under, in concert with, or for them from proceeding with, consummating, or closing the Proposed Buyout unless and until the Company adopts and implements a procedure or process to obtain an agreement providing fair and reasonable terms and consideration to Plaintiff and the Class and discloses the material information discussed above that has been omitted from the Proxy;

1 C. Directing the Defendants to account to Plaintiffs and the Class for all damages
2 suffered as a result of the wrongdoing;

3 D. Awarding Plaintiff the costs and disbursements of this action, including reasonable
4 attorneys' and experts' fees; and

5 E. Granting such other and further equitable relief as this Court may deem just and
6 proper.

7 **JURY DEMAND**

8 Plaintiff demands a trial by jury on all issues so triable.

9 DATED this 30th day of October, 2018.

10 **ALBRIGHT, STODDARD, WARNICK & ALBRIGHT**

11 
12 G. MARK ALBRIGHT, ESQ.
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21 *Attorneys for Plaintiff*

22 **Of Counsel:**

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Email: jmonteverde@monteverdelaw.com

VERIFICATION

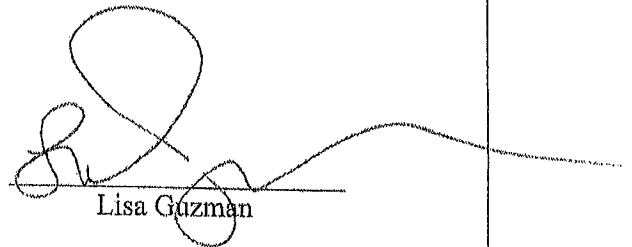
I, Lisa Guzman, hereby declare as follows:

Under penalties of perjury, the undersigned declares that she is the plaintiff named in the foregoing Stockholder Class Action Complaint and knows the contents thereof; based upon discussions with and reliance upon my counsel, that the pleading is true of her own knowledge, except as to those matters stated on information and belief, and that as to such matters she believes it to be true.

I declare under penalty of perjury that the foregoing is true and correct under the laws of the State of Nevada.

Signed and Accepted:

October 30th, 2018



Lisa Guzman

EXHIBIT “B”



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14 *Attorneys for Plaintiff*

15 **DISTRICT COURT**
16 **CLARK COUNTY, NEVADA**

17 LISA GUZMAN, on behalf of herself and all
18 Others Similarly Situated,

19 Plaintiff,

20 vs.

21 ROBERT L. JOHNSON, MIGUEL PENELLA,
22 JOHN HSU, ARLENE MANOS, H. VAN
23 SINCLAIR, ANDOR M. LASZLO, SCOTT
24 ROYSTER, DAYTON JUDD, JOHN
25 ZIEGELMAN, AMC NETWORK, INC.,
26 DIGITAL ENTERTAINMENT HOLDINGS,
27 LLC, and RIVER MERGER SUB, INC, DOES
28 1 through 100, inclusive, and ROE
CORPORAIONS 1 through 100, inclusive

Defendants.

CASE NO.: A-18-783643-B

DEPT. NO.: XI

**FINAL JUDGMENT AND ORDER OF
DISMISSAL**

LAW OFFICES
ALBRIGHT, STODDARD, WARNICK & ALBRIGHT
A PROFESSIONAL CORPORATION
QUAIL PARK, SUITE D-4
801 SOUTH RANCHO DRIVE
LAS VEGAS, NEVADA 89106

☒ Voluntary Dismissal
☐ Involuntary Dismissal
☐ Stipulated Dismissal
☐ Motion to Dismiss by Deft(s)
☐ Summary Judgment
☐ Stipulated Judgment
☐ Default Judgment
☐ Judgment of Arbitration

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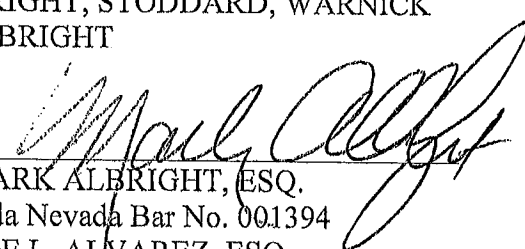
Having considered Plaintiff's Notice of Intent Not to File an Amended Complaint,
IT IS HEREBY ORDERED that the within action is dismissed in its entirety with
prejudice.

DATED this 11 day of September, 2019.


DISTRICT COURT JUDGE

Submitted by:

ALBRIGHT, STODDARD, WARNICK
& ALBRIGHT

By 
G. MARK ALBRIGHT, ESQ.
Nevada Nevada Bar No. 001394
JORGE L. ALVAREZ, ESQ.
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Attorneys for Plaintiff

EXHIBIT “C”



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13 *Attorneys for Plaintiff*

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15 **CLARK COUNTY, NEVADA**

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17 Others Similarly Situated,

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19 vs.

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CASE NO.: A-18-783643-B

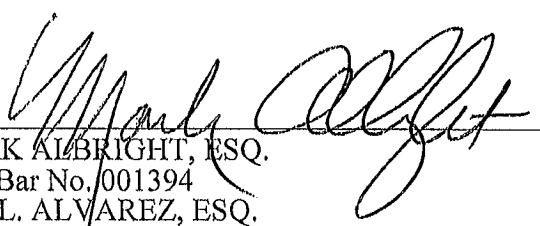
DEPT. NO.: XI

**NOTICE OF ENTRY OF FINAL
JUDGMENT AND ORDER OF
DISMISSAL**

PLEASE TAKE NOTICE that a **FINAL JUDGMENT AND ORDER OF DISMISSAL** was entered on the 12th day of September, 2019. A copy of said Final Judgment and Order of Dismissal is attached hereto as Exhibit "A."

DATED this 12 day of September, 2019.

ALBRIGHT, STODDARD, WARNICK & ALBRIGHT


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CERTIFICATE OF SERVICE

I hereby certify that I am an employee of ALBRIGHT, STODDARD, WARNICK & ALBRIGHT and that on the 12 day of September, 2019, I served a true and correct copy of the foregoing **NOTICE OF ENTRY OF FINAL JUDGMENT AND ORDER OF DISMISSAL** upon all counsel of record by electronically serving the document using the Court's electronic filing system.

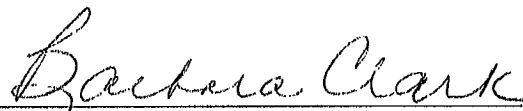

An employee of Albright, Stoddard,
Warnick & Albright

EXHIBIT "A"

Steven D. Grlerson

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14 *Attorneys for Plaintiff*

15 **DISTRICT COURT**
16 **CLARK COUNTY, NEVADA**

17 LISA GUZMAN, on behalf of herself and all
18 Others Similarly Situated,

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20 vs.

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Defendants.

CASE NO.: A-18-783643-B

DEPT. NO.: XI

**FINAL JUDGMENT AND ORDER OF
DISMISSAL**

LAW OFFICES
ALBRIGHT, STODDARD, WARNICK & ALBRIGHT
A PROFESSIONAL CORPORATION
SUITE D-4
801 SOUTH RANCHO DRIVE
LAS VEGAS, NEVADA 89106

<input checked="" type="checkbox"/> Voluntary Dismissal	<input type="checkbox"/> Summary Judgment
<input type="checkbox"/> Involuntary Dismissal	<input type="checkbox"/> Stipulated Judgment
<input type="checkbox"/> Stipulated Dismissal	<input type="checkbox"/> Default Judgment
<input type="checkbox"/> Motion to Dismiss by Defendant	<input type="checkbox"/> Judgment of Arbitration

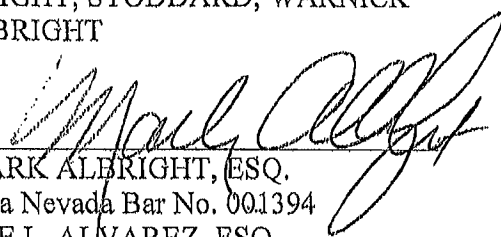
1 Having considered Plaintiff's Notice of Intent Not to File an Amended Complaint,
2 IT IS HEREBY ORDERED that the within action is dismissed in its entirety with
3 prejudice.

4 DATED this 11 day of September, 2019.


DISTRICT COURT JUDGE

7 Submitted by:

8 ALBRIGHT, STODDARD, WARNICK
9 & ALBRIGHT

10
11 By 
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19 Attorneys for Plaintiff
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