

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

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In re: : Chapter 11

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THQ INC., *et al.*, : Case No. 12-13398 (MFW)

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Debtors.¹ : Jointly Administered

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: **Hearing Date: February 19, 2013 at 9:30 a.m. (ET)**

: **RE: Docket No. 332**

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**DECLARATION OF KARN CHOPRA IN SUPPORT OF DEBTORS’
MOTION FOR AN ORDER AUTHORIZING THE DEBTORS TO ENTER INTO
AGREEMENTS WITH TAKE-TWO INTERACTIVE SOFTWARE, INC.,
WORLD WRESTLING ENTERTAINMENT, INC. AND YUKE’S CO., LTD.**

I, Karn Chopra, make this Declaration under 28 U.S.C. § 1746 and state:

1. I am a principal at Centerview Partners LLC (“**Centerview**”), the investment banker engaged by THQ Inc. (“**THQI**”) and the other above-captioned debtors and debtors in possession (collectively the “**Debtors**”). I submit this Declaration in support of the *Debtors’ Motion Pursuant to Sections 105, 363 and 365 of the Bankruptcy Code and Bankruptcy Rule 6004, 6006 and 9019, for an Order Authorizing the Debtors to Enter Into Agreements With Take-Two Interactive Software, Inc., World Wrestling Entertainment, Inc. and Yuke’s Co., Ltd.* [Docket No. 332] (the “**Motion**”).²

2. Except as otherwise indicated, all statements in this Declaration are based upon my review of relevant documents, my discussions with the Debtors and their professionals, my personal knowledge and experience and my personal participation in the efforts to find a

¹ The Debtors in these chapter 11 cases and the last four digits of each Debtor’s taxpayer identification number are as follows: THQ Inc. (1686); THQ Digital Studios Phoenix, Inc. (1056); THQ Wireless Inc. (7991); Volition, Inc. (4944); and Vigil Games, Inc. (8651). The Debtors’ principal offices are located at 29903 Agoura Road, Agoura Hills, CA 91301.

² Capitalized terms used but not defined herein shall have the meanings set forth in the Motion.

willing buyer for the World Wrestling Entertainment License Agreement (the “**WWE License**”).
If I were called upon to testify, I could and would testify to each of the facts set forth below.

1. I have more than 10 years of experience advising corporations and other constituents on restructuring transactions. I joined Centerview in April 2011 as a founding member of the firm’s Restructuring Group. Prior to joining Centerview, I was an Associate at Miller Buckfire & Co., which I joined in 2007. I was also a member of the turnaround restructuring services group at AlixPartners LLC, which I joined in 2005. I have extensive experience representing companies, creditors and other constituents in complex restructuring, mergers and acquisitions and financing transactions across a wide range of industries. Selected company-side experience includes Residential Capital, Simmons Bedding Company, Vonage Corporation, The Palisades Center, MagnaChip Semiconductor, American Commercial Lines, St. Vincent’s Catholic Medical Centers, Beacon Manufacturing, Remo Drug, United American Healthcare and Northland Cranberries. I have also represented creditor and equity constituencies in various transactions including Kerzner Resorts, DS Waters of America Inc. and Stuyvesant Town/Peter Cooper Village (Special Servicer).

3. The Debtors engaged Centerview on June 11, 2012, with the primary goal of finding an investor that would provide new liquidity to fund the Debtors’ business plan, or a buyer for the Debtors’ assets. Over the past eight months, Centerview has provided a broad range of financial advisory services to the Debtors, including conducting a marketing process for the sale of the WWE Assets. I was personally involved in the marketing process of the “WWE Assets” (as defined below).

4. THQI has the exclusive right under the WWE License to develop WWE Games through 2017. The WWE License requires THQI to pay WWE an advance of \$7.5

million each year through 2017. Each advance is recoupable each year against royalties earned on the game launched that calendar year. As of the Petition Date, THQI owed WWE approximately \$7.6 million for royalties and marketing expenses (after recoupment of the \$7.5 million advance). THQI owns the equipment used by its employees in developing the WWE Games, the liquidation value of which is no more than \$75,000.

5. In connection with the WWE License, THQI contracted with Yuke's, Ltd. ("Yuke's"), a third-party developer, to develop the WWE Games pursuant to the Yuke's Master Developer Agreement. As of the Petition Date, THQI owed Yuke's approximately \$15 million to \$20 million under such Agreement. In addition to development fees, THQI might also become liable to Yuke's for royalties based on sales of WWE Games, if the sales volume is high enough to fully recoup all development costs. Absent the WWE Agreements Yuke's unsecured claim would be at least \$15 million to \$20 million, and it might assert the right to additional damages.

6. On the Petition Date, the Debtors filed the Sale Motion, by which the Debtors sought this Court's authority to sell by Auction most of the Debtors' operating assets. The stalking horse bidder's bid did not include THQI's rights to develop the WWE Games pursuant to the WWE License or THQI's rights under the Yuke's Master Developer Agreement (collectively, the "WWE Assets"). The Auction resulted in the sales of most of the Debtors' operating assets to the Successful Bidders. None of the Successful Bidders submitted a bid for or purchased the WWE Assets.

7. As stated above, THQI and Centerview solicited independent interest in the WWE Assets prior to the Petition Date. In conjunction with WWE, Centerview prepared a list of 10 prospective bidders comprised of large game publishers with the financial wherewithal

to publish WWE games. During Centerview's marketing efforts, an additional two bidders expressed interest in participating in the WWE marketing process. Three of the bidders conducted extensive diligence, which included meetings with THQ management, WWE management and/or calls with the Yukes development team. However, none of the bidders indicated a willingness to assume the Debtors' obligations under the WWE License or the Yuke's Master Developer Agreement, which would have required the buyer to assume cure claims in excess of \$25 million. It is my opinion that the WWE Assets were not saleable.

8. Based on the process described above, one of the three bidders that conducted extensive diligence, Take-Two, expressed interest in the WWE Assets if they were allowed to enter into new agreements with WWE and Yukes for future development. THQI and Centerview facilitated negotiations between Take-Two, WWE and Yukes and simultaneously negotiated the termination of the WWE License and the Yuke's Master Development Agreement. The proposed agreements between the various parties in interest should result in the mitigation of damages to WWE and Yuke's arising from THQI's termination of the WWE License and the Yuke's Master Development Agreement, thereby benefiting the Debtors' estates by eliminating the prepetition claims of WWE and Yuke's. Thus, THQI agreed, subject to Court approval, to enter into the WWE Agreements, the terms of which are accurately described in the Motion.

9. If the WWE License was terminated and no WWE 2014 game was produced, WWE would likely assert damage claims against THQI. In addition to WWE's prepetition claim of approximately \$7.6 million, WWE would likely assert damage claims arising from THQI's failure to pay the minimum annual royalty of \$7.5 million through 2017. The minimum future royalty payment plus the amount due for WWE 2013, combined, could total

approximately \$45 million in damages, though the Debtors would certainly contend that WWE's actual damages from any rejection of the WWE License were substantially less than this sum. The unwillingness of any bidder to assume THQI's obligations under the WWE License may indicate that WWE might not be able to get another developer to agree to terms as favorable to WWE as the WWE License and, therefore, WWE could have damages in excess of THQI's prepetition liability.

10. Cessation of the development of WWE 2014 would also result in the termination of the THQ Fight Team, creating additional severance and other liabilities relating to such termination. Under the WWE Agreements, Take-Two is hiring the THQ Fight Team, thereby eliminating any such liability.

11. THQI owns 1,552,000 shares of Yuke's (the "**Yuke's Equity**"), which is approximately 14% of the total outstanding shares in Yuke's. Yuke's stock is publicly traded, but the size of THQI's equity position as well as the volume of trading is such that it would likely not be practical for THQI to liquidate this stock through public sales in the next several months without depressing the market value of that stock. The trading price for the Yuke's stock has a current share price of \$2.89 and a weighted average price of \$3.17 over the past thirty (30) days. At \$2.89 per share the 1,552,000 shares owned by THQI would have an aggregate value of \$4.485 million, but it is unlikely that THQI could sell its stock for \$2.89 per share because of the large number of shares held.

12. During the negotiations leading up to the WWE Agreements, Yuke's indicated that it would like to acquire this stock. Yuke's has agreed to accept the Yuke's Equity in full satisfaction of its general unsecured claim of \$15 million to \$20 million.

13. It is my opinion that the WWE Agreements are in the best interests of the Debtors and their estates. Despite a thorough marketing process, THQI has been unable to find any buyer willing to assume its obligations under the WWE License or the Yuke's Master Developer Agreement. THQI is no longer able to perform under these executory contracts, which are burdensome to the Debtors' estates. The decision to terminate these agreements will eliminate THQI's obligation to perform under these agreements and the accrual of any further obligations thereunder. Simple rejection of these contracts and cessation of the development of WWE 2014, on the other hand, would cause both Yuke's and WWE substantial damages, which would increase their claims against THQI.

14. The WWE Agreements collectively provide for the following:
- a. The WWE License shall be terminated and THQI will stop developing future WWE Games and stop selling WWE Games developed in the past;
 - b. WWE will waive all prepetition claims against THQI and all claims that might otherwise arise from rejection or termination of the WWE License, including, without limitation, any claim based on the minimum guaranteed annual royalty advance for the remaining years of the WWE License. THQI and WWE will exchange general releases;
 - c. THQI will pay WWE its royalty payments for sales of WWE Games during the chapter 11 case (estimated to be approximately \$650,000);
 - d. The Yuke's Master Developer Agreement will be terminated immediately and Yuke's will be permitted to enter into a new development agreement with Take-Two;
 - e. THQI will transfer to Yuke's THQI's equity securities in Yuke's, in exchange for Yuke's release of its prepetition claims of approximately \$15 million to \$20 million against THQI. THQI and Yuke's will exchange general releases;
 - f. THQI will pay to Yuke's \$250,000 in settlement of Yuke's claim for royalties based on sales of WWE Games during the chapter 11 case (THQI contends it owes no such royalties because it has not

fully recouped its development costs and Yuke's contends it has an administrative claim of approximately \$650,000);

- g. THQI will transfer the equipment used by the WWE Fight Team to Take-Two, which will hire the members of the Fight Team (reducing THQI's potential severance liabilities and assuming the obligation to these employees for paid time off, which totals approximately \$140,000) and enter into new agreements with WWE and Yuke's to develop WWE Games in the future.

I believe that the consensual termination of the WWE License and Yuke's Master Developer Agreement pursuant to the WWE Agreements is in the best interest of the Debtors, their estates, creditors and other parties-in-interest.

15. Absent the WWE Agreements, the total allowed claims of WWE and Yuke's would be far greater than they will be under the WWE Agreements. Indeed, their aggregate claims would likely exceed \$30 million and may exceed \$60 million. Under the WWE Agreements, WWE and Yuke's have agreed to substantial reductions of their claims against the Debtors. Yuke's has agreed to accept its illiquid Yuke's Equity in satisfaction of its prepetition claims. WWE has agreed to waive its prepetition claims entirely. The WWE Agreements, therefore, minimize the harm to all parties caused by the termination of the WWE License and the Yuke's Master Developer Agreement.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: February 15, 2013

/s/ Karn Chopra
Karn Chopra