

← Back to Original Article

THQ files for bankruptcy, will seek buyer

December 19, 2012 | By Ben Fritz

Video game publisher THQ has filed for Chapter 11 bankruptcy protection and will seek a buyer to help it recover from years of business and creative missteps.

The Agoura Hills company, best known for the "Saint's Row" franchise and World Wrestling Entertainment licensed games, is working with private investment firm Clearlake Capital Group, which has agreed to enter a \$60-million "stalking horse" bid for THQ's U.S. assets. Any would-be suitor for THQ would have to offer more than that.

Valued at \$2 billion as recently as 2007, THQ's market value at the end of trading Tuesday was about \$11.3 million.

Once THQ's largest source of profit, the market for kids' games based on licenses from companies such as Pixar and DreamWorks Animation has virtually evaporated.

An effort to revive its kids business with a device called UDraw proved a disaster. THQ vastly overestimated demand for it on the Xbox 360 and PlayStation 3 consoles during the 2011 holiday season.

Amid ongoing layoffs, product cancellations, and the sale or shutdown of many of its production studios, THQ has tried to stay alive by focusing on so-called hard-core action titles aimed at the biggest spending young male gamers.

But while a few such as "Saints Row the Third" and "Homefront" have sold decently, others like "Darksiders II" and "Red Faction: Armageddon" performed poorly.

In May it hired a new president, video game industry veteran Jason Rubin, to oversee production and help the company find a way out of its death spiral of falling stock price and a shortage of capital.

In November it began working with Centerview Partners, a financial advisory firm that has close ties to Rubin.

As it continues to operate in Chapter 11, THQ has obtained commitments for about \$37.5 million of debtor-in-possession financing from Clearlake and Wells Fargo.

It has several games in the works for 2013, the most highly anticipated of which is "South Park: The Stick of Truth," based on the long-running Comedy Central show.

"The sale and filing are necessary next steps to complete THQ's transformation and position the company for the future, as we remain confident in our existing pipeline of games, the strength of our studios and THQ's deep bench of talent," chief executive Brian Farrell said in a statement.

Added Rubin: "We have incredible, creative talent here at THQ. We look forward to partnering with experienced investors for a new start as we will continue to use our intellectual property assets to develop high-quality core games, create new franchise titles, and drive demand through both traditional and digital channels."

THQ said it does not intend to lay off staff as part of the Chapter 11 filing and expects to continue with existing compensation agreements, pending court approval.

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