

Bradley R. Duncan (*admitted in Washington*)
Hugh R. McCullough
Davis Wright Tremaine LLP
1201 Third Avenue, Suite 2200
Seattle, Washington 98101-3045
(206) 622-3150

*Attorneys for Microsoft Corporation
and Microsoft Licensing, GP*

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT NEW YORK

In re

ATARI, INC., *et al.*,

Debtors.¹

Chapter 11

Case No. 13-10176 (JMP)

(Jointly Administered)

**OBJECTION OF MICROSOFT TO NOTICE OF ATTEMPT
TO ASSUME AND ASSIGN CERTAIN EXECUTORY CONTRACTS**

Microsoft Corporation, Microsoft Licensing, GP, and their affiliates (collectively, “*Microsoft*”) respectfully object to the assumption and assignment of the various agreements between Microsoft and the Debtors that are identified in the Debtors’ notice dated July 11, 2013.

First, Microsoft’s consent is required because the Microsoft agreements incorporate intellectual property licenses that are not assignable under the terms of the agreements and applicable law.

Second, the Debtors must cure all defaults under the agreements, and while the Debtors have identified various cure amounts payable to Microsoft, the cure obligation may change between now and the effective date of the Debtors’ assumption and assignment.

¹ The Debtors are Atari, Inc., Atari Interactive, Inc., Humongous, Inc., and California U.S. Holdings, Inc.

Third, Microsoft is entitled to adequate assurance of future performance from the proposed assignees, but the identity of those assignees is not yet known, much less their ability to provide adequate assurance of future performance.

I. BACKGROUND

Microsoft has sold over 70 million Xbox 360 consoles worldwide since the introduction of the Xbox 360 in 2005. The Debtors publish games for the Xbox 360 gaming console. The relationship between the Debtors and Microsoft is governed by a series of agreements relating to the publication of titles for use on the Xbox 360. Microsoft also sublicenses certain Ferrari intellectual property to the Debtors in connection with the “Test Drive” franchise.

The agreements between the Debtors and Microsoft incorporate various intellectual property licenses. Under those licenses, the Debtors are authorized to use Microsoft trademarks and copyrights in connection with the Debtors’ business. Importantly, those trademark and copyright licenses are neither exclusive to the Debtors nor assignable to third parties without Microsoft’s consent.

On July 11, 2013, the Debtors provided notice of the potential assumption and assignment of certain executory contracts and unexpired leases, including the agreements with Microsoft. (ECF No. 296.) The notice required any objections to be filed no later than July 19, 2013 at 4:00 p.m. Microsoft is filing this objection to preserve its rights with respect to its agreements.

II. DISCUSSION

A. The Debtors Cannot Assume or Assign the Agreements Without Microsoft’s Consent.

The Debtors may not assume or assign the agreements without Microsoft’s consent, which has not been furnished yet. Section 365(c)(1) of the Bankruptcy Code prohibits the assumption or assignment of a contract if “applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or

rendering performance to an entity other than the debtor” and such party does not consent to assumption or assignment.

Non-exclusive copyright and trademark licenses—like the ones incorporated into the agreements with Microsoft—may not be assumed or assigned without the consent of the non-debtor counterparty to those licenses. *See In re Golden Books Family Entm’t, Inc.*, 269 B.R. 300, 310 (Bankr. D. Del. 2001) (non-exclusive copyright licenses “cannot, as a matter of law, be assigned without the consent of the licensor”); *In re XMH Corp.*, 647 F.3d 690, 695 (7th Cir. 2011) (“[A]s far as we’ve been able to determine, the universal rule is that trademark licenses are not assignable in the absence of a clause expressly authorizing assignment.”).

Here, the Debtors may not assume or assign the agreements without Microsoft’s consent because the agreements incorporate copyright and trademark licenses that are not assignable as a matter of law. This is not to say Microsoft is unwilling to give consent under the right conditions. Before Microsoft can give its consent, however, it must be satisfied with the identity and qualifications of the proposed assignees, including the assignees’ ability to satisfy the substantial marketing, publishing, and other obligations required of a Microsoft partner. These obligations are not merely financial; Microsoft must also be comfortable with each assignee’s comprehensive business plan and vision for the future. To the extent a proposed assignee cannot satisfy Microsoft’s requirements, Microsoft reserves the right to withhold its consent without regard for the assignee’s ability to meet the cure and adequate assurance obligations imposed by section 365.

B. The Debtors Must Cure All Outstanding Defaults Before Assumption or Assignment.

Before assuming or assigning the agreements with Microsoft, the Debtors are required to cure, or provide adequate assurance that they will promptly cure, any outstanding defaults. 11 U.S.C. § 365(b)(1)(A). Although the Debtors have identified cure amounts in the schedule of agreements, those figures may not be accurate and in any

event may change by the time that the Debtors actually assume or assign the agreements. Microsoft will cooperate with the Debtors to identify the exact amount of the cure obligations on the date of assumption and assignment.

C. Microsoft Is Entitled to Adequate Assurance of Future Performance.

As a prerequisite to assignment of the Microsoft agreements to another person, the Debtors must provide “adequate assurance of future performance . . . whether or not there has been a default in such contract or lease.” 11 U.S.C. § 365(f)(2)(B). The nature of the assurance required will vary depending on the facts and circumstances of each case. *In re M. Fine Lumber Co.*, 383 B.R. 565, 572–73 (Bankr. E.D.N.Y. 2008). Whatever form the assurance takes, Microsoft is entitled to assurance that the assignees will perform every term of the contracts that is “integral to the bargain struck between the parties” to give Microsoft “the full benefit of its bargain.” *In re Fleming Cos.*, 499 F.3d 300, 306 (3d Cir. 2007). Microsoft is also “entitled to notice of the identity of the assignee and of the proposed adequate assurance.” 3 *Collier on Bankruptcy* ¶ 365.09[1] (Alan N. Resnick & Henry J. Sommer eds., 16th ed. 2012).

The agreements between Microsoft and the Debtors impose upon the Debtors (and any assignees) various obligations relating to Microsoft’s intellectual property. Microsoft must be satisfied that the proposed assignees will treat Microsoft’s intellectual property with the care required under the agreements. Microsoft must also be satisfied that the financial strength of the assignee is sufficient to allow the Debtors to perform their monetary and other obligations under the agreements, including obligations associated with Microsoft’s retail relationships and worldwide distribution network.

The final identities of the actual purchasers of the Debtor’s assets are not known, and will not be known until the auction concludes. Accordingly, it is not currently possible for Microsoft to assess whether each assignee is capable of providing adequate assurance of future performance. Any winning bidder will need to provide financial

information sufficient to allow Microsoft to assess its financial strength. Any assignee may need to provide additional financial assurances, including a deposit.

III. CONCLUSION

Microsoft respectfully requests the Court to deny the Debtors' request to assume and assign the agreements without Microsoft's consent.

Dated: Seattle, Washington
July 19, 2013

Davis Wright Tremaine LLP
*Attorneys for Microsoft Corporation
and Microsoft Licensing, GP*

By: /s/ Hugh R. McCullough
Hugh R. McCullough

1201 Third Avenue, Suite 2200
Seattle, Washington 98101-3045
(206) 622-3150