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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE: Chapter 11
QUEBECOR WORLD (USA), INC., Case No. 08-10152 (JMP)
et al, (Jointly Administered)
Debtors. New York, New York
Thursday, February 21, 2008
10:04 a.m.

TRANSCRIPT OF MOTIONS
BEFORE THE HONORABLE JAMES M. PECK
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES:

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(Appearances Continued)

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1 (Proceedings commence at 10:04 a.m.)

2 THE COURT: Please be seated.

3 Mr. Canning?

4 MR. CANNING: Good morning, Your Honor. Michael
5 Canning from Arnold & Porter on behalf of the debtors.

6 Your Honor, we've got a number of matters that are on
7 the calendar this morning, some of which are being adjourned,
8 some of which we're going to address today.

9 I guess first I would just comment on the adjourned
10 matters. I think we had four matters that had been originally
11 scheduled to be heard today that were -- we've adjourned until
12 the future hearings.

13 The first one is the cash management, final order on
14 cash management, Your Honor. We've agreed to adjourn that
15 until March 6th, after discussions with the Creditors'
16 Committee and the other creditor constituencies. We think
17 that's probably most appropriate to be heard finally in
18 connection with the final DIP order, since there's some
19 relationship between those two orders, so we've adjourned that
20 until March 6th and we'll take that up again.

21 We've also adjourned the motion with respect to our
22 reclamation procedures. Frankly, Your Honor, events may be
23 overtaking that motion. We'll adjourned that until March 20.
24 By then our forty-five days will have expired. We have gotten
25 something like eighty or ninety reclamation demands so far.

1 We're in discussions with each of those vendors. I think a lot
2 of those will be resolved or will come back to the Court with
3 some other requested relief, depending on how those play out.
4 But we thought it was most appropriate, again, to adjourn that
5 until we saw what happened at the end of the forty-five days.

6 THE COURT: Okay.

7 MR. CANNING: The next motion that was originally
8 scheduled to be heard was the motion regarding employee wages
9 and benefits. All the parties are quite comfortable allowing
10 the interim order to stay in place again until March 20.

11 The Committee, as you know, has recently gotten fully
12 engaged in doing all of their due diligence. There are a
13 number of items that are contemplated in the employee wage
14 motion, you know, whether it's health, medical, severance,
15 relocation, so on and so forth, and the Committee would like
16 some additional time just to complete their review and the
17 debtors are fine with that, so we've agreed to adjourn that as
18 well until March 20.

19 And the last matter that was originally scheduled for
20 today that we've adjourned is the motion to lift stay and to
21 effectuate a setoff. That was filed by Blue Heron. We've had
22 a number of discussions with them, Your Honor, and I think
23 we've reached agreement on the underlying facts relative to
24 what the debtors owe Blue Heron and what rebates Blue Heron
25 owes the debtors. As we worked our way through that, we found

1 that as you applied the rebates to which the debtors have
2 already become entitled, it caused a payment of some of the
3 invoices, which gave right to more rebates, so you can see it
4 sort of ripples forward and ultimately takes us into the
5 twenty-day period prior to the commencement of the case when
6 there may be admin claims that are payable under the code.

7 So what we decided to do is rather than deal with the
8 piecemeal, to adjourn it to March 20. We're going to try to
9 resolve the setoffs, the stay, the reclamation, and the claims,
10 and present a stipulation on March 20 to resolve all of those.

11 THE COURT: Sounds fine.

12 MR. CANNING: Okay. Beyond the adjourned matters,
13 Your Honor, I guess we've got four or five matters that were
14 listed as uncontested, and I would turn to those now, and we
15 can take them up in the order that they were listed.

16 The first one, Your Honor, was the case management
17 order. This is also for entry of the final order. There were
18 some modest modifications, omits and typos, if you will, and
19 then a couple of changes that I guess would be substantive that
20 the Unsecured Creditors' Committee had asked for that the
21 debtors were fine with.

22 Primarily, the original order contemplated that
23 motions could be brought on twenty days' notice and then
24 objections would be due seven calendar days before the hearing
25 or motions could be brought on ten days' notice, in which event

1 objections would be due two business days or three calendar
2 days before the hearing.

3 The Committee requested and the debtors have agreed
4 that with respect to the ten-day notice period, that will be
5 applicable to the debtors and the Committee, but all other
6 parties would have to file within fifteen days, just to give
7 both the debtors and the committee more time to address any
8 other motions that might be filed.

9 Now, Your Honor, I have black lines of these orders
10 just to reflect the changes if Your Honor would like me to hand
11 those up, just to review those quickly, or we can just, you
12 know, handle it all at the end of the --

13 THE COURT: Let's deal with the paperwork at the end.

14 MR. CANNING: All right. Fine, Your Honor.

15 So there were no objections obviously filed with
16 respect to the case management order. Those are really the
17 only changes that we've made, so I would ask the Court to enter
18 that order in its final form.

19 THE COURT: I take it that the representation is
20 correct, that this is uncontested, but I'll just double check.
21 Is there anyone who wishes to be heard with respect to this?

22 (No response.)

23 THE COURT: There's no response and I'll approve it.

24 MR. CANNING: Thank you, Your Honor.

25 The next motion that is on is the one for the

1 insurance premium financing, and Your Honor will recall we've
2 addressed this a couple times already. Last week Your Honor
3 entered an order that allowed us to make the payment on -- that
4 was due on February 15 adjourning the motion with respect to
5 the balance of the payments while the Unsecured Creditors'
6 Committee had the opportunity to review that in more depth. My
7 understanding is they have done so. They do not have any
8 objections, so we would also ask Your Honor to enter the order
9 approving that in final form as well.

10 THE COURT: I will enter that order.

11 MR. CANNING: Your Honor, the next motion was with
12 respect to the sales commissions that are due and payable to
13 certain salesmen that work for the company. That particular
14 motion addresses fifty-nine critically important sales
15 employees for the company, have critical relationships with
16 some of the largest customers of the company. They receive
17 primarily all of their compensation in the form of commissions.
18 The company doesn't make those payments until it actually
19 receives the payments from the customers to whom the salesmen
20 have sold goods, so they typically lag by sixty or ninety days
21 from when the actual sale was made to when the company actually
22 receives payment.

23 These are pre-petition amounts that are now due.
24 They're in the aggregate of -- let's see. I think in aggregate
25 they were \$1,792 for the fifty-nine employees. They were

1 actually due, Your Honor, on February 15, so these employees,
2 needless to say, are anxious to be paid. We have received no
3 objections to the motion, Your Honor, so we would ask the Court
4 to enter that as well.

5 THE COURT: Are you sure the number is that small?

6 MR. CANNING: It's -- I'm sorry, \$1,792,983.

7 (Laughter.)

8 MR. CANNING: You're right, Your Honor. Thank you for
9 that correction.

10 THE COURT: Even at that number, I'm prepared to
11 approve it.

12 MR. CANNING: All right. Thank you, Your Honor.

13 Just to follow on that, just for a sort of advance as
14 to where we're going to be proceeding with respect to these
15 types of employees, and I think I've mentioned this at an
16 earlier hearing, we do have additional salesmen that are
17 entitled to pre-petition commissions. Those payments are not
18 due until the end of March, so we will be filing another motion
19 to deal with those particular employees specifically.

20 We also have what we call "brokers," which are very
21 much like these salesmen. They're just not technically
22 employees of the company. They're independent contractors who
23 go out and they find jobs, if you will, and then bring them to
24 the company and the company agrees to pay them certain
25 commissions, much the same way it pays its salesmen. So we

1 will also be bringing a motion with respect to those brokers,
2 as well as the additional salesmen.

3 THE COURT: Okay.

4 MR. CANNING: Okay?

5 The last matter I have, Your Honor, on the uncontested
6 has to do with a rejection of a very small residential lease in
7 San Francisco. It's no longer being used by the debtor and we
8 want to reject that effective as of today, Your Honor. There
9 has been no objection. We have agreed with the landlord to
10 stipulate that we will pay \$3,800 -- make it \$3,808 in full
11 satisfaction of all post-petition rent and obligations of the
12 debtors post-petition, so the order that we're going to proffer
13 to the Court is as filed with the motion with an additional
14 paragraph where the debtors have agreed to make that payment.

15 And with that change, Your Honor, again, no objections
16 having been heard, we would ask that the Court enter that
17 order.

18 THE COURT: I will enter that order as well.

19 MR. CANNING: Thank you, Your Honor.

20 The next items on the agenda we had listed under
21 contested matters, which were primarily some of these
22 utilities, utility motions for the --

23 THE COURT: Are we going to leave the Committee
24 without counsel?

25 MR. CANNING: I'm sorry, Your Honor. I was actually

1 going to deal with that next, but let's let that go first.

2 Thank you, Your Honor.

3 MR. DIZENGOFF: Thank you, Your Honor. Good morning.
4 Ira Dizengoff, Akin, Gump, Strauss, Hauer & Feld, the proposed
5 counsel for the Official Creditors' Committee.

6 Your Honor, as Mr. Canning mentioned, this is an
7 uncontested application to retain Akin Gump as Committee
8 counsel. We also have a bunch of other professionals which
9 will come down the pipe, including Canadian counsel and
10 financial advisors and investment bankers.

11 There were no objections filed to the motion. If Your
12 Honor has any questions, I'm prepared to answer them.

13 THE COURT: I appreciate that, but I have no questions
14 and I've reviewed the application and I'll approve your
15 engagement.

16 MR. DIZENGOFF: Thank you, Your Honor. We'll hand it
17 up at the end with the others.

18 THE COURT: That's fine.

19 MR. CANNING: Your Honor, again, the utility motion
20 has been addressed by our conflicts counsel, Richards, Kibbe &
21 Orbe, and I would ask Joon Hong to come up and address that to
22 the Court.

23 MR. HONG: Morning, Your Honor. Joon Hong of
24 Richards, Kibbe & Orbe. I'm conflicts counsel for the debtors.

25 For the utilities motion we had received nine

1 objections and actually there was also one late filed
2 objection. I don't know if it has been docketed or not, but we
3 received a copy of it last night that was filed by Southwest
4 Gas Corporation.

5 THE COURT: It was not docketed because I checked the
6 docket just before coming out.

7 MR. HONG: Thank you.

8 I'm happy to report that, with respect to the
9 objections, we have reached resolution on seven of the
10 objections and with respect to two of the objections, we have
11 agreed to continue to negotiate with those two objecting
12 parties and continue the hearing on their objection to the next
13 omnibus hearing date.

14 And with respect to those parties that we have reached
15 settlements with, we have reached letter agreements with them.
16 On some of them we have separate stipulations that we are
17 prepared to offer up to the Court stating that the objections
18 have been resolved.

19 With two of them, we do not have separate stipulations
20 but they have agreed to withdraw their objections.

21 With respect to the objections by BP entities and
22 Hess, we have agreed to adjourn them to the next omnibus
23 hearing date. As I've stated, to the extent those objections
24 have any objections relating to the adequate assurance
25 procedures that are requested in the utility motion, they have

1 agreed to withdraw that portion of the objection, and so that
2 should not affect the order that we're requesting the Court
3 enter today.

4 In terms of the adequate assurance procedures that are
5 requested in the utility motion, we believe the procedure
6 strikes a balance between the requests of -- between the needs
7 of the utilities, which are asking for adequate assurance
8 against undue risk of non-payment post-petition and the
9 interest of the debtors, which are to conserve resources and to
10 make sure that there is no unilateral termination of utility
11 services, which are essential for the debtors' ongoing
12 operations and for their ability to organize.

13 And the adequate assurance procedures which were
14 requested do not foreclose the possibility of utilities to ask
15 for additional adequate assurance going forward. They will
16 just have to comply with the procedures which are set forth in
17 the final order and the procedures that we're requesting we
18 believe provides an orderly mechanism for requests for adequate
19 assurance to be analyzed, responded to, and resolved without
20 having to resort to emergency procedures and it provides a
21 rational and timely process for doing that. And therefore, we
22 request that the Court enter a proposed order for the utility
23 motion and we have a form of that order that has been black
24 lined to show changes from the interim order to offer up to the
25 Court, as well as copies of the stipulations that I mentioned

1 earlier.

2 THE COURT: Okay. Just given the sheer volume of the
3 objections that were filed in response to this motion, I simply
4 want to ask whether or not there is anyone who wishes to be
5 heard at this time in connection with the proposed form of
6 order or in connection with the presentation that has been made
7 by conflicts counsel for the debtor.

8 (No response.)

9 THE COURT: I hear no request for comment, so you can
10 hand that up at the end.

11 MR. HONG: Thank you, Your Honor.

12 MR. CANNING: Your Honor, the next matter I'd like to
13 address to the Court is the status of the interim DIP order and
14 the final DIP order.

15 As Your Honor may recall, the hearing to approve the
16 debtor-in-possession financing from Credit Suisse and Morgan
17 Stanley, an oral modification to the proposed interim DIP order
18 was read into the record that limited the debtors' use of DIP
19 proceeds on account of pre-petition trade payables, also with
20 respect to its European operations and with respect to its
21 Latin American operations.

22 And specifically there was a twenty-five-million-Euro
23 cap on -- with respect to the amounts that could be applied on
24 account of pre-petition trade payables in Europe and a ten-
25 million-dollar cap with respect to pre-petition trade payables

1 related to the European operations.

2 Your Honor will also recall that that agreement was
3 reached under some duress and under some time constraints, in
4 light of the impending expiration of the commitment that the
5 DIP lenders had made available to the debtors.

6 We had also indicated at the hearing that we would try
7 to work up a stipulation to embody that agreement that was read
8 onto the record.

9 Subsequent to the hearing, the debtors have had
10 discussions with the Unsecured Creditors' Committee, as well as
11 with the Ad Hoc Bondholders' Committee, as well as with the
12 bank group. And in connection with those discussions, it
13 became clear that, perhaps in the heat of the moment, we too
14 narrowly restricted the use to which those proceeds could be
15 applied.

16 The objective, of course, was to not only take care of
17 pre-petition trade payables, but probably more importantly, to
18 stabilize the European operations and the Latin American
19 operations for the debtor.

20 After discussions, the requisite creditor
21 constituencies and the debtors have now agreed to modify or
22 clarify the language that was originally read into the record
23 regarding the interim DIP order to both extend the time period
24 within which those funds could be disbursed, and Your Honor
25 will recall it was thirty days is what it said in the original

1 language. We'd like to extend that through March 6th, again,
2 to tie it with the final DIP order; and then broaden the use to
3 include not only on account of pre-petition trade payables, but
4 also more broadly on account of general corporate purposes to
5 stabilize and support both the European operations and the
6 Latin America operations, with the ultimate objective to
7 maximize value and recovery for the creditors.

8 To that end, over the last couple of days we've had
9 discussions with each of the three groups and we've agreed on
10 some language that, if Your Honor would permit, I would read
11 into the record today as a yet further modification to the
12 interim order, which will carry us through March 6 when, in our
13 final order, we'll have what we hope will be the final
14 iteration of this.

15 THE COURT: Well, consistent with the custom and usage
16 of this case, you can certainly proceed with reading it into
17 the record, hopefully more quickly than the last time.

18 (Laughter.)

19 MR. CANNING: Thank you, Your Honor.

20 The language would be as follows:

21 "To the extent permitted" -- Your Honor, before I do
22 that, if you'd like, I could hand up a copy of this if you
23 would like.

24 THE COURT: That would be helpful.

25 Thank you.

1 Before you start reading, I'd like to simply
2 understand, once it's read, what it means in terms of the
3 documentation of the case. Is this deemed to be an amendment
4 of an existing order? Is this deemed to be a new order? Is
5 this deemed to be a stipulation to be so ordered or have I
6 missed something?

7 MR. CANNING: Your Honor, I believe, and I will look
8 at my colleagues here, I think that we're all comfortable if I
9 read this in as a modification of the existing interim DIP
10 order.

11 THE COURT: All right. Well, I suppose, assuming it's
12 acceptable to me and I then so order it, will everybody be
13 satisfied?

14 MR. CANNING: I believe that's correct, Your Honor.

15 THE COURT: Fine. Go ahead.

16 MR. CANNING: The language is as follows:

17 "To the extent permitted under the DIP credit
18 agreement, the debtors' ability to use up to 25 million Euro of
19 DIP proceeds on account of pre-petition trade payables related
20 to their European operations, and 10 million of DIP proceeds on
21 account of pre-petition trade payables related to their Latin
22 American operations in each case through February 22, 2008, as
23 previously authorized by the interim DIP order entered by the
24 Court on January 23, 2008, is hereby clarified, modified, and
25 amended as applicable to permit the debtors to use such 25

1 million Euro and \$10 million on account of general corporate
2 purposes, and otherwise in support of their European operations
3 and their Latin American operations respectively; including
4 without limitation to pay pre-petition trade payables related
5 to such operations through March 6th, 2008; and to the extent
6 required, the cash management order previously entered by this
7 Court is deemed modified."

8 THE COURT: You read that very well.

9 MR. CANNING: Thank you, Your Honor.

10 (Laughter.)

11 MR. CANNING: Okay.

12 THE COURT: If that is to be deemed a modification of
13 the existing interim DIP order, I so order that modification.

14 MR. CANNING: Thank you, Your Honor.

15 I think finally, Your Honor, just as a status update,
16 we have had further discussions with the Committee and the bank
17 group about the protocol and as we indicated last time, I think
18 we're pretty close to agreement in which we would then propose
19 to perhaps do by notice of presentment to be heard at the March
20 6th hearing, if that's acceptable to the Court.

21 THE COURT: That's perfectly acceptable unless, for
22 whatever reason, the parties think it desirable for the
23 protocol to be in place earlier than March 6th.

24 MR. CANNING: That's fine, Your Honor. In fact, quite
25 frankly, if we have it ready, maybe we will do it on notice of

1 presentment on shorter time.

2 THE COURT: As far as I'm concerned, the parties are
3 much closer to the bolts of the case, both here and in Canada,
4 and to the extent that there is a need for this to be in place
5 earlier, I'm certainly prepared to consider it earlier. If
6 there's no rush, we can deal with it on March 6th, but I leave
7 that entirely with the parties.

8 MR. CANNING: Thank you, Your Honor.

9 And lastly, just, again, informationally, we also are
10 working on an information sharing protocol which we will also
11 notice up to the Court for the 6th or perhaps before.

12 THE COURT: This would be to deal with the Committee's
13 use of confidential information?

14 MR. CANNING: Correct, Your Honor. Correct.

15 MR. DIZENGOFF: Your Honor, just so I can clarify,
16 this just modifies -- not modifies, it's in furtherance of our
17 1002(b)(3) requirements under the code. So it mirrors their
18 model effectively, but we're just working on some comments.

19 THE COURT: It's probably consistent with what is
20 entered frequently in other large cases in this district.

21 MR. DIZENGOFF: Yes.

22 MR. CANNING: That's correct.

23 THE COURT: Okay.

24 MR. CANNING: I think, Your Honor, that's all of the
25 items that we had on our agenda for the Court today.

1 THE COURT: Is there anything that anyone else wishes
2 to add?

3 (No response.)

4 MR. CANNING: Mr. Hong wants me to point out that we
5 also have under settled matters, Your Honor, the Merced request
6 regarding the utilities, that has been resolved as part of the
7 utility settlements.

8 THE COURT: Let me ask, because I've been hearing some
9 static on the line, if there's anyone on the line in connection
10 with the Merced matter.

11 (No response.)

12 THE COURT: Hearing nothing, I assume the answer is
13 no.

14 And then I really don't understand the reason for the
15 static. Was there a connected line? Is there anyone on the
16 line?

17 (No response.)

18 THE COURT: Either there is or he or she is very
19 quiet, so I'll just leave it at that.

20 MR. CANNING: Then I think we are concluded, Your
21 Honor.

22 THE COURT: Okay. Adjourned until the next hearing.
23 Thank you.

24 (Proceedings concluded at 10:29 a.m.)

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CERTIFICATION

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter.

Lisa Luciano

February 25, 2008

Lisa Luciano, AAERT Cert. No. 327
Certified Court Transcriptionist
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