Hearing Date: March 6, 2008 at 10:00 a.m. (Eastern Prevailing Time)
Objection Deadline: March 4, 2008 at 6:00 p.m. (Eastern Prevailing Time)

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	Chapter 11
QUEBECOR WORLD (USA) INC., et al.,	Case No. 08-10152 (JMP) (Jointly Administered)
Debtors.	

LIMITED OBJECTION OF THE AD HOC GROUP OF QUEBECOR NOTEHOLDERS, AND JOINDER IN OBJECTION OF OFFICIAL COMMITTEE OF UNSECURED CREDITORS, TO DEBTORS' MOTION FOR FINAL ORDER (A) AUTHORIZING THE DEBTORS TO OBTAIN POSTPETITION SECURED FINANCING PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 364(c) AND 364(e); (B) AUTHORIZING USE OF CASH COLLATERAL AND GRANTING ADEQUATE PROTECTION TO PREPETITION SECURED LENDERS; AND (C) USING POSTPETITION FINANCING TO PURCHASE RECEIVABLES PORTFOLIO

**TO: HON. JAMES M. PECK,
UNITED STATES BANKRUPTCY JUDGE:**

The Ad Hoc Group of Quebecor Noteholders (the "Noteholder Group"), [1]

[1] The Noteholder Group consists of: AIG Global Investment Corp., Avenue Capital Group, Barclays Capital, Basso Capital Management, Brigade Capital Management, Castle Creek Arbitrage, Centerbridge Partners, Chicago Fundamental Inv. Partners, LLC, Citigroup Global Markets Inc., Credit Suisse, Cyrus Capital Partners, DB Strategic Investments, Genworth Financial, J.P. Morgan

by its counsel, Paul, Weiss, Rifkind, Wharton & Garrison LLP, submits this limited objection (the "Objection") to Quebecor World (USA) Inc. ("QWUSA") and certain of its above-captioned subsidiaries and affiliates' (collectively, the "Debtors") Motion for a Final Order (A) Authorizing The Debtors To Obtain Postpetition Secured Financing Pursuant to 11 U.S.C. §§ 105, 361, 362, 364(c) And 364(e); (B) Authorizing Use of Cash Collateral And Granting Adequate Protection To Prepetition Secured Lenders; And (C) Using Postpetition Financing To Purchase Receivables Portfolio (the "DIP Motion" or the "Proposed DIP Order," as the case may be).[2] The Noteholder Group also joins in the objection to the DIP Motion filed by the Official Committee of Unsecured Creditors (Docket No. 333). In support of the foregoing, the Noteholder Group respectfully sets forth and represents as follows:

I.
PRELIMINARY STATEMENT

1. The Noteholder Group, holders of more than $1 billion of the approximately $1.4 billion of unsecured notes (the "Notes") issued or guaranteed by the Debtors as described herein, is a pivotal economic stakeholder in these cases. Nevertheless, the Debtors propose to enter into a $1 billion financing facility (the "DIP Facility"), the terms of which, despite numerous requests, have not been fully disclosed

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Asset Management, JP Morgan Securities, King Street Capital Management, L.L.C., Lehman Brothers, Logan Circle Partners, L.P., Longacre Management LLC, MacKay Shields LLC, MBIA Capital Management Corp., Merrill Lynch, MetLife, MFS Investment Management, Nomura Corporate Research and Asset Management, Oaktree Captial Management, L.P., Ohio National Financial Services, Plainfield Asset Management, Polygon Investment Partners, LP, Post Advisory Group, LLC, PPM America, Inc., Quattro Global Capital, LLC, Stone Tower Capital, T. Rowe Price Associates, UBS Global Asset Management, Viathon Capital Management, VSO Capital Management, and Wells Fargo & Company.

[2] Capitalized terms not defined herein shall have the meanings ascribed to them in the DIP Motion.

to the Noteholder Group.[3] Without information about some of the basic economic terms of the proposed facility, including the magnitude of the fees to be paid thereunder, the Noteholder Group cannot assess whether it is fair or reasonable.

2. Moreover, the proposed financing contains "overreaching" terms which go beyond what is fair, reasonable and appropriate under the circumstances. Many of these provisions constitute "extraordinary relief" for which there is no justification, and include the following:

- Section 506(c) Waiver. The Proposed DIP Order requires the Debtors to waive any right they may have to charge the Lenders' collateral pursuant to section 506(c) of the Bankruptcy Code. This is "extraordinary relief" for which no basis has been alleged or can be maintained;
- Proceeds from Avoidance Actions. The Lenders intend to take a lien on Avoidance Actions, however no showing has been made or alleged that the collateral base is insufficient to fully protect the Lenders. Consequently, Avoidance Actions should be preserved for the benefit of unsecured creditors;
- Amendments without Court Approval and Limited Notice. The Debtors seek authorization to make material amendments to the DIP Facility without further approval by this Court, and with only limited advance notice to the Creditors' Committee and the Noteholder Group;

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[3] Notwithstanding repeated requests therefor, the Noteholder Group has not been given access to certain fee letters and side letters mentioned in the DIP Motion.

- Limitations on Challenges to Pre-Petition Obligations. As currently proposed, the authority to challenge certain pre-petition secured obligations has been reserved solely to the Creditors' Committee. While the Noteholder Group supports the Creditors' Committee's standing to bring such actions, the Noteholder Group objects to any waiver of any other party-in-interest's right to challenge any pre-petition obligations at the outset of these cases; and
- Miscellaneous. The definition of Change of Control[4] in the DIP Credit Agreement is too broad and could result in an Event of Default through no fault of the Debtors (and without adverse consequences to the Lenders). In addition, the DIP Credit Agreement allows for Hedge Agreement[5] obligations to be treated as DIP obligations without any parameters or limitations.

II.
BACKGROUND

3. On January 21, 2008 (the "Petition Date"), the Debtors filed voluntary petitions for relief under title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code").

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4 A Change of Control occurs when any person or group, even the current controlling shareholder, acquires beneficial ownership of more than 50% of the outstanding vote stock in QWI. DIP Credit Agreement § 1.01.

5 Hedge Agreements are defined as "interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts and other hedging agreements." DIP Credit Agreement § 1.01.

4. No trustee has been appointed, and the Debtors continue to operate their businesses and manage their assets and properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

5. On January 31, 2008, an Official Committee of Unsecured Creditors was created (the "Creditors' Committee").

6. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

7. On the Petition Date, Quebecor World, Inc. ("QWI"), the Debtors' Canadian parent company, and the Debtors filed petitions for relief in the Superior Court, Commercial Division, for the Judicial District of Montreal, under the Companies' Creditors Arrangement Act (the "CCAA"). Thereafter, Ernst & Young Inc. was appointed as the monitor in the CCAA proceedings. The Noteholder Group has been recognized in the CCAA proceedings and its fees and expenses are being paid by QWI pursuant to an engagement letter dated as of January 22, 2008.

8. Certain Debtors and QWI issued the Notes as follows: (i) Quebecor World Capital Corporation issued $200 million 4 7/8% Senior Notes due 2008 and $400 million 6 1/8% Senior Notes due 2013, pursuant to an indenture dated November 3, 2003; (ii) Quebecor World Capital II GP issued $400 million of 8¾% Senior Notes due 2016, pursuant to an indenture dated March 6, 2006; and (iii) QWI issued $450 million of 9¾% Senior Notes due 2015, pursuant to an indenture dated December 18, 2006.

III.
OBJECTION

9. Under section 364(d) of the Bankruptcy Code, the debtor bears the burden of proving that (i) it is unable to obtain unsecured credit, (ii) the proposed credit is necessary to preserve the assets of the estate and (iii) the terms of the financing are fair, reasonable and adequate. See, e.g. In re Ames Dep't Stores, Inc., 115 B.R. 34, 37-40 (Bankr. S.D.N.Y. 1990).

10. Proposed post-petition financing may be denied if the terms are overreaching and excessively favorable to the lenders. See In re Tenney Village Co., Inc. 104 B.R. 562, 568 (Bankr. D.N.H. 1989) (court denied post-petition financing arrangement because it incorporated overreaching terms).

11. As described herein, certain provisions of the DIP Facility are overbroad and excessive and are not justified under section 364 of the Bankruptcy Code, General Order No. M-274 of the United States Bankruptcy Court for the Southern District of New York ("General Order M-274") or the principles of equity. Accordingly, the Noteholder Group respectfully requests this Court deny entry of the Proposed DIP Order unless such provisions are deleted or amended as described herein.

A. The Rights and Protections Provided to the Lenders are Overbroad and Excessive

12. The Proposed DIP Order contains the following provisions which go beyond what is fair, reasonable and appropriate under the circumstances, all to the detriment of the Debtors and their creditors:

(i) *Section 506(c) Waiver.*

13. A debtor-in-possession has a fiduciary obligation to assert claims under section 506(c) where circumstances dictate. See Hartford Underwriters Ins. Co. v. Union Planters Bank, 530 U.S. 1, 12 (2000). By granting the 506(c) waiver, the Debtors are effectively abdicating their responsibility to pursue such claims should the need arise.

14. Recognizing the gravity of this issue, General Order No. M-274 requires that any financing motion requesting a waiver of the debtor's right to a surcharge against collateral under section 506(c) conspicuously disclose such "Extraordinary Provision" and include the justification for its inclusion. The Debtors have provided no such justification.

(ii) *Liens on Avoidance Actions.*

15. The "Extraordinary Provision" granting the Lenders a senior first priority lien on Avoidance Actions is unwarranted. DIP Motion at ¶ 6. General Order M-274 requires that any financing motion granting liens on the debtor's claims and causes of action arising under sections 544, 545, 547, 548 and 549 of the Bankruptcy Code must disclose such "Extraordinary Provision" and include the justification for the inclusion of such provision. See also Official Committee of Unsecured Creditors v. Goold Electronics Corp. (In re Goold Electronics Corp.), 1993 U.S. Dist. LEXIS 14318 at 12 (N.D. Ill., Sept 20, 1992) (appellate court vacated order allowing debtor to assign preference action in connection with post-petition financing).

16. However, as the Debtors have not, and cannot, justify granting the Lenders such extraordinary relief, the lien on Avoidance Actions should be stricken and such claims reserved for the benefit of unsecured creditors.

(iii) *Overbroad Amendment Rights.*

17. The Debtors propose to allow material amendments to the DIP Facility without this Court's approval and with limited notice to the Creditors' Committee and others. See DIP Motion at ¶ 4(d). There should, however, be some procedure to provide creditor groups with a meaningful opportunity to review and be heard, if necessary, with respect to any material amendments to the DIP Facility.

(iv) *Limitations on Challenges to Pre-Petition Obligations.*

18. The Proposed DIP Order unnecessarily reserves any challenges to the Debtors' pre-petition secured debt obligations solely to the Creditors' Committee. DIP Motion at ¶ 21. While the Creditors' Committee should have standing to bring such actions, the Noteholder Group objects to any provision that waives the ability of other parties-in-interest to challenge the pre-petition debt obligations. It is simply too early in these cases for the rights of other parties-in-interest, including the Noteholder Group, to be forfeited.

(v) *The Definition of Change of Control is Too Broad.*

19. The definition of Change of Control in the DIP Credit Agreement is far too broad in that even an increase in the largest current stockholder's equity interest in QWI could result in an Event of Default. To date, the Lenders have refused to make any reasonable changes to such provision.

(vi) *Unlimited Hedge Obligations.*

20. The DIP Credit Agreement allows for all hedge obligations to be treated as DIP obligations without any limitations or parameters. The Noteholder Group understands that Hedge Agreements may, in fact, be necessary and appropriate, but believes there should be some parameters incorporated in the Proposed DIP Order to

prevent the Debtors' estates, and creditors, from being unknowingly saddled with additional, potentially material, liabilities.

B. The Debtors have not Provided Adequate Information with which to Assess the DIP Facility

21. Finally, the Debtors have not disclosed certain crucial economic terms of the DIP Facility (i.e., the terms of fee letters and certain additional side agreements with the Lenders) (collectively, the "Fee Letters"). See DIP Motion at ¶ 4(a). The Lenders have simply been unwilling to release the Fee Letters to the advisors to the Noteholder Group[6]. Consequently, the Noteholder Group cannot determine the appropriateness of the DIP Facility and whether its terms are fair and reasonable.

IV. RESERVATION OF RIGHTS

22. As there are on-going negotiations concerning the Proposed DIP Order, the Noteholder Group expressly reserves its right to amend or supplement this Objection and Joinder, to introduce evidence at the hearing with respect thereto, and to file additional and supplemental objections.

V. WAIVER OF MEMORANDUM OF LAW

23. The Noteholder Group submits that this Objection and Joinder includes citations to applicable authorities and a discussion of their application to this Objection and Joinder. Accordingly, the Noteholder Group requests that the requirement of the service and filing a memorandum of law under Rule 9013-1(b) of the Local Rules

[6] Because the advisors to the Noteholder Group are subject to confidentiality restrictions, confidentiality concerns are not a legitimate reason for withholding this information.

for the United States Bankruptcy Court for the Southern District of New York be deemed satisfied.

VI.
NOTICE

24. Notice of this Objection and Joinder has been given to (i) counsel for the Debtors; (ii) the Office of the United States Trustee; (iii) counsel to the Administrative Agent; (iv) counsel to the Prepetition Agent; (v) counsel to the Creditors' Committee; (vi) counsel to the Existing Receivables Facility Agent; (vii) counsel to Societe Generale; (viii) counsel to QWI; and (ix) counsel to the Monitor.

VII.
CONCLUSION

For the foregoing reasons, the Noteholder Group respectfully requests that this Court deny final approval of the DIP Facility unless the Proposed DIP Order and the DIP Credit Agreement are amended to reflect the issues raised in this Objection and Joinder and grant such other relief as may be just, equitable and proper.

Dated: New York, New York
March 4, 2008

PAUL, WEISS, RIFKIND, WHARTON &
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By: /s/ Alan W. Kornberg
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