

Hearing Date: May 22, 2008 at 10:00 a.m.
Objection Deadline: May 20, 2008 at 4:00 p.m.

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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re

Quebecor World (USA) Inc., et al.,

Debtors.

Chapter 11

Case No. 08-10152 (JMP)
Jointly Administered

Honorable James M. Peck

**MOTION OF THE DEBTORS FOR ENTRY OF AN ORDER PURSUANT TO 11
U.S.C. § 363 AUTHORIZING (I) QUEBECOR WORLD LOGISTICS INC. TO
ENTER INTO AND PERFORM OBLIGATIONS UNDER A NEW LEASE FOR
REAL PROPERTY LOCATED AT 13 JENSEN DRIVE IN FRANKLIN
TOWNSHIP, SOMERSET COUNTY, NEW JERSEY AND (II) QUEBECOR
WORLD (USA) INC. TO EXECUTE AND DELIVER A GUARANTY RELATED
THERE TO**

The above-captioned debtors and debtors in possession (collectively, the “Debtors”) move this Court (the “Motion”) for the entry of an order substantially in the form of Exhibit A hereto, authorizing (i) Debtor Quebecor World Logistics Inc. to enter into and perform obligations under a new lease for real property located at 13 Jensen Drive

in Franklin Township, Somerset County, New Jersey and (ii) Debtor Quebecor World (USA) Inc. to execute a guaranty of their obligations thereunder. In support of this Motion, the Debtors rely on the Declaration of Jeremy Roberts submitted herewith. In further support of the Motion, the Debtors state as follows:

Jurisdiction

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. § 1334.

This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2).

2. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

3. The statutory predicate for the relief requested herein is section 363 of title 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the “Bankruptcy Code”), and Rule 6004 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

Background

4. On January 21, 2008 (the “Petition Date”), the 53 Debtors filed their voluntary petitions for relief (the “Chapter 11 Cases”) under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”).

5. The Debtors are operating their businesses and managing their properties as debtors-in-possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code. No request has been made for the appointment of a trustee or examiner in these cases.

6. On January 31, 2008, an Official Committee of Unsecured Creditors (the “Creditors’ Committee”) was appointed.

7. On January 20, 2008 the Debtors' corporate parent, Quebecor World Inc. ("QWI"), together with each of the Debtors, commenced a proceeding before the Superior Court, Commercial Division, for the Judicial District of Montreal (the "Canadian Court") for a plan of compromise or arrangement (the "Canadian Proceeding") under the Canadian Companies' Creditors Arrangement Act ("CCAA").¹ Each of the Debtors was joined in the Canadian Proceeding, in order that each Debtor may obtain the protection of a stay under the CCAA as well as under the Bankruptcy Code.

The Debtors' Business

8. The Debtors collectively operate the second largest commercial printing business in the United States, maintaining approximately 78 facilities in 29 states. QWI is a Canadian corporation and the corporate parent of the Debtors, having been incorporated on February 23, 1989 pursuant to the Canada Business Corporations Act to combine the assets constituting what was then the printing division of Quebecor Inc. (QWI, together with the Debtors and all of QWI's debtor and non-debtor subsidiaries and affiliates are referred to herein as "QW World").

9. QW World's key customers include the largest publishers, retailers and catalogers in the geographic areas in which QW World operates. In the magazine group, QW World prints magazines for publishers, including, for example, 15 magazine titles for Time, Inc.,² *Cosmopolitan* for Hearst Corp., *Elle* for Hachette-Filippachi Magazines US, *ESPN the Magazine* for Walt Disney Corp., *Forbes* for Forbes Inc. and *In Touch Weekly*

¹ The Canadian Court appointed Ernst & Young, Inc. to serve as Monitor for the Canadian Proceeding, and UBS Investment Bank is serving as QWI's financial advisor.

² These include *Time*, *Fortune*, *Money*, *Sports Illustrated*, *People*, *Entertainment Weekly*, *Southern Living*, *Cooking Light* and *Coastal Living*.

for Bauer Publishing USA, while QW World's retail insert group includes customers such as CVS, Sears, JC Penney, Kohl's, and Walgreens. QW World's operations also encompass (a) catalogs for customers such as Williams-Sonoma, Oriental Trading Company, Victoria's Secret, IKEA, Cabelas and Bass Pro, (b) books for McGraw-Hill, Scholastic, Simon & Schuster, Thomas Nelson, Time-Warner and Pearson Education, (c) directories for Yellow Book USA, RH Donnelly, Windstream and Frontier in the United States, the Yellow Pages Group in Canada, as well as Telemex and Telefonica in Latin America and (d) direct mail services.

The Debtors' Logistics and Co-Mailing Services

10. The Debtors, through the operations of Debtor Quebecor World Logistics Inc. ("QW Logistics"), provide freight and logistics services to their customers. The Debtors' freight and logistics customers include both customers that utilize the Debtors' printing services and third parties that contract with QW Logistics strictly for freight and logistics services. As part of QW Logistics' business, it maintains freight consolidation facilities across the United States. QW Logistics is currently in the process of relocating a consolidation facility in New Jersey, which facility is vital to QW Logistics' freight and logistics services in the Northeast United States.

11. The Debtors also provide direct mail services to their customers. The Debtors have a substantial presence in the direct mail industry and provide these services to both their printing customers and, more recently, to publishers who do not use the Debtors for printing services. In this regard, as part of the direct mail services offered, the Debtors provide co-mailing services which consist of the bundling of mailings of multiple

customers in order to reduce costs. The ability to offer customers co-mailing services is critical to being a competitive participant in the direct mail industry because customers actively seek out businesses that offer co-mailing and the associated cost savings.

12. In order to remain a leader in the direct mail industry, the Debtors must be able to provide state-of-the-art co-mailing services to their customers. To that end, the Debtors are presently in the process of acquiring six state-of-the-art 30-Pocket SF505 Co-Mailer Systems (each, a “Co-Mailer”), which are used by the Debtors in connection with their direct mail business.³

13. In order to better serve their customers and to respond to increased demand for co-mailing services, the Debtors intend to locate certain of the Co-Mailers in order to serve the Northeast United States, a region that constitutes approximately 30% of all U.S. distributions. The Debtors currently do not own or lease any facilities in the Northeastern United States that can support the installation of multiple Co-Mailers, which requirements necessitate at least 100,000 square feet. Moreover, the Debtors have determined that they can realize certain efficiencies and cost savings, and consolidate and streamline their operations, by locating certain of the Co-Mailers at the same facility as QW Logistics’ Northeastern United States consolidation facility. Accordingly, the Debtors are in need of

³ A 30-Pocket Co-Mailer system consists of software and equipment capable of integrating subscriber lists from up to 30 different publishers and then bundling the related publications (such as magazines and catalogs) according to mail carrier routes and/or postal ZIP codes established by the U.S. Postal Service, so that magazines, catalogs and other materials published by multiple customers that are destined for the same geographic area are grouped together prior to delivery to the Postal Service. By bundling and pre-sorting publications in this manner, the Debtors are able to obtain postage rates for their customers that are much lower than those that would be available if the same publications were mailed individually.

additional real property that can serve as both a consolidation facility for QW Logistics and as the location for certain of the Co-Mailers.

14. In this regard, the Debtors, working with a real estate broker, analyzed more than ten potential locations, performed site visits and reviewed lease proposals. At the conclusion of this process, the Debtors determined that the facility best suited for the needs of both QW Logistics and the Debtors' co-mailing business is the site located at 13 Jensen Drive, in Franklin Township, Somerset County, New Jersey.

Entry into New Lease of Real Property Located in Franklin Township, New Jersey

15. QW Logistics seeks approval of its entry into a Lease Agreement (the "Lease") dated as of April 8, 2008 between QW Logistics, as Tenant, and Headlands Realty Corp., as Landlord (the "Landlord"), for the lease of approximately 239,229 rentable square feet known as "Suite 100" and located at 13 Jensen Drive in Franklin Township, Somerset County, New Jersey (the "Premises"). A copy of the Lease is attached hereto as Exhibit B.

16. In connection with, and as a condition to the Landlord's willingness to enter into the Lease, Quebecor World (USA) Inc. ("QW USA"), also a Debtor in these Chapter 11 Cases, agreed to execute and deliver to Landlord a Guaranty of Lease (the "Guaranty") dated as of April 8, 2008, pursuant to which QW USA agreed to unconditionally and irrevocably guarantee the prompt payment by QW Logistics of all rents and all other sums payable by QW Logistics under the Lease and the faithful and prompt performance by QW Logistics of each and every one of the terms, conditions and covenants of the Lease.

17. The initial term of the Lease is 12 years, six (6) months and 23 days, commencing on April 8, 2008 and ending on October 31, 2020. QW Logistics will have the right, at its option, to renew the Lease for four (4) additional five (5) year terms, for a total of 20 years, at rates to be determined as set forth in Section 15.20 of the Lease.

18. During the initial term of the Lease, QW Logistics will pay rent in accordance with the schedule set forth in Section 1.4 of the Lease. In particular, neither any Base Rent nor tenant's share of Operating Expenses (as defined in the Lease) will be due under the Lease during the "Pre-Base Rent Commencement Date Period," from April 8, 2008 to September 30, 2008. For the following six (6) months, from October 1, 2008 until March 31, 2009, QW Logistics will have no obligation to pay any monthly installments of Base Rent and will be liable only for Operating Expenses payable during such period. Subject to QW Logistics' entitlement to a credit of \$31,640.75 for Base Rent due with respect to the monthly Base Rent otherwise payable on April 1, 2009, installments of Base Rent for the remainder of the initial term of the Lease will be as follows:

Time Period	Annual Base Rent Per Square Foot	Monthly Installment of Base Rent
May 1, 2009 to September 30, 2013	\$5.34	\$106,456.91
October 1, 2013 to September 30, 2018	\$6.08	\$121,209.36
October 1, 2018 to October 31, 2020	\$6.86	\$136,759.25

19. Including Operating Expenses, QW Logistics' estimated monthly rental payment under the Lease during the initial rental period ending September 30, 2013 will be

\$138,354.12. In addition, pursuant to Section 1.15 of the Lease, QW Logistics is required to make an advance payment of rent in the amount of \$138,354.12 in connection with QW Logistics' entry into the Lease.

20. In addition, QW Logistics is required to provide the Landlord with a security deposit in the amount of \$1,700,000 (the "Security Deposit"). The Security Deposit will be provided in the form of an unconditional, irrevocable letter of credit. Pursuant to Section 5.4 of the Lease, the amount of the letter of credit constituting the Security Deposit will be reduced in the amount of \$141,666.67 on each anniversary of the Base Rent Commencement Date for each year of the Lease's term, subject to the requirement that scheduled reductions in the amount of the Security Deposit shall not cause it to be less than \$141,666.67.

21. QW Logistics will have the right to construct or install certain tenant improvements pursuant to Section 1.11 of the Lease. In this regard, the Landlord will pay QW Logistics a tenant improvement allowance in cash in the amount of \$1,143,249.

22. The effectiveness of the Lease, and the agreements, covenants and obligations of QW Logistics set forth in the Lease, are in all respects subject to the entry of a final, non-appealable order by the Court authorizing and approving the (a) the execution and delivery of the Lease by QW Logistics and the performance by QW Logistics of all of the agreements, covenants and obligations of QW Logistics set forth in the Lease and (b) the execution and delivery of the Guaranty by QW USA and the performance by QW USA of all of the agreements, covenants and obligations of QW USA set forth in the Guaranty (the "Approval Order"). The Lease provides that the Debtors must obtain entry of the

Approval Order no later than 60 days from the date of the Lease, i.e., by June 8, 2008, and pending the entry of the Approval Order, the Debtors have no right to enter upon, use or occupy the Premises.

Relief Requested

23. The Landlord has conditioned the effectiveness and validity of the Lease upon the Debtors' obtaining Court approval and authorization to enter into the Lease in order to avoid any question as to whether or not the Debtors' entry into the Lease and issuance of the Guaranty is an "ordinary course" transaction for purposes of section 363 of the Bankruptcy Code.

24. Section 363(b)(1) of the Bankruptcy Code permits a debtor in possession to "use, sell, or lease, other than in the ordinary course of business, property of the estate" with court approval. 11 U.S.C. § 363(b)(1). A debtor in possession's decision to use, sell, or lease assets outside the ordinary course of business must be based upon its sound business judgment. See Official Comm. of Unsecured Creditors of LTV Aerospace and Defense Co. v. The LTV Corp. (In re Chateaugay Corp.), 973 F.2d 141, 143 (2d Cir. 1992) (holding that court considering a section 363(b) application must find a good business reason to grant such application); see also Comm. of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.), 722 F.2d 1063, 1071 (2d Cir. 1983) (same); In re Global Crossing Ltd., 295 B.R. 726, 743 (Bankr. S.D.N.Y. 2003) (same); In re Ionosphere Clubs, Inc., 100 B.R. 670, 675 (Bankr. S.D.N.Y. 1989) (noting that standard for determining a section 363(b) motion is "good business reason").

25. The business judgment rule is satisfied where “the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company.” Official Comm. of Subordinated Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.), 147 B.R. 650, 656 (S.D.N.Y. 1992), appeal dismissed, 3 F.3d 49 (2d Cir. 1993) (quoting Smith v. Van Gorkom, 488 A.2d 858, 872 (Del. 1985)). Indeed, “[w]here the debtor articulates a reasonable basis for its business decisions (as distinct from a decision made arbitrarily or capriciously), courts generally will not entertain objections to the debtor’s conduct.” Comm. of Asbestos-Related Litigants and/or Creditors v. Johns-Manville Corp. (In re Johns-Manville Corp.), 60 B.R. 612, 616 (Bankr. S.D.N.Y. 1986). Courts in this district consistently and appropriately have been reluctant to interfere with corporate decisions absent a showing of bad faith, self-interest or gross negligence, and have upheld such decisions as long as they are attributable to any “rational business purpose.” In re Integrated Res., 147 B.R. at 656.

26. The Debtors have determined that entry into the Lease is in their best interests and is essential to their business operations. In order to accommodate the requirements of their customers, and the growing volume of business and demand for co-mailing services it is necessary that the Debtors obtain a facility in the Northeast United States that is capable of housing multiple co-mailing machines. In addition, in light of the decision of QW Logistics to relocate its consolidation facility, and the increased efficiencies and cost savings that will result from leasing a single facility to house both QW Logistics’ consolidation facility and the co-mailing machines, the Debtors believe that entry into the Lease is a sound exercise of business judgment. The operational capacity

that the Debtors will have based at the new facility will provide the Debtors with a competitive edge in the Northeast United States and will provide the Debtors with leverage in obtaining new customers, many of whom are located in the Northeast United States. The absence of a strong presence in the co-mailing and freight and logistics businesses in the Northeast United States will jeopardize the Debtors' ability to meet customer needs and will impair the Debtors' strategic growth plans in the co-mailing business.

27. In addition, the Lease offers the best available terms for a facility of this type in this region. The Debtors engaged in a thorough search for a new facility and, once they identified the Premises, engaged in extensive negotiations with the Landlord. Ultimately, the Debtors believe that the Lease represents the lowest operating cost, lowest lease cost and highest landlord incentives of any alternative available to the Debtors. Accordingly, the Debtors request authorization to enter into and perform obligations under the Lease and to execute and deliver such agreements, including the Guaranty, as are necessary to implement the Debtors' entry into the Lease.

Abrogation of Stay Pursuant to Rule 6004(h)

28. The Debtors request relief from the ten day stay imposed on orders approving the sale, use or lease of property under section 363 pursuant to Rule 6004(h). As noted above, under the Lease the Debtors are required to obtain the Approval Order by no later than June 8, 2008, and may not enter into or use the Premises until the Approval Order is entered and final. In addition, the Debtors would like to begin relocating QW Logistics' consolidation facility and establishing their co-mailing operations at the

Premises as soon as possible. Accordingly, the Debtors request a waiver of the stay approving QW Logistics' entry into the Lease pursuant to Rule 6004(h).

Memorandum Of Law

29. This Motion includes citations to the applicable authorities and a discussion of their application to this Motion. Accordingly, the Debtors respectfully submit that such citations and discussion satisfy the requirement that the Debtors submit a separate memorandum of law in support of this Motion pursuant to Rule 9013-1(b) of the Local Bankruptcy Rules for the Southern District of New York.

Notice

30. Notice of this Motion has been provided to the Landlord and all parties on the Notice List as set forth in the Case Management Order. A copy of the Motion is also freely available on the website of the Debtors' claim and noticing agent, Donlin, Recano & Company, Inc. at www.donlinrecano.com.

No Prior Request

31. No prior motion for the relief requested herein has been made to this or any other court.

WHEREFORE, the Debtors respectfully request an entry of an order, substantially in the form attached hereto as Exhibit A, (i) authorizing QW Logistics to enter into and perform obligations under the Lease and authorizing QW USA to execute and deliver and perform obligations under the Guaranty related thereto and (ii) granting such other and further relief as the Court deems just and appropriate.

EXHIBIT A

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re

Quebecor World (USA) Inc., et al.,

Debtors.

Chapter 11

Case No. 08-10152 (JMP)
Jointly Administered

Honorable James M. Peck

**ORDER PURSUANT TO 11 U.S.C. § 363 AUTHORIZING (I) QUEBECOR
WORLD LOGISTICS INC. TO ENTER INTO AND PERFORM
OBLIGATIONS UNDER A NEW LEASE FOR REAL PROPERTY
LOCATED AT 13 JENSEN DRIVE IN FRANKLIN TOWNSHIP,
SOMERSET COUNTY, NEW JERSEY AND (II) QUEBECOR WORLD
(USA) INC. TO EXECUTE AND DELIVER A GUARANTY RELATED
THERETO**

Upon the motion (the “Motion”)* of the above-captioned debtors (collectively, the “Debtors”) for entry of an Order authorizing (i) Quebecor World Logistics Inc. to enter into and perform obligations under a new lease for real property located at 13 Jensen Drive in Franklin Township, Somerset County, New Jersey and (ii) Quebecor World (USA) Inc. to execute and deliver a guaranty related thereto; the Court having reviewed the Motion and considered the statements of counsel at a hearing before the Court (the “Hearing”); and the Court having found that (a) it has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334, (b) this proceeding is a core proceeding pursuant to 28 U.S.C. § 157(b)(2), (c) venue of this proceeding and the Motion in this District is proper pursuant to 28 U.S.C. §§ 1408 and 1409, (d) notice of the Motion was appropriate under the circumstances and (e) entry into the Lease and execution of the Guaranty and performance of the Debtors’ obligations thereunder are in the best interests

* Capitalized terms not defined in this Order shall have the meaning ascribed to them in the Motion.

of the Debtors and their bankruptcy estates and represent a sound exercise of the Debtors' business judgment; and the Court having determined that the legal and factual bases set forth in the Motion and at the Hearing establish grounds for the relief granted herein;

IT IS HEREBY ORDERED THAT:

1. The Motion is GRANTED as set forth herein.
2. QW Logistics is authorized, pursuant to section 363 of the Bankruptcy Code, to take all steps necessary to execute and deliver the Lease and to perform all of the agreements, covenants and obligations of QW Logistics set forth in the Lease and take such additional actions as may be necessary in connection with entry into the Lease.
3. QW USA is authorized, pursuant to section 363 of the Bankruptcy Code, to take all steps necessary to execute and deliver the Guaranty and to perform all of the agreements, covenants and obligations of QW USA set forth in the Guaranty.
4. The ten day stay set forth in Bankruptcy Rule 6004(h) is hereby abrogated and this order shall be effective immediately upon entry.
5. The requirement set forth in Rule 9013-1(b) of the Local Bankruptcy Rules for the Southern District of New York that any motion or other request for relief be accompanied by a memorandum of law is hereby deemed satisfied by the contents of the Motion or otherwise waived.
6. The Debtors are authorized to take all such actions as are necessary or appropriate to implement the terms of this Order.

7. The Court retains jurisdiction with respect to all matters arising from or related to the implementation of this Order.

Dated: May _____, 2008

United States Bankruptcy Judge