

Hearing: July 17, 2008 (10:00 a.m.)
Object's: July 10, 2008 (4:00 p.m.)

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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In re :
QUEBECOR WORLD (USA) INC., *et al.*, : Case No. 08-10152 (JMP)
Debtors. : (Chapter 11)
: (Jointly Administered)
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**RESPONSE OF THE UNITED STATES TRUSTEE TO THE
INTERIM APPLICATIONS OF THE RETAINED PROFESSIONALS
FOR THE PERIOD OF JANUARY 21, 2008 THROUGH APRIL 30, 2008**

Diana G. Adams, the United States Trustee for Region 2 (the “United States Trustee”) respectfully submits this response to the applications for fees and expenses of the retained professionals in these cases (the “Applications”) for the period of January 21, 2008 through April 30, 2008 (the “First Interim Period”). In support of her objection, the United States Trustee alleges as follows:

1. Quebecor World (USA) Inc., and its affiliated chapter 11 debtors in possession (collectively, “Quebecor” or the “Debtors”) filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code on January 21, 2008 (the “Petition Date”). All of the Debtors have continued in the operation of their businesses pursuant to sections 1107 and 1108 of the Bankruptcy Code. By order entered January 24, 2008, the Court authorized the joint administration of the cases. ECF Docket No. 53.

2. The United States Trustee appointed the Official Committee of Unsecured Creditors (the “Creditors’ Committee”) on January 31, 2008. ECF Docket No. 94. The Creditors’ Committee has been amended from time to time since its initial appointment.

3. On February 13, 2008, the Court entered its Order Pursuant to Sections 105 and 331 of the Bankruptcy Code, Bankruptcy Rule 2016(a) and Local Bankruptcy Rule 2016-1 Establishing Procedures Governing Interim Monthly Compensation of Professionals (the “Monthly Payment Order”). ECF Docket No. 201. In relevant part, this Order provides for partial interim monthly payments to duly-authorized professionals of the Debtors and the Creditors’ Committee. In particular, unless a “Notice of Objection to Fee Statement” is served on the relevant parties, the Monthly Payment Order provides that the Debtors shall promptly pay 80 percent of the fees and 100 percent of the expenses identified in each Monthly Statement. *Id.*, ¶¶ 2(d) - (e). Concomitantly, the Monthly Payment Order provides the Debtors must withhold payment of any portions of a Monthly Fee Statement as to which an objection is directed, and promptly pay the remainder of the fees and expenses in the percentages set forth above. *Id.*, ¶ (f). Generally, if the objections are resolved and withdrawn, the Debtors must promptly pay such portions of the Monthly Fee Statement that no longer are subject to objection. *Id.*, ¶ (g). Any objections not resolved are reserved for judicial resolution at the next interim or final fee application. *Id.*, ¶ (h).

4. The Applications cover the period from the Petition Date, *i.e.*, January 21, 2008 through April 30, 2008. The Applications collectively seek interim allowance of fees in the total amount of \$9,200,069.14 (comprised of \$8,912,507.64 of fees, plus \$287,561.50 of expenses).¹

¹ Annexed hereto as Exhibit A is a spreadsheet of fees and expenses of retained professionals (other than ordinary course professionals) for the First Interim Period.

5. According to the Applications, on a monthly basis during the First Interim Period, it appears that certain of the professionals sought from the Debtors the payment of their fees and reimbursement of expenses under the Monthly Payment Order. It also appears that no objections to any monthly statements were interposed, and that, of the total \$9,200,069.14 of fees accrued and expenses incurred during the First Interim Period, \$5,973,752.84 (or approximately 64.9 percent) has been paid under the Monthly Payment Order to five professionals. Four professionals have received no interim compensation under the Monthly Payment Order, or received payment of fees in less than the 80 percent permitted under the Order for the First Interim Period.²

6. All of the professionals, including those which have received only partial or no payments under the Monthly Payment Order, have requested that the Court “release” the 20 percent “holdbacks” currently in place pursuant to the Order.

7. Among the services performed by the professionals during the First Interim Period, and primarily by the Debtors’ professionals and principals during the first month of that Period, were prosecuting the various “first-day” motions, including the various retention applications, and cooperating with the Office of the United States Trustee at the organizational meeting of creditors. Soon after that meeting, the Debtors obtained interim, and later final approval of a secured post-petition financing facility.

² Some of the professionals may have received payments after the filing of their respective fee applications, and applied them to First Interim Period fees and expenses.

8. Categorically, a substantial portion of the professional fees incurred during the First Interim Period focused on matters concerning the restructuring of the Debtors' corporate footprint. The Debtors, for example, moved for the assumption or rejection of various real estate and other leases and executory contracts during the First Interim Period, and sought Court authority to enter into new leases. Quebecor also requested Court authority to sell certain assets during this time, obtained Court approval for its employee incentive and modified severance plans, and worked on reclamation and Section 503(b)(9) claim procedures. With these tasks largely completed, the Debtors now seem poised to enter the corporate restructuring phase of their bankruptcy cases, both in this and the Quebec Superior Court.

9. In that regard, during the First Interim Period, these reorganization cases were still relatively young. Even though pivotal events occurred during that Period, and more have since transpired, the most dispositive of bankruptcy events have yet to occur. Consequently, the ultimate benefit to the estates of many of the fees incurred during the First Interim Period simply cannot be assessed at this time, pending future developments.

10. Whether a comprehensive plan can be negotiated and confirmed in these cases depends on many variables. Past efforts aside, the Debtors, their main constituents and their respective professionals have the main matters, and what may prove to be some of the hardest work of these cases, ahead of them. Quebecor's emergence from bankruptcy is presumably predicated on the development of its reorganization strategy and the redevelopment of its corporate footprint, both still under design. Thus, as of this date, the outcome of these cases cannot be predicted with certainty.

11. The bankruptcy court has broad discretion in the course of examining and awarding interim fee applications. In re Spanjer Bros., Inc., 191 B.R. 738, 747 (Bankr. N.D. Ill. 1996). Section 331 incorporates the requirements of 11 U.S.C. § 330, and the standards are the same for interim and final awards of compensation. See In re Bennett Funding Group, Inc., 213 B.R. 234, 244 (Bankr. N.D.N.Y. 1997). At the interim fee stage, “there is [no] legal entitlement to payment prior to the final fee award.” In re Child World, Inc., 185 B.R. 14, 17 (Bankr. S.D.N.Y. 1995).

12. The Office of the United States Trustee has discussed the Applications with counsels for the Debtors and the Creditors’ Committee. Under the circumstances, based on the Applications and those discussions, the United States Trustee has no objection to the allowance of 90 percent of the fees being sought, on an interim basis. Stated effectively, this would leave the allowance of the remaining half of the Monthly Payment Order’s 20 percent holdback (*i.e.*, the remaining ten percent of the fees currently being sought), for later Court order. The United States Trustee has been advised that all of the applicable professionals concur.

13. The United States Trustee has no objection to the entry of an order authorizing the reimbursement of 100 percent of the expenses at issue, on an interim basis.

14. The United States Trustee reserves her right to object later to fees or expenses during the First Interim Period on any grounds.

WHEREFORE, the United States Trustee respectfully requests that the Court grant such other and further relief as it deems just and proper.

Dated: New York, New York
July 3, 2008

Respectfully submitted,

DIANA G. ADAMS
UNITED STATES TRUSTEE

By: /s/ *Andrew D. Velez-Rivera*
Trial Attorney
33 Whitehall Street, 21st Floor
New York, New York 10004
Tel. No. (212) 510-0500
Fax. No. (212) 668-2255

EXHIBIT A