

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

Case No. 08-10152

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In the Matter of:

QUEBECOR WORLD (USA) INC.,

Debtors.

- - - - -x

United States Bankruptcy Court

One Bowling Green

New York, New York

July 17, 2008

9:59 AM

B E F O R E:

HON. JAMES M. PECK

U.S. BANKRUPTCY JUDGE

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2 Hearing re: Second Motion Filed by the Debtors for an Order

3 Extending the Time to File Notices of Removal of Actions

4

5 Hearing re: Motion Filed by the Debtors to Assume an Executory

6 Contract with North Plains Systems Corp. for Digital Asset

7 Management Software Licenses

8

9 Hearing re: Motion Filed by the Debtors for Entry of an Order

10 Authorizing the Payment of Certain Prepetition Employee Bonuses

11

12 Hearing re: Motion Filed by the Debtors for an Order

13 Authorizing the Rejection of a Certain Unexpired Real Property

14 Lease

15

16 Hearing re: First Interim Applications for Allowance of

17 Compensation and Reimbursement of Expenses by Various

18 Professionals.

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20 Hearing re: Motion filed by General Motors Acceptance

21 Corporation for Relief from the Automatic Stay

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24 Transcribed by: Hana Copperman

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UNITED STATES DEPARTMENT OF JUSTICE  
Office of the United States Trustee  
33 Whitehall Street  
21st Floor  
New York, NY 10004  
  
BY: ANDREW D. VELEZ-RIVERA, ESQ.

1 P R O C E E D I N G S

2 THE COURT: Please be seated. Good morning.

3 MR. BOTTER: Good morning, Your Honor.

4 THE COURT: Well, this is a change of pace. You're  
5 getting up first.

6 MR. BOTTER: I've asked Mr. Canning if I could step  
7 up first. Your Honor, I was wondering if you would entertain  
8 an oral motion to admit an attorney pro hac vice. Your Honor,  
9 I'd like to introduce my colleague, Brad Kahn. He has been  
10 working on this case since its inception. Yesterday he became  
11 a member of the bar of the Court of the State of New York. He  
12 is not yet admitted to the federal courts, but I would like to  
13 move his admission pro hac vice to appear on matters 1 through  
14 4 on our calendar today, if that's okay with Your Honor.

15 THE COURT: I'm delighted to do that. Welcome to the  
16 court, and welcome to the New York Bar.

17 MR. BOTTER: Thank you, Your Honor.

18 MR. CANNING: Good morning, Your Honor. Mike Canning  
19 from Arnold & Porter on behalf of the debtors. We've got a  
20 relatively light docket, Your Honor. I would usually start  
21 from the top with respect to the final agenda, how that was  
22 filed.

23 THE COURT: That's fine. It would confuse me if you  
24 started skipping around, anyway.

25 MR. CANNING: The first item on the agenda today is

1 the debtors' motion to seek a further extension of the time  
2 within which the debtors can remove actions to the federal  
3 court. As Your Honor will recall, we filed a motion for this  
4 purpose earlier in the case, in April, and had a ninety day  
5 extension that expires in about a week now, I think it's July  
6 21st. The debtors have continued to have been very, very busy  
7 in this case, particularly the last thirty to sixty days. Not  
8 only were we able to sell Europe and deal with our MICP and  
9 PBIP programs, but I'm pleased to say that our schedules are on  
10 target. They're due by Friday of this week, and we will file  
11 all of the schedules for all fifty-three debtors. So a lot of  
12 the very time-consuming work that we've had to put into the  
13 case, I think, is about to be behind us. So this is another  
14 area that we're going to turn to now and try to see if we can  
15 ascertain what, if any, litigations would be appropriate to  
16 remove. We've asked for another approximately 185 days to take  
17 us out to January 22nd. There have been no objections filed,  
18 and we would ask the Court to entertain the motion and grant  
19 it.

20 THE COURT: I'll grant that motion.

21 MR. CANNING: Thank you, Your Honor. The second  
22 motion on today is the debtors' motion to assume a master  
23 license and service agreement between Quebecor World (USA) Inc.  
24 and North Plains Systems Corp. Your Honor, this is similar to  
25 two or three other occasions we've been before Your Honor with

1 respect to license agreements where we had temporary licenses  
2 that were going to deactivate by their own reason. This  
3 particular one is a very important one. We ordered some  
4 upgrades and additions to the existing software that we have  
5 from this company. In December they were installed. They're  
6 in use. They were subject to a temporary license that was  
7 going to deactivate. We were able to get an extension through,  
8 again, the end of this month, I think it's July 24th, to give  
9 us sufficient time to assume and to pay the balance that's  
10 owing. The cure amount is only 85,000 dollars. It's not a lot  
11 of money, but it is critical software for our delivery of  
12 services to our customers, so we would ask the Court to grant  
13 the motion and allow us to assume that and make that cure  
14 payment.

15 THE COURT: Yes, I'll approve that motion.

16 MR. CANNING: Thank you, Your Honor. The next one,  
17 Your Honor, is the debtors' motion to make certain prepetition  
18 employee bonus payments. Again, Your Honor will recall the  
19 very first day in the case we had our motion entered to allow  
20 us to pay employee wages and salaries and so to honor other  
21 prepetition employee benefits. Included among that was  
22 authority to make payments on account of salaries and wages,  
23 prepetition amounts, for amounts less than 10,950 dollars. At  
24 that time we indicated we may come back to the extent we found  
25 other prepetition amounts that exceeded that 10,950 dollar cap.

1 We have done so on a couple of occasions. Your Honor will  
2 remember the sales commissions we came back for twice. And  
3 also in March we got approval to pay the accrued prepetition  
4 amounts owing out of 2007 MICP and PBIP plans. What we have  
5 here are not companywide programs, but these are twenty-three  
6 employees that had employee contracts that were entered into  
7 prepetition, primarily for either new hires or employees that  
8 the debtors were asking to relocate to other facilities. And  
9 as inducements for both of those categories, they were provided  
10 as part of their total compensation that exists, it's their  
11 total compensation, generally a small bonus part that said on a  
12 date certain in the future, after a certain agreed upon period,  
13 they would receive that bonus. We'd like authority to pay  
14 those now. The aggregate cost is about 200,000 dollars. For  
15 about 12 of the employees the amounts are under 10,950 even  
16 when added to the other prepetition amounts that have already  
17 been paid to those employees. Of the balance, there are 4  
18 payments that are due now that aggregate about 70,000. Of the  
19 other 7, they're payable over the next 18 months or 2 years.  
20 For 2 of the employees they get 10,000 dollars August 1 this  
21 year, 10,000 dollars August 1 next year. For the other 5 they  
22 get payments periodically aggregating between 10 and 15,000  
23 dollars for employees. So it's a very small program, but for  
24 these employees it's very important. I don't believe anybody  
25 has any objections, Your Honor. And we would ask that the

1 motion be granted and an order entered.

2 MR. KAHN: Good morning, Your Honor. Brad Kahn of  
3 Akin Gump Strauss Hauer & Feld for the official committee of  
4 unsecured creditors. We've reviewed the motion and have no  
5 objection to the relief requested.

6 THE COURT: With that representation I'm prepared to  
7 approve this. Oh, wait a minute.

8 MR. VELEZ-RIVERA: The United States --

9 THE COURT: Looks like trouble from the U.S.  
10 Trustee's office.

11 MR. VELEZ-RIVERA: Andrew Velez-Rivera for the United  
12 States Trustee, who also has no objection, Your Honor.

13 THE COURT: Fine.

14 MR. CANNING: False alarm, Your Honor. Okay. The  
15 next agenda item is the debtors' motion to reject an unexpired  
16 nonresidential real property lease in Monterey Park,  
17 California. As Your Honor is aware, we'll be back before the  
18 Court on August 14 with respect to all of our real estate  
19 leases with a motion with respect to the assumption and  
20 rejection, as appropriate, of those leases. This particular  
21 one is a lease that the debtors clearly identified it does not  
22 have any business purpose for. We've actually merged this  
23 group into another group and we're exiting this location.  
24 We'll be out by the end of this month, if we're not already  
25 out.

1 THE COURT: I have one question about this.

2 MR. CANNING: Sure.

3 THE COURT: I just noted that this property related  
4 to Cha.

5 MR. CANNING: Yes, Your Honor.

6 THE COURT: Is there any connection whatsoever  
7 between the lease rejection damages associated with this lease  
8 and the settlement documentation, which I have yet to see, in  
9 connection with the Cha litigation?

10 MR. CANNING: Right. It is separate, Your Honor. It  
11 really has no correlation. It will not be addressed in that  
12 settlement agreement.

13 THE COURT: Okay.

14 MR. CANNING: It's a straight up rejection of a lease  
15 we no longer have any need for. Rent has been paid through the  
16 end of July. We've spoken to the counsel, bankruptcy counsel  
17 for the landlord here, who's reviewed the order and has no  
18 objection. I also don't believe anyone else has any objection,  
19 Your Honor, so we would also ask the Court to grant the motion  
20 and enter the order.

21 THE COURT: I'll grant it.

22 MR. CANNING: Thank you, Your Honor. The next series  
23 of items on the agenda, Your Honor, relate to the fee  
24 applications that were filed by the professionals in this case.  
25 Generally, all of the applications have received no objections

1 to the amounts that are sought in the applications. The U.S.  
2 Trustee did speak with Mr. Botter and I about although allowing  
3 all of the applications in full, having a ten percent holdback  
4 until later in the case. Mr. Botter and I agreed to that on  
5 behalf of the creditors' committee and the debtors, and we also  
6 spoke to sort of our related parties on each side of the  
7 debtor/creditor relationships here, and all parties have  
8 consented to hold back ten percent of the allowed amount of  
9 fees until a later point in the case. I don't know if Your  
10 Honor has any specific questions about any of the individual  
11 applications. If so, we'd be happy to entertain it. But  
12 absent that, I think if it's sufficient I would move to have  
13 all of the applications approved as submitted, subject to the  
14 ten percent holdback.

15 THE COURT: I'm prepared to approve all the  
16 applications as submitted, subject to the agreed ten percent  
17 holdback. I did have one question about the Bennett Jones LLP  
18 application as Canadian counsel to the committee. And it's not  
19 so much about what they did or how they said they did it, nor  
20 is it about their entitlement. But it raised a question in my  
21 mind as to why Canadian counsel for the debtor was not  
22 similarly seeking compensation in the United States and why it  
23 was that Canadian counsel for the committee needed to seek  
24 compensation in the United States. And so, what it raised in  
25 my mind was the question of allocation and whether or not the

1 work of Canadian counsel belonged here at all as opposed to  
2 being part of the Canadian proceeding. That's my question.  
3 It's a question of are these dollars, whether they're  
4 denominated as Canadian or U.S. dollars, properly to be  
5 expended here as opposed to there?

6 MR. CANNING: Well, at least from the debtors'  
7 standpoint I can say that we have not retained Canadian counsel  
8 separately in that proceeding. I think, as Your Honor is  
9 aware, Ogilvy Renault is --

10 THE COURT: Yes.

11 MR. CANNING: -- is counsel, a very active counsel, on  
12 behalf of Quebecor World, Inc., which is the corporate parent  
13 of all of the U.S. debtors indirectly, and the debtors felt  
14 that that was sufficient, and we have a working relationship  
15 that even predates the commencement of these cases that we're  
16 comfortable that the debtor is adequately represented to the  
17 extent it needs to be.

18 THE COURT: Well, I have no question that the debtor  
19 is adequately represented. It's just really a question of --

20 MR. CANNING: Understand.

21 THE COURT: -- allocation of charges.

22 MR. BOTTER: Your Honor, there are two answers. And  
23 we are keenly aware of the allocation issue and the  
24 appropriateness of certain professionals being retained here in  
25 the United States versus in Canada. I think the reason that

1 Jones is retained here in the United States is that the  
2 committee is a creature of the U.S. Bankruptcy Code. As such,  
3 our Canadian counsel is properly retained here in the United  
4 States, because we are a creature of this proceeding as opposed  
5 to the Canadian proceeding. The Canadian Court has been  
6 generous enough to recognize our existence and recognize our  
7 ability to participate in the Canadian proceedings. But,  
8 again, we are a creature of the U.S. Bankruptcy Code, and  
9 that's why we thought it was appropriate to retain Bennett  
10 Jones here in the United States.

11 THE COURT: Okay. I have no problem with approving  
12 their fees, nor do I have a problem recognizing, in light of  
13 the nature of this proceeding and its cross border aspects,  
14 that it might be rational from time to time for the U.S.  
15 committee to have access to Canadian counsel. But it does  
16 raise, in my mind, a question, long-term, in terms of the  
17 avoidance of unnecessary duplication of effort. And I just  
18 make that comment.

19 MR. BOTTER: Fair enough, Your Honor. And we will,  
20 obviously, be quite vigilant in that.

21 THE COURT: Okay.

22 MR. CANNING: Thank you very much, Your Honor. I  
23 think just -- everything else on the docket has been adjourned,  
24 Your Honor. There are just two other items. One is, and  
25 you'll remember we've had for some time on the docket,

1 Ecological Fibers that had filed a 503(b) motion, and we  
2 indicated we had an arrangement and were working on a  
3 stipulation. That stipulation has been agreed upon, and upon  
4 the conclusion of the hearing we would submit that for Your  
5 Honor's entry as well. And then lastly, Your Honor, there was  
6 a motion filed by GMAC with respect to a van that the debtors  
7 owe 450 dollars a month, postpetition. I don't know if anybody  
8 is here on behalf of GMAC. We have been trying to reach them,  
9 Your Honor. It's a very small matter, and the debtors had  
10 agreed to make postpetition payments. We asked for invoices,  
11 and they said that they were not able to provide invoices for  
12 fear of violating the stay. We advised them in writing that we  
13 would not deem that to be a violation. We still don't have any  
14 invoices. We got the monitor to make an exception to his  
15 internal policy of not making payments. He's got thousands to  
16 marshal every week. So we're prepared to make the payment. We  
17 tried to reach them yesterday and were not able to. So I  
18 believe, Your Honor, maybe we could just adjourn it. I think  
19 the debtors are happy to adjourn it to try to resolve it, but  
20 we've been a little stymied here.

21 THE COURT: Let me understand the procedural posture  
22 of this. This is a motion for relief from automatic stay filed  
23 by GMAC, docket number 690, and GMAC is not represented today  
24 at the time that the matter has been called for hearing.  
25 Correct?

1 MR. CANNING: Correct, Your Honor.

2 THE COURT: Is there anyone in court representing  
3 GMAC on this? There's no response. You're being very generous  
4 in agreeing to adjourn this, because my inclination would be to  
5 deny the motion for failure to prosecute.

6 MR. CANNING: That would be an acceptable result to  
7 the debtors, Your Honor.

8 THE COURT: I assume that it would be. And you can  
9 have either the denial of the motion for failure to prosecute  
10 or, if you want to be very generous with GMAC, you can adjourn  
11 this. But I think you're better off taking option number one.

12 MR. CANNING: I will gladly accept the denial, Your  
13 Honor.

14 THE COURT: Right. Motion denied. And you can --

15 MR. CANNING: Thank you, Your Honor.

16 THE COURT: You can submit an order if you don't have  
17 one. And I'm guessing you don't have one --

18 MR. CANNING: Right.

19 THE COURT: -- indicating that this motion is denied  
20 for failure to prosecute.

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

22 THE COURT: But it's also without prejudice to being  
23 resubmitted at a future date --

24 MR. CANNING: Certainly.

25 THE COURT: -- if GMAC chooses to do that.

1 MR. CANNING: Thank you, Your Honor. I think that's  
2 all we had on the docket. With respect to the fee apps, we'll  
3 submit an order for that that we'll show to all of the  
4 respective counsel to make sure they're comfortable.

5 THE COURT: Fine. Very well. One question that I  
6 have, which is just a general what happens next kind of  
7 question, we're about halfway through the year, and the case  
8 has been active and well managed, and I think it's a tribute to  
9 the professionals that a case of this magnitude has been  
10 managed so very smoothly up to this point. Are there any  
11 foreseeable big events on the horizon? And if the answer is  
12 no, that's fine. If the answer is yes, and you're able to tell  
13 me, I'd like to know.

14 MR. CANNING: The answer is yes. I think there are  
15 some significant events that there certainly have been in  
16 process, Your Honor, and they could certainly become big  
17 events. And I think that's probably no surprise that we have  
18 some avoidance issues that are significant issues that have  
19 been under consideration. I'll let Mr. Botter comment if he  
20 thinks that's --

21 MR. BOTTER: Your Honor, you will very shortly see,  
22 and I was actually going to speak with your clerks about it, an  
23 application by the committee to retain conflicts counsel. We  
24 had not done so up until this point. In discussions with the  
25 U.S. Trustee we had no conflicts. We have now gone down the

1 road with respect to the significant preference action that  
2 we've discussed occasionally in this court. There were notes  
3 repaid during the fall of '07, within the 90 day period,  
4 somewhere close to the magnitude of about 400 million dollars.  
5 As soon as our conflicts counsel's application is retained,  
6 it's our anticipation that we will commence that preference  
7 action. So that is a fairly significant event that's coming,  
8 and it should be coming within the next week or two.

9 THE COURT: All right.

10 MR. CANNING: Your Honor, again, parties are having  
11 discussions, but I wouldn't disagree with Mr. Botter that  
12 there's probably an inevitability about at least the  
13 commencement of some actions.

14 THE COURT: Okay. I wasn't trying to get a preview  
15 of coming attractions --

16 MR. CANNING: Sure.

17 THE COURT: -- before the coming attraction reel had  
18 been prepared. But I'm just interested in knowing what the  
19 fall might have in store.

20 MR. CANNING: Right. I think those are the only --  
21 there's still a lot of events going on in the case, as Your  
22 Honor, I'm sure, is well aware, and we'll be back often. But I  
23 think that there isn't any signature event that I could say is  
24 definitely on the horizon. Just informationally, Your Honor,  
25 as I'm sure you've noted from the earlier monitor's reports,

1 there's a lot of interest in the intercompany transactions.  
2 And in the monitor's second report the E&Y in Canada was  
3 charged with undertaking a very extensive analysis, factual  
4 analysis, of the intercompany transactions, both within the  
5 U.S. debtors and cross border with Canada and, frankly,  
6 throughout the Quebecor World, in the broadest sense, corporate  
7 structure. And that process has been very actively underway  
8 for some time. We've had preliminary sessions with the three  
9 creditors' committee to report back on preliminary findings,  
10 and in addition to the schedules and the monthly operating  
11 reports, which we also filed this week, that process is at a  
12 point where there will be issued very shortly an interim report  
13 on big pieces of it. He had, like, eight charges that he was  
14 supposed to take a look at. And I think all but about two of  
15 those, we may see a filing on that within a matter of days, and  
16 then the balance of that would come a little later. That all  
17 sort of ties in to even -- it ties in to a lot of things that  
18 affect the case. So when that's filed in the court, obviously,  
19 Your Honor will get a copy as well, and it's not that we'll be  
20 in front of Your Honor with something specific, but that's a  
21 meaningful event in the case when we start to get our arms  
22 around the intercompany transfers.

23 THE COURT: Fine. Thank you for the report, and I  
24 apologize for this unrehearsed press conference. But it was  
25 informative. And enjoy the balance of your summer and I'll see

1 you next time.

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

3 MR. BOTTER: Thank you.

4 (Proceedings concluded at 10:19 AM)

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## I N D E X

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Motion to Assume an

Executory Contract with

North Plains Systems

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Motion Authorizing the

Payment of Certain

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C E R T I F I C A T I O N

I, Hana Copperman, certify that the foregoing transcript is a true and accurate record of the proceedings.

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HANA COPPERMAN

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Date: July 20, 2008