

ARNOLD & PORTER LLP  
399 Park Avenue  
New York, New York 10022-4690  
Telephone: (212) 715-1000  
Facsimile: (212) 715-1399  
Michael J. Canning  
Joel M. Gross

*Counsel for the Debtors  
and Debtors-in-Possession*

**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

**DECLARATION OF DUYEN TRAN IN SUPPORT OF MOTION OF THE  
DEBTORS PURSUANT TO 11 U.S.C. §§ 105(a), 502 AND 505 AND FEDERAL  
RULE OF BANKRUPTCY PROCEDURE 9019 TO (A) IMPLEMENT  
PROCEDURES TO DETERMINE PREPETITION AND POSTPETITION SALES  
TAX LIABILITIES OF CERTAIN DEBTORS PURSUANT TO STATE AND  
LOCAL VOLUNTARY DISCLOSURE PROCEDURES AND (B) DETERMINE  
THE AMOUNT OF PREPETITION AND POSTPETITION SALES TAX  
LIABILITY OF CERTAIN DEBTORS**

I, Duyen Tran, declare under penalty of perjury as follows:

1. I submit this Declaration in support of the Motion of the Debtors Pursuant to 11 U.S.C. §§ 105(a), 502 and 505 and Federal Rule of Bankruptcy Procedure 9019 to (a) Implement Procedures to Determine Prepetition and Postpetition Sales Tax Liabilities of

Certain Debtors Pursuant to State and Local Voluntary Disclosure Procedures and (b) Determine the Amount of Prepetition and Postpetition Sales Tax Liability of Certain Debtors (the “Motion”).

2. I am Senior Director, Global Indirect Taxes of Quebecor World Inc. In this capacity, I am generally familiar with the matters set forth in the Motion and this Declaration.

3. The Debtors have determined that the amount of their voluntary disclosure liability to certain taxing authorities listed on Exhibit B to the Motion (the “Taxing Authorities”) for unpaid sales tax is, in the aggregate, approximately \$9.2 million as of the Petition Date. To date, however, the applicable Debtors have not registered in such states and localities and, accordingly, the voluntary disclosure amount of such sales tax liability owing to each of the Taxing Authorities has not been liquidated by agreement of such Taxing Authorities or otherwise. Accordingly, in connection with the Debtors’ claims resolution process, the Debtors have developed, and seek approval of, procedures that will permit the Debtors to resolve unpaid sales tax liabilities by granting the Taxing Authorities allowed claims for certain prior period sales tax in a manner that is substantially similar to the voluntary disclosure programs that would otherwise be available to the Debtors outside of bankruptcy, and to implement procedures regarding payment of sales tax during these Chapter 11 Cases.

4. The Motion concerns liability by certain Debtors for transaction-based sales tax obligations to states and localities in which such Debtors have not previously

registered. Most U.S. state and local jurisdictions impose some form of transaction-based sales tax obligations on taxpayers that transact business within their jurisdiction.

5. The ability of a taxing authority to impose sales tax on a particular business depends on whether that business has a sufficient tax “nexus” to the jurisdiction of such taxing authority. Generally, “nexus” means that the business in question has sufficient contacts with the jurisdiction of the taxing authority to permit such taxing authority to impose its laws on the business. In this regard, state and local taxing authorities have generally adopted broad definitions of nexus in the sales tax context, which include factors such as maintaining a physical plant, employees or agents in the applicable jurisdiction, as well as engaging in business through regular and periodic sales solicitations. To the extent that such nexus exists between a business and a particular taxing authority, the business entity is required to register with such taxing authority, file returns and pay applicable sales taxes incident to its business operations in such jurisdiction.

6. The Debtors are the second largest commercial printer in the United States, with plants and facilities in approximately 29 states. As with other large commercial printers, the nature and scope of the Debtors’ business operations require that they transact or solicit business in almost every state, and in numerous local jurisdictions within those states. The Debtors also possess a complex corporate structure, as they are comprised of 53 legal entities, with numerous other affiliates in the United States and worldwide. Given the breadth and scope of their operations, a significant number of the 53 Debtors may have some “contacts” which constitute nexus for sales tax purposes in one or more states and local taxing jurisdictions. In this regard, the Debtors, by and large, have registered with

the applicable taxing authorities and are in full compliance with their obligations to collect sales tax. Specifically, as of the date hereof, various Debtor entities are registered with over forty (40) jurisdictions for sales tax purposes (in many cases a single Debtor is registered with multiple jurisdictions), and file and pay taxes incident to no less than 650 returns each and every month in connection with their U.S. operations. Indeed, at a minimum, each Debtor is registered for sales tax purposes in each of those jurisdictions where such Debtor either has property or payroll. In addition, each Debtor is registered in certain additional jurisdictions where the nature of such Debtor's business contacts or historical practices suggest a sales tax nexus, even if such Debtor does not, in fact, have property or employees located within the taxing jurisdiction.

7. Despite the Debtors' diligent efforts, several factors have resulted in certain Debtors not being registered in several jurisdictions for purposes of sales tax, although those Debtors may have a sales tax nexus with such jurisdictions. In the first instance, many of the Debtors' sales representatives solicit sales on behalf of multiple Debtor entities, and in doing so enter jurisdictions throughout the country to solicit customer orders, potentially creating sales tax nexus with such jurisdictions. As a result of the geographically diverse nature of the Debtors' operations, the Debtors have not, in all instances, been able to readily connect the activity of a particular sales representative with each Debtor entity that may have a resulting sales tax nexus based on such sales representative's activities. Moreover, as a result of the breadth of the Debtors' operations, and the fact that the Debtors' current corporate structure arose as the result of a series of mergers and acquisitions, the Debtors' sales tax registrations have not always kept pace

with the rapid expansion of the Debtors' businesses, particularly where new entities were acquired and merged into the then-existing group of affiliated companies – a situation that is not unusual for large companies in expanding industries such as commercial printing.

8. In recognition of the importance of maintaining compliance with its sales tax obligations, the Debtors had been working diligently for some time prior to the commencement of these Chapter 11 Cases to bring each of the Debtor entities into full compliance with all applicable taxing authorities, and had been making substantial progress in this regard. During 2006, for example, the Debtors came into compliance in 22 states by registering previously non-registered entities in such states pursuant to an amnesty program implemented in such states under the Streamlined Sales Tax Agreement (“SSTA”), a program adopted by such states under which taxpayers not previously registered with a state for tax purposes could voluntarily agree to collect sales tax going forward in exchange for complete amnesty for taxes, interest and penalties attributable to prior periods. Further, with the assistance of their tax advisors, the Debtors negotiated similar amnesty agreements prior to the Petition Date with three additional states that were not at the time participants in the SSTA. Thus, the Debtors' sales tax liabilities to these jurisdictions have now been finally resolved in accordance with the SSTA and the other applicable amnesty agreements, and are not the subject of the Motion.

9. In addition to completing the amnesty agreements and undertaking the remedial measures described above, the Debtors identified an additional 17 states (and certain self-assessing local jurisdictions within those states) where certain Debtor entities were engaged in activities giving rise to potential nexus with such states and localities, but

where such Debtor entities were not yet registered for purposes of collecting and paying sales taxes. The Debtors thereafter undertook a process in each of such states to assess the potential tax liability of such unregistered Debtor entities in order to bring them into compliance in each jurisdiction where sales tax nexus may exist. In this regard, it was the Debtors' intention to utilize the voluntary disclosure processes available in these remaining states and localities to bring all of the Debtor entities into full compliance with their respective sales tax obligations as quickly as possible in all of the states and localities in which the Debtors conduct their business. Unfortunately, the Debtors were not able to implement and complete this process prior to the commencement of these Chapter 11 Cases. Accordingly, the Debtors now seek to implement Voluntary Tax Disclosure Procedures (defined below) consistent with the voluntary disclosure processes available to the Taxing Authorities in connection with the Debtors' claims resolution process in these Chapter 11 Cases.

10. The 17 states (the "States") that the Debtors have identified as having potential tax claims (the "Tax Claims") based on the existence of sales tax nexus by unregistered Debtors are:

Alabama (and certain self-assessing localities therein)
Arizona (and certain self-assessing localities therein)
California
Colorado
District of Columbia
Idaho
Louisiana (and certain self-assessing localities therein)
Maine
Mississippi
Missouri
New Mexico
New York

Pennsylvania
South Carolina
Texas
Virginia
Wisconsin

11. In most instances, the States collect sales tax not only due and owing to the respective state itself, but also on behalf of local jurisdictions, and allocate a portion of the sales tax collected directly to such local jurisdictions. As indicated in the foregoing table, however, in certain of the States, local governmental units within such States (the “Localities,” together with the States, the “Taxing Authorities”), are legally entitled to self-assess sales tax against entities with nexus to their jurisdiction, rather than receiving a portion of the sales tax otherwise payable to the States. Pursuant to the Motion, the Debtors are also seeking to resolve open tax liabilities with respect to such Localities.

12. Each of the States, and certain of the Localities, have established, either by statute or in practice, a voluntary disclosure agreement (“VDA”) program pursuant to which taxpayers not currently in compliance with the applicable sales tax laws can come forward voluntarily, satisfy certain past tax obligations and thereby bring themselves into compliance on a going forward basis. VDA programs typically limit exposure to sales tax payable for a limited, fixed period, typically three years, arising prior to the date on which the taxpayer voluntarily submits to the applicable VDA (the “VDA Period”) and may also waive interest and penalties as an inducement to voluntary disclosure. The Debtors have reviewed the VDA provisions for each of the States and, to the extent applicable, for the Localities, and have now calculated what the Debtors believe are their sales tax liabilities for each of the States and, where applicable, the Localities, in accordance with the VDA

program applicable for such State and/or Locality. For those Localities that have not formally adopted a VDA program, the Debtors have utilized the VDA program applicable in the State where such Locality is situated.

13. To determine the amount of prepetition sales tax liabilities owing to each of the Taxing Authorities, the Debtors utilized computer software known as “Taxware Enterprise.” Specifically, in connection with their participation in the amnesty programs implemented in connection with the SSTA now in place in the 22 states where the Debtors previously registered, as set forth above, the Debtors were required to purchase and implement “Taxware” or similar software to track sales tax data on a going forward basis. Taxware determines the amount of sales tax due and owing incident to a business’s operations in each jurisdiction by gathering information on individual transactions, including the destination of the goods sold, the product type and whether any tax exemptions exist for a particular sale. Taxware also generates sales tax returns to be remitted to taxing authorities. As a result of the recent implementation of the Taxware system, the Debtors have vastly improved their ability to accurately track taxable transactions in each jurisdiction where the Debtors may have a sales tax nexus.

14. To determine the amount of prepetition sales tax liabilities owing to each of the Taxing Authorities, the Debtors used the Taxware program to analyze taxable transactions within each of the States and Localities for the three-month period from February 2008 to April 2008. Based on this information, the Debtors extrapolated this data over the VDA Period applicable to each of the Taxing Authorities, added any applicable interest or penalties required under such applicable VDA, and arrived at the tax amounts

owing to such Taxing Authorities as of the Petition Date (the “VDA Amounts”), all as set forth on Exhibit B to the Motion.

15. With respect to the Localities that are the subject of the Motion, the VDA Amount calculated by the Debtors, as set forth on Exhibit B to the Motion is based on (a) the highest prevailing tax rate among all of the Localities within the applicable state, (b) the VDA procedure that is applicable to each Locality (if none, the VDA for a Locality was deemed to be the same as the VDA in the State where the Locality is situated) and (c) taxable sales volume, as determined for the applicable State, allocated among the Localities in that State based on the volume of sales into each Locality in such State. Given the substantial numbers of Localities that are subject to the Motion, and the fact that the VDA Amounts allocated to all but a few of the Localities are small or *de minimis*, the Debtors have determined that any potential for overpayment of sales tax to the Localities resulting from the use of the highest prevailing tax rate among the Localities in a given State will be outweighed by the administrative burden that would result from calculating the actual tax rate for each Locality.

16. A taxpayer resolving previously unpaid sales tax liabilities pursuant to a VDA process would be required to register with the applicable taxing authority and begin to pay such taxes in the ordinary course. In light of the Debtors’ ongoing Chapter 11 Cases and the possibility that the restructuring of the Debtors’ operations and businesses may ultimately involve some form of entity rationalization, such as merger or dissolution of some legal entities, the Debtors do not believe that it would be efficient to undertake the administratively burdensome and costly process of registering multiple legal entities with

