



World Color Press Inc.
(Formerly Quebecor World Inc.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2009

INCLUDING THE SEVEN MONTHS ENDED JULY 31, 2009 FOR THE PREDECESSOR AND THE FIVE MONTHS
ENDED DECEMBER 31, 2009 FOR THE SUCCESSOR

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Introduction

The following is a discussion of the consolidated financial condition and results of operations of World Color Press Inc. (“we”, “us”, “our”, the “Company”, the “Successor” or “Worldcolor”), the successor company of Quebecor World Inc. (“QWI” or the “Predecessor”) for the years ended December 31, 2009 and 2008, and for the three month periods then ended, and it should be read together with the Company’s consolidated financial statements. All references made to “Notes” in the Management’s Discussion and Analysis (“MD&A”) correspond to the Notes to the consolidated financial statements for the year ended December 31, 2009, which include the seven months ended July 31, 2009 for the predecessor and the five months ended December 31, 2009 for the successor (see “Presentation of financial information and combined financial results”). The consolidated financial statements and this MD&A have been reviewed and approved by the Company’s Board of Directors. This discussion contains forward-looking information that is qualified by reference to, and should be read together with, the discussion regarding forward-looking statements that is part of this MD&A. Management determines whether or not information is “material” based on whether it believes a reasonable investor’s decision to buy, sell or hold securities in the Company would likely be influenced or changed if the information were omitted or misstated.

A detailed discussion on the Company’s risks and uncertainties can be found in the Company’s public filings, including the Annual Information Form, available on SEDAR at www.sedar.com or on EDGAR at www.sec.gov and on our website at www.worldcolor.com.

Highlights

Financial

Fiscal Year ended December 31, 2009

- Combined consolidated operating revenues were \$3,072 million, a 24% decrease compared to \$4,017 million in 2008;
- Adjusted EBITDA decreased to \$329 million compared to \$379 million in 2008, mostly due to the lower volumes largely offset by a number of initiatives designed to help reverse the negative volume trend; and
- Free cash flow of \$124 million compared to \$50 million in 2008.

Three Months ended December 31, 2009

- Consolidated operating revenues were \$848 million, a 18% decrease compared to \$1,033 million in the fourth quarter of 2008;
- Adjusted EBITDA increased to \$132 million compared to \$118 million in the fourth quarter of 2008, a result of the Company putting in place a number of initiatives designed to help reverse the negative impact of the drop in volume; and
- Free cash flow of \$79 million compared to an outflow of \$39 million in 2008.

Customers

- During the year, Worldcolor announced that the following contracts with significant customers were renewed or signed: ABA Publishing, Boardroom, CVS Caremark, Forbes Magazines, Macmillan, Newsweek Budget Travel, Pace Communications, Rodale, Schofield Media Group and USA Weekend;
- Worldcolor won 34 Gold Ink Awards in the annual printing competition sponsored by Publishing Executive, Printing Impressions and Book Business magazines; and
- Worldcolor received the 2008 Exceptional Customer Service Supplier of the Year Award from Walmart.

Other

- On July 21, 2009, QWI emerged from bankruptcy protection, was renamed and began operating as Worldcolor;
- Worldcolor’s Common Shares and Series I and II Warrants were listed on the Toronto Stock Exchange (TSX) on August 26, 2009;
- On September 17, 2009, Worldcolor introduced its new logo, go to market identity and brand promise which encapsulates Worldcolor’s message to customers: “Worldcolor is the partner of choice for reaching your target audience through print and electronic communications”; and
- The following senior management appointments were made during the third quarter of 2009:
 - Mark A. Angelson as Chairman and Chief Executive Officer;
 - Andrew P. Hines as Executive Vice President and Chief Financial Officer;
 - John V. Howard as Executive Vice President, Chief Legal Officer;
 - Robert L. Sell as Executive Vice President, Chief Information Officer;

- Ben Schwartz to Executive Vice President, Human Resources;
 - Daniel J. Scapin as President of Logistics and Premedia business group in the U.S.;
 - Lorien O. Gallo as Senior Vice President, Office of the Chairman; and
 - Jo-Ann Longworth to Senior Vice President, Chief Accounting Officer.
- On November 24, 2009, the Marketing Solutions Group, the Publishing Services Group and our Canadian manufacturing operations were joined into one operational entity. This new structure is designed to streamline our operations to better serve our customers and to optimize the cost structure of our North American business; and
 - On January 25, 2010, the Company and Quad/Graphics, Inc. entered into a definitive arrangement agreement pursuant to which, subject to the terms and conditions set forth therein, the Company will amalgamate with a subsidiary of Quad/Graphics, Inc. as part of a statutory arrangement under Canadian law. The transaction is expected to close in the summer of 2010, subject to certain regulatory approvals and other closing conditions (see “Subsequent events” section 8).

Presentation of financial information and combined financial results

As described in Note 1 to the 2009 annual consolidated financial statements, on January 21, 2008 (the “Filing Date”), QWI obtained an order from the Quebec Superior Court granting creditor protection under the *Companies’ Creditors Arrangement Act* (the “CCAA”) for itself and for 53 U.S. subsidiaries (the “U.S. Subsidiaries” and, collectively with QWI, the “Applicants”). On the same date, the U.S. Subsidiaries filed a petition under Chapter 11 of the U.S. Bankruptcy Code in the Bankruptcy Court for the Southern District of New York (the “U.S. Bankruptcy Court”). The proceedings under the CCAA and Chapter 11 are hereinafter collectively referred to as the “Insolvency Proceedings”.

On June 22, 2009, the creditors of the Applicants approved a plan of compromise and reorganization (the “Plan”) under both the CCAA and Chapter 11. On June 30, 2009, the Plan was sanctioned by the Quebec Superior Court, and it was confirmed by the U.S. Bankruptcy Court on July 2, 2009. The Plan was implemented following various transactions that were completed on July 21, 2009 (the “Effective Date”). Accordingly, the Applicants emerged from bankruptcy protection and QWI was renamed and began operating as Worldcolor on the Effective Date.

The implementation of the Plan on July 21, 2009 resulted in a substantial realignment of the interests in the Company between its existing creditors and shareholders as of the Filing Date. As a result, the Company adopted fresh start accounting effective July 21, 2009. In light of the proximity of the Effective Date to the end of its accounting period immediately following July 21, 2009, which is July 31, 2009, the Company has elected to adopt fresh start accounting and account for the effects of the Plan, including the cancellation of the old capital stock of QWI and the creation and issuance of Worldcolor’s new capital stock, as if such events had occurred on July 31, 2009 (the “Fresh-start Date”). Due to our adoption of fresh start accounting, the accompanying consolidated statement of income (loss) includes the results of operations for (i) the seven months ended July 31, 2009 of the Predecessor and (ii) the five months ended December 31, 2009 of the Successor. Therefore, for the purpose of the management’s discussion and analysis of the results of operations, we combined the period and year-to-date results of operations of the Predecessor and the Successor. The resulting combined results of operations for the three months ended September 30, 2009 and twelve months ended December 31, 2009 are then compared to the corresponding periods in the prior year.

We believe the combined results of operations, specifically revenues, EBITDA and operating income for the twelve months ended December 31, 2009 provide management and investors with a more meaningful perspective on Worldcolor’s ongoing financial and operational performance and trends than if we did not combine the results of operations of the Predecessor and the Successor in this manner. Similarly, we combined the operations of the Predecessor and the Successor when discussing our sources and uses of cash for the twelve months ended December 31, 2009. Nevertheless, the application of fresh start accounting results in the financial statements of the Successor may not be comparable to the Predecessor in many respects (see “Risks factors” section in our Annual Information Form).

The consolidated financial statements included in this MD&A have been prepared in conformity with Canadian generally accepted accounting principles (“GAAP”). For a discussion of the significant differences between Canadian GAAP and U.S. GAAP, see Note 33.

In this MD&A the Company uses certain financial measures that are not calculated in accordance with Canadian GAAP or U.S. GAAP to assess its financial performance, including EBITDA (earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, Adjusted EBIT, and free cash flow. The Company uses such non-GAAP financial measures because the Company believes that they are meaningful measures of its performance. The Company’s method of calculating these non-GAAP financial measures may differ from the methods used by other companies and, as a result, the non-GAAP financial measures presented in this MD&A may not be comparable to other similarly titled measures disclosed by other companies. These non-GAAP measures are intended to provide additional information on the performance of the Company and should not be considered in isolation or as substitutes for measures of performance

prepared in accordance with Canadian GAAP or U.S. GAAP. Numerical reconciliations are provided in Figures 5, 6, 7 and 8.

Since the Effective Date, the Company's reporting currency and its functional currency is the U.S. dollar.

Forward-looking statements

To the extent any statements made in this MD&A contain information that is not historical, these statements are forward-looking statements as fully described in our Annual Information Form for the year ended December 31, 2009 section "Forward Looking Statements".

Unless mentioned otherwise, the forward-looking statements in this MD&A reflect the Company's expectations as of March 1, 2010, being the date at which they have been approved, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

1. Creditor protection and the plan of reorganization

Background and Overview

As described in Note 1 to the 2009 annual consolidated financial statements, on January 21, 2008, QWI obtained an order from the Quebec Superior Court granting creditor protection under the Companies' Creditors Arrangement Act (the "CCAA") for itself and for 53 U.S. subsidiaries (the "U.S. Subsidiaries" and, collectively with QWI, the "Applicants"). On the same date, the U.S. Subsidiaries filed a petition under Chapter 11 of the U.S. Bankruptcy Code in the Bankruptcy Court for the Southern District of New York (the "U.S. Bankruptcy Court"). The proceedings under the CCAA and Chapter 11 are hereinafter collectively referred to as the "Insolvency Proceedings". QWI's Latin American subsidiaries were not subject to the Insolvency Proceedings. During the Insolvency Proceedings, the Applicants continued to operate under the protection of the relevant courts.

On June 22, 2009, the creditors of the Applicants approved a plan of compromise and reorganization (the "Plan") under both the CCAA and Chapter 11. On June 30, 2009, the Plan was sanctioned by the Quebec Superior Court, and it was confirmed by the U.S. Bankruptcy Court on July 2, 2009. The Plan was implemented following various transactions that were completed on July 21, 2009 (the "Effective Date"). Accordingly, the Applicants emerged from bankruptcy protection and QWI was renamed and began operating as Worldcolor on the Effective Date.

The implementation of the Plan on July 21, 2009 resulted in a substantial realignment of the interests in the Company between its existing creditors and shareholders as of the Filing Date. As a result, the Company adopted fresh start accounting effective July 21, 2009 in accordance with Section 1625 "Comprehensive Revaluation of Assets and Liabilities" of The Canadian Institute of Chartered Accountants Handbook ("CICA Handbook"). Fresh start accounting requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity's reorganization value of \$1.5 billion to its assets and liabilities in a manner consistent with Section 1581 "Business Combinations" of the CICA Handbook. The excess reorganization value over the fair value of tangible and identifiable intangible assets and liabilities has been recorded as a reduction to capital stock in the consolidated balance sheet. Future income taxes, at the Fresh-start Date, have been determined in conformity with section 3465 "Income Taxes" of the CICA Handbook. For additional information regarding the impact of fresh start accounting, see "Fresh-start Consolidated Balance Sheet" below. In light of the proximity of the Effective Date to the end of its accounting period immediately following July 21, 2009, which is July 31, 2009, the Company elected to adopt fresh start accounting for the effects of the Plan, including the cancellation of the old capital stock of QWI and the creation and issuance of Worldcolor's new capital stock, as if such events had occurred on the Fresh-start Date. The Company evaluated the activity between July 22, 2009 and July 31, 2009 and, based upon the immateriality of such activity, concluded that the use of July 31, 2009 to reflect the fresh start accounting adjustments was appropriate for financial reporting purposes. The use of the July 31, 2009 date is for financial reporting purposes only and does not affect the Effective Date of the Plan.

Another part of the Company's restructuring activities was the sale of its European operations to a subsidiary of Homborgh Holdings B.V. ("HHBV"), since renamed CirclePrinters Holding B.V., a Netherlands-based investment group. On June 17, 2008, the Quebec Superior Court and the U.S. Bankruptcy Court approved the proposed sale transaction, which closed on June 26, 2008. Under the terms of the agreement of sale, the Company received €52.2 million in cash at closing. HHBV issued a €21.5 million five-year note bearing interest at 7% per year payable to the Company. The sale was made substantially on an "as is, where is" basis (Note 6).

Plan of Reorganization

Following implementation of the Plan, Worldcolor reorganized its capital structure and issued (or will issue) the following securities in exchange for \$3.1 billion of Liabilities Subject to Compromise ("LSTC"):

- New unsecured notes to be issued in the estimated aggregate principal amount of \$43 million;
- 12,500,000 new convertible Class A preferred shares;
- 73,285,000 new common shares; and
- 10,723,019 Series I warrants and 10,723,019 Series II warrants.

In accordance with the terms of the Plan, the common shares, the preferred shares and the Series I and Series II warrants were issued in escrow as of the Effective Date pending the resolution of claims. Subsequently, a portion of the securities has been released from escrow (Note 22). These transactions are considered non-cash transactions for cash flow purposes.

In addition, cash payments of \$100 million in satisfaction of certain claims were made to holders of the Predecessor's senior secured debt, all of which were paid on the Effective Date. Also, the Company will make payments of approximately \$60 million in connection with secured, administrative, priority tax and small

convenience unsecured claims, of which \$12 million was paid on the Effective Date and \$3 million was paid prior to December 31, 2009.

The implementation of the Plan also involved the following refinancing transactions:

- Repayment of \$587 million under the Predecessor's debtor-in-possession ("DIP") financing; and
- Entering into a new exit financing credit facility of \$800 million (Note 19).

Pursuant to the Plan, on the Effective Date, QWI's then existing Multiple Voting Shares, Redeemable First Preferred Shares and Subordinate Voting Shares were effectively cancelled for no consideration in accordance with the Articles of Reorganization that were filed with the Quebec Superior Court as one of the steps to implement the Plan.

The Company continues to incur expenses related to the Insolvency Proceedings, primarily professional fees that were classified as reorganization items in the Predecessor's financial results. After emergence from bankruptcy protection, these expenses are classified as Impairment of assets, restructuring and other charges ("IAROC") (Note 7), in the Successor's consolidated statement of income (loss).

Significant Ongoing Insolvency Proceedings Matters

Claims Procedure

On September 29, 2008, QWI initiated a claims procedure for the identification, resolution and barring of claims against the Applicants as authorized by the courts in the Insolvency Proceedings.

The total amount of such claims filed exceeded the amount recorded in the Predecessor's consolidated financial statements as LSTC. Differences in the total dollar value of the claims filed by creditors and the liabilities recorded are being investigated and resolved in connection with the claims resolution process.

As set out in the Canadian and U.S. Claims Procedure Orders, certain claims were excluded from the claims process ("Excluded Claims") and do not have to be proven as part of the Insolvency Proceedings, as they are not LSTC.

Claims Assessment

As of February 8, 2010, a total of 8,002 claims, net of subsequent withdrawn and expunged claims ("Total Claims"), had been received, of which 1,153 were filed against QWI and 6,849 were filed against the U.S. Subsidiaries. The Total Claims filed, net of subsequent withdrawn and expunged claims, amounted to \$7.4 billion.

The Claims Procedure Order required creditors to file a separate proof of claim against each of the Applicants against which they believed they had a claim. For a number of reasons, certain creditors have filed the same claim against two or more of these Applicants. One instance where this duplication occurs is when a creditor takes the position that multiple Applicants are jointly and severally liable for a single Applicant's debt. Another situation that gives rise to duplication is where one or more of the Applicants has or have guaranteed another Applicant's indebtedness. The Total Claims filed included a number of such multiple or duplicate claims and, as a result, the total value of such claims is overstated. The Company believes these multiple or duplicate claims amount to \$1.9 billion.

The Total Claims filed less duplicate or multiple claims, Excluded Claims and subsequently withdrawn and expunged claims amount to approximately \$3.1 billion. Of this amount, QWI recorded \$2.8 billion (excluding post-filing interest) as LSTC on the Predecessor's consolidated balance sheet as of July 31, 2009.

	in millions	
Claims filed net of withdrawn and expunged claims as at February 8, 2010	\$	7,394
Less:		
Excluded claims		2,460
Duplicate claims		1,867
Claims filed net of withdrawn and expunged, excluded and duplicate claims		3,067
Claims still under review		286
Liabilities subject to compromise (excluding post-filing interest)	\$	2,781

The difference between the recorded LSTC and the amount of Total Claims filed less duplicate or multiple claims, Excluded Claims, and claims subsequently withdrawn and expunged amounts to \$286 million and continues to be investigated. The Company believes it is unlikely that any of these excess claims, or unaccrued portion thereof, will

be allowed by the relevant courts. It is not possible to estimate the quantum of the claims that will ultimately be allowed by the courts. However, we believe there will be no further material impact to the Consolidated Statement of Income (Loss) of the Successor from the settlement of unresolved general unsecured claims against the Canadian and US non-operating debtors because the holders of such claims will receive under the Plan only their pro rata share of the distribution of the newly issued common shares, Class A preferred shares and Series I and Series II warrants. It is however possible that allowed general unsecured claims against the U.S. operating debtors (see Note 20 for a description of the terms and conditions of the unsecured notes to be issued) as well as secured, priority and administrative claims against the debtors may be in excess of the amount recorded as of December 31, 2009 given the magnitude of the claims asserted. In light of the substantial number and amount of claims filed, particularly duplicate and multiple claims, the claims resolution process may take considerable time to complete and are continuing after the Company's emergence from bankruptcy protection.

Legal issues related to emergence

Pursuant to the Plan, claims for the recovery of amounts paid to the holders of certain senior unsecured notes and/or other creditors prior to the Filing Date as preferential or fraudulent conveyances, whether arising under the U.S. Bankruptcy Code or similar state laws, including amounts received by the Applicants on account of such claims prior to the Effective Date (such claims and amounts being collectively referred to as the "Avoidance Actions") were transferred to a trust (the "Litigation Trust") created for the benefit of creditors, as specifically provided for therein. To facilitate the implementation of the Litigation Trust, the Plan requires the Company to fund a secured loan to the Litigation Trust in an amount of up to \$5 million in order to pay for the costs and expenses of its administration as well as the prosecution of the Avoidance Actions, and will be funded as these costs and expenses are incurred by the Litigation Trust. The loan will be secured by a pledge in favor of the Company on the Avoidance Actions and all interests thereon and other earnings, income or other assets of the Litigation Trust. The Company funded \$0.7 million of this secured loan as of December 31, 2009. The assets and liabilities of the Litigation Trust are not recorded in the Company's financial statements because the Company is not the primary beneficiary of the Litigation Trust.

Fresh-start consolidated balance sheet

As previously noted, the Company adopted "fresh start" accounting at the Fresh-start Date. Under fresh start accounting, the Company undertook a comprehensive re-evaluation of its assets and liabilities based on the estimated enterprise value of \$1.5 billion as established in the Plan. Enterprise value is generally defined to be the Company's estimated fair value at the Fresh-start Date, less cash and cash equivalents. As a result of fresh start accounting, Worldcolor became a new entity for financial reporting purposes. Accordingly, the consolidated financial statements of the Successor on or after August 1, 2009 are not comparable to the consolidated financial statements of the Predecessor prior to that date.

Our estimates of fair value are based on independent appraisals and valuations which were completed as of the date of issuance of our Consolidated Financial Statements. To determine the enterprise value of the Successor, management developed a set of financial projections for the Successor using a number of estimates and assumptions. With the assistance of financial advisors, management determined the enterprise value and corresponding equity value of the Successor based on these financial projections using various valuation methods, including (a) selected publicly-traded companies' analysis, (b) selected transactions analysis and (c) a discounted cash flow analysis. Based upon these analyses, management estimated that the going concern enterprise value of the Successor, at the Fresh-start Date, was in a range of \$1.25 billion to \$1.75 billion. The enterprise value and the corresponding equity value are dependent on achieving the future financial results set forth in management's projections, as well as the realization of certain other assumptions. For the valuation of individual assets and liabilities, management has estimated the fair value using prices for similar assets and liabilities in the market place (market approach) or discounted future cash flows (income approach). The fair values of preferred shares, warrants and embedded derivatives were determined using valuation models for such instruments. For the valuation of unsecured notes to be issued, see Note 20. All estimates, assumptions, valuations, appraisals and financial projections, including the fresh start adjustments, the enterprise value and equity value, are inherently subject to significant uncertainties outside of management's control. Accordingly, there can be no assurance that the estimates, assumptions, valuations, appraisals and financial projections will be realized and actual results could vary materially.

A fresh-start consolidated balance sheet as at July 31, 2009 is set out below with adjustments summarized in the columns captioned a) Plan of Reorganization, b) Exit Financing and c) Fresh Start Adjustments. These adjustments reflect the effect of the Plan's implementation, including the compromise of various liabilities, the issuance of new securities and various cash payments, as more thoroughly described in the Plan, as well as the re-evaluation of the assets and liabilities to estimated fair values.

Fresh-start Consolidated Balance Sheet

(In millions of US dollars)

	Predecessor July 31, 2009	Plan of Reorganization	Exit Financing	Fresh Start Adjustments	Successor July 31, 2009
Assets					
Current assets:					
Cash and cash equivalents	\$ 293	\$ (104)	\$ (124)	\$ -	\$ 65
Accounts receivable	485	(23)	-	(11)	451
Inventories	190	-	-	5	195
Income taxes receivable	33	(26)	-	-	7
Future income taxes	9	9	-	(4)	14
Prepaid expenses and deposits	61	5	-	(1)	65
Total current assets	1,071	(139)	(124)	(11)	797
Property, plant and equipment	1,121	9	-	(4)	1,126
Intangible assets	-	-	-	389	389
Restricted cash	93	(33)	-	-	60
Future income taxes	2	5	-	14	21
Other assets	348	(4)	-	(263)	81
Total assets	\$ 2,635	\$ (162)	\$ (124)	\$ 125	\$ 2,474
Liabilities and Shareholders' equity (deficit)					
Current liabilities:					
Bank indebtedness	\$ 2	\$ -	\$ -	\$ -	\$ 2
Trade payables	91	(3)	-	-	88
Accrued liabilities	293	(6)	-	(12)	275
Amounts owing in satisfaction of bankruptcy claims	-	48	-	-	48
Income and other taxes payable	44	(3)	-	(27)	14
Future income taxes	-	-	-	-	-
Current portion of long term debt	13	-	-	-	13
Current portion of liabilities subject to compromise	166	(166)	-	-	-
Total current liabilities	609	(130)	-	(39)	440
Liabilities subject to compromise	2,924	(2,924)	-	-	-
DIP financing	587	-	(587)	-	-
Long-term debt	57	6	-	3	66
Exit financing	-	-	463	-	463
Unsecured Notes	-	43	-	-	43
Other liabilities	183	32	-	302	517
Future income taxes	47	174	-	(52)	169
Preferred shares - Predecessor	26	-	-	(26)	-
Preferred shares - Successor	-	94	-	-	94
Shareholders' equity (deficit):					
Capital stock - Predecessor	1,609	-	-	(1,609)	-
Capital stock - Successor	-	721	-	(93)	628
Contributed surplus	107	54	-	(107)	54
Deficit	(3,665)	1,768	-	1,897	-
Accumulated other comprehensive income (loss)	151	-	-	(151)	-
	(1,798)	2,543	-	(63)	682
Total liabilities and shareholders' equity (deficit)	\$ 2,635	\$ (162)	\$ (124)	\$ 125	\$ 2,474

See accompanying assumptions

Plan of Reorganization Column

In the Plan of Reorganization column, LSTC of \$3.1 billion in the Predecessor was discharged with the issuance of new common shares, preferred shares, warrants and as well as unsecured notes to be issued by Worldcolor. Certain other claims of holders under the Predecessor's senior secured debt and certain other secured, administrative, priority tax and convenience unsecured claims of approximately \$160 million will be paid in cash, of which \$112 million was paid on the Effective Date. The remaining balance was recorded as Amounts owing in satisfaction of bankruptcy claims. In addition, certain income tax liabilities amounting to \$26 million that were subject to compromise are expected to be settled against income taxes receivable from the current and prior years. Finally, the Plan provides for the repudiation of the non-qualified pension plans, collectively defined as "Rejected Employee Agreements". As of August 10, 2009, almost all of the participants in the Rejected Employee Agreements have agreed to participate in new non-qualified benefit plans and agreements (collectively, the "New Benefits Plan"). As a result, an amount of \$32 million was recorded to recognize the unfunded liability of the New Benefits Plan, and reflected as other liabilities, in settlement of the liability for Rejected Employee Agreements which was subject to compromise. The employees that did not participate in the New Benefits Plan filed a claim against the Company prior to emergence, and management's best estimate of the amount to be disbursed was included in the LSTC prior to emergence.

Projected net future income tax liabilities of approximately \$160 million were recognized on the discharge of the LSTC. The discharge of the LSTC gives rise to cancellation of debt ("COD") income for income tax purposes and is projected to reduce certain of the Company's tax attributes, such as net operating loss ("NOL") and NOL carry forwards as well as capital loss carry forwards and the tax basis of the Company's depreciable and non-depreciable assets, which will increase the Company's income tax obligation in the future. Because some of the debtors' outstanding indebtedness will be satisfied under the Plan by way of consideration other than cash, the amount of COD income, and accordingly the amount of tax attributes that may be reduced, will depend in part on the fair market value of such non-cash consideration.

Exit Financing Column

The Company obtained exit financing of \$800 million (Note 19) including a Term Loan of \$450 million, fully drawn, and a Revolving Credit Facility of \$350 million, of which \$89 million was drawn on the Effective Date. Transaction fees and debt issuance costs of \$76 million have been reflected as a reduction to the face value of the Term Loan and draws on the Revolving Credit Facility at the Fresh-start Date. Net drawdowns under the Term Loan and Revolving Credit Facility, together with cash and cash equivalents of \$124 million were used to repay the DIP financing of the Predecessor.

Fresh Start Adjustments Column

The fresh start adjustments reflect the estimated fair value of the Company's assets and liabilities as of the Fresh-start Date. The significant fresh start accounting adjustments reflected in the Fresh-start Consolidated Balance Sheet, based on current estimates, are summarized as follows:

(a) Working capital:

The historical cost for substantially all of the Company's current assets and liabilities is reflective of their current fair values. Work-in-process inventories were increased by \$5 million to reflect their market value.

(b) Property, plant and equipment:

A fresh start adjustment of \$4 million was recorded to reduce the historical cost of property, plant and equipment to estimated fair values.

(c) Intangibles and Other assets:

A fresh start adjustment of \$389 million was recorded for finite-life intangible assets representing the estimated fair value of Worldcolor's customer relationships and contracts. These intangible assets will be amortized on a straight-line basis over their estimated useful lives which range from 4 years to 15 years.

Other fresh start adjustments to estimated fair value include: the reduction of pension assets of \$142 million, the reduction of contract acquisition costs of \$82 million, which are effectively included in the aforementioned intangible assets, and other various fair value adjustments totaling \$39 million.

(d) Other liabilities:

Fresh start adjustments of \$293 million were recorded to reflect the values of the unfunded pension and other postretirement benefits liabilities at the Fresh-start Date and reflect the Plan assumptions that the existing registered pension plans will remain essentially unchanged. The Company also reclassified \$51 million of reserves for tax uncertainties, mainly from income and other taxes payable. Other fresh start adjustments amounting to \$42 million were made to reduce other liabilities to their estimated fair values as of the Fresh-start Date.

(e) Future income taxes:

A fresh start adjustment of \$39 million, which decreases net future income tax liabilities, has been recorded for the recognition of net future income tax assets related to the aforementioned fresh start adjustments made to property, plant and equipment, intangible assets, other assets and other liabilities, in addition to the reclassification of \$23 million of reserves for tax uncertainties to other liabilities.

(f) Shareholders' equity (deficit):

Adopting fresh start accounting results in a new reporting entity with no retained earnings or deficit. All Predecessor capital stock has been eliminated and replaced by the new equity structure of the Successor. The fresh start adjustments include the cancellation of Predecessor capital stock, preferred shares, contributed surplus, deficit and accumulated other comprehensive income, as well as a reduction to the Successor Capital Stock as a result of the reorganization value over the fair value of the identifiable assets and liabilities stemming from fresh start accounting. During the fourth quarter of 2009, the Company finalized the valuation of its net assets at the Fresh-start Date. Additional adjustments of \$49 million were made, mainly related to future income taxes, compared to previously reported amounts at September 30, 2009. This resulted in a corresponding increase in Successor capital stock at July 31, 2009.

2. Financial review

2.1. Industry trends and outlook

Global economic conditions affect our customers' businesses and the markets they serve. The credit crisis and global economic weakness have resulted in constrained advertising spending and, in certain cases, customer financial difficulties in our North American segment. This has put significant downward pressure on both volumes and, to a lesser degree, on price, across nearly all of North America's printing and related services.

Despite an uncertain economic environment, it is expected that the recent drop in volume that mostly arose following the North American recession will stabilize in 2010. However, competition in the industry remains intense as the industry is still in the process of consolidating and is still suffering from overcapacity. Under these conditions, we are focusing on improving our product and segment mix, adding customer value through initiatives such as our new integrated multi-channel solutions and our innovative custom publishing engine, and improving productivity through continuous improvement projects and technology. We are also aggressively aligning our cost structure to mitigate the impact of the economic downturn as outlined below.

Although Latin America also has been affected by the global economic weakness mainly in its export business, with current and planned investments in new capacity, this segment's revenues are forecast to increase in line with expected growth from an existing customer base.

During 2008 and 2009, we undertook various initiatives to adapt our cost structure to the rapidly changing economic environment including:

- Divested our non-strategic operations in Europe in June 2008, which allowed us to remain focused on our core business in the Americas and reduced the operational risks associated with the uncertainty of the long-term profitability of the European operations.
- Implemented significant profit improvement initiatives to align our costs with anticipated volume decreases. In June 2008, we integrated and rationalized the number of business divisions in the U.S. from six to three, which allowed us to better serve existing and new customers by having more streamlined and customer-driven operations. Three facilities were closed in 2008, one in April 2009, one in July 2009 and two in December 2009. The Company approved in January and February 2010 the closure of four additional facilities, which are all expected to be completed within the first half of 2010. In November 2009, we combined all of the North American printing platforms into one. This new structure is designed to streamline our operations to better serve our customers, and to optimize the cost structure of our North American business. As a result, corporate and plant staff levels were reduced by more than 10% in 2008 and were reduced a further 14% in 2009.
- Froze the salaries of all non-unionized North American employees effective January 1, 2009, suspended employer's contributions for non-unionized U.S. employees to the 401(k) plans effective February 1, 2009, and reduced Senior Management salaries by 5%.
- Implemented a significant cost reduction plan in North America, effective April 19, 2009. This plan includes a 10% wage reduction for non-unionized salaried and hourly employees (including sales commissions), a reduction of employees' paid vacation entitlement by one week, suspension of the employer's contribution for non-unionized U.S. employees for the 401(a) plans, standardization in pay for work on holidays to time-and-a-half, and changes to the Company's severance and overtime policies. In connection with the implementation of this cost savings plan, all the collective agreements were re-opened during the second quarter of 2009 and the Company has obtained similar concessions from its unionized employees. The annual cost savings relating to these initiatives are estimated at approximately \$100 million.

2.2. Fiscal Year ended December 31, 2009 Compared to Fiscal Year ended December 31, 2008

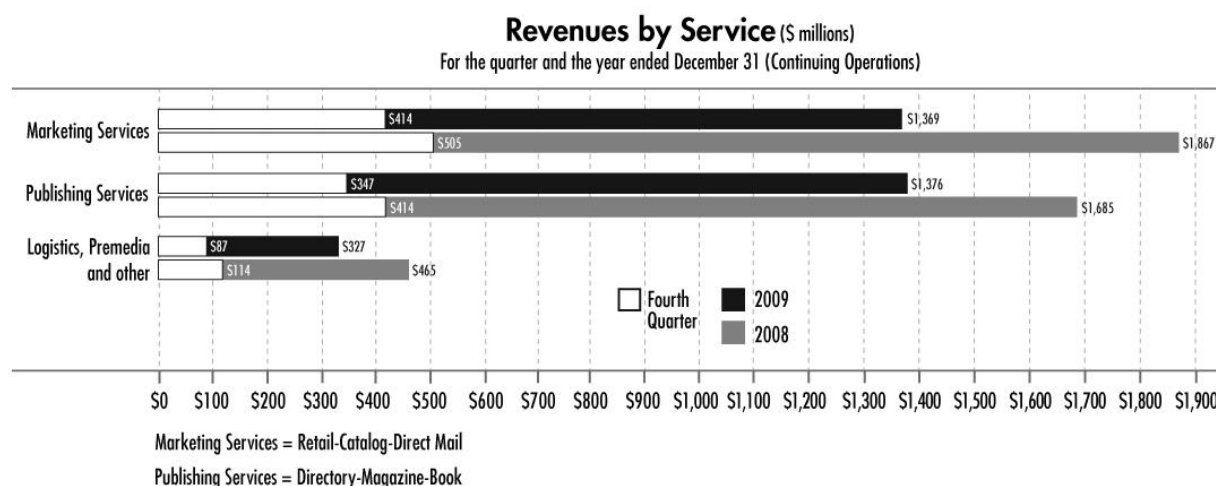


Figure 1

Selected Annual Information (Continuing Operations) (\$ millions)

	Combined		Predecessor	
	Years ended December 31			
	2009	2008	2007	
Consolidated Results				
Operating Revenues	\$ 3,072	\$ 4,017	\$ 4,655	
Adjusted EBITDA	329	379	480	
Adjusted EBIT	125	121	170	
IAROC	61	242	224	
Goodwill impairment charge	-	341	1,833	
Operating income (loss)	64	(462)	(1,887)	
Net loss from continuing operations	(154)	(944)	(1,837)	
Net loss	(154)	(1,659)	(2,200)	

Figure 2

IAROC: Impairment of assets, restructuring and other charges

Adjusted EBITDA and EBIT: Defined as before IAROC and goodwill impairment charge

Management assesses the Company's performance based on, among other measures, operating income and Adjusted EBIT. Certain of these measures are not defined by Canadian GAAP. A reconciliation of non-GAAP measures to their respective closest GAAP measures, together with a discussion of their use, is provided in Figures 5, 6, 7 and 8. An analysis of the segment results is also presented in Section 2.5.

Operating revenues

Our consolidated operating revenues were \$3.1 billion, a 24% decrease when compared to \$4.0 billion for the same period in 2008. Excluding the negative impact of currency translation (Figure 3), operating revenues were down 22% compared to the same period in 2008. The decrease in operating revenues resulted primarily from lower volumes mostly due to the North American recession, which resulted in reduced advertising spending, and, to a lesser extent, negative price pressures. More details are provided in the "Segment results" section.

Paper sales, excluding the effect of currency translation, decreased by 26% on a year-to-date basis, compared to the same period in 2008. The decrease in paper sales is mostly explained by lower volumes as well as one large customer now supplying its own paper. Variance in paper sales has an impact on operating revenues, but it has little impact on operating income because the cost is generally passed on to the customer.

Impact of Foreign Currency and Paper Sales

(\$ millions)

	<u>Successor</u>		<u>Combined</u>	
	Three months ended December 31, 2009		Twelve months ended December 31, 2009	
Foreign currency favorable (unfavorable) impact on operating revenues	\$	24	\$	(58)
Paper sales unfavorable impact on revenues	\$	(81)	\$	(280)
Foreign currency favorable impact on operating income	\$	3	\$	6

Figure 3

Operating income and adjusted EBIT

For 2009, excluding depreciation and amortization of \$177 million in 2009 and \$229 million in 2008, cost of sales decreased by 24% to \$2.5 billion, compared to \$3.3 billion in 2008. Cost of sales were favorably impacted by restructuring initiatives (see section 2.6), the significant cost reduction plan implemented in North America in 2009 as well as lower utility expenses. The decrease in cost of sales, including lower depreciation and amortization, more than offset lower revenues and resulted in improved adjusted EBIT for 2009 of \$125 million compared to \$121 million in 2008. Excluding depreciation and amortization, the gross profit margin in 2009 was 19.1% compared to 17.5% in 2008.

Selling, general and administrative expenses were \$286 million for 2009, a decrease of 19% compared to \$351 million in 2008. Excluding depreciation and amortization expense of \$15 million in 2009 and \$10 million in 2008 and excluding the favorable impact of currency translation of \$8 million, selling, general and administrative expenses decreased by 18%, compared to the same period last year. The favorable variance is explained mainly by various workforce reduction initiatives, reduction in salaries and benefits due to the significant cost reduction plan implemented in April 2009 as well as lower bad debt expenses.

The total depreciation and amortization included in cost of sales and selling, general and administrative expenses above were \$192 million in 2009, compared to \$240 million in 2008. Excluding the favorable impact of currency translation of \$3 million, depreciation and amortization expense decreased by 18%, compared to the same period last year. Lower depreciation and amortization resulted mainly from the lower level of capital investment following finalization of our extensive retooling plan in 2007, the impairment of long-lived assets that was recorded in the fourth quarter of 2008, as well as plant closures that occurred over the course of the last two years. The lower depreciation and amortization also resulted from fresh start adjustments (see the "Fresh Start Adjustments Column" section for more details) which re-set the historical cost of the fixed assets to their fair values. This increased the value of longer-lived assets (such as buildings) and reduced the value of shorter-lived assets (such as machinery and equipment) which effectively increased the weighted-average remaining useful lives of the re-valued property, plant and equipment compared to the historical lives. Partially offsetting this decrease in depreciation expense was the increase in the amortization of customer relationships and contracts amounting to \$17 million, a result of recording this finite-life intangible asset on the Successor's balance sheet.

Operating income in 2009 was \$64 million, compared to operating loss of \$462 million in 2008, largely explained by the significant asset and goodwill impairment charges in 2008 discussed below under "Impairment of assets and restructuring initiatives" section.

Other items

During 2009, we recorded IAROC of \$61 million, compared to \$242 million in 2008. The charge for 2009 was mainly related to plant closures and workforce reductions in North America, as well as post-emergence reorganization items. These measures are described below under "Impairment of assets and restructuring initiatives".

During 2008, we recorded a goodwill impairment charge of \$341 million to reflect impairment of the remaining goodwill in the North American reporting unit.

Financial expenses were \$74 million for the seven-month period ended July 31, 2009 and \$30 million for the five-month period ended December 31, 2009 for a combined expense of \$104 million in 2009, compared to \$410 million in 2008. The decrease is mainly due to gains on foreign exchange in 2009 of \$76 million (\$74 million of which was recognized during the seven-month period ended July 31, 2009), primarily as a result of favorable movement in the Canadian dollar, compared to losses on foreign exchange in 2008 of \$128 million, the write-off

of deferred financing costs amounting to \$58 million recorded in the second quarter of 2008 and the extinguishment of pre-petition debt upon emergence from bankruptcy protection.

We recorded reorganization items which represent post-filing expenses, gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the Applicants totaling \$67 million 2009 (\$106 million in 2008). The decrease is a result of our emergence from bankruptcy protection, subsequent to which these expenses, primarily professional fees, of \$15 million are classified as IAROC.

Income tax expense was \$18 million for the seven-month period ended July 31, 2009 and \$19 million for the five-month period ended December 31, 2009 for a combined expense of \$37 million for 2009, compared to a recovery of \$39 million in 2008. Income tax expense before IAROC and goodwill impairment charge was \$25 million for the Predecessor and \$30 million for the Successor for a combined expense of \$55 million for 2009 compared to \$54 million for 2008. In 2009, income tax expense was mainly impacted by the non-deductibility of interest on pre-petition U.S. debt as well as an increase in valuation allowance related to tax benefits whose realization is not foreseen in Canada and in the U.S. In addition, the 2009 income tax expense was favorably affected by foreign tax rate differences.

Net loss

In 2009, we reported a net loss from continuing operations of \$154 million compared to \$944 million in 2008. These results incorporated IAROC and goodwill impairment charge, net of income taxes, of \$44 million in 2009 compared with \$490 million in 2008 and reorganization items, net of taxes, of \$62 million in 2009 compared to \$95 million in 2008.

2.3. Fiscal Year ended December 31, 2008 Compared to Fiscal Year ended December 31, 2007

Operating revenues

The Company's consolidated revenues for 2008 were \$4.0 billion, a 14% decrease when compared to \$4.7 billion for 2007 and down 9% excluding the impact of currency translation and paper sales. The decrease in revenues resulted primarily from lower volumes due to the North American recession, plant closures, lower paper sales, and to a lesser extent, the impact of the Insolvency Proceedings. Despite negative competitive price pressures, overall revenues per impressions appeared stable, primarily due to improvements in product mix. More details are provided under "Segment results".

Paper sales, excluding the effect of currency translation, decreased by 18% during 2008 compared to 2007. The decrease in paper sales is mostly explained by lower production volumes. Although the variance in paper sales has an impact on revenues, it has little impact on operating income because the cost is generally passed on to the customer. Most of the Company's long-term contracts with its customers include price-adjustment clauses based on the cost of materials in order to minimize the effects of paper price fluctuations.

Operating income and adjusted EBIT

Adjusted EBIT decreased to \$121 million, compared to \$170 million in 2007. Adjusted EBIT margin was 3.0% for 2008, compared to 3.6% for 2007. The reduction of adjusted EBIT results from the reduction in revenues, but was partially offset by the decrease in cost of sales, selling, general and administrative expenses and securitization fees.

Cost of sales decreased by 13% to \$3.5 billion, compared to \$4.1 billion in 2007. Excluding depreciation and amortization of \$229 million in 2008 and \$239 million in 2007, cost of sales decreased by 14%. It is in line with reduced volumes in addition to a reduction in labor costs. Excluding depreciation and amortization, gross profit margin was 17.5% in 2008, virtually unchanged from 2007.

Selling, general and administrative expenses were \$351 million in 2008, compared with \$389 million in 2007. Excluding depreciation and amortization expenses of \$10 million in 2008 and \$11 million in 2007, selling, general and administrative expenses decreased by 10%, compared to the same period in 2007. The favorable variance is mostly explained by various workforce reduction initiatives as well as lower professional fees. This was partly offset by additional bad debt expense due to certain customers filing for creditor protection during the exceptionally difficult economic environment. 2008 specific charges affecting selling, general and administrative expenses were \$5 million, and included losses on disposal of assets partially offset by a net gain on the sale of a corporate aircraft compared to \$18 million in 2007, of which \$11 million was related to net losses on disposals of fixed assets.

Securitization fees were nil in 2008, down from \$15 million in 2007, explained by the termination of the North American program as of January 23, 2008.

The total depreciation and amortization included in cost of sales and selling, general and administrative expenses above were \$240 million in 2008, compared with \$250 million in 2007. Excluding the unfavorable impact of currency translation of \$1 million, depreciation and amortization expenses decreased 5%, compared to 2007.

Overall, adjusted EBIT was impacted by specific charges that are not normally ongoing costs of operations. These specific charges were \$25 million in 2008 and related mainly to accelerated depreciation of fixed assets and losses on disposal of assets, partially offset by a gain on sale of a corporate aircraft of \$10 million. This compared to specific charges of \$50 million in 2007 which related primarily to accelerated depreciation of fixed assets, net losses on sale and leaseback of equipment and disposal of assets as well as losses on guarantees provided on equipment leases. The 2007 adjusted EBIT was also negatively affected by a non-cash charge of \$39 million for accelerated amortization of client incentives.

Operating loss in 2008 was \$462 million, compared to \$1,887 million in 2007, largely explained by the significant asset and goodwill impairment charges in 2007, discussed below.

Other items

During 2008, the Company recorded IAROC of \$242 million, compared to \$224 million in 2007. The charge for 2008 was mainly related to the impairment of long-lived assets, the closure and consolidation of facilities in North America as well as workforce reductions. These measures are described under "Impairment of Assets and Restructuring Initiatives" section 2.6.

During 2008, the Company recorded a goodwill impairment charge of \$341 million compared with \$1.8 billion in 2007.

Financial expenses were \$410 million in 2008, compared to \$179 million in 2007. The increase of \$231 million is explained by several factors, the most significant of which was a foreign exchange loss of \$128 million on U.S. dollar denominated debt in the Canadian-dollar-functional-currency parent company. Because of the Insolvency Proceedings, the Company had to liquidate its currency hedging position in January 2008 and therefore was unable to offset this loss. The remainder of the variance is due primarily to increased debt levels, largely the DIP financing and the related issuance costs. A portion of the DIP financing was used to assume the North American receivables. The 2007 financial expenses included a one-time premium on the early repayment of the Company's senior notes of \$53 million.

The Company recorded reorganization items which represent post-filing expenses, gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the Applicants. The total expense for 2008 was \$106 million. The cash outflow amounted to \$67 million and related primarily to professional fees.

Income tax recovery was \$39 million for 2008, compared to \$239 million in 2007. Income tax expense before IAROC and goodwill impairment charge was \$54 million for 2008, compared to an income tax recovery of \$82 million for the same period in 2007. In 2008, the income tax recovery was impacted by a reserve in relation to the non-deductibility of interest on pre-petition U.S. debts, the goodwill impairment charge that is mostly non-deductible, as well as an increase in valuation allowance on losses from operations.

Net loss

The Company reported a net loss from continuing operations of \$944 million compared to a net loss from continuing operations of \$1,837 million in 2007. These results incorporated IAROC and goodwill impairment charge, net of income taxes, of \$490 million, compared with \$1,901 million in 2007 as well as reorganization items, net of tax, of \$95 million in 2008, whereas there were none in 2007.

2.4. Three Months ended December 31, 2009 Compared to Three Months ended December 31, 2008

Operating revenues

Our consolidated operating revenues for the fourth quarter of 2009 were \$848 million, an 18% decrease when compared to \$1,033 million for the same period in 2008. Excluding the positive impact of currency translation (Figure 3), operating revenues were down 20% compared to the same period in 2008. The decrease in

operating revenues resulted primarily from lower volumes mostly due to the North American recession, including reduced advertising spending. More details are provided in the “Segment results” section.

Paper sales, excluding the effect of currency translation, decreased by 28% for the fourth quarter of 2009, compared to the same period in 2008. The decrease in paper sales is mostly explained by lower volumes as well as one large customer now supplying its own paper. The decrease in paper sales has an impact on operating revenues, but it has little impact on operating income because the cost of paper is generally passed on to the customer.

Operating income and adjusted EBIT

In the fourth quarter of 2009, excluding depreciation and amortization of \$44 million in 2009 and \$60 million in 2008, cost of sales decreased by 23% to \$640 million, compared to \$835 million in 2008. Cost of sales were favorably impacted by restructuring initiatives (see section 2.6), the significant cost reduction plan implemented in North America in 2009 as well as lower utility expenses. The decrease in cost of sales, including lower depreciation and amortization, more than offset lower revenues and resulted in improved adjusted EBIT for 2009 of \$83 million compared to \$50 million in 2008. Excluding depreciation and amortization, the gross profit margin in the fourth quarter of 2009 was 24.5% compared to 19.2% in the same period in 2008.

Selling, general and administrative expenses for the fourth quarter of 2009 were \$81 million, a decrease of 8% compared to \$88 million for the same period in 2008. Excluding depreciation and amortization expense of \$4 million for the fourth quarter of 2009 and \$3 million for the same period in 2008 and excluding the unfavorable impact of currency translation of \$2 million, selling, general and administrative expenses decreased by 12%, compared to the same period in 2008. The favorable variance is mainly explained by lower salaries and benefits due to the cost reduction plan implemented in April 2009, as well as lower bad debt expenses.

The total depreciation and amortization expense included in cost of sales and selling, general and administrative expense above was \$49 million for the fourth quarter of 2009, compared to \$63 million for the fourth quarter of 2008. Excluding the unfavorable impact of currency translation of \$1 million, depreciation and amortization expenses decreased by 24%, compared to the same period last year. The lower depreciation and amortization mainly resulted from fresh start adjustments to property, plant and equipment discussed in greater detail in the “Fiscal Year ended December 31, 2009 Compared to Fiscal Year ended December 31, 2008” section above. In addition, the lower level of capital investment following finalization of the extensive retooling plan in 2007, the impairment of long-lived assets that was recorded in the fourth quarter of 2008, as well as plant closures that occurred during 2009 combined to further reduce depreciation of property, plant and equipment. Partially offsetting this reduced depreciation expense was an increase in the amortization of customer relationships and contracts amounting to \$11 million, a result of recording this finite-life intangible asset as part of the fresh start adjustments.

Operating income for the quarter ended December 31, 2009 was \$53 million, compared to an operating loss of \$479 million for the fourth quarter ended December 31, 2008, largely explained by the significant asset and goodwill impairment charges in 2008 discussed below.

Other items

During the fourth quarter of 2009, we recorded IAROC of \$30 million, compared to \$188 million for the same period in 2008. The charge for the quarter was mainly related to post-emergence reorganization items and plant closures. These measures are described below under “Impairment of assets and restructuring initiatives”.

Financial expenses were \$19 million in the fourth quarter of 2009, compared to \$199 million for the same period in 2008. The decrease is mainly due to net losses on foreign exchange in the fourth quarter of 2008 of \$122 million primarily as a result of unfavorable movement in the Canadian dollar, and to the extinguishment of pre-petition debt upon emergence from bankruptcy protection.

Income tax expense was \$11 million in the fourth quarter of 2009, compared to a recovery of \$62 million for the same period in 2008. Income tax expense before IAROC and goodwill impairment charge was \$19 million in the fourth quarter of 2009 compared to \$25 million for the same period last year. In 2009, the income tax expense was impacted by the non-deductibility of dividends on preferred shares as well as an increase in valuation allowance mainly related to tax benefits whose realization is not foreseen in Canada.

Net income (loss)

For the fourth quarter ended December 31, 2009, we reported a net income of \$18 million compared to a loss from continuing operations of \$654 million for the same period in 2008. These results incorporated IAROC and

goodwill impairment charge, net of income taxes, of \$22 million compared with \$442 million for the same period in 2008 and reorganization items, net of taxes, of nil compared to \$33 million for the same period in 2008.

2.5. Segment results

The following is a review of activities by segment which, except as otherwise indicated, focuses only on continuing operations. The reporting structure includes two segments: North America and Latin America.

Segment Results of Continuing Operations (\$ millions) ⁽¹⁾												
Selected Performance Indicators												
	North America			Latin America			Inter-Segment and Others			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Three months ended												
December 31												
Operating revenues	\$ 772	\$ 957	\$ 1,149	\$ 76	\$ 77	\$ 82	\$ -	\$ (1)	\$ -	\$ 848	\$ 1,033	\$ 1,231
Adjusted EBITDA	131	105	140	8	12	9	(7)	1	(11)	132	118	138
Adjusted EBIT	86	40	30	6	9	6	(9)	1	(11)	83	50	25
IAROC	25	186	120	1	1	2	4	1	-	30	188	122
Goodwill impairment charge	-	341	1,823	-	-	10	-	-	-	-	341	1,833
Operating income (loss)	62	(487)	(1,913)	5	8	(6)	(14)	-	(11)	53	(479)	(1,930)
Adjusted EBITDA margin (%)	17.0	11.0	12.2	10.5	15.6	11.0				15.6	11.4	11.2
Adjusted EBIT margin (%)	11.1	4.2	2.6	7.9	11.7	7.3				9.8	4.8	2.0
Operating margin (%)	8.0	(50.9)	(166.5)	6.6	10.4	(7.3)				6.3	(46.4)	(156.8)
Capital expenditures ⁽²⁾	\$ 22	26	110	\$ -	4	1	\$ -	-	13	\$ 22	30	124
Change in non-cash balances related to operations, cash flow (outflow) ⁽²⁾	(6)	(96)	(4)	(4)	(1)	(6)	12	109	(111)	2	12	(121)
Twelve months ended												
December 31												
Operating revenues	\$ 2,825	\$ 3,723	\$ 4,374	\$ 247	\$ 295	\$ 285	\$ -	\$ (1)	\$ (4)	\$ 3,072	\$ 4,017	\$ 4,655
Adjusted EBITDA	319	354	478	24	30	26	(14)	(5)	(24)	329	379	480
Adjusted EBIT	129	110	181	13	17	13	(17)	(6)	(24)	125	121	170
IAROC	54	238	222	1	2	2	6	2	-	61	242	224
Goodwill impairment charge	-	341	1,823	-	-	10	-	-	-	-	341	1,833
Operating income (loss)	76	(470)	(1,864)	11	15	2	(23)	(7)	(25)	64	(462)	(1,887)
Adjusted EBITDA margin (%)	11.3	9.5	10.9	9.7	10.2	9.1				10.7	9.4	10.3
Adjusted EBIT margin (%)	4.6	3.0	4.1	5.3	5.8	4.6				4.1	3.0	3.7
Operating margin (%)	2.7	(12.6)	(42.6)	4.5	5.1	0.7				2.1	(11.5)	(40.5)
Capital expenditures ⁽²⁾	\$ 90	92	252	\$ 7	9	3	\$ -	8	66	\$ 97	109	321
Change in non-cash balances related to operations, cash flow (outflow) ⁽²⁾	129	(63)	(19)	(7)	(9)	(12)	19	198	(115)	141	126	(146)

IAROC: Impairment of assets, restructuring and other charges

Adjusted EBITDA and EBIT: Defined as before IAROC and goodwill impairment charge

⁽¹⁾ The 2009 column includes Predecessor and Successor's combined results.

The 2008 and 2007 columns include the Predecessor's results.

⁽²⁾ Including both continuing and discontinued operations

Figure 4

North America

North American operating revenues for the fourth quarter of 2009 were \$772 million, down 19% from \$957 million in 2008 and \$2,825 million for the twelve-month period ended December 31, 2009, down 24% from \$3,723 million for the same period in 2008. Excluding the impact of currency translation, operating revenues decreased by 21% in the fourth quarter of 2009, compared to the same period in 2008 and 23% on year-over-year basis. Operating revenues in the North American segment continued to be principally impacted by volume declines and, to a lesser extent, negative price pressures. Volume in North America decreased during the fourth quarter and the twelve-month period ending December 31, 2009 as a result of the North American recession and the resultant negative impact on the markets we serve. Furthermore, volumes in North America have been affected by the non-renewal in 2009 of three large customers.

Adjusted EBITDA in North America increased in the fourth quarter of 2009 compared to the same period in 2008 and decreased on a year-over-year basis compared to 2008. The adjusted EBITDA margin increased in the fourth quarter of 2009 to 17.0% compared to 11.0% for the same period in 2008 and increased to 11.3% in 2009 from 9.5% in 2008. Adjusted EBITDA in North America continues to be impacted by challenging market conditions. The impact of the decrease in volume, as discussed above, was offset by restructuring initiatives,

the reduction in salaries and benefits (more details are provided in the "Industry trends and outlook" section), lower utility costs and efficiencies realized through productivity gains.

During 2009, the North American workforce was reduced by 2,904 employees, down 16%, of which 324 positions were eliminated in the fourth quarter of 2009, mainly due to various restructuring initiatives, including the closure of the Dallas, TX and Olive Branch, MS facilities which were completed in December 2009, the closure of the Covington, TN facility which was completed in July 2009 and the closure of the Memphis, TN facility in the second quarter of 2009. We also reduced our workforce in most of our other facilities, including our corporate offices, in order to better align our costs with current market conditions.

Fiscal Year ended December 31, 2008 Compared to Fiscal Year ended December 31, 2007

North American revenues for the twelve-month period ended December 2008 were \$3,723 million, down 15% from \$4,374 million for the same period in 2007. Excluding the effect of currency translation and the unfavorable impact of paper sales, revenues decreased by 10% on a year-to-date basis. Revenues in the North American segment continued to be principally impacted by volume declines. Despite negative price pressures, overall revenues per impressions appeared stable, primarily due to improvements in product mix. Volume in North America decreased during the twelve-month period ending December 31, 2008 as a result of the North American recession and, to a lesser extent, due to the impact of the Insolvency Proceedings as well as the restructuring initiatives in the Publishing Services and Canada Groups. Furthermore, volumes in the Publishing Services and in the Marketing Solutions Groups have been affected by the non-renewal in 2007 of contracts with three large customers.

Adjusted EBITDA in North America decreased for the twelve-month period ended December 2008 compared to the same period in 2007. The Adjusted EBITDA margin decreased on a year-to-date basis to 9.5% in 2008 from 10.9% in 2007. Adjusted EBITDA in North America continues to be impacted by challenging market conditions. The decrease in volume, as discussed above, was partly offset by profit improvement initiatives and efficiencies realized through productivity gains, mainly in the Publishing Services Group.

During 2008, the North American workforce was reduced by 2,953 employees, down 14%, mainly explained by the various restructuring initiatives, including the closure of the Islington facility in Ontario, which was completed in the fourth quarter of 2008, the closure of the North Haven, CT facility, which was completed in the second quarter of 2008 and the closure of the Magog facility in Quebec, which was completed in the first quarter of 2008. The Corporation also reduced its workforce in most of its other facilities, including its Corporate offices, in order to align itself with current market conditions.

Latin America

Latin America's operating revenues for the fourth quarter of 2009 were \$76 million, down 1% from \$77 million for the same period in 2008 and \$247 million for the twelve-month period ended December 31, 2009, down 16% from \$295 million for the same period in 2008. Excluding the impact of foreign currency, operating revenues for the fourth quarter of 2009 were down 10% compared to the same period in 2008 and 8% on a year-over-year basis. Volume in Latin America decreased as a result of the economic slowdown, largely due to the decrease in exports to North America, which also resulted in price erosion partially offset by better product mix during the fourth quarter and the year 2009. Adjusted EBITDA for the fourth quarter of 2009 was down 33% compared to the same period in 2008 and 20% compared to the year 2008. The decrease in adjusted EBITDA is mostly explained by the volume declines and an increase in bad debt expense. Overall, recent and upcoming investments in new capacity are expected to improve the product mix of the region and accommodate growth projected from the existing customer base.

Fiscal Year ended December 31, 2008 Compared to Fiscal Year ended December 31, 2007

Latin America's revenues for the twelve-month period ended December 2008 were \$295 million, up 4% from \$285 million for the same period in 2007. Excluding the impact of foreign currency and paper sales, revenues for the twelve-month period ended December 2008 were up 1% compared to the same period in 2007. Overall, year-to-date adjusted EBITDA was up 14% compared to 2007. These positive results are mostly explained by an improvement in product mix as well as efficiencies generated from continuous improvements and investment initiatives.

2.6. Impairment of assets and restructuring initiatives

Impairment of assets

During the last quarter of 2009, the Company recorded impairment charges related to long-lived assets in North America totaling \$3 million on certain machinery and equipment, largely from the change in use of these assets.

During the first three quarters of 2008, impairment tests were triggered in North America as a result of the retooling plan and the relocation of existing presses and we recorded impairment charges of \$17 million mainly on machinery and equipment. In the fourth quarter of 2008, the Company completed its 5-year strategic plan and impairment tests on specific components of long-lived assets were triggered due to industry overcapacity and economic market conditions, which resulted in downward pressure on both volumes and prices of printing services in North America. As a result, an impairment charge of \$161 million in North America was recorded mainly related to machinery and equipment. During the year 2008, the Company recorded a net loss on financial assets of \$5 million (\$16 million in 2007).

During 2007, impairment tests were triggered and the Company recorded impairment charges of \$171 million in North America and \$1 million in Latin America to write down the value of the long-lived assets to the estimated fair value. The impairment charge was mainly related to machinery and equipment.

Restructuring initiatives

We have undertaken various restructuring initiatives in order to ensure that our facilities are operating at optimal pressroom efficiencies and generating higher returns. Restructuring costs relate largely to plant closures and workforce reductions that occurred in current and prior years. A description of these initiatives is provided in Note 7 to our consolidated financial statements.

The 2009 restructuring initiatives affected a total of 2,108 employees, of which 1,709 positions were eliminated as of December 31, 2009 and a further 399 are expected to come. However, we estimate that 204 new jobs will be created in other facilities with respect to the 2009 initiatives. During 2009, the execution of prior years' initiatives resulted in the elimination of 424 positions with 10 positions still to come.

As at December 31, 2009, the balance of the restructuring reserve was \$20 million, all of which is expected to be disbursed in 2010. Finally, the Company expects to record a charge of \$16 million in upcoming quarters for restructuring initiatives that have already been announced as at December 31, 2009.

In January and February 2010, the Company approved restructuring initiatives related to the closure of 4 facilities in the North American segment. The total expected costs for these initiatives of \$21 million will be mostly expensed and disbursed in 2010 and approximately 400 employee positions will be eliminated.

Reconciliation of non-GAAP measures

(\$ millions)

	Combined	<u>Predecessor</u>	<u>Predecessor</u>
	Years ended December 31		
	2009	2008	2007
Operating income (loss) from continuing operations - adjusted			
Operating income (loss)	\$ 64	\$ (462)	\$ (1,887)
Impairment of assets, restructuring and other charges ("IAROC")	61	242	224
Goodwill impairment charge	-	341	1,833
Adjusted EBIT⁽¹⁾	\$ 125	\$ 121	\$ 170
Operating income (loss)	\$ 64	\$ (462)	\$ (1,887)
Depreciation of property, plant and equipment ⁽²⁾	175	262	311
Amortization of other assets ⁽²⁾	12	19	60
Amortization of customer relationships ⁽²⁾	17	-	-
Less depreciation and amortization from discontinued operations	-	(23)	(61)
Operating income (loss) before depreciation and amortization ("EBITDA")	\$ 268	\$ (204)	\$ (1,577)
IAROC	61	242	224
Goodwill impairment charge	-	341	1,833
Adjusted EBITDA⁽¹⁾	\$ 329	\$ 379	\$ 480

Figure 5

(1) Adjusted EBIT and Adjusted EBITDA are the measures the Company has historically used to assess segment profitability. Adjusted EBITDA excludes the following items: IAROC, goodwill impairment charge, financial expenses, effective interest on preferred shares classified as liability, dividends, depreciation, amortization, reorganization expenses and income taxes, that are not under the control of the business segments and that are not considered in the measurement of their profitability. These items are typically managed by Worldcolor's corporate head office which focuses on strategy development and oversees governance, policy, compliance, human resources, legal, tax and other financial matters. These measures do not have any standardized meanings provided by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

(2) As reported in the consolidated statements of cash flows.

Reconciliation of non-GAAP measures

(\$ millions)

	Three months ended December 31,	
	Successor 2009	Predecessor 2008
Operating income (loss) from continuing operations - adjusted		
Operating income (loss)	\$ 53	\$ (479)
Impairment of assets, restructuring and other charges ("IAROC")	30	188
Goodwill impairment charge	-	341
Adjusted EBIT⁽¹⁾	\$ 83	\$ 50
Operating income (loss)	\$ 53	\$ (479)
Depreciation of property, plant and equipment ⁽²⁾	38	63
Amortization of other assets ⁽²⁾	-	5
Amortization of customer relationships ⁽²⁾	11	-
Operating income (loss) before depreciation and amortization ("EBITDA")	\$ 102	\$ (411)
IAROC	30	188
Goodwill impairment charge	-	341
Adjusted EBITDA⁽¹⁾	\$ 132	\$ 118

Figure 6

(1) Adjusted EBIT and Adjusted EBITDA are the measures the Company has historically used to assess segment profitability. Adjusted EBITDA excludes the following items: IAROC, goodwill impairment charge, financial expenses, effective interest on preferred shares classified as liability, dividends, depreciation, amortization, reorganization expenses and income taxes, that are not under the control of the business segments and that are not considered in the measurement of their profitability. These items are typically managed by Worldcolor's corporate head office which focuses on strategy development and oversees governance, policy, compliance, human resources, legal, tax and other financial matters. These measures do not have any standardized meanings provided by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

(2) As reported in the consolidated statements of cash flows.

Reconciliation of non-GAAP measures

(\$ millions)

	<u>Combined</u>	<u>Predecessor</u>	<u>Predecessor</u>
	Years ended December 31,		
	2009	2008	2007
Free cash flow ⁽¹⁾			
Cash provided by operating activities	\$ 217	\$ 90	\$ 68
Dividends on preferred shares	-	-	(18)
Additions to property, plant and equipment	(97)	(109)	(321)
Net proceeds from disposal of assets	4	25	101
Net proceeds from business disposals	-	44	-
Free cash flow	\$ 124	\$ 50	\$ (170)

Figure 7

Reconciliation of non-GAAP measures

(\$ millions)

	<u>Successor</u>	<u>Predecessor</u>
	Three months ended December 31,	
	2009	2008
Free cash flow ⁽¹⁾		
Cash provided by operating activities	\$ 100	\$ (9)
Additions to property, plant and equipment	(22)	(30)
Net proceeds from disposal of assets	1	-
Free cash flow	\$ 79	\$ (39)

Figure 8

⁽¹⁾ We present free cash flow as additional information as we believe it is a useful indicator of our ability to operate without reliance on additional borrowing or usage of existing cash. Free cash flow is a measure of the net cash generated which is available for debt repayment and investment in strategic opportunities. Free cash flow is not a calculation based on or derived from Canadian or U.S. GAAP and should not be considered as an alternative to the consolidated statement of cash flows and is unlikely to be comparable to similar measures presented by other companies.

3. Financial position

3.1. Consolidated balance sheet

Changes in the consolidated balance sheets for the year ended December 31, 2009 compared to December 31, 2008 are as follows:

(\$ millions)	Successor December 31, 2009	Predecessor December 31, 2008	Change
Assets			
Current assets	841	1,222	(381)
Property, plant and equipment	1,113	1,161	(48)
Intangible assets	372	-	372
Other long-term assets	156	437	(281)
Total assets	\$ 2,482	\$ 2,820	\$ (338)
Liabilities and Shareholders' equity (deficit)			
Current liabilities	482	3,990	(3,508)
Long-term debt	440	61	379
Unsecured notes to be issued	46	-	46
Other liabilities	515	246	269
Future income taxes	192	43	149
Preferred shares	98	35	63
Shareholders' equity (deficit)	709	(1,555)	2,264
Total liabilities and shareholders' equity (deficit)	\$ 2,482	\$ 2,820	\$ (338)

(a) Current assets:

The decrease is mainly explained by a \$169 million decrease in cash and cash equivalents in North America that was used to repay the DIP financing as well as a \$132 million decrease in accounts receivable and a \$58 million decrease in inventories which were both in line with the fourth quarter decline in revenues.

(b) Property, plant and equipment:

The decrease was mainly from the depreciation expense of \$175 million, partially offset by capital expenditures of \$97 million and favorable foreign exchange impact of \$27 million resulting from the strengthening Canadian dollar.

(c) Intangible and other long-term assets:

A fresh start adjustment of \$389 million was recorded for finite-life intangible assets representing the estimated fair value of the Company's customer relationships and contracts. This increase is offset by amortization of \$17 million. In the other long-term assets, there were fresh start adjustments to eliminate pension assets of \$142 million and contract acquisition costs of \$82 million and to adjust various other assets by \$39 million to their fair value as of the Fresh-start Date.

(d) Current liabilities:

As part of the Plan, the current portion of LSTC of \$3.1 billion (\$2.9 billion as at December 31, 2008) was discharged with the issuance of new common shares, preferred shares, warrants, unsecured notes as well as cash due of approximately \$160 million. The remaining variance is explained by the \$563 million decrease of current portion of long-term debt that was repaid as part of the Company's emergence from bankruptcy.

(e) Long-term debt:

The increase is mainly explained by the \$450 million term loan obtained as part of the Plan to repay the DIP financing which was included in current liabilities as at December 31, 2008.

(f) Unsecured notes to be issued:

New unsecured notes to be issued of \$43 million were recorded as of the Fresh-Start Date.

(g) Other liabilities:

Fresh start adjustments of \$293 million were recorded to reflect the values of the unfunded pension and other postretirement benefits liabilities at the Fresh-start Date. The Company also reclassified \$51 million of reserves for tax uncertainties, mainly from income and other taxes payable and long-term future income taxes, and recorded other fresh start adjustments amounting to \$42 million to reduce the other liabilities to their estimated fair values as of the Fresh-start Date. These were offset by a net reclassification of \$29 million in pension liabilities to LSTC at fresh start.

(h) Future income taxes:

Projected long-term future income tax liabilities of approximately \$174 million were recognized on the discharge of the LSTC. Furthermore, a \$43 million future income tax asset which decreases long-term future income tax liabilities, has been recognized on fresh start adjustments made to property, plant and equipment, intangible assets, other assets and other liabilities, in addition to the reclassification of \$9 million of reserves for tax uncertainties to other liabilities.

(i) Preferred shares:

In accordance with the Plan, all the Predecessor's preferred shares were cancelled and new preferred shares of the Successor were issued on the Effective Date and classified as compound financial instruments, with a portion classified as a liability with a value amounting to \$94 million.

(j) Shareholders' equity (deficit):

Adopting fresh start accounting results in a new reporting entity with no retained earnings or deficit. All Predecessor capital stock has been eliminated and replaced by the new equity structure of the Successor. The fresh start adjustments include the cancellation of the Predecessor's capital stock, preferred shares, contributed surplus, deficit and accumulated other comprehensive income, as well as a reduction to the Successor capital stock as a result of the reorganization value over the fair value of the identifiable assets and liabilities stemming from fresh start accounting. The December 31, 2009 balance of \$709 million is mainly comprised of \$628 million of capital stock as well as \$54 million of contributed surplus and \$21 million of retained earnings for the five months period ended December 31, 2009.

3.2 Free cash flow

	<u>Successor</u>	<u>Predecessor</u>	<u>Combined</u>	<u>Predecessor</u>
	Three months ended		Twelve months ended	
	December 31,		December 31,	
Free cash flow	2009	2008	2009	2008
(\$ millions)				
	\$ 79	\$ (39)	\$ 124	\$ 50

Free cash flow is a non-GAAP measure (see Figures 7 and 8 for a reconciliation of free cash flow to cash flow from operating activities which is the closest GAAP measure). Free cash flow as reported by Worldcolor may not be comparable in all instances to free cash flow as reported by other companies.

Despite a reduction in adjusted EBITDA, free cash flow increased mostly due to higher cash inflows provided by the operating activities, largely a result of lower reorganization items and reductions in working capital. Also in 2008, the Company incurred higher contract acquisition costs and made bankruptcy related deposits. These benefits were partially offset by lower proceeds from business disposals and disposal of assets. The 2008 proceeds came mainly from the disposal of a corporate aircraft and sale of the Company's European operations. The 2009 proceeds are mainly from the disposal of two properties.

The fourth quarter increase in free cash flow is mainly due to an increase in adjusted EBITDA and reduction in working capital.

3.3. Credit ratings

Pursuant to our exit financing, we have obtained the following credit ratings as of February 25, 2010:

	Rating Agency	
	Moody's	S&P
Corporate	B2	B+

4. Liquidity and capital resources

4.1. DIP Financing

As further discussed in Section 1 of this MD&A, on July 21, 2009, immediately prior to emergence from the Insolvency Proceedings, the Company fully repaid all outstanding drawings on the DIP financing comprising \$526 million on the DIP Term Loan and \$61 million on the Revolving DIP Facility.

4.2. Exit Financing

On July 21, 2009, the Company obtained exit financing comprised of (a) a senior secured asset-based revolving credit facility, with sub-facilities for Canadian dollar borrowings, swing line loans and issuance of letters of credit, for an aggregate maximum commitment by the lenders of \$350 million (the "Revolving Credit Facility") bearing interest at variable rates based on Libor or Eurodollar rate, Canadian Banker's Acceptance rate or Canadian prime rate, plus applicable margins, which will total a minimum of 7.5% and (b) a \$450 million senior secured term loan (the "Term Loan"), bearing interest at variable rates based on Libor, or Eurodollar rate, plus applicable margins, which will total a minimum of 9.0%, and which was fully drawn immediately following the Company's emergence from the Insolvency Proceedings. Together, the Revolving Credit Facility and the Term Loan are referred to as the "Credit Facility". Amounts borrowed under the Term Loan and repaid or prepaid may not be re-borrowed. Under the Revolving Credit Facility, the availability of funds is determined by a borrowing base calculated on percentages of eligible receivables and inventory. The unused portion of the Revolving Credit Facility is subject to a commitment fee of between 0.75% and 1.00% *per annum*. The Credit Facility is secured by a perfected first-priority security interest and hypothec over substantially all present and after-acquired consolidated assets of the Successor. As of February 25, 2010, the Company had drawn an aggregate amount of \$448 million under the Credit Facility.

Worldcolor and certain of its subsidiaries have granted irrevocable standby letters of credit to third parties to indemnify them in the event the Company does not perform its contractual obligations. As of February 25, 2010, the letters of credit issued under the Revolving Credit Facility amounted to \$41 million, maturing at various dates through 2011 and after. These letters of credit reduce the availability under the Revolving Credit Facility. The Credit Facility matures on the earliest to occur of (a) July 21, 2012 and (b) the acceleration of the Term Loan payments, and a termination of the commitments, upon the occurrence of required prepayments resulting from, among other things, excess cash flow, the net proceeds of certain asset sales, issuance of certain debt, certain extraordinary receipts and change of control. The Term Loan also has mandatory repayment requirements of \$3 million in the first year after the issuance date and \$33 million in each of the second and third years after the issuance date. The Company believes it will have adequate capacity to meet all mandatory repayment requirements as they become due.

The Credit Facility provides for various restrictions on, among other things, the ability of Worldcolor and its subsidiaries to incur additional debt, secure such debt, make investments, dispose of their assets (including pursuant to sale and leaseback transactions and sales of receivables under securitization programs), make capital expenditures and pension contributions, as well as for limitations on dividend payments, repurchases of equity interests and cash interest payments on the unsecured notes to be issued. The Company does not believe these restrictions will impede its ability to conduct its operations. However, if for any reason additional flexibility were required, it would have to secure the consent of a majority of the Credit Facility lenders. The Company has an option to prepay in whole or ratably in part the Term Loan during the first two years after issuance a premium of 1% of the nominal value of the prepaid amount is required.

The Credit Facility agreements also contain certain restrictive financial covenants, including requirements to maintain a maximum level of consolidated leverage and minimum consolidated cash fixed charge coverage, as defined in the agreements, as well as minimum liquidity. In addition, under the terms of the Credit Facility, Worldcolor is required to comply with various other terms and conditions such as maintaining guarantee coverage of substantially all of its consolidated assets and consolidated earnings before interest, income taxes, depreciation, amortization and restructuring (EBITDAR). At December 31, 2009, the Company was in compliance with these financial covenants. Certain terms and conditions must be adhered to by March 31, 2010 related to cash management services. The Company expects to meet these conditions by that date. The effective interest rate on the Credit Facility is approximately 14%.

The ability of the Company to meet these financial covenants and ratios may be affected by events beyond its control. If the Company defaults under any of these requirements, the lenders could declare all outstanding borrowings, accrued interest and fees to be due and payable. If that were to occur, there can be no assurance that the Company would have sufficient liquidity to repay or be able to refinance this indebtedness or any of its other debt.

The Company's primary sources of liquidity are funds generated from operations, and as required, draws under credit facilities. At February 25, 2010, the Company had not borrowed under its \$350 million Revolving Credit Facility and letters of credit for \$41 million have been issued under the Revolving Credit Facility as at February 25, 2010, such amount reducing the availability under the Revolving Credit facility. The Company monitors and

manages liquidity by preparing and updating annual budgets as well as maintaining compliance with terms of financing agreements.

Management believes that liquidity and capital resources are sufficient to fund ongoing operations.

4.3. Unsecured Notes to be issued

The Company expects to issue \$43 million of unsecured notes (“Unsecured Notes” or the “Notes”) bearing cash interest at a rate of 10% per annum or paid-in-kind (“PIK”) interest at a rate of 13% *per annum* and maturing on July 15, 2013. As at December 31, 2009, the total amount accrued for both principal and interest is \$46 million. The Notes are to be issued to creditors of certain of the U.S. Subsidiaries holding general unsecured claims against such U.S. Subsidiaries (categorized as Class 3 claims under the U.S. Plan) once all claims are legally resolved in the U.S. Bankruptcy Court. Each such creditor will receive Unsecured Notes equal to 50% of its allowed claim, provided that the maximum aggregate amount of Unsecured Notes is limited to \$75 million. In the event that the total allowed claims of all such creditors exceed \$150 million, then each such creditor will receive its pro rata amount of \$75 million in aggregate total of the Unsecured Notes. Management estimates that the allowed amount of Class 3 claims will be approximately \$86 million, which would result in the issuance and distribution of \$43 million of Unsecured Notes. However, it is not possible at this time to evaluate the final amount of Class 3 claims that will ultimately be allowed by the U.S. Bankruptcy Court. It is possible that allowed claims may be materially in excess of the amount estimated given the magnitude of the claims asserted (Note 1), and therefore the Unsecured Notes issued could reach the maximum aggregate principal amount of \$75 million. The Unsecured Notes indenture provides for various restrictions on, among other things, the ability of Worldcolor and its subsidiaries to incur additional debt, secure such debt, and make investments, dispose of some of their assets, as well as for limitations on dividend payments and repurchases of equity. The Company does not expect these restrictions to impede its ability to conduct operations. However should it require additional flexibility, it may redeem all or a portion of the Notes, with all accrued and unpaid interest thereon, at any time on or after July 21, 2010 at redemption prices of 105% in the second year after issuance date, 103% in the third year and 101% in the fourth year. The Company’s option to redeem is contingent on the prior repayment of specified amounts due under the Credit Facility and proportionate repayment of the Class A Convertible Preferred Shares under the restated Articles of Incorporation of the Company. For the five-month period ended December 31, 2009, the effective interest rate on the unsecured notes to be issued was 13% and the Company recorded PIK interest expense of \$3 million.

4.4. Cash Flow

The following describes our cash flow including the discontinued operations for the years ended December 31, 2009 and 2008.

Operating activities

Cash provided by (used in) operating activities (\$ millions)	Successor	Predecessor	Combined	Predecessor
	Three months ended December 31, 2009	December 31, 2008	Twelve months ended December 31, 2009	December 31, 2008
	\$ 100	\$ (9)	\$ 217	\$ 90

The 2009 increase is largely a result of reductions in working capital and lower reorganization items that were partially offset by a lower adjusted EBITDA. For the fourth quarter, the increase is mainly due to the increase in adjusted EBITDA, lower reorganization items and working capital reductions. In 2008, the Company incurred higher contract acquisition costs and made bankruptcy related deposits that negatively impacted 2008 and fourth quarter 2008, cash provided by operating activities.

Financing activities

	<u>Successor</u>	<u>Predecessor</u>	<u>Combined</u>	<u>Predecessor</u>
Cash provided by (used in) financing activities	Three months ended		Twelve months ended	
(\$ millions)	December 31,		December 31,	
	2009	2008	2009	2008
	\$ (91)	\$ 11	\$ (327)	\$ 161

In the fourth quarter of 2009, the Company repaid all of its drawings under the Revolving Credit Facility.

In the third quarter of 2009, the Company obtained \$800 million in exit financing, on which it initially drew \$463 million, net of issuance costs, that was used to repay \$587 million outstanding on the DIP facilities. The Company entered into a 3-year lease agreement for the purchase of equipment for its U.S. operations and a 2-year lease agreement for the purchase of new equipment for its Latin American operations. Both leases are considered non-cash transactions for cash flow purposes. As at December 31, 2009, the Company had an obligation of \$7 million remaining on these leases. The Company also made cash payments of \$100 million in satisfaction of certain claims to holders of the Predecessor's senior secured debt.

In the third quarter of 2009, the Company issued 12.5 million preferred shares, 73.3 million new common shares, 10.7 million Series I warrants and 10.7 million Series II warrants, and agreed to issue approximately \$43 million in Unsecured Notes, to its creditors in accordance with the terms of the Plan. These transactions are non-cash transactions for cash flow purposes.

In the first quarter of 2009, the Company entered into a 5-year lease agreement for the purchase of new equipment for its Latin American operations, which is a non-cash transaction for cash flow purposes. As at December 31, 2009, the Company had an obligation of \$5 million remaining on the lease.

In the first quarter of 2008, QWI received the DIP Term Loan proceeds of \$557 million, net of issuance costs, and repaid its North American securitization program for \$413 million, which was terminated as a result of the Insolvency Proceedings. On June 30, 2008, QWI repaid \$75 million on its DIP Term Loan, using proceeds from the sale of its European operations.

Investing activities

Cash provided by (used in) investing activities (\$ millions)	Successor	Predecessor	Combined	Predecessor
	Three months ended December 31, 2009	2008	2009	December 31, 2008
	\$ (25)	\$ (22)	\$ (59)	\$ (87)

Additions to property, plant and equipment

In the fourth quarter of 2009, the Company invested \$22 million in capital projects, compared to \$30 million during the same period in 2008. On a year-to-date basis, \$97 million has been invested in capital projects in 2009, compared to \$109 million in 2008. Of that amount, approximately 71% was for organic growth, defined as expenditures for new capacity requirements and productivity improvement. The remaining portion was spent on the maintenance of our existing structure. In 2008, the organic growth spending amounted to approximately 58%.

Restricted Cash

As at December 31, 2009, the Company's wholly-owned captive insurance company had pledged \$51 million (\$57 million as at December 31, 2008) of cash collateral for standby letters of credit issued and in trust in favor of a third party insurer for future estimated claims relating to U.S. Workers' Compensation. The standby letters of credit and corresponding pledge agreements are renewable annually. The cash pledged against the letters of credit is intended for future use and is presented as restricted cash under long-term assets in the Company's consolidated balance sheet.

During the fourth quarter of 2009, the Successor provided \$3 million in cash collateral with the lenders of its Revolving Credit Facility to maintain dominion over its Canadian bank accounts.

During the first quarter of 2008, the Predecessor provided CA\$20 million in cash collateral to a major Canadian financial institution in order to maintain Canadian cash management services. This cash collateral balance has since been reduced to CA\$10 million.

During the first quarter of 2008, the Company set up a cash collateral account in order to use secured pre-petition QW Memphis Corp. inventories. The balance of this account was \$33 million as at the Effective Date and became unrestricted pursuant to the terms of the Plan.

Proceeds from disposal of assets

During 2009, proceeds on disposal of assets amounted to \$4 million compared to \$25 million in 2008. The 2008 proceeds came mainly from the disposal of a corporate aircraft. The 2009 proceeds are mainly from the disposal of two properties in North America.

Sale of European operations

On June 26, 2008, the Predecessor sold its European operations to a subsidiary of Hombergh Holdings B.V. (which has since become Circle Printers Holding B.V.). The total consideration for the Predecessor was €52 million (\$82 million) in cash and a €22 million five-year note bearing interest at 7% per year and is carried in other assets at its fair value of €18 million (\$27 million) as at December 31, 2009. The net cash proceeds were mainly used by the Company to repay the DIP Term Loan.

5. Critical accounting estimates, changes in accounting standards and adoption of new accounting policies

5.1. Critical accounting estimates

The rules of Canadian securities regulatory authorities define critical accounting estimates as those requiring assumptions made about matters that are highly uncertain at the time the estimate is made, and when the use of different reasonable estimates or changes to the accounting estimates would have a material impact on a Company's financial condition or results of operations.

As disclosed in Note 2(b), the preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

The critical accounting estimates which affect the consolidated statements of income and consolidated balance sheets line items are summarized below:

Fresh-start balance sheet

In addition, the adoption of fresh start accounting resulted in the revaluation of all of our assets and liabilities at the Fresh-start Date. Estimates of fair value are based on independent appraisals and valuations which were completed as of the date of issuance of our Consolidated Financial Statements. To determine the enterprise value of the Successor, management developed a set of financial projections for the Successor using a number of estimates and assumptions. With the assistance of financial advisors, management determined the enterprise value and corresponding equity value of the Successor based on these financial projections using various valuation methods, including (a) selected publicly-traded companies' analysis, (b) selected transactions analysis and (c) a discounted cash flow analysis. Based upon these analyses, management estimated that the going concern enterprise value of the Successor, at the Fresh-start Date, was in a range of \$1.25 billion to \$1.75 billion. The enterprise value and the corresponding equity value are dependent on achieving the future financial results set forth in management's projections, as well as the realization of certain other assumptions. For the valuation of individual assets and liabilities, management has estimated the fair value using prices for similar assets and liabilities in the market place (market approach) or discounted future cash flows (income approach). The fair values of preferred shares, warrants and embedded derivatives were determined using valuation models for such instruments. For the valuation of unsecured notes to be issued, see Note 20. All estimates, assumptions, valuations, appraisals and financial projections, including the fresh start adjustments, the enterprise value and equity value, are inherently subject to significant uncertainties outside of management's control. Accordingly, there can be no assurance that the estimates, assumptions, valuations, appraisals and financial projections will be realized and actual results could vary materially. Actual results could differ from those estimates, as further explained in Note 1.

Impairment of Long-Lived Assets

Assessing the impairment of long-lived assets (consisting of property, plant and equipment, intangible assets and contract acquisition costs) requires the Company to make important estimates and assumptions, including, but not limited to, the expected futures cash flows that the assets will generate, how the assets will be used based on the strategic direction, their remaining useful life, and their fair value on an open market. Considerable judgment is also applied in incorporating the potential impact of the current economic climate on customer demand and selling prices, the cost of production and the limited activity on secondary markets for our assets and on the cost of capital. Given the current economic climate, there is a significant risk that customer demand and pricing will be lower than expected. Although we believe our estimates of undiscounted future cash flows, for impairment testing purposes, and fair values are reasonable, actual financial results could differ from these estimates due to the inherent uncertainty in making such estimates, particularly given the deterioration in the global economy, and actual results may trigger additional asset impairment charges in the future.

The Company recorded a total impairment charge of \$3 million in the year ended December 31, 2009 based on the results of the above tests (\$183 million total impairment charge was recorded in 2008). Although management concluded that at December 31, 2009 no further impairment charges were required other than

those discussed above, the Company continues to monitor groups of assets to identify any new events or changes in circumstances that could indicate that their carrying values are not recoverable, particularly in light of an expected decline in profitability that may result with a continued deterioration in the global economy. In the event that such a situation is identified or that actual results differ from management's estimates, an additional impairment charge could be necessary.

Pension and Other Postretirement Benefits

	Pension Benefits				Postretirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
	December 31,	July 31,	Year ended		December 31,	July 31,	Year ended	
	2009	2009	December 31,	December 31,	2009	2009	December 31,	December 31,
		2008	2007			2008	2007	
Accrued benefit obligations assumptions:								
Discount rate	5.7%	5.8%	7.4%	6.0%	5.7%	5.8%	7.4%	6.2%
Rate of compensation increase	3.4%	3.4%	3.5%	3.4%	-	-	-	-
Benefit costs assumptions:								
Discount rate	5.8%	7.4%	6.0%	5.6%	5.8%	7.4%	6.2%	5.8%
Expected return on plan assets	7.1%	7.1%	7.5%	7.5%	-	-	-	-
Rate of compensation increase	3.4%	3.4%	3.4%	3.4%	-	-	-	-

Figure 9

The Company maintains defined benefit plans and postretirement benefits for its employees and ensures that contributions are sustained at a level sufficient to cover benefits. Actuarial valuations of the Company's various pension plans were performed during the last three years or more frequently where required by law. Plan assets are measured at fair value and consist of equity securities, corporate and government fixed income securities and cash or cash equivalents. Pension and other postretirement costs and obligations are based on various economic and demographic assumptions determined with the help of actuaries and are reviewed each year. Key assumptions include the discount rate, the expected long-term rate of return on plan assets, the rate of compensation increase (Figure 8) and the health care cost trend rate.

The Company determines its assumption for the discount rate to be used for purposes of computing annual service and interest costs based on an index of high-quality (AA) corporate bond yields and matched-funding yield curve analysis as of the measurement date.

As part of fresh start accounting, the Company changed the method of calculating the expected return on plan assets from market-related value to fair value. The Company also changed its measurement date to measure the defined benefit plan assets and the projected benefit obligation from September 30 to December 31.

The expected long-term rate of return on pension plan assets was obtained by calculating a weighted average rate based on targeted asset allocations of the plans. The expected returns of each asset class are based on a combination of historical performance analyses and forward-looking views of the financial markets. The targeted asset allocation of the plans is approximately 62% for equity and 35% for fixed income securities, and 3% for other type of investments.

The rate of compensation increase is used to project current plan earnings in order to estimate pension benefits at future dates. This assumption was determined based on historical pay increases, forecast of salary budgets, collective bargaining influence and competitive factors.

The unfunded status of all pension plans of \$318 million was based on a measurement date of December 31, 2009.

Changes in market conditions may affect the fair value of plan assets, the expected return on plan assets, as well as the discount rate used in calculations for future periods, which would result in a change in the amount of benefit obligation, impacting the periodic benefit costs and the unfunded status of the pension plans. As a result, amounts relating to these items above could be materially different if further changes in market conditions occur.

The Company believes that the assumptions are reasonable based on information currently available; however, in the event that actual outcome differs from management's estimates, the provision for pension and postretirement benefit expenses and obligations may be adjusted.

The Company also participates in multi-employer pension plans in the United States and Canada. Following the recent decline in the global equity markets, the financial condition of these plans has been negatively affected. The Company has received notice that certain plans in which it participates are in "critical status", as defined in Section 432 of the U.S. Internal Revenue Code of 1986, as amended. As a result, the Company may be subject to increased contribution rates associated with these plans or other multi-employer pension plans suffering from declines in the funding levels. Furthermore, should the company undergo a complete or partial withdrawal from any of its plans, it would be subject to a withdrawal liability under applicable law. Any actual liability to which Worldcolor may be exposed which may be significant to our operations depends on the timing and extent of Worldcolor's withdrawal and the financial condition of the plans at that time. These plans are accounted for as defined contribution plans. If in the future, the Company withdraws from multi-employer plans, additional liabilities would need to be recorded. The liabilities are only recorded in the period the withdrawal is made.

Healthcare Costs

The Company provides healthcare benefits to employees in North America and actively manages its health care spending with its vendors to maximize discounts in an attempt to limit the cost escalation experienced over the past years. Healthcare costs and liabilities are estimated with the assistance of actuaries. Healthcare costs continued to increase in 2009, consistent with the national trend. Trend assumption is the most important factor in estimating future costs. The Company uses the most recent twelve months of claims trended forward to estimate the next year's liability. A one percentage point change in assumed health care cost trend would have the following effects:

Sensitivity analysis	Postretirement Benefits	
	1% increase	1% decrease
Effect on benefit obligation	\$ 5	\$ (4)
Effect on service and interest costs	-	-

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for expected losses from customers who are unable to pay their debts. The allowance is reviewed periodically and is based on an analysis of specific significant accounts outstanding, the age of the receivable, customer creditworthiness and historical collection experience. In addition, the Company maintains an allowance to cover a fixed percentage of all accounts for customers who have filed for bankruptcy protection under Chapter 11 or CCAA and other critical accounts. These accounts may take several years to reach settlement. The allowance is reassessed on a quarterly basis.

Global economic conditions affect our customer businesses and the markets in which they serve. The recent unprecedented credit crisis and global economic weakness has resulted in constrained advertising spending and in certain cases, customer financial difficulties in North America which could hinder the Company's ability to collect amounts owed by customers. This credit exposure will increase with a continued lack of liquidity in the capital markets on a sustained period of difficult economic conditions. This increase in exposure could result in increases in the Company's allowance for doubtful accounts.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Company's consolidated statements. In determining its provision for income taxes, the Company interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of future tax assets and liabilities. Income tax assets and liabilities, both current and future, are measured according to enacted income tax legislation that is expected to apply when the asset is realized or the liability is settled. The Company regularly reviews the recognized and unrecognized future income tax assets to determine if a valuation allowance is required or needs to be adjusted. The Company's future income tax assets are recognized only to the extent that, in the Company's opinion, it is more likely than not that the future income tax assets will be realized. This opinion is based on certain estimates, assumptions and judgments in assessing the potential for future recoverability, while at the same time considering past experience. If these estimates, assumptions or judgments change in the future, the Company could be required to reduce or increase the value

of the future income tax assets or liabilities resulting in income tax expense or recovery. The Company's tax legislation interpretations could differ from those of tax authorities and our tax filings are subject to government audits, which could materially change the amount of both current and future income tax assets and liabilities. Any change would be recorded as a charge or a credit to income tax expense.

In addition, the Company has not recognized a future tax liability for the undistributed earnings of its subsidiaries in the current and prior years because the Company does not expect those unremitted earnings to reverse and become taxable in the foreseeable future.

Worker's Compensation

U.S. workers' compensation claims tend to be relatively low in value on a case-by-case basis, and the Company self-insures against the majority of such claims. The liability provision of such self-insurance is estimated based on reserves for claims that are established by an independent administrator and the provision is adjusted annually to reflect the estimated future development of the claims using Company specific factors provided by its actuaries. The adjustment is recorded in income or expense.

While the Company believes that the assumptions used are appropriate, in the event that actual outcome differs from management's estimates, the provision for U.S. workers' compensation costs may need to be adjusted.

The Company also maintains third-party insurance coverage against U.S. workers' compensation claims which could be unusually large in nature as discussed in our Annual Information Form for the year ended December 31, 2009 section "Risks factors".

Goodwill

Goodwill is tested for impairment annually for all of the Company's reporting units, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared to its carrying amount to measure the amount of the impairment, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment is recognized in an amount equal to the excess and is presented as a separate item in the consolidated statements of income (loss).

Based on the results of the 2008 impairment test performed as of December 31, 2008, the Company recorded a goodwill impairment charge of \$341 million in 2008. Subsequent to this impairment charge, there is no remaining goodwill in the Company's Consolidated Balance Sheet as at December 31, 2008 and December 31, 2009.

5.2. Changes in accounting standards and adoption of new accounting policies

Adoption of new accounting policies

(1) Accounting policies applicable to the Predecessor while under creditor protection

QWI's financial statements during the Insolvency Proceedings were prepared using the accounting policies as applied by QWI prior to the Insolvency Proceedings and are generally consistent with the policies of the Successor described above, except as specifically identified. While the Applicants filed for and were granted creditor protection, these financial statements continued to be prepared using the going concern concept, which assumed that the Predecessor would be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

As a result of the Insolvency Proceedings, the Predecessor followed accounting policies, including disclosure items, applicable to entities that are under creditor protection. In addition to Canadian GAAP, QWI applied the guidance in the American Institute of Certified Public Accountants Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"), which is now codified as FASB ASC 852 "Reorganizations". While ASC 852 refers specifically to Chapter 11 in the United States, its guidance, in management's view, is also applicable to an entity restructuring under CCAA where it does not conflict with Canadian GAAP.

Consistent with Canadian GAAP, ASC 852 did not change the manner in which financial statements were prepared. However, ASC 852 does require that the financial statements for periods ending subsequent to the Filing Date, and prior to the Effective Date, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business are reported separately as reorganization items (Note 3). Cash flows related to reorganization items have also been disclosed separately.

The consolidated balance sheet of the Predecessor distinguishes pre-filing liabilities subject to compromise from both pre-filing liabilities that were not subject to compromise and from post-filing liabilities (Note 4). ASC 852 has been applied effective January 21, 2008 and for subsequent reporting periods until the Fresh-start Date.

(2) Accounting policies applicable to the Successor after Fresh-start Date

At the Fresh-start Date, the Successor adopted the accounting policies that are further described in Note 2 to the Company's consolidated financial statements for the year ended December 31, 2009. These policies are substantially consistent with the policies followed by the Predecessor except for the following:

- (i) Amortization policy for intangible assets as a result of customer contracts and relationships recorded at the Fresh-start Date;
- (ii) Change in the measurement date of the funded status of the Company's pension plans and post-retirement plans to December 31 from September 30. In addition, the Successor changed the method of calculating the expected return on plan assets from market-related values to fair value.
- (iii) The use of the FIN 48 model to account for tax uncertainties as described in Note 2(m) to our consolidated financial statements.

(3) Functional and reporting currency

As a result of the reorganization of its capital structure and changes in economic facts and circumstances upon emergence, the Company reassessed the functional currency of its operations. At the Fresh-start Date, the Company adopted the U.S. dollar as its functional currency, as a significant portion of its revenues, expenses, assets, liabilities and financing are denominated in U.S. dollars. Prior to that date, the Predecessor had a Canadian dollar functional currency. The Predecessor and the Successor both use the US dollar as its reporting currency.

(4) Financial instruments

The Company has adopted CICA Section 3862, "Financial Instruments—Disclosures", which requires additional disclosures about fair value and liquidity risk. The amendments introduce a "fair value hierarchy" for disclosures which intends to provide information to financial statement users about the relative reliability of fair value measurements.

(5) Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the EIC of the Canadian Accounting Standards Board (AcSB) issued EIC Abstract 173, "Credit Risk and Fair Value of Financial Assets and Financial Liabilities", which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company takes into consideration such credit risks in determining the fair value of its financial assets and financial liabilities. This change did not have any impact on the Company's financial statements in 2009.

(6) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets". The new section clarifies the requirements for recognizing intangible assets on costs that may only be deferred when they relate to an item that meets the definition of an asset. Section 3064 effectively converges Canadian GAAP for intangible assets with International Financial Reporting Standards ("IFRS"). This standard is effective for the Company for the first quarter of 2009. The adoption of this new section had no impact on the Company's financial statements.

(7) Pension plans

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB ASC 715-20, "Defined Benefit Plans—General". ASC 715-20 requires more information about how investment allocation decisions are made, more information about major categories of plan assets, including concentrations of risk and fair-value measurements, and the fair-value techniques and inputs used to measure plan assets. ASC 715-20 is effective for fiscal years ending after December 15, 2009 and the Company adopted this standard for Canadian GAAP disclosure.

Future changes in accounting standards

(i) Adoption of US GAAP

Effective January 1, 2011, the Company expects to adopt US GAAP as its primary reporting standard for presentation of its consolidated financial statements. Historical consolidated financial statements will be restated in accordance with US GAAP. Note 33 – Significant Differences between Generally Accepted Accounting Principles in Canada and the United States provides an explanation and reconciliation of differences between US and Canadian GAAP.

The Company intends to adopt US GAAP to enhance its communication with its shareholders and improve comparability of financial information with its competitors and peer group.

(ii) Business Combinations, consolidated financial statements and non-controlling interests

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling interests". The Company is in the process of evaluating the requirements of the new standards.

Section 1582 establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 and early application is permitted.

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections are equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - Consolidated and Separate Financial Statements, and apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and early application is permitted.

(iii) Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, "Multiple Deliverable Revenue Arrangements", replacing EIC 142, "Revenue Arrangements with Multiple Deliverables". This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with FASB Statement of Position (SOP) 97-2, "Software Revenue Recognition" as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

6. Off-balance sheet arrangements, derivative financial instruments and other disclosures

6.1. Risk arising from financial instruments

We use derivative financial instruments to manage our exposure to fluctuations in commodity prices and foreign exchange rates. We do not hold or use any derivative instruments for speculative purposes and we adhere to a financial risk management policy.

Foreign exchange risk

The Company has operations in Canada, the United States, and Latin America, and as such has foreign denominated sales and related receivables, payables, equipment purchases, and other assets and liabilities. A change in the currency exchange rate between the Canadian and the US dollar could have a material effect on its consolidated results of operations, financial position or cash flow.

The Company is exposed to foreign exchange risk primarily as a result of revenues and expenses denominated in US dollars in its Canadian operations and revenues and expenses denominated in CA dollars in the US functional currency operations of the Company.

Monetary balances denominated in foreign currencies as at December 31, 2009 and 2008 were as follows:

	2009		2008	
	US \$	CA \$	US \$	CA \$
Net cash, cash equivalents and bank indebtedness	1	10	1	-
Accounts receivable	14	-	17	-
Trade payables and accrued liabilities	1	1	5	-
Debt	-	-	566	-

With regards to the CA denominated monetary balances in Canadian head office or US denominated monetary balances in Canadian operations, assuming all other variables remain constant, a 5% strengthening of the US dollar over the CA dollar would not have a material effect on net income (loss).

The Company periodically enters into foreign exchange forward contracts to manage its exposure to changes in the currency exchange rate between the local currency and the US dollar on the settlement of foreign denominated sales and related receivables. Contracts outstanding at December 31, 2009 covered a notional quantity of \$17 million in Canada and expire, between January 2010 and July 2010. The net monetary items denominated in foreign currencies are not significant.

Commodity risk

The Company is exposed to financial risk related to fluctuations in natural gas prices. The Company manages a portion of its North American natural gas exposure through commodity swap agreements, whereby the Company is committed to exchange, on a monthly basis, the difference between a fixed price and a floating natural gas price index calculated by reference to the swap notional amounts.

Contracts outstanding at December 31, 2009 covered a notional quantity of 327,000 gigajoules in Canada and 2,114,000 MMBTU in the United States and expire between January 2010 and December 2010.

In regards to commodity swap agreements in place, assuming all other variables remain constant, a \$1 increase or decrease in the price of natural gas would not have a material impact on net income (loss) and other comprehensive income (loss).

The Company is also exposed to a financial risk related to fluctuations in paper and ink prices. To reduce this risk, the contracts with its largest customers generally include price adjustment clauses based on the costs of paper and ink.

Interest rate risk

The Company is exposed to interest rate fluctuations as a result of its long-term debt. The floating rate portion of its long-term debt represents approximately 87% of the total. However, the interest rate on this debt is subject to a LIBOR floor of 3% and will not begin to fluctuate until LIBOR exceeds that percentage. As at December 31, 2009, LIBOR was significantly lower than the floor of 3%. Therefore, a 1% fluctuation in LIBOR would not result in any change to the interest rate applicable to long-term debt.

Following the commencement of the Insolvency Proceedings on January 21, 2008, substantially all derivative contracts were terminated by their counterparties. The amount of any gains and losses associated with derivative contracts designated as hedging items that had previously been recognized in other comprehensive income as a result of applying hedge accounting was carried forward to be recognized in net income in the same periods during which the hedged forecast transaction will occur.

Thereafter, from time to time, we entered into commodities swap contracts to manage certain future identifiable energy price exposures related to the purchases of natural gas. In addition, we entered into foreign exchange forward contracts to manage our exposure to change in the currency exchange rate between the Canadian and the US dollar on the settlement of foreign denominated sales and related receivables. During the seven-month period ended July 31, 2009, the Company reclassified a net gain of \$1 million from accumulated other comprehensive income (loss) to earnings related to derivative financial instruments for which cash flow hedge accounting was terminated in a prior period but for which the anticipated transaction was still probable of occurring.

For the year ended December 31, 2008, the Company reclassified a net gain of \$8 million from accumulated other comprehensive income (loss) to earnings related to derivative financial instruments for which cash flow hedge accounting was terminated in a prior period. A net gain of \$34 million was recorded during the year (a net loss of \$76 million in 2007) on derivative financial instruments for which hedge accounting was not used and embedded derivatives not closely related to their host contracts of which \$11 million is presented as Reorganization items.

After the Fresh-start Date, there are no more gains or losses associated with derivative contracts that were previously recognized in other comprehensive income.

Fair value of financial instruments

The carrying values of cash and cash equivalents, accounts receivable, deposits bank indebtedness, trade payables and accrued liabilities, and amounts owing in satisfaction of bankruptcy claims, approximate their fair values because of the short-term nature of these items. The carrying value of restricted cash approximates its fair value.

The following table summarizes the book value and fair value at December 31, 2009 and 2008 of those financial instruments having a fair value different from their book value. The fair values of the financial assets and liabilities are estimated based on discounted cash flows using year-end market yields of similar instruments having the same maturity, adjusted to take into account specific characteristics of the instrument.

	2009		2008	
	Book Value	Fair Value	Book Value	Fair Value
<i>Financial Assets:</i>				
Long-term receivables ⁽¹⁾	\$ 39	39	\$ 70	65
<i>Financial liabilities:</i>				
Long-term debt ⁽¹⁾	\$ 460	\$ 507	\$ 644	\$ 615
Redeemable First Preferred Shares - Series 5	-	-	35	-
Class A Convertible Preferred Shares ⁽²⁾	103	113	-	-

⁽¹⁾ Includes current portion.

⁽²⁾ Includes current portion of \$5 million recorded in accrued liabilities.

The carrying amounts of derivative financial instruments are equal to their fair value.

Off-balance sheet arrangements

Other than lease commitments (see section 6.2), the Company has no significant off-balance sheet arrangements.

6.2. Contractual obligations

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or the risk that these financial obligations will be met at excessive cost. As discussed in Note 1 and in connection with the emergence from the bankruptcy protection, the Company secured on July 21, 2009 an \$800 million exit financing facility. Management believes that with the implementation of the Plan and the availability of the Credit Facility, the Company will be able to meet its financial obligations for the foreseeable future. The credit facility agreement contains certain restrictive financial and other covenants (Note 19).

The following table sets forth the Company's contractual cash obligations for the items described therein as at December 31, 2009.

Financial Cash Obligations (\$ millions)

	2010	2011	2012	2013	2014	2015 and thereafter	Total
Credit Facility ⁽¹⁾	2	41	406	-	-	-	449
Unsecured notes to be issued	-	-	-	46	-	-	46
Other long term debt	4	1	1	1	-	-	7
Capital leases	14	15	14	13	13	1	70
Interest payments on other long-term debt and capital leases ⁽²⁾	6	5	3	1	1	-	16
Interest payments on Credit Facility ⁽²⁾	40	39	23	-	-	-	102
Operating leases	46	33	29	25	19	79	231
Capital asset purchase commitments	23	5	-	-	-	-	28
Dividend on Preferred shares	5	-	-	-	-	-	5
Preferred shares ⁽³⁾	-	-	-	-	-	-	-
Total contractual cash obligations	140	139	476	86	33	80	954

Figure 10

⁽¹⁾ Assumes mandatory repayments and no exercise of the prepayment option by the Company and no repayment under the mandatory excess cash flow repayment clause.

⁽²⁾ Interest payments were calculated using the interest rate that would prevail should the debt be reimbursed according to its contractual term, assuming no repayment under the mandatory excess cash flow repayment clause, and using the outstanding balance as at December 31, 2009.

⁽³⁾ Assumes no exercise of the prepayment option by the Company. In the event the holders exercise their conversion option, there would be no cash outflows for the portion converted.

The table above does not include any amounts for expected pension contribution in the future (Note 30) or payments for tax uncertainties recorded in accordance with accounting guidance on uncertainties in income taxes (Note 9).

During 2009, contributions to Company's pension plans totaled \$21 million (\$39 million in 2008), which were in accordance with the minimum required contributions as determined by the Company's actuaries.

The Company believes that its liquidity, capital resources and cash flows from operations are sufficient to fund planned capital expenditures, working capital requirements, pension contributions, interest and principal payment obligations for the foreseeable future.

6.3. Share capitalization

In accordance with the Plan, the Predecessor's then existing Multiple Voting Shares, Redeemable First Preferred Shares and Subordinate Voting Shares were effectively cancelled for no consideration, on the Effective Date, in accordance with the Articles of Reorganization that were filed as one of the steps to implement the Plan. In addition, the Company's outstanding stock options were cancelled and all stock-based compensation plans were terminated on July 21, 2009.

Pursuant to the Plan, the following new equities have been issued.

Outstanding share data

Outstanding Share Data
(\$ in millions and shares in thousands)

	Issued and outstanding	February 25, 2010 Book value
Common Shares	73,285	\$ 534
Preferred Shares, Class A	12,500	101
Warrants, Series I	10,723	57
Warrants, Series II	10,723	37

Figure 11

New capital stock

(a) Common Shares

The Company is authorized to issue an unlimited number of Common Shares and, as of the Effective Date, 73,285,000 Common Shares were issued in escrow to Computershare Trust Company of Canada, as escrow agent ("the Escrow Agent").

(b) Warrants

On the Effective Date, 10,723,019 Series I warrants and 10,723,019 Series II warrants (collectively, the "Warrants"), were issued in escrow to the Escrow Agent. The Warrants are exercisable for an equal number of Common Shares subject to the volume-weighted average trading price, during a 30-day period, of the Common Shares being greater than or equal to \$13.00 for Series I and greater than or equal to \$16.30 for Series II, at an exercise price of \$0.01. The Warrants expire on July 20, 2014. These Warrants are considered equity instruments and have been classified as capital stock. They were measured at inception at their estimated fair value.

(c) Preferred Shares

The Company is authorized to issue a maximum of 12,500,000 Class A convertible preferred shares (the "Preferred Shares"). On the Effective Date, the Company issued in escrow to the Escrow Agent, 12,500,000 Preferred Shares with a nominal value of \$100 million. Fixed preferential cumulative cash dividends accrue on the Preferred Shares at a basic rate of 10% *per annum* payable quarterly. The applicable dividend rate on the Preferred Shares escalates based on certain triggering events up to a maximum rate of 19% *per annum*, the most significant of which is a 5% increase to an annualized dividend rate of 15% upon non-payment of the cash dividends in any given quarter, with the rate reverting to 10% *per annum* once the Company pays in full its next quarterly dividend on the Preferred Shares as well as all accrued and unpaid dividends. The Preferred Shares (including any cumulative unpaid dividends) may be converted at any time at the option of the holder (i) during the first five years following the Effective Date, on a one-for-one basis (subject to certain adjustments) into Common Shares based upon a Common Share price of \$8.00 per share and (ii) after the fifth anniversary of the Effective Date, into a variable number of Common Shares based upon the weighted average trading price of the Common Shares on the Toronto Stock Exchange ("TSX") during a 60-day reference period (subject to certain adjustments). The Preferred Shares are redeemable at any time at the option of the Company, subject to a holder's right during the five years after issuance to convert its Preferred Shares into Common Shares at the applicable ratio instead of having such shares being redeemed. In addition, subject to applicable law and restrictions in the Company's Credit Facility, the Company is required either to (i) make mandatory quarterly redemptions of Preferred Shares with any excess cash as permitted under the Credit Facility proportionate to repurchases of Unsecured Notes (Note 20) or (ii) permanently increase the dividend rate applicable to the Preferred Shares by 2% *per annum*. The redemption and liquidation price of the Preferred Shares is \$8.00 per share plus all accrued and unpaid dividends (subject to certain adjustments). The Company's option to redeem is also contingent on the prior repayment of specified

amounts under the Credit Facility. There is no fixed maturity date for the Preferred Shares. Holders of the Preferred Shares are generally entitled to vote on all shareholder matters with holders of the Common Shares on an "as converted" basis and are entitled to elect up to two additional Board members upon the occurrence of certain triggering events. At inception, the Preferred Shares were classified as compound financial instruments, with a portion of the Preferred Shares classified as a liability with a value amounting to \$94 million and a conversion option recorded as contributed surplus with a value of \$54 million. Subsequently, the debt portion is accounted for using the effective interest method. The effective interest rate on the Preferred Shares is approximately 16% and resulted in interest expense of \$8 million for the 5 months ended December 31, 2009. As at December 31, 2009, the dividends in arrears on the Preferred Shares were \$7 million, of which \$5 million were paid on February 5, 2010, and were included in accrued liabilities.

As of December 31, 2009, 65,044,123 Common Shares, all Preferred Shares and 6,052,303 Series I warrants and 6,052,303 Series II warrants were released from escrow. On February 17, 2010, an additional 186,568 Common Shares, 105,727 Series I warrants and 105,727 Series II warrants were released from escrow. In accordance with the terms of the Plan, the remaining Common Shares and Warrants will be held in escrow pending resolution of unsecured claims. Once claims are resolved, the securities will be distributed in accordance with the terms of the Plan. None of the securities held in escrow will return to Worldcolor.

Shareholder Rights Plan

On August 20, 2009, the Company adopted a shareholder rights plan (the "Original Rights Plan") to encourage the fair treatment of shareholders in a takeover offer for the Company. The Original Rights Plan, in effect, allowed holders of Common Shares to purchase additional common shares from the Company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the Company in a transaction that was not a permitted bid under the Original Rights Plan. The rights under the Original Rights Plan would not be exercisable by the acquiring person or group of persons. The rights under the Original Rights Plan were not triggered by purchases of shares made pursuant to a take-over bid made to all shareholders on identical terms by way of a take-over circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Original Rights Plan.

On February 19, 2010, the Company enacted a new shareholder rights plan (the "Rights Plan") to replace the Original Rights Plan which terminated in accordance with its terms on February 20, 2010. The Rights Plan is designed to encourage the fair treatment of shareholders in a takeover offer for the Company and to prevent a bidder from acquiring control of the Company in a manner detrimental to shareholders. All outstanding rights issued thereunder shall terminate if the Rights Plan is not confirmed by a majority of shareholders at a special meeting of the Company to be held within six months of its adoption. The Rights Plan, in effect, allows holders of Common Shares and Preferred Shares (collectively, the "Voting Shares") to purchase additional Common Shares from the Company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 15% or more of the outstanding common shares or of the outstanding Voting Shares of the Company in a transaction that is not a permitted bid under the Rights Plan. The rights under the Rights Plan would not be exercisable by the acquiring person or group of persons. The rights under the Rights Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Rights Plan.

The proposed acquisition of the Company by Quad/Graphics, Inc. (See Section 8) constitutes an exempt transaction under the Rights Plan and so will not trigger the Rights Plan.

6.4. Related party transactions

Predecessor

Before the emergence from Insolvency Proceedings, Quebecor Inc. ("Quebecor"), directly and through a wholly-owned subsidiary, held 75% of the outstanding voting interests in QWI. Quebecor had the power to determine many matters requiring shareholder approval, including the election of directors and the approval of significant corporate transactions. However, the Court exempted QWI from the requirement to hold an annual meeting of shareholders until such time as QWI emerged from the Insolvency Proceedings. In addition, any fundamental transaction or proposed change to QWI's organizational documents required Court approval. Consequently, even though Quebecor held 75% of QWI's outstanding voting interests, it was unlikely that Quebecor would be able to exercise its votes during the Insolvency Proceedings in order to change the composition of the Board of Directors or cause fundamental changes in the affairs and organizational documents of QWI.

In addition, subsequent to the resignation of four Quebecor Inc. Directors from the Board of Directors of QWI on December 17, 2008, Quebecor no longer had significant influence over the affairs of QWI and therefore was no longer a related party as defined under GAAP. Accordingly all transactions between Quebecor and QWI subsequent to that event were considered third party transactions.

Prior to that event, QWI entered into the following transactions, which were concluded and accounted for at the exchange amount with the majority shareholder and its subsidiaries:

As of December 31,	Predecessor	
	2008	2007
Companies then under common control:		
Revenues	\$ 42	\$ 56
Selling, general and administrative expenses	20	25
Management fees billed by Quebecor Inc.	-	5

During the financial year ended December 31, 2008, QWI did business with Quebecor Inc. and its subsidiaries (the "Quebecor Group"). The Company is currently involved in certain disputes with Quebecor Media Inc., a subsidiary of Quebecor, and certain other companies within the Quebecor group, regarding certain transactions that occurred in 2008 and prior years.

On October 1, 2008, as part of the review of contracts the Company repudiated a 10 year manufacturing agreement with subsidiaries of Quebecor Media Inc. that was entered into during October of 2007 for the printing of directories, representing a maximum of \$12 million of purchases per year.

As part of the Canadian claims procedure described in Note 1, QWI has received claims from the Quebecor Group, including a claim related to the repudiation indicated above. These claims were analyzed as part of the claims process described in Note 1.

During the second quarter of 2008, QWI acquired all rights, title and interest to an aircraft previously leased by QWI from a third party and subsequently sold it to a wholly-owned subsidiary of Quebecor Media Inc. The transaction was concluded based on two independent appraisals; QWI received a cash consideration of \$20 million, resulting in a gain on disposal of \$10 million recorded in selling general and administrative expenses.

In October 2007, QWI sold its participation in Nurun Inc. to Quebecor Media Inc., both companies then under common control, for a cash consideration of CA\$2 million (\$2 million), resulting in a gain of CA\$1 million (\$1 million).

In October 2007, QWI sold a property to a company then under common control, Quebecor Media Inc., for consideration of CA\$63 million (\$64 million). Simultaneously, QWI entered into a long-term lease of 17 years with Quebecor Media Inc., to rent a portion of the property sold. Consideration for the two transactions was settled by a cash receipt of CA\$44 million (\$45 million) on the date of the transactions and QWI assumed a net balance of sale, including interest, of CA\$7 million (\$7 million) receivable in 2013. The disposal of the property generated a gain of CA\$4 million (\$4 million), which was written off as part of Fresh Start adjustment.

In June 2007, a real estate property was sold to a shareholder of Quebecor for \$1 million, established based on an independent estimate, resulting in a gain on disposal of \$1 million which is included in selling, general and administrative expenses.

Successor

There were no related party transactions in the Successor.

7. Quarterly trends

Selected Quarterly Financial Data (Continuing Operations)

(\$ millions)

	Successor		Combined				Predecessor					
	2009								2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1				
Consolidated Results												
Operating revenues	\$ 848	\$ 770	\$ 702	\$ 752	\$ 1,033	\$ 994	\$ 976	\$ 1,014				
Adjusted EBITDA	132	103	58	36	118	94	93	74				
Adjusted EBIT	83	52	5	(15)	50	34	28	9				
IAROC	30	12	4	15	188	7	11	36				
Goodwill impairment charge	-	-	-	-	341	-	-	-				
Operating income (loss)	53	39	2	(30)	(479)	27	17	(27)				
Operating margin	6.3 %	5.1 %	0.3 %	(4.0) %	(46.4) %	2.7 %	1.7 %	(2.7) %				
Adjusted EBITDA margin	15.6 %	13.4 %	8.3 %	4.8 %	11.4 %	9.5 %	9.5 %	7.3 %				
Adjusted EBIT margin	9.8 %	6.8 %	0.7 %	(2.0) %	4.8 %	3.4 %	2.9 %	0.9 %				
Net income (loss) from continuing operations	\$ 18	\$ 13	\$ (59)	\$ (126)	\$ (654)	\$ (64)	\$ (78)	\$ (148)				
Net income (loss)	18	13	(59)	(126)	(654)	(64)	(751)	(190)				
Per Share Data												
Earnings (loss) per share Basic and diluted	0.25	**	(0.31)	(0.64)	(3.26)	(0.35)	(4.05)	(1.32)				

Figure 12

IAROC: Impairment of assets, restructuring and other charges

Adjusted EBITDA and EBIT: Defined as before IAROC and goodwill impairment charge

** : For the Successor's two-month period ended September 30, 2009, the basic and diluted earnings per share were \$0.04 and \$0.03 respectively.

For the Predecessor's one-month period ended July 31, 2009, the basic and diluted earnings per share were \$0.05.

Adjusted EBITDA trend

Adjusted EBITDA for the fourth quarter of 2009 was higher than for the same period in 2008 mainly due to the cost reduction plan, continuous improvement projects and technology, restructuring initiatives and lower utility rates that offset the volume decline.

In all four quarters of 2008 and 2009, we continued to face challenging market conditions, resulting in significant decreased volume in most of our markets and, to a lesser extent, price erosion. The cost reduction plan, continuous improvement projects as well as technology and restructuring initiatives, largely in North America and the corporate office, were designed to help reverse this negative trend (see "Industry trends and outlook" section for more details). The various measures implemented by the Company have generated positive results as indicated by the year-over-year improvement in EBITDA and EBITDA margin in each of the last two quarters.

Seasonal impact

Operating revenues generated by Worldcolor are seasonal with, historically, a greater part of volume being realized in the second half of the fiscal year, primarily due to the higher number of magazine pages, new product launches, back-to-school ads, marketing by retailers, increased catalog activity, and holiday promotions. Therefore, an analysis of the consecutive quarters is not a true measurement of the operating revenue trend (Figure 12). However, in 2008, operating revenues were not materially greater in the second half of the year, as the economic downturn was more severe during this part of the year, leading to volume reductions in most of our markets.

IAROC impact

Significant IAROC have resulted from our focus on profit improvement and retooling activities that have involved reductions in workforce, closure or downsizing of facilities, decommissioning of under-performing assets, lowering of overhead expenses, consolidating corporate functions, relocating sales and administrative offices into plants, rationalization of management structure and integration of business units with common activities to facilitate synergies. This determined focus on profit improvement has reduced our long-term cost structure and has improved efficiencies across our North American platform.

8. Subsequent events

On January 25, 2010, the Company and Quad/Graphics, Inc. entered into a definitive arrangement agreement pursuant to which, subject to the terms and conditions set forth therein, the Company will amalgamate with a subsidiary of Quad/Graphics, Inc. as part of a statutory arrangement under Canadian law. The transaction is expected to close in the summer of 2010. Under the terms of the agreement, upon completion of the transaction, the Company's shareholders will receive approximately 40 percent of the outstanding common stock of Quad/Graphics, Inc. and shareholders of Quad/Graphics Inc. will hold approximately 60 percent of the outstanding common stock of Quad/Graphics, Inc. Quad/Graphics, Inc. will also provide at least \$93 million to fund the purchase of any Warrants not converted to Common Shares at closing, to fund redemptions of or payments due on any other equity securities not converted to Common Shares at closing and to pay any permitted dividends on the Company's stock prior to the closing. If less than \$93 million is needed to make such purchases, redemptions and payments, the remainder will be distributed to the Company's Common Shareholders in cash. The completion of the transaction is subject to customary closing conditions, including among other things, shareholder approvals and regulatory approvals.

Quad/Graphics, Inc. and the Company each have agreed not to solicit any alternative acquisition proposals, but may consider superior proposals from third parties in certain circumstances, subject to the match rights of the other party. The arrangement agreement also provides for the payment of a \$40 million termination fee to either party or the reimbursement for up to \$20 million out-of-pocket expenses of the other party relating to the transaction if the agreement is terminated under certain circumstances.

As a result of this agreement, the Company is expected to pay, amongst other costs, retention and transaction bonuses of \$10 million to certain of its employees. Also, the total stock compensation costs related to unvested awards not yet recognized (\$5 million as of December 31, 2009) would be recognized as of the closing date. The agreement contemplates the refinancing of the Company's existing debt outstanding and unsecured notes to be issued which will result in a charge for the write-off of the related deferred debt financing costs. As of December 31, 2009, the deferred debt financing costs were \$67 million. As part of refinancing the Company's existing debt outstanding, the Company would incur a 1% prepayment penalty on the term loan and revolving credit facility of approximately \$8 million.

9. Controls and procedures

9.1. Evaluation of disclosure controls and procedures

Disclosure controls and procedures are controls and other procedures that are designed to provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the Canadian and U.S. securities rules and forms, is (1) recorded, processed, summarized and reported within the time periods specified in the Canadian and U.S. securities laws and (2) accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Members of management, at the direction (and with the participation) of the Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934 and in National Instrument 52-109 adopted by the Canadian Securities Administrators), as of December 31, 2009. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that disclosure controls and procedures were effective as of December 31, 2009.

9.2. Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the US Securities Exchange Act of 1934. The Company's internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP, reconciled to US GAAP, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2009, management conducted an evaluation of the effectiveness of internal control over financial reporting based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting as of December 31, 2009 was effective.

The Company's independent registered public accounting firm that audited the financial statements included in this annual report on Form 40-F, has issued an attestation report expressing an opinion on the effectiveness of internal control over financial reporting as at December 31, 2009, which report is included in the consolidated financial statements as at and for the year ended December 31, 2009.

9.3. Material Changes in Internal Control over Financial Reporting

As of December 31, 2008, Management reported the following material weakness in the internal control over financial reporting of the Company: ineffective processes and controls over the accounting for and reporting of complex and non-routine transactions. Specifically, the Company determined that there was a lack of sufficient accounting and finance personnel to perform in-depth analysis and review of complex accounting matters within the timeframes set by the Company for filing its financial statements. This deficiency resulted in certain adjustments to the amounts or disclosures of the following items: inventories, claims and liabilities subject to compromise, financial instruments, pension expense and income taxes.

For purposes of this report, the term "material weakness" means a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual financial statements will not be prevented or detected on a timely basis.

During 2009, management developed and implemented internal controls to address this material weakness. Four new people were added to the accounting and finance functions, including a Vice-President, Financial Projects and a Senior Director, Professional Accounting Practice, in the third and fourth quarters. In the interim, the Company contracted external consultants to assist and provide technical support in regards to fresh start accounting, US GAAP and other accounting issues.

Furthermore, starting immediately after the second quarter, management implemented a post mortem process to review the previous quarter financial close process issues in order to anticipate and address events that would affect the following quarter.

Finally, throughout the year, all financial reporting and other key people attended training on fresh start accounting and Canadian/US GAAP developments. This training allowed them to better understand the impact of the fresh start accounting resulting from the Company's emergence from bankruptcy in July 2009 and incorporate new accounting developments in its consolidated financial statements for the year-ended December 31, 2009.

These, collectively, represent changes that had a material effect on internal control over financial reporting.