

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF VIRGINIA
Richmond Division

In re:)
) Chapter 11 Cases
)
HEILIG-MEYERS COMPANY, et al.,) Case Nos. **00-34533 through 00-34535** and
) Case Nos. **00-34537 through 00-34538**
)
) Jointly Administered Under
) Case No. **00-34533**
Debtors.)
)
)

**FIFTH POST-CONFIRMATION STATUS REPORT
OF THE HEILIG-MEYERS LIQUIDATION TRUST
PURSUANT TO SECTION 1106(a)(7) OF THE BANKRUPTCY CODE**

Anthony H.N. Schnelling, as Liquidation Trustee (the “Trustee”) of the Heilig-Meyers Liquidation Trust,¹ by and through undersigned counsel and pursuant to Section 1106(a)(7) of the Bankruptcy Code, submits this Fifth Post-Confirmation Status Report of the Heilig-Meyers Liquidation Trust (the “Report”) and respectfully represents as follows:

I. BACKGROUND

1. On August 16, 2000 (the “Petition Date”), Heilig-Meyers Company (“Heilig-Meyers”) and certain of its subsidiaries and affiliates (together, the “Debtors”), each filed in this Court voluntary petitions for relief under Chapter 11 of the Bankruptcy Code.

2. On December 23, 2005, this Court entered an order confirming the Third Amended and Restated Joint Liquidating Plan of Reorganization Proposed by Heilig-Meyers Company, Heilig-Meyers Furniture Company, Heilig-Meyers Furniture Company West, Inc, HMY Star, Inc., MacSaver Financial Services, Inc., and the Official Committee of Unsecured

¹ All capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Liquidating Plan.

Creditors, dated December 7, 2005 (the “Liquidating Plan”). The effective date of the Liquidating Plan occurred on February 17, 2006 (the “Effective Date”).

3. On the Effective Date, the Heilig-Meyers Liquidation Trust was established (the “Trust”) for the purpose of, among others things, liquidating the Debtors’ remaining assets and making distributions as contemplated by the Plan.

4. Pursuant to Section 1106(a)(7) of the Bankruptcy Code, the Trustee periodically files post-confirmation reports to disclose the actions taken by the Trustee and the progress made in furtherance of his duties as Trustee. To date, the Trustee has filed four prior confirmation reports, which are incorporated herein by reference.

II. STATUS OF CLAIMS RECONCILIATION PROCESS

A. Administrative, Secured and Priority Claims

5. On October 12, 2006, a motion (the “Smith Motion”) was filed by an individual on behalf of herself and the estates of two juvenile decedents seeking leave to file an administrative claim against the Debtors’ estates for unliquidated personal injury and property damage claims (collectively, the “Smith Administrative Claim”). The claimant sought, among other things, an order from the Court (i) determining that the Smith Administrative Claim is entitled to administrative expense status and (ii) directing the Trust to reserve sufficient funds for payment of the alleged Smith Administrative Claim. The Trust disputed the claimant’s entitlement to the relief sought in the motion. However, in the interest of avoiding protracted litigation in the bankruptcy court and potentially in federal or state courts with its attendant expense and uncertain outcome and consequent effect on the timing and size of distribution to the Trust’s beneficiaries, the Trust negotiated a consensual settlement with the claimant. This settlement first involved the Trust’s filing, on November 27, 2007, a *Motion to Approve Settlement and Compromise of Smith Motion Pursuant to Rule 9019 of the Federal Rules of*

Bankruptcy Procedure, which was approved by the Court on December 21, 2007 (the “Mediation Order”). Pursuant to the settlement, the Trust established a reserve in the amount of \$4.0 million on account of the alleged Smith Administrative Claim (the “Smith Claim Reserve”), which reserve was subject to a determination concerning the allowance and classification of the Smith Administrative Claim.

6. On May 6, 2008, pursuant to the Mediation Order, the Trust and the claimant participated in a non-binding mediation concerning the allowance and classification under the Plan of the alleged Smith Administrative Claim. Shortly thereafter, the parties reached an agreement to compromise and settle all claims and issues raised in the Smith Motion, including the Smith Administrative Claim, as well as any and all claims that could be brought by the claimant or by the claimant’s surviving daughter that were not presented in the Smith Motion, for an allowed administrative claim in the amount of \$600,000.

7. On July 2, 2008, the Trust filed the *Motion to Approve Settlement and Compromise of Smith Motion and Smith Claims Pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure*, seeking approval of the terms of the settlement described in paragraph 6 above. No objections were filed and an order approving the motion was entered on the docket on July 24, 2008. In addition to the Court’s approval, the settlement must be approved by the South Carolina Court of Common Pleas.

8. While the Trust is not aware of any other material administrative, secured or priority contingent liabilities, the Trust cannot provide any assurances that additional claims may not be asserted against the Trust.

B. Unsecured Claims

9. The Trust has resolved substantially all of the timely filed unsecured non-priority claims through a series of Omnibus Objections. From time to time, the Trust is contacted by

parties who asserted that certain claims have not been resolved and the Trust has been addressing the issues as they arise.

10. As of the date of this Report, there are \$494,482,314 in allowed Class 5(a) claims and approximately \$456,028,301.35 in allowed Class 5(b) claims.

III. TRUST ASSETS

11. The Trust Assets consist primarily of: (i) Cash, (ii) Other Assets, and (iii) the New RoomStore Common Stock.

A. Cash Balance

12. As of June 30, 2008, the Trust had approximately \$6.6 million of cash on hand of which \$650,000 is reserved for the Smith Administrative Claim and professional fees based on the filed stipulated amount, approximately \$714,000 is reserved for distribution to Class 5B creditors who have not provided W-9's to the Trust or whose distribution amount is below the current threshold for issuing checks, and approximately \$188,000 is reserved for unclaimed priority and secured distributions. The balance is reserved for either (1) administrative expenses including the destruction of records, quarterly Trustee fees, and other costs to manage the Trust through closing or (2) subsequent distributions to beneficiaries to the extent that the funds are not needed for administrative expenses.

B. Other Assets

13. Since the Effective Date, the Trust has recovered approximately \$17.2 million in cash from the settlement of the Kemper and United States Fidelity and Guaranty insurance program letters of credit, the surrender of certain life insurance contracts, distributions related to the Debtors' equity interests in Mattress Holdings, and other miscellaneous asset sales. \$15.9 million of this amount have been distributed as discussed in more detail in Section IV herein. There are no Letters of Credit outstanding as of the date of this report and the Trust has

recovered all available cash collateral. The Trust continues to pursue residual asset recoveries as such are identified.

D. The RoomStore Common Stock

14. Pursuant to the confirmed plan of reorganization of HMY RoomStore, Inc. (the “RoomStore Plan”),² the Trust, as successor in interest to Heilig-Meyers, held an allowed general unsecured claim against RoomStore in the amount of \$57,900,000. Pursuant to the RoomStore Plan, the Trust received approximately 7,006,500 shares of Reorganized RoomStore’s new common stock in November 2006.

15. The RoomStore common stock held by the Trust represents the largest remaining Trust assets. According to information provided by RoomStore, the Trust understands that it has received approximately 71% of Reorganized RoomStore’s new common stock subject to dilution by shares of new RoomStore common stock (the “New RoomStore Common Stock”) issued pursuant to the management incentive program approved under the RoomStore Plan.

16. Gordian Group LLC has been retained by the Trust, in consultation with the Trust Advisory Committee, to render advice with respect to the New RoomStore Common Stock issued to the Trust and to assist the Trust in evaluating its strategic options with respect thereto. The New RoomStore Common Stock is currently an unregistered security and is not publicly traded.

17. The Trust determined that it had two options with respect to the New RoomStore Common Stock: One was to monetize the stock through a sale of the entire position (with the sale proceeds subsequently to be distributed to the Trust beneficiaries) and the other was to use the Trust's registration rights to make a distribution of the stock directly to the Trust

² The RoomStore Plan was confirmed by order of this Court dated May 18, 2005. The RoomStore Plan went effective on June 1, 2005.

beneficiaries. On behalf of the Trust, Gordian conducted a marketing process to solicit bids to purchase the New RoomStore Common Stock. Although the Trust received offers to purchase the stock, the Trust does not believe the prices offered were reflective of the long-term value of the New RoomStore Common Stock, due in part to current economic and market conditions.

18. Consequently, the Trust determined to exercise its registration rights with RoomStore to register with the Securities and Exchange Commission (the "SEC") the distribution of the New RoomStore Common Stock to the Trust beneficiaries. In July the Trust served a demand registration request on RoomStore. The Trust has been working with RoomStore to file a registration statement with the SEC at the earliest possible date. The Trust anticipates that the registration process and subsequent distribution may take six to twelve months to complete.

IV. DISTRIBUTIONS MADE PURSUANT TO THE LIQUIDATING PLAN

19. Since the Effective Date, the Trustee has made certain distributions and established certain Reserves as required under the Liquidating Plan. Future distributions to holders of allowed claims will be based on the proceeds from the RoomStore common stock, the settlement of the Smith Administrative Claim and any funds not required for administration of the Trust. The Trust received approximately \$26.5 million from the Debtors at the inception of the Trust. The Trust has paid out approximately \$7.1 million in administrative claims, \$6.2 million in priority and secured claims, and \$5.1 million in pre-Effective Date professional fees. Since the inception of the Trust, investment income has been approximately \$1.7 million and the Trust has generated approximately \$17.2 million in cash from non-cash assets received from the Debtor. The Trust has disbursed approximately \$4.5 million in professional fees and operating expense for Post-Effective Date operations of the Trust. Distributions to beneficiaries of the Trust have been approximately \$15.9 million.

20. The chart below summarizes the actions of the Trust as of June 30, 2008, with respect to distributions:

<u>Class</u>	<u>Description</u>	<u>Class Treatment</u>	<u>Status</u>
N/A	Administrative Claims	Payment in full in Cash of any Allowed Administrative Claim (unless otherwise agreed).	Since the Effective Date, the Trust has paid approximately \$7.1 million to holders of Allowed Administrative Claims. The Trust has established the Smith Claim Reserve in the amount of \$650 thousand, based on the agreement to settle this claim.
N/A	Priority Tax Claims	Payment in full in Cash of any Allowed Priority Tax Claim (unless otherwise agreed).	Since the Effective Date, the Trust has paid approximately \$6.4 million to holders of Allowed Priority Tax Claims.
N/A	DIP Lender Claim	Payment in full in Cash of any Allowed DIP Lender Claim (except as otherwise agreed).	The Trust has made no distribution to the holder of the Allowed DIP Lender Claim and does not anticipate making future distributions on account of such claims.
1	Other Priority Claims	Payment in full in Cash of any Allowed Other Priority Claim (unless otherwise agreed).	Since the Effective Date, the Trust has made no distributions to holders of Allowed Other Priority Claims.
2	Pre-Petition Lender Claims	Treatment provided in the Settlement Agreement.	Each holder of a Pre-Petition Lender Claim has received and retained the right to the treatment afforded them in the Settlement Agreement.
3	Secured Reimbursement Claims	Retention of rights in and benefits of the Letters of Credit.	Each holder of a Secured Reimbursement Claim has retained the rights in and benefits of the Letters of Credit.
4	Other Secured Claims	Payment in full in cash of any Allowed Other Secured Claim.	Since the Effective Date, the Trust has paid \$58,000 to holders of Allowed Other Secured Claims.

<u>Class</u>	<u>Description</u>	<u>Class Treatment</u>	<u>Status</u>
5(a)	Funded Debt Unsecured Claims	<p>Holders of Allowed Funded Debt Unsecured Claims shall receive a Pro Rata distribution of Class 5(a) Trust Interests</p>	<p>The aggregate Allowed amount of Funded Debt Unsecured Claims is \$494,482,314.</p> <p>In January 2008, the Trust made an interim distribution of \$9,889,646 to holders of Allowed Funded Debt Unsecured Claims on account of the Class 5(a) Trust Interests. This distribution results in a recovery of approximately 2% to holders of Allowed Funded Debt Unsecured Claims.</p> <p>The Trust is unable at this time to determine when another interim or a final distribution to holders of Allowed Funded Debt Unsecured Claims will occur.</p>
5(b)	Heilig Unsecured Claims	<p>Holders of Allowed Heilig Unsecured Claims shall receive a Pro Rata distribution of Class 5(b) Trust Interests.</p>	<p>There are approximately \$456,028,301.35 in allowed Class 5(b) claims.</p> <p>The Trust has made or is making (as IRS Form W-9's are obtained) an interim distribution of \$6,758,615 to holders of Allowed Heilig Unsecured Claims on account of the Class 5(b) Trust Interests. This distribution results in a recovery of approximately 1.5% to holders of Allowed Heilig Unsecured Claims. The Trust has reserved an additional \$81,964 on account of the Heilig Unsecured Claims.</p> <p>The Trust is unable at this time to determine when another interim or a final distribution to holders of Allowed Heilig Unsecured Claims will occur.</p>
6	Subordinated Claims	<p>No Distribution. Holders of Subordinated Claims will not be entitled to, nor retain, any property or interest in property on account of Subordinated Claims.</p>	<p>No Distribution.</p>
7	Old Common Stock Interests	<p>No Distribution. Holders of Old Common Stock Interests will not be entitled to, nor retain, any property or interest in property on account of Old Common Stock Interests.</p>	<p>No Distribution.</p>

V. PAYMENT OF PROFESSIONAL CLAIMS AND U.S. TRUSTEE FEES

21. Final orders with respect to all applications for final allowance of Professional Claims have been entered by the Court and the Trust has made all payments of allowed Professional Claims required thereunder. The Trust has paid all fees owing to the U.S. Trustee and shall continue to do so as required by applicable law.

VI. DESTRUCTION OF DOCUMENTS

22. Since the Effective Date, the Debtors' books, records and other historical information has been within the control of the Trust, which the Trust has been paying to store in document storage facilities. On September 12, 2007, the Trust filed the *Motion of Heilig-Meyers Liquidation Trust for an Order Authorizing the Abandonment and Destruction of the Debtors' Books and Records*, which the Court granted on September 24, 2007 (the "Document Destruction Order"). The Document Destruction Order authorizes the Trust, in its sole discretion, to destroy or otherwise dispose of the Debtors' books and records beginning 30-days following the entry of the Document Destruction Order, *provided, however*, that the Trust would refrain from destroying certain documents identified on schedules attached to the Document Destruction Order for a period of 150-days following entry of such order (the "Identified Documents"). The Identified Documents include documents related to the Smith matter and, at the request of Kemper Insurance Company, certain files that may relate to workers' compensation claims. Since the expiration of the 30-day period, the Trust has begun the process of the destruction of those books and records permitted under the Document Destruction Order.

VII. TRUST WEBSITE

23. The Trust has established a website hosted by Bridge Associates LLC containing additional information regarding the Debtors' chapter 11 cases. The website can be accessed at the following internet address: <http://www.bridgellc.com/clientsites.html>.

Dated: July 29, 2008

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