

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.)
)
)

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

Anthony H.N. Schnellung, 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 Fourth 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,

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

HMY Star, Inc., MacSaver Financial Services, Inc., and the Official Committee of Unsecured 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 three prior confirmation reports, which are incorporated herein by reference.

II. STATUS OF CLAIMS RECONCILIATION PROCESS

A. Administrative, Secured and Priority Claims

5. As of the filing of the third post-confirmation report (the “Third Report”) on August 20, 2007, the Trust had resolved substantially all of the timely filed material administrative, secured, and priority claims with the exception of the Internal Revenue Service (“IRS”) secured tax claim in the amount of approximately \$4,800,000. The IRS’s secured claim was the subject of a pending appeal in the United States Court of Appeals for the Fourth Circuit. On May 9, 2007, the Court of Appeals affirmed the decision of the District Court in favor of the IRS by a 2-1 panel decision. The Trust filed a petition for a panel rehearing and en banc review which was denied on August 13, 2007. The Trust determined not to seek further appellate review. The Trust has since settled the IRS claim resulting in a tax refund recovery of \$61,625.39 to the Trust.

6. On October 12, 2006, a motion was filed by an individual on behalf of herself and the estates of two 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 bankruptcy 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 disputes the claimant’s entitlement to the relief sought in the motion. Accordingly, the Trust negotiated a consensual settlement with the claimant and on November 27, 2007, filed 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. Pursuant to the settlement, the Trust has established a reserve in the amount of \$4.0 million on account of the alleged Smith Administrative Claim (the “Smith Claim Reserve”), which reserve is subject to a determination concerning the allowance and classification of the Smith Administrative Claim. Nonetheless, and in order to allow the other business of the Trust to go forward while the allowance and classification of the Smith Administrative Claim is adjudicated, the Trust and the claimant will participate in non-binding mediation concerning the allowance and classification under the Plan of the alleged Smith Administrative Claim.

7. 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

8. The Trust has resolved substantially all of the timely filed unsecured non-priority claims through a series of Omnibus Objections including most recently certain disputed and unliquidated claims asserted by the Kemper Insurance Companies (“Kemper”) relating to the

Debtors pre-petition workers' compensation and liability insurance programs as well as certain personal injury claims that are subject to insurance coverage.

9. As of the date of this Report, there are \$494,482,314 in allowed Class 5(a) claims and approximately \$454,672,989 in allowed Class 5(b) claims. As of the filing of the Third Report, there were four remaining disputed unsecured liquidated and unliquidated claims to be resolved by the Trust – one claim relating to the IRS claim and three claims related to personal injury litigations. Since that time, the Trust has settled the IRS claim resulting in a tax refund recovery of \$61,625.39 to the Trust. Additionally, all three of the personal injury claims have been settled by the insurance company. The settlement of these claims by the insurance company will include a release of the bankruptcy claims filed by the respective parties.

III. TRUST ASSETS

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

A. Cash Balance

11. As of December 31, 2007, the Trust had approximately \$23,052,000 million of cash on hand. After giving effect to the Class 5A and Class 5B distributions and establishing a Class 5B reserve (described in Section IV below), it is anticipated that the Trust's available cash balance will be reduced to approximately \$6,332,000, which includes administrative reserves of approximately \$6,200,000.

B. Other Assets

12. Since the Effective Date, the Trust has recovered approximately \$17,155,286 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. There

are no Letters of Credit outstanding as of the date of this report and the Trust has recovered all available cash collateral.

C. The RoomStore Common Stock

13. Pursuant to the confirmed plan of reorganization of HMY RoomStore, Inc. (the “RoomStore Plan”),³ 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.

14. 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 issued pursuant to the management incentive program approved under the RoomStore Plan.

15. 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 Gordian Group is working with the Trust and a number of interested parties to monetize the New RoomStore Common Stock issued to the Trust for the benefit of the unsecured creditors.

IV. DISTRIBUTIONS MADE PURSUANT TO THE LIQUIDATING PLAN

16. 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

³ The RoomStore Plan was confirmed by order of this Court dated May 18, 2005. The RoomStore Plan went effective on June 1, 2005.

settlement of the Smith Administrative Claim and any funds not required for administration of the Trust.

17. The chart below summarizes the actions of the Trust as of January 23, 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 \$7.0 million to holders of Allowed Administrative Claims. The Trust has established the Smith Claim Reserve in the amount of \$4.0 million, which reserve is subject to a determination concerning the allowance and classification of the Smith Administrative 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 \$6.3 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	Holders of Allowed Funded Debt Unsecured Claims shall receive a Pro Rata distribution of Class 5(a) Trust Interests	<p>The aggregate Allowed amount of Funded Debt Unsecured Claims is \$494,482,314.</p> <p>On January 4, 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	Holders of Allowed Heilig Unsecured Claims shall receive a Pro Rata distribution of Class 5(b) Trust Interests.	<p>There are approximately \$454,672,989 in allowed Class 5(b) claims.</p> <p>The Trust will make an interim distribution of \$6,738,131 to holders of Allowed Heilig Unsecured Claims on account of the Class 5(b) Trust Interests. This distribution will result 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	No Distribution. Holders of Subordinated Claims will not be entitled to, nor retain, any property or interest in property on account of Subordinated Claims.	No Distribution.
7	Old Common Stock Interests	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.	No Distribution.

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

18. 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

19. 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

20. 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: January 23, 2008

AKIN GUMP STRAUSS HAUER & FELD LLP

/s/ Stanley J. Samorajczyk

Stanley J. Samorajczyk (Va. No. 08023)
Scott L. Alberino (admitted *pro hac vice*)
1333 New Hampshire Avenue, N.W.
Washington, D.C. 20036
(202) 887-4000

Counsel to the Heilig-Meyers Liquidation Trust