

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF VIRGINIA
Richmond Division**

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

**SECOND 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 Second 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 files this Report to describe the actions taken by the Trustee and the progress made in furtherance of his duties as Trustee.

II. STATUS OF CLAIMS RECONCILIATION PROCESS

Administrative, Secured and Priority Claims

5. The Trust has resolved substantially all of the timely filed material administrative, secured, and priority claims with the exception of: (i) the Internal Revenue Service’s secured tax claim in the amount of approximately \$4,800,000 that is currently the subject of an appeal pending in the United States Court of Appeals for the Fourth Circuit, and (ii) the unliquidated secured claim and the \$16,000 priority claim of the Kemper Insurance Company / Lumbermans Mutual Casualty Company (“Kemper”) that provided workers compensation and liability insurance coverage to the Debtors on a pre-petition basis. Kemper currently holds a Letter of Credit in the amount of approximately \$4,070,000 million from which to pay applicable workers compensation and liability claims. The bar date for the filing of administrative claims was March 19, 2006 (the “Administrative Claim Bar Date”).

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. The claimants seek, among other things, an order from the bankruptcy court (i) determining that the alleged claims are

entitled to administrative expense status and (ii) directing the Trust to reserve sufficient funds for payment of the alleged administrative claims. The Trust disputes the claimants' entitlement to the relief sought in the motion and is attempting to resolve the matter consensually.

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.

Unsecured Claims

8. The Trust has resolved substantially all of the timely filed unsecured non-priority claims through a series of Omnibus Objections with the exception of 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 \$454,602,000 in allowed Class 5(b) claims. There are several remaining disputed unsecured liquidated and unliquidated claims to be resolved by the Trust, but the Trust does not anticipate the settlement of these claims to increase the amount of the allowed unsecured claims by a material amount.

III. TRUST ASSETS

10. The Trust Assets consist primarily of: (i) Cash, (ii) the L/C Cash Collateral Account, (iii) Other Assets, and (iv) the RoomStore Claim

Cash Balance

11. As of December 31, 2006, the Trust had approximately \$22,900,000 in cash. The Trust estimates that it currently has approximately \$895,000 in liquidated secured, priority and administrative claims to be paid.

L/C Cash Collateral Account

12. Pursuant to a certain settlement agreement with the Pre-Petition Lenders (the “Settlement Agreement”), approximately \$20,100,000 (representing the amount of then outstanding standby Letters of Credit² issued by Wachovia Bank, N.A. in support of the Debtors’ liability and workers’ compensation insurance programs) was transferred into a segregated interest bearing account (the “L/C Cash Collateral Account”). As more particularly set forth in the Settlement Agreement, upon the occurrence of any amendment in any Letter of Credit which reduces its face amount, or any full or partial discharge of any Letter of Credit, or any early termination or expiration of one or more of the Letters of Credit, the Trust is entitled to a distribution from the L/C Cash Collateral Account. As of the Effective Date, approximately \$19,200,000 of standby Letters of Credit were outstanding. Since the Effective Date, the Trust has received approximately \$12,560,000 in cash as the result of a partial reduction in the Kemper Letter of Credit and the full and final settlement of the United States Fidelity and Guaranty Letter of Credit. The Kemper Letter of Credit is currently approximately \$4,070,000. Kemper has asserted unliquidated claims for outstanding liabilities under the insurance policies that are allegedly secured by the Letter of Credit and there is uncertainty as to the amount of the Kemper Letter of Credit that is recoverable by the Trust.

² Pursuant to the Settlement Agreement, the term “Letters of Credit” means those letters of credit issued by the Issuer pursuant to the Bank Credit Agreement and for the account of one or more of the Debtors, as modified, amended, or supplemented from time to time prior to the Petition Date, which are more particularly identified as (i) Letter of Credit No. LC968-124948 (previously LC968-108943), dated March 17, 1999, in the current undrawn amount of \$1,145,222.73 and issued for the benefit of Lumbermens Mutual Casualty Company, et al., (ii) Letter of Credit No. LC968-124977 (previously LC968-109753), dated March 26, 1999, in the current undrawn amount of \$9,370,599.20 and issued for the benefit of Lumbermens Mutual Casualty Company, et al., and (iii) Letter of Credit No. LC968-124955 (previously LC968-118389), dated March 30, 2000, in the current undrawn amount of \$9,611,215.00 and issued for the benefit of United States Fidelity and Guaranty Co.

Other Assets

13. Since the Effective Date, the Trust has recovered approximately \$2,900,000 in connection with, among other things, the surrender of certain life insurance contracts, distributions related to the Debtors' equity interests in Mattress Holdings, and other miscellaneous asset sales. As of the date of this report, the Trust estimates that there is approximately \$132,000 in other assets to be converted to cash.

The RoomStore Common Stock

14. 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. According to information provided by the 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 recently 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.

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

Third Party Claims

16. The Trust continues to pursue the Debtors' appeal in connection with the IRS Litigation.⁵ Oral argument was held before the Court of Appeals of the Fourth Circuit on January 31, 2006. At stake in the appeal is whether any or all of an approximately \$4,800,000 tax refund will be turned over by the IRS to the Debtors.

17. Since the Effective Date, considerable efforts have been made by the Trust in connection with achieving a recovery in respect of the Debtors' approximately \$68,000,000 unsecured claim in the Rhodes Furniture chapter 11 cases.⁶ Pursuant to a settlement between the Trust and the Rhodes Debtors in connection with confirmation of the Rhodes chapter 11 plan, the Trust has been given, among other things, the right to investigate and pursue claims belonging to the Rhodes Holdings II bankruptcy estate (the "Rhodes' Claims"). The Trust retained the law firm of Stone & Baxter LLP to investigate potential claims and causes of actions of the Rhodes Holdings II bankruptcy estate against its former officers, directors and shareholders. Based upon the results of this investigation, the Trust, in consultation with the Liquidation Trust Advisory Committee, has determined not to prosecute any of the potential Rhodes' Claims.

IV. DISTRIBUTIONS MADE PURSUANT TO THE LIQUIDATING PLAN

18. Since the Effective Date, the Trustee has made certain distributions and established certain Reserves as required under the Liquidating Plan. The chart below summarizes the actions of the Trust as of December 31, 2006, with respect thereto:

⁵ For a detailed discussion of the IRS Litigation, see section IV.E.2 of the Disclosure Statement to the Liquidating Plan.

⁶ For a detailed discussion of the Debtors' efforts with respect to the Rhodes claim, see section IV.E.3 of the Disclosure Statement to the Liquidating Plan.

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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.
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 \$5.7 million to holders of Allowed Priority Tax Claims. Additional payments of approximately \$670 thousand will be made based on pending stipulations.
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. Additional payments of \$23,000 may be made based on disputed claims outstanding.
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	The Trust has not made an interim or final distribution to holders of Allowed Funded Debt Unsecured Claims on account of the Class 5(a) Trust Interests and has not established the Funded Debt Unsecured Claims Reserve. The Trust is unable at this time to determine when an interim or final distribution to holders of Allowed Funded Debt Unsecured Claims will occur. The aggregate Allowed amount of Funded Debt Unsecured Claims is \$494,482,314.
5(b)	Heilig Unsecured Claims	Holders of Allowed Heilig Unsecured Claims shall receive a Pro Rata distribution of Class 5(b) Trust Interests.	The Trust has not made an interim or final distribution to holders of Allowed Heilig Unsecured Claims on account of the Class 5(b) Trust Interests and has not established the Heilig Unsecured Claims Reserve. There are approximately \$454,602,000 in allowed Class 5(b) claims. There are several remaining disputed unsecured liquidated and unliquidated claims to be resolved by the Trust, but the Trust does not anticipate the settlement of these claims to increase the amount of the allowed unsecured claims by a material amount. The Trust is unable at this time to determine when an interim or final distribution to holders of Allowed Heilig Unsecured Claims will occur.

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

19. 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. 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: February 8, 2007

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