

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.)
)
)

**SIXTH 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 his undersigned counsel and pursuant to section 1106(a)(7) of the Bankruptcy Code, submits this Sixth 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 Liquidation 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 five prior confirmation reports, which are incorporated herein by reference.

II. STATUS OF CLAIMS RECONCILIATION PROCESS

A. Administrative, Secured and Priority Claims

5. The Trust has been advised by counsel for two former landlords that certain administrative claim matters were not resolved by the Debtor prior to the Effective Date of the Trust. The Trustee’s counsel has reached a settlement in principal resolving the claim issues, which is expected to result in the payment of administrative claims of less than \$34,000 in the aggregate. Upon settlement of these matters, the Trustee is not aware of any remaining open administrative, secured or priority claims.

B. Unsecured Claims

6. 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, including the landlord claims set forth in the preceding paragraph. The settlement of that matter will not have a material effect on the total amount of allowed Class 5(b) Heilig Unsecured Claims.

7. In accordance with the provisions of the Trust Agreement, the Trustee has determined that certain holders of allowed Class 5(b) Heilig Unsecured Claims are no longer eligible to receive a distribution as a result of non-compliance with the provisions of the Trust Agreement. After sending two successive requests to holders of Class 5(b) Heilig Unsecured Claims to execute IRS Form W-9, 2,872 beneficiaries holding allowed claims of \$22,133,735 have failed to provide the requested information within 6 months of each request. Pursuant to Section 5.12 of the Trust Agreement, these beneficiaries' claims shall be treated as undeliverable under Section 8.11 of the Liquidating Plan and are no longer eligible to receive a distribution. Additionally, 252 beneficiaries holding allowed claims of \$2,607, each of which is worth less than \$1.00, shall not receive a distribution pursuant to Section 5.13 of the Trust Agreement which states that no payment will be made on claims representing a fraction of a dollar. Finally, 226 beneficiaries holding allowed claims of \$18,080,004 received distributions in January and February of 2008 but have not cashed their checks. Pursuant to Section 5.11 of the Trust Agreement, checks not negotiated within 90 days of issuance are deemed null and void. Claims relating to these void checks are "discharged and forever barred" and the distributions related to those checks returned to the Trust for redistribution to the remaining beneficiaries of the Trust, as the time in which the ability to request reissuance of these checks has now lapsed pursuant to Section 5.11 of the Trust Agreement.

8. As of the date of this Report, there are \$494,482,314 in allowed Class 5(a) claims and approximately \$415,808,433 in allowed Class 5(b) Heilig Unsecured Claims.

III. TRUST ASSETS

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

A. Cash Balance

10. The Trust has approximately \$4.9 million of cash on hand as of December 31, 2008. The Trust has reserves of approximately \$411,000 for Class 5(b) creditors who have not provided W-9's to the Trust or whose distribution amount is below the current threshold for issuing checks, \$34,000 thousand for administrative claims as discussed in prior paragraphs, and approximately \$100,000 for accrued administrative fees. The balance is reserved for either (1) administrative expenses, including the destruction of remaining Debtor 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

11. Since the Effective Date, the Trust has recovered approximately \$17.5 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. \$16.3 million of this amount has 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

12. 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.

13. The RoomStore common stock held by the Trust represents the largest remaining Trust asset. 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.

14. Gordian Group LLC (“Gordian”) was 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.

15. 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 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

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

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.

16. 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 2008, the Trust served a demand registration request on RoomStore. Subsequently, RoomStore and the Trust worked cooperatively towards the preparation of a registration statement to be filed with the SEC. Based on recent communications between the RoomStore and the Trust, the Trust currently anticipates that the registration process will be completed during the first half of 2009 provided that there are no unanticipated delays in the process due to regulatory or other circumstances. The Trust does not have any knowledge of any reason for a delay and will proceed with a distribution once the registration process is completed and the New RoomStore Common Stock has been registered with the SEC.

IV. DISTRIBUTIONS MADE PURSUANT TO THE LIQUIDATING PLAN

17. 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, 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 \$7.6 million in administrative claims, \$6.4 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 \$17.4 million in cash from non-cash assets received from the Debtor. The Trust has disbursed approximately \$5.3 million in professional fees and operating expenses for Post-Effective Date

operations of the Trust. Distributions to beneficiaries of the Trust have been approximately \$16.3 million.

18. The chart below summarizes the actions of the Trust as of December 31, 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 \$7.6 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 \$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	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>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 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 \$415,808,433 in allowed Class 5(b) claims.</p> <p>The Trust has made an interim distribution of \$6,178,613 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 is unable at this time to determine when a final distribution to holders of Allowed Funded Debt 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

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. DESTRUCTION OF DOCUMENTS

20. 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

21. 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: March 19, 2009

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