SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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HECHINGER LIQUIDATION TRUST

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Check one

☑ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended March 31, 2005 or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 000-50160

HECHINGER LIQUIDATION TRUST

(Exact name of Registrant as specified in its charter)

Delaware	**52-7230151**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
405 East Gude Drive, Suite 206, Rockville, Maryland	**20850**
(Address of principal executive offices)	(Zip Code)

Registrant' s telephone number, including area code: (301) 838-4311

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☑ No ☐

HECHINGER LIQUIDATION TRUST
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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

Item 1. Financial Statements

Hechinger Liquidation Trust
Unaudited Statements of Net Assets in Liquidation

($ in thousands)	As of March 31, 2005	As of September 30, 2004
Assets		
Cash and cash equivalents		
Cash designated as available for distribution	$ 2,792	$ 3,388
Reserved cash	23,150	21,471
Restricted cash	1,961	9,312
Other cash	7,029	204
Total cash and cash equivalents	34,932	34,375
Preference receivables (net of costs of recovery of $151 and $1,029, respectively)	363	3,149
Other assets	1,106	160
Total assets	36,401	37,684
Liabilities		
Unimpaired and convenience claims payable	2,937	2,970
Uncashed claims checks	265	142
Distributions payable	284	228
Estimated costs of liquidation		
Wind-down reserve	2,196	3,518
Litigation reserve	1,272	2,384
Total liabilities	6,954	9,242
Net Assets in Liquidation	**$ 29,447**	**$ 28,442**

See accompanying notes to unaudited financial statements.

Hechinger Liquidation Trust
Unaudited Statements of Changes in Net Assets in Liquidation

($ in thousands)	For the three months ended March 31, 2005	For the three months ended March 31, 2004
Increase/(decrease) in Net Assets in Liquidation		
Decrease in estimated fair value of preference receivables, net	$ (67)	$ (660)
Increase in estimated costs of liquidation:		
Wind-down reserve	–	(1,540)
Litigation reserve	–	(2,000)
Interest income	138	62
Other increases	998	732
Net increase/(decrease) in Net Assets in Liquidation before distributions authorized	1,069	(3,406)
Distributions authorized	(142)	(329)
Net increase/(decrease) in Net Assets in Liquidation after distributions authorized	927	(3,735)
Net Assets in Liquidation at beginning of period	28,520	37,004
Net Assets in Liquidation at end of period	$ 29,447	$ 33,269

	For the six months ended March 31, 2005	For the six months ended March 31, 2004
Increase/(decrease) in Net Assets in Liquidation		
(Decrease)/increase in estimated fair value of preference receivables, net	$ (67)	$ 3,090
Increase in estimated costs of liquidation:		
Wind-down reserve	–	(1,540)
Litigation reserve	–	(2,000)
Decrease in estimated fair value of unimpaired and convenience claims payable	23	–
Interest income	260	126
Other increases	1,011	772
Net increase in Net Assets in Liquidation before distributions authorized	1,227	448
Distributions authorized	(222)	(1,755)
Net increase/(decrease) in Net Assets in Liquidation after distributions authorized	1,005	(1,307)
Net Assets in Liquidation at beginning of period	28,442	34,576
Net Assets in Liquidation at end of period	$ 29,447	$ 33,269

See accompanying notes to unaudited financial statements.

Hechinger Liquidation Trust
Unaudited Statements of Cash Receipts and Disbursements

($ in thousands)	For the six months ended March 31, 2005	For the six months ended March 31, 2004
Cash receipts		
Preference collections, before costs of recovery	$ 3,670	$ 6,222
Interest income	260	126
Other receipts	65	62
Total cash receipts	3,995	6,410
Cash disbursements		
Costs of liquidation		
Legal and professional fees		
Litigation	1,112	2,162
Preference recoveries	951	1,010
Liquidation Trust operations	383	1,087
Operating expenses	939	977
Unimpaired and convenience claims	10	270
Reissued/(voided) claims checks, net	(123)	212
Total cash disbursements	3,272	5,718
Increase in cash and cash equivalents before distributions paid	723	692
Distributions paid	166	2,112
Increase/(decrease) in cash and cash equivalents	557	(1,420)
Cash and cash equivalents at beginning of period	34,375	46,837
Cash and cash equivalents at end of period	$ 34,932	$ 45,417

See accompanying notes to unaudited financial statements.

Hechinger Liquidation Trust
Notes to Unaudited Financial Statements

1. Background and Basis of Presentation

Background

Hechinger Liquidation Trust (the "Liquidation Trust") was established effective October 26, 2001 (the "Effective Date") in accordance with the Revised First Amended Consolidated Plan of Liquidation (the "Plan") for Hechinger Investment Company of Delaware, Inc. and affiliates (the "Debtors"), confirmed by the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") by an order dated October 5, 2001.

The Liquidation Trust has no authority to engage in any trade or business. The purpose of the Liquidation Trust is to (i) liquidate any and all remaining assets of the Debtors; (ii) pursue causes of action assigned to the Liquidation Trust, including preference, fraudulent conveyance and other avoidance actions; (iii) resolve, either consensually or through litigation, all disputed claims asserted against the Debtors ("Disputed Claims"), pursuant to the Plan; and (iv) make all distributions required under the Plan ("Distributions"), and payments to holders of claims allowed under the terms of the Plan ("Allowed Claims" and, together with the Disputed Claims, the "Claims"). The Liquidation Trust will terminate upon the earlier of (a) the fulfillment of its purpose by the liquidation of all of its assets and the distribution of the proceeds of the liquidation thereof in accordance with the Plan, or (b) by October 26, 2005, unless the Bankruptcy Court approves an extension of the term.

Pursuant to the Bankruptcy Code, certain types of Allowed Claims will be paid in full under the Plan. Such Claims are therefore referred to as "Unimpaired Claims." The Plan defines which types of Claims are paid in full.

The Liquidation Trust exists primarily for the benefit of the majority of claimants who will not be repaid in full for the amounts the Debtors owed them as of the bankruptcy filing. These Claims are referred to as "Impaired Claims" because the rights of the claimants have been impaired by the Debtors' bankruptcy. Each holder of an Allowed Claim in the Plan's Class 4A (Senior Unsecured Claims), Class 4B (General Unsecured Claims), and Class 5 (Subordinated Debentures Claims) (each a "Class") is deemed to hold a pro rata beneficial interest (the "Beneficial Interests") in the Liquidation Trust based upon the amount of their Allowed Impaired Claim as compared to the total amount of all Impaired Claims ultimately Allowed. When and to the extent Disputed Impaired Claims become Allowed Impaired Claims, holders of such Claims become holders of Beneficial Interests in accordance with the Plan.

The holders of Beneficial Interests receive all remaining net proceeds of the Liquidation Trust, if any, after the expenses and all creditors of the Liquidation Trust, including Allowed Unimpaired and Convenience Claims (certain small Claims to be paid at 7.5% of their Allowed amounts in accordance with the Plan) are paid, and all contingencies are resolved. Holders of each Class of Beneficial Interests (i.e., each Class of Impaired Claims) have the same rights, except with respect to payment of Distributions.

Through March 31, 2005, the Liquidation Trust has authorized Distributions to holders of Beneficial Interests (i.e., to holders of Allowed Impaired Claims) of 8.1% of the Allowed amount of the Impaired Claims, and established a reserve of 8.1% of the estimated amount of Disputed Impaired Claims, based on the estimated amount of such Claims approved by the Bankruptcy Court for reserve purposes (the "Disputed Impaired Claims Reserve").

Basis of Presentation

The Liquidation Trust's financial statements have been prepared using the liquidation basis of accounting. Under this method of accounting, the Statements of Net Assets in Liquidation reflect all assets and liabilities, including the projected total cost of liquidating the assets and winding down the affairs of the Liquidation Trust, at estimated fair value. Unimpaired Claims, to be paid in full, are reflected in the Statements of Net Assets in Liquidation as liabilities at estimated aggregate settlement amounts. The unpaid amount of the authorized Distributions to holders of Allowed Impaired Claims is also reflected as a liability. The Statements of Changes in Net Assets in Liquidation primarily reflect any authorized Distributions to holders of Beneficial Interests and changes in the estimated fair value of the Liquidation Trust' s assets and liabilities. The Liquidation Trust' s fiscal year ends on September 30.

The accompanying unaudited financial statements reflect all adjustments, consisting only of normal recurring adjustments that are, in the opinion of the Liquidation Trustee, necessary for a fair statement of the results for the interim periods presented. Such financial statements and these notes thereto should be read in conjunction with the audited Liquidation Trust financial statements as of September 30, 2004 and September 30, 2003, and for the fiscal years ended September 30, 2004 and September 30, 2003, and for the period from October 26, 2001 (Effective Date) through September 30, 2002, and the notes thereto.

The amounts shown in this document are rounded and are therefore approximate.

Certain amounts in the financial statements as of September 30, 2004 and for the three months and six months ended March 31, 2004 have been reclassified to conform to the presentation as of March 31, 2005 and for the three months and six months ended March 31, 2005. Convenience Claims payable shown separately in the financial statements as of September 30, 2004 have been combined with Unimpaired Claims payable to conform to the presentation in the March 31, 2005 financial statements. Increases in the Wind-Down and Litigation Reserves, presented as an aggregate amount in the financial statements for the three months and six months ended March 31, 2004, are shown separately herein to conform with the presentation in the financial statements for the three months and six months ended March 31, 2005.

2. Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires the Liquidation Trustee to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results are likely to differ from those estimates and those differences may be significant.

Cash and Cash Equivalents

The Liquidation Trust considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Liquidation Trust holds substantially all cash balances in operating and investment accounts in excess of federally insured limits. Cash is classified as: Cash Designated as Available for Distribution, Reserved Cash, Restricted Cash, and Other Cash (see Note 3).

Taxes

The Liquidation Trust is intended to qualify as a liquidating trust for federal income tax purposes, and therefore should be taxable as a grantor trust. The holders of Beneficial Interests are treated as grantors; accordingly, their pro rata share of all items of income, gain, loss, deduction and credit is included in the income tax returns of the holders of Beneficial Interests.

The Liquidation Trust pays applicable taxes on the taxable net income and gain allocable to holders of Disputed Impaired Claims on behalf of such holders. When such Disputed Claims are ultimately resolved, holders whose Disputed Claims were determined to be Allowed Claims receive Distributions from the Liquidation Trust net of taxes, if any, which the Liquidation Trust previously paid on their behalf.

The Liquidation Trust incurs no taxable income or gain on its own behalf; therefore, no tax provision is recorded in the financial statements of the Liquidation Trust.

3. Cash and Cash Equivalents

Cash is invested in highly liquid investments with a maturity of three months or less, and in accordance with Section 345 of the Bankruptcy Code or as otherwise permitted by order of the Bankruptcy Court. Under the terms of the Plan, the Liquidation Trust is not required to segregate funds for reserves (see Note 10).

Cash Designated as Available for Distribution ("Available Cash") is designated to assure the availability of funds for payment to holders of Impaired Claims who have not received their Distributions. As such, Available Cash includes Distributions payable (see Note 8) and the Disputed Impaired Claims Reserve (see Note 10). Available Cash does not include Reserved Cash, Restricted Cash, or Other Cash, each further described below.

Available Cash consists of:

($ in thousands)	As of March 31, 2005	As of September 30, 2004
Distributions payable	$ 284	$ 228
Reserve for remaining disputed impaired claims at 8.1%	2,508	3,160
Total available cash	$ 2,792	$ 3,388

Reserved Cash is held by the Liquidation Trust to assure payment of the Liquidation Trust' s obligations in accordance with the Plan. Under the terms of the Plan, Reserved Cash is intended to provide for (a) operating expenses of the Liquidation Trust, (b) estimated payments to holders of Allowed Unimpaired and Convenience Claims in accordance with the Plan, and (c) payments which may become necessary if and as Disputed Unimpaired Claims become Allowed, or if certain specific contingencies should occur. See Note 10 for details of specific reserves and their related amounts.

Restricted Cash consists of cash held as collateral for a letter of credit and cash held in an escrow account. During January 2005, $7.4 million of Restricted Cash was released to Other Cash following a reduction in the letter of credit to a balance of $1.6 million, which resulted from settlement of the related secured Claim (see Note 6).

Other Cash is cash and cash equivalents not designated to a specific reserve or fund. Subsequent to March 31, 2005, the Liquidation Trustee filed a Notice of Fourth Interim Distribution with the Bankruptcy Court, indicating that an additional Distribution in the amount of 1.0% of Impaired Claims will be made to holders of Allowed Impaired Claims during May 2005.

4. Preference Receivables

The Liquidation Trust' s preference receivables are reflected in the accompanying Statements of Net Assets in Liquidation at their estimated fair value of $0.4 million, net of estimated costs of recovery of $0.2 million, for the sole remaining preference recovery action being actively pursued and for settlement collections in progress as of March 31, 2005; and $3.1 million, net of estimated costs of recovery of $1.0 million, for 10 preference recovery actions being actively pursued and for settlement collections in progress as of September 30, 2004.

The fair value of Liquidation Trust assets is reassessed at least quarterly and adjustments to estimated fair values are reflected in the period in which they become known. The eventual net realizable value of preference receivables is likely to differ from their estimated net fair value and these differences may be significant.

5. Other Assets

Other assets consist of receivables from various former vendors, service providers, and others. During March 2005, the Liquidation Trust agreed to a settlement of $0.6 million in connection with litigation against a group of insurance companies collectively referred to as Kemper Insurance Company ("Kemper"), a former insurance company of the Debtors, which is included in other assets as of March 31, 2005. Other assets also include a $0.4 million distribution in the liquidation of the Debtor' s former company-owned life insurance policy carrier. Other assets are reported at estimated net fair value, based on either the amount paid (generally in the form of cash deposits) or the estimated recoverable amount, whichever is more determinable. The eventual net realizable value of these assets is likely to differ from their estimated net fair value and these differences may be significant.

6. Unimpaired and Convenience Claims Payable

Unimpaired Claims payable represents the estimated aggregate settlement amount of Unimpaired Claims against the Debtors prior to the Effective Date of the Plan, which will be paid out at 100% of their Allowed amount. Such Claims are valued at the Liquidation Trust' s best estimate of the amount that will ultimately be allowed. Convenience Claims, also included in this classification, are not significant.

Unimpaired and Convenience Claims payable consists of:

($in thousands)	As of March 31, 2005	As of September 30, 2004
Allowed unimpaired claims	$ 2,935	$ 1,339
Estimated fair value of disputed unimpaired claims		
Kemper claim, net	–	1,600
Other disputed unimpaired claims	–	29
Total estimated fair value of disputed unimpaired claims	–	1,629
Convenience claims	2	2
Total	$ 2,937	$ 2,970
Number of disputed unimpaired claims	5	9

The largest remaining Unimpaired Claim is a secured Claim asserted by Kemper for payment of certain workers' compensation claims against the Debtors (the "Kemper Claim"). The Liquidation Trust recorded the estimated net fair value of the Kemper Claim at $1.6 million as of March 31, 2005 and September 30, 2004. This value was based on an agreement reached between Kemper and the Liquidation Trust during December 2004 to settle the Kemper Claim for $1.7 million, offset by a $0.1 million prepayment held by a third-party claims administrator. The Kemper Claim was therefore included with Allowed Unimpaired Claims as of March 31, 2005 and with Disputed Unimpaired Claims as of September 30, 2004. During January 2005, the letter of credit securing the Kemper Claim was reduced to $1.6 million pursuant to the December 2004 agreement between Kemper and the Liquidation Trust.

Pursuant to the Plan, certain fees and expenses which Kmart Corporation ("Kmart") incurred in connection with the Debtors' bankruptcy filing were allowed as an Unimpaired Claim. Allowed

Unimpaired Claims as of March 31, 2005 and September 30, 2004 include this Claim, which has not yet been substantiated by Kmart as required by the Plan, at its estimated amount of $1.3 million.

The amount asserted by the holders of the remaining Disputed Unimpaired Claims is insignificant as of March 31, 2005 and September 30, 2004. The Liquidation Trust anticipates that each of these Claims will be expunged or waived; accordingly, no liability has been recorded with respect to the remaining Disputed Unimpaired Claims as of March 31, 2005.

Unimpaired Claims are valued by reviewing the facts available to the Liquidation Trust, including the Debtors' records and information submitted by the claimants, and estimating the ultimate settlement value of the Claims. The fair value of Unimpaired Claims payable is reassessed at least quarterly and adjustments to estimated fair values are reflected in the period in which they become known. However, no assurance can be given as to the ultimate allowance, disallowance or settlement of the remaining Disputed Unimpaired Claims, individually or in the aggregate.

7. Uncashed Claims Checks

Pursuant to the Plan, any Claims payments and Distributions which remain uncashed for 90 days following their issuance date are forfeited to the Liquidation Trust for Distribution to other holders of Allowed Claims. Pending a final order from the Bankruptcy Court, the Liquidation Trust has treated such items as a liability. Such checks currently may be reissued upon timely request of the payee, subject to applicable fees.

8. Distributions Payable

Distributions payable primarily represents 8.1% of the Allowed amount of Impaired Claims for which the Liquidation Trust had not yet paid Distributions as of March 31, 2005 and September 30, 2004, respectively. As of these dates, a number of holders of such Allowed Claims, while otherwise eligible for Distributions, had either not yet provided all information necessary for payment, or were subject to an offsetting claim by the Liquidation Trust which had not yet been resolved. Until all such issues are resolved, the holder of an Allowed Claim may not receive a Distribution.

9. Estimated Costs of Liquidation

The Wind-down Reserve and Litigation Reserve described below together constitute the estimated costs of liquidation in the accompanying Statements of Net Assets in Liquidation.

Under the Plan, the Liquidation Trust was required to establish and fund a reserve to pay administration costs and costs of holding and liquidating the Liquidation Trust's assets (the "Wind-down Reserve"). Substantially all of the day-to-day operations of the Liquidation Trust are planned to cease in the near future; however, provision has been made for certain necessary administrative, legal and accounting processes to be completed thereafter through December 2005.

Pursuant to the Plan, the Liquidation Trust also established and funded a reserve to pay the costs of pursuing certain actions referred to as the Bondholder Action and the Committee Action (the "Litigation Reserve"). The amount of the Litigation Reserve as of March 31, 2005 and September 30, 2004 is intended to fund the pursuit of the Bondholder Action through an appeal and the Committee Action through trial (see Note 12). In accordance with the procedures set forth in the Plan, approval has been obtained for all increases in the Litigation Reserve.

The Liquidation Trustee may also determine that pursuing or defending future appeals or re-trials in the Bondholder Action and the Committee Action is in the best interest of the holders of Beneficial Interests in the Liquidation Trust. In order to reserve funds to carry out these actions as needed, as of March 31, 2005, the Liquidation Trustee has designated a contingency reserve of $4.0 million (see Note 10). None of this amount will be added to the Litigation Reserve accrual until and unless the Liquidation

Trustee determines that future action will be pursued, and then only in accordance with the approval procedures set forth in the Plan.

The fair value of the estimated costs of liquidation is reassessed at least quarterly and adjustments to estimated fair values are reflected in the period in which they become known. Actual costs are likely to differ from the estimated costs and these differences may be significant.

10. Bankruptcy Reserves Required

Reserves, other than those funded by Restricted Cash, or included in Available Cash, consist of:

($ in thousands)	As of March 31, 2005	As of September 30, 2004
Liability Reserves		
Wind-down (net of related escrow of $278)	$ 1,918	$ 3,240
Litigation	1,272	2,384
Unimpaired and convenience claims (excluding secured claim (see Note 6))	1,337	1,370
Uncashed claims checks	265	142
Total liability reserves	4,792	7,136
Contingency Reserves		
Fleet	11,000	11,000
Litigation appeals provision	4,000	–
Excess disputed unimpaired claims	329	309
Preference settlement claims	29	26
Minimum reserve	3,000	3,000
Total contingency reserves	18,358	14,335
Total reserves	$ 23,150	$ 21,471

The litigation appeals provision represents cash held in reserve to allow the Liquidation Trust to pursue or defend future appeals and re-trials of the Committee Action and the Bondholder Action. The Liquidation Trustee designated this contingency reserve as of March 31, 2005 because the anticipated future cash receipts of the Liquidation Trust may not be sufficient to fund such actions prospectively. No liability has been accrued in connection with such possible future actions because the Liquidation Trust has not determined that any such action will be required.

The Fleet Reserve, established pursuant to a stipulated order between Fleet Retail Finance Inc. ("Fleet") and the Liquidation Trust, is likely to be drawn upon if Fleet, as a defendant in the Committee Action and the Bondholder Action, should ultimately prevail in one or both of such actions. No liability has been accrued in connection with the Fleet Reserve because the Liquidation Trust has appealed the adverse decision and judgment in the Bondholder Action (see Note 12), does not consider Fleet likely to ultimately prevail in either of these actions, and has no access to information to estimate the amount, if any, that Fleet may validly assert against the Fleet Reserve.

The Liquidation Trust also maintains the Disputed Impaired Claims Reserve, which, as an equity reserve, is designated as part of Available Cash (see Note 3), for Distribution to holders of Disputed Impaired Claims should such Claims become Allowed. The reserve for the remaining Disputed Impaired Claims is determined based on the then current cumulative Distribution rate and on the estimated amount of remaining Disputed Impaired Claims.

11. Impaired Claims

The Liquidation Trust' s estimate of Impaired Claims consists of:

($ in thousands)	As of March 31, 2005	As of September 30, 2004
Allowed impaired claims	$ 705,720	$ 704,015
Estimated fair value of disputed impaired claims	17,247	20,798
Total estimated impaired claims	$ 722,967	$ 724,813
Asserted value of disputed impaired claims	$ 56,037	$ 64,068
Number of disputed impaired claims	23	47

No assurance can be given as to the ultimate allowance, disallowance or settlement of the remaining Disputed Impaired Claims, individually or in the aggregate.

12. Contingencies

The Bondholder Action

In March 2004, following a non-jury trial held in October 2003, the Court issued an opinion and order (collectively, "the Decision") in the Bondholder Action, directing the entry of judgment in favor the defendants. In April 2004, the Liquidation Trust filed an appeal from the Decision and related judgment. The Liquidation Trust and the defendants each completed the filing of appeal briefs during September 2004. The Court of Appeals has scheduled oral argument for the appeal during June 2005. The timing of a ruling is unknown. Also see the discussion of the Fleet Reserve in Note 10.

The Committee Action

In April 2004, the Committee Action was assigned to the judge who presided in the Bondholder Action, who has scheduled the Committee Action for trial in August 2005. During December 2004 and January 2005, the Court heard oral argument on motions, including motions for summary judgment, filed by various defendants. The timing of a decision on defendants' motions is unknown.

The various defendants are vigorously opposing the Bondholder Action and the Committee Action. There is no assurance that the Liquidation Trust will prevail on the claims asserted in the Committee Action and in the appeal of the Bondholder Action. The Liquidation Trust cannot predict with any certainty the outcome of the litigation or the amount or range of potential recoveries.

13. Subsequent events

Subsequent to March 31, 2005, the Liquidation Trustee filed a Notice of Fourth Interim Distribution with the Bankruptcy Court, indicating that an additional Distribution in the amount of 1.0% of Impaired Claims will be made to holders of Allowed Impaired Claims during May 2005.

Item 2. Management' s Discussion and Analysis of Financial Condition and Results of Operations

Reference is made to the unaudited financial statements of the Liquidation Trust as of March 31, 2005 and September 30, 2004 and for the three months and six months ended March 31, 2005 and March 31, 2004, and the notes thereto (the "Unaudited Liquidation Trust Financial Statements"), included as Item 1. of this Form 10-Q. The following information concerning the Liquidation Trust' s financial performance and condition should be read in conjunction with the audited Liquidation Trust financial statements as of September 30, 2004 and September 30, 2003, and for the fiscal years ended September 30, 2004 and September 30, 2003, and for the period from October 26, 2001 (Effective Date) through September 30, 2002, and the notes thereto.

The Unaudited Liquidation Trust Financial Statements have been prepared on the same basis as the audited Liquidation Trust financial statements, using the liquidation basis of accounting, and, in the opinion of the Liquidation Trustee, contain all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of the Liquidation Trust' s results for such periods. The Liquidation Trust' s results for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for any other interim period or any future fiscal year. All amounts are rounded and are therefore approximate.

I. <u>Accounting Policies and Estimates</u>

The following discussion and analysis of the Liquidation Trust' s changes in net assets in liquidation, cash receipts and disbursements, and net assets in liquidation is based on the Unaudited Liquidation Trust Financial Statements which have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the liquidation basis of accounting. During preparation of these financial statements, the Liquidation Trustee is required to make certain estimates and assumptions which affect the reported amounts of assets and liabilities in liquidation at estimated fair value, including estimates and assumptions concerning resolution of disputed claims, resolution of current and potential litigation, and the fair value, and related disclosure, of contingent assets and liabilities. On an ongoing basis, the Liquidation Trustee evaluates and updates these estimates and assumptions based on historical experience and on various other assumptions the Liquidation Trustee believes are reasonable under the circumstances. Actual results may differ from these estimates and different assumptions would lead to different estimates.

The Liquidation Trust' s critical accounting policies are described in Management' s Discussion and Analysis of Financial Condition and Results of Operations in the Liquidation Trust' s annual report on Form 10-K for the year ended September 30, 2004.

II. <u>Changes in Net Assets in Liquidation</u>

Significant financial activities of the Liquidation Trust during the periods reflected below include Distributions and Claims payments, resolution of Claims asserted, pursuit of preference recovery actions and other litigation, and carrying out the liquidation activities of the Liquidation Trust.

Net assets in liquidation are subject to material change when either (a) Distributions to holders of Allowed Impaired Claims are authorized, or (b) estimates of the fair value of the Liquidation Trust' s assets and/or liabilities change. Both the authorization of Distributions and changes in estimates are non-cash changes. These changes are shown in the Liquidation Trust' s Statements of Changes in Net Assets in Liquidation and are discussed below.

Most cash transactions, on the other hand, such as collection of receivables and payments of liabilities and Distributions, cause offsetting changes in the associated components of assets and liabilities, but do not change net assets in liquidation. The Liquidation Trust' s Statements of Cash Receipts and Disbursements show the results of these transactions, which are also discussed later under the heading "Cash Receipts and Disbursements."

The following table summarizes the significant changes in net assets in liquidation for the periods as indicated:

($ in thousands)	For the three months ended March 31, 2005	March 31, 2004
Distributions authorized	$ (142)	$ (329)
Changes in estimates − (decrease)/increase		
in net assets in liquidation		
Preference receivables, net	(67)	(660)
Estimated costs of liquidation	−	(3,540)
Net other increases	1,136	794
Net increase/(decrease) in net assets in liquidation	$ 927	$ (3,735)

	For the six months ended March 31, 2005	March 31, 2004
Distributions authorized	$ (222)	$ (1,755)
Changes in estimates − (decrease)/increase		
in net assets in liquidation		
Preference receivables, net	(67)	3,090
Estimated costs of liquidation	−	(3,540)
Net other increases	1,294	898
Net increase/(decrease) in net assets in liquidation	$ 1,005	$ (1,307)

A. Distributions authorized

No new interim Distribution was authorized during the six months ended March 31, 2005 or during the six months ended March 31, 2004.

i. Distributions authorized during the three months ended March 31, 2005 primarily related to the Liquidation Trust' s $0.1 million payment of applicable taxes on certain calendar year 2004 taxable net income and gain allocable to holders of Disputed Impaired Claims on behalf of such holders. Distributions at the cumulative rate of 8.1% were authorized to holders of $0.7 million and $1.0 million of Impaired Claims newly allowed during the three months and six months ended March 31, 2005, respectively.

ii. Distributions at the then cumulative rate of 6.573% were authorized to holders of $4.3 million and $26.0 million of Impaired Claims newly allowed during the three months and the six months ended March 31, 2004, respectively. In addition, included in Distributions authorized during the three months ended March 31, 2004, the Liquidation Trust paid applicable taxes on certain calendar year 2003 taxable income and gain allocable to holders of Disputed Impaired Claims on behalf of such holders.

As a result of the ongoing Claims resolution process, fewer Impaired Claims remain to be resolved as of each successive period.

B. Changes in estimates - estimated fair value of preference receivables

The estimated fair value of preference receivables was decreased by $0.1 million for additional collections costs during the three months ended March 31, 2005. The estimate otherwise remained unchanged for the three months and six months ended March 31, 2005, because substantially all of the remaining cases have been settled for the same amounts as their estimated value as of September 30, 2004.

The estimated fair value of preference receivables decreased by $0.7 million during the three months ended March 31, 2004 and increased by a net amount of $3.1 million during the six months then ended. The decrease during the three months ended March 31, 2004 resulted from an increase in the estimated costs of prosecuting the remaining preference actions, which were the most difficult and contentious cases, including the engagement of a consulting firm. The increase during the six months ended March 31, 2004 was due to a $3.8 million settlement reached in the last remaining large preference case to which the Liquidation Trust had not previously assigned a value, as the case was not previously sufficiently developed to value.

C. Changes in estimates – estimated costs of liquidation

No significant change in the status of the Liquidation Trust's wind-down activities, the Bondholder Action, or the Committee Action occurred during the three months and six months ended March 31, 2005; therefore, no changes in estimate were recorded during those periods.

No significant change in such items occurred during the three months ended December 31, 2003. The changes discussed below all occurred during or shortly after the three months ended March 31, 2004. Several events caused the Liquidation Trust to revise its estimates of the costs of winding down its operations and prosecuting the actions provided for in the Litigation Reserve as of March 31, 2004:

i. Because the December 2003 filing of a complaint against a group of insurance companies collectively referred to as Kemper Insurance Company ("Kemper") (the "Kemper Complaint"), did not result in a negotiated settlement, estimated costs for counsel and experts were planned through the scheduled March 2005 trial.

ii. A number of the trials in preference actions scheduled during the three months ended March 31, 2004 were postponed by the Bankruptcy Court. Scheduled preference action trials as of March 31, 2004 extended through the end of 2004, and not all cases had been scheduled.

iii. During April 2004, the Committee Action, previously scheduled for trial during January 2004, was scheduled for trial in August 2005.

As a result of these delays, the resolution of the remaining Claims, final Distributions and other wind-down matters were therefore expected to require an additional year of operations, well into 2005. Therefore, the Wind-down Reserve was increased by $1.5 million during the three months ended March 31, 2004 to reflect the increase in expected costs.

As of December 31, 2003, an assessment of future funding of the Litigation Reserve, if any, had been deferred pending a decision in the October 2003 trial of the Bondholder Action. In March 2004, the court ruled in favor of the defendants and against the Liquidation Trust, a ruling which the Liquidation Trust then decided to appeal. Based on a review of the Bondholder Action ruling and any potential implications for the Committee Action, and of the Liquidation Trust's alternatives in these matters, the Litigation Reserve was increased by $2.0 million during the three months ended March 31, 2004, in accordance with the procedures set forth in the Plan. The current status of the Bondholder Action and the Committee Action is discussed on page 21 of this Form 10-Q under "Part II – Other Information, Item 1., Legal Proceedings".

D. Net other increases

Net other increases during the three months and the six months ended March 31, 2005 consisted primarily of a $0.6 million settlement in the Kemper Complaint, a $0.4 million distribution in the liquidation of the Debtor's former company-owned life insurance policy carrier, and interest income. Net other increases during the three months and the six months ended March 31, 2004 consisted primarily of a $0.7 million settlement in litigation against a former insurance broker of the Debtors and interest income.

III. Cash Receipts and Disbursements

The following table summarizes the cash receipts and disbursements for the periods as indicated:

($ in thousands)	For the six months ended March 31, 2005	March 31, 2004
Cash receipts		
Preference collections, before costs of recovery	$ 3,670	$ 6,222
Other receipts	325	188
Total cash receipts	3,995	6,410
Cash disbursements		
Legal and professional fees		
Litigation	1,112	2,162
Preference recoveries	951	1,010
Liquidation Trust operations	383	1,087
Operating expenses	939	977
Claims payments	10	270
Reissued/(voided) claims checks, net	(123)	212
Total cash disbursements	3,272	5,718
Distributions paid	166	2,112
Net cash in/(out)flow	$ 557	$ (1,420)

A. Cash receipts

Most of the cash receipts are from collections of preference receivables, which have been ongoing since the preference actions were filed in mid-2001, and are substantially complete as of March 2005. Cash receipts from collections of preference receivables are expected to decline significantly subsequent to the six months ended March 31, 2005.

Preference collections during the six months ended March 31, 2005 were significantly lower than during the six months ended March 31, 2004. Four substantial preference recovery actions (totaling $3.3 million in settlement value), which were settled immediately prior to trial, constituted most of the value of preference collections during the six months ended March 31, 2005.

During the six months ended March 31, 2004, the Liquidation Trust settled and collected one very substantial case, valued at $3.8 million (see II. B., "Changes in estimates," above), in addition to preference collections from 60 other cases. There were 90 preference cases being actively pursued as of September 30, 2003, compared to 10 as of September 30, 2004. Therefore, more cases were available to settle and collect during the six months ended March 31, 2004 than during the six months ended March 31, 2005. On the other hand, absent the pressure of trial dates during early 2004, many of the more significant cases proceeded slowly during the six months ended March 31, 2004; as a result, most of the cases settled and collected during that period were the smaller ones.

B. Legal and professional fees

Legal and professional fees reflect the activity level in various areas of the Liquidation Trust’ s responsibilities.

1. Litigation

The litigation fees paid for the Bondholder Action and the Committee Action during the six months ended March 31, 2005 were significantly less than those paid during the six months ended March 31, 2004. Fees paid during the six months ended March 31, 2005 related to filing the Liquidation Trust’ s appeal briefs in the Bondholder Action, and to defending various motions, including motions for summary judgment, filed by defendants in the Committee Action. Fees paid during the six months ended March 31, 2004 included expert fees and legal fees related to the higher activity level of the October 2003 trial and post-trial briefs in the Bondholder Action, as well as discovery and trial preparation for, and defending various motions related to, the Committee Action. The Committee Action, now scheduled for trial in August 2005, had been scheduled for trial in January 2004, prior to its adjournment during September 2003.

2. Preference recoveries

Preference recovery fees during the six months ended March 31, 2005 were not comparable, as a percentage of preference collections, to such fees during the six months ended March 31, 2004, primarily because of significant differences in the size of the specific cases settled and collected. The collection fees for most preference settlements are contingent, and are set at a declining rate (generally ranging from 35% to 7% of collections) for larger cases.

i. During the six months ended March 31, 2005, substantially all of the $3.7 million of preference recoveries related to four significant cases, for which the contingent fees were therefore nearer the lower end of the rate scale. In addition, the Liquidation Trust paid contingent fees of $0.2 million to its preference collections counsel with respect to the value the Liquidation Trust received for waivers of Impaired Claims obtained in the course of preference settlements, and $0.3 million of fees for expert reports in preparation for preference action trials.

ii. During the six months ended March 31, 2004, with respect to one settlement totaling $3.8 million, no contingent preference recovery fees were paid (see related fees discussed below). However, the remaining $2.5 million of preference recoveries was collected from 60 different vendors; therefore, the contingent fees for each such smaller case were near the higher end of the rate scale, significantly higher than for the large cases settled during the six months ended March 31, 2005. In addition, the Liquidation Trust paid $0.1 million of fees for an expert report in preparation for a preference action trial.

3. Liquidation Trust operations

Legal and professional fees for Liquidation Trust operations include all legal, accounting, and other support services except for the expenses of prosecuting the Bondholder Action and the Committee Action, and expenses related to preference collections pursued on a contingency-fee basis. Certain of the largest preference claims suits were handled by Liquidation Trust counsel on an hourly basis and the related fees included in Liquidation Trust operations. The higher fees for Liquidation Trust operations during the six months ended March 31, 2004 as compared to the six months ended March 31, 2005 resulted primarily from legal fees associated with (a) a preference case settled during the three months ended December 31, 2003 for $3.8 million (see II., B. “Changes in estimates,” above) and (b) the Kemper Complaint filed during December 2003. In addition, Liquidation Trust activities, and the associated professional fees, have declined because fewer issues and claims remain to be resolved as of each successive period.

C. Operating expenses

Operating expenses during the six months ended March 31, 2005 declined slightly compared to those during the six months ended March 31, 2004. Severance paid to two key employees in the six months ended March 31, 2005 substantially offset decreased rent expenditures for the Liquidation Trust’ s much reduced office and warehouse space and decreased annual bank fees incurred with respect to the substantially reduced letter of credit balance resulting from the December 2004 settlement of a secured Claim asserted by Kemper (the "Kemper Claim") against the Liquidation Trust.

D. Claims payments

Payments of Unimpaired Claims were lower during the six months ended March 31, 2005 than during the six months ended March 31, 2004 because, as a result of the ongoing Claims resolution process, fewer Unimpaired Claims remain to be resolved and paid as of each successive period.

E. Distributions paid

Distributions paid depend primarily on the amount of Allowed Impaired Claims, including Claims newly allowed, and on the Distributions authorized from time to time. No new interim Distribution was authorized or paid during the six months ended March 31, 2005 or during the six months ended March 31, 2004. During the six months ended March 31, 2005, holders of $1.1 million of Allowed Impaired Claims received payments at the cumulative Distribution rate of 8.1%, and the Liquidation Trust authorized and paid taxes of $0.1 million on calendar year 2004 taxable net income and gain allocable to holders of Disputed Impaired Claims on behalf of such holders. During the six months ended March 31, 2004, holders of $32.5 million of Allowed Impaired Claims received payments at the then cumulative Distribution rate of 6.573%. In general, as a result of the ongoing Claims resolution process, fewer Impaired Claims remain to be resolved and paid as of each successive period.

IV. <u>Net Assets in Liquidation</u>

A. Assets

1. Cash and cash equivalents

The Liquidation Trust' s cash and cash equivalents balance of $34.9 million and $34.4 million as of March 31, 2005 and September 30, 2004, respectively, is classified as either (a) Cash Designated as Available for Distribution ("Available Cash"), (b) Reserved Cash, (c) Restricted Cash or (d) Other Cash.

Available Cash is designated to assure the availability of funds for payment to holders of Impaired Claims who have not received authorized Distributions. The required amount of Available Cash of $2.8 million as of March 31, 2005 was based primarily on the cumulative Distribution rate of 8.1%, for $2.6 million of Allowed but unpaid Impaired Claims plus $32.5 million of Disputed Impaired Claims (at their estimated value for reserve purposes). The required amount of Available Cash of $3.4 million as of September 30, 2004 was also based primarily on the cumulative Distribution rate of 8.1%, for $1.9 million of Allowed but unpaid Impaired Claims plus $39.5 million of Disputed Impaired Claims (at their estimated value for reserve purposes). The value of Disputed Claims, for the purpose of establishing adequate reserves, was estimated by the Liquidation Trust and approved by the Bankruptcy Court in an order establishing the amounts of Disputed Claims Reserves.

Reserved Cash is held by the Liquidation Trust to assure payment of the Liquidation Trust' s obligations. Under the terms of the Plan, Reserved Cash is intended to provide for (a) operating expenses of the Liquidation Trust, (b) estimated payments to holders of Allowed Unimpaired and Convenience Claims in accordance with the Plan, and (c) payments which may become necessary if and as Disputed Unimpaired Claims become allowed, or if certain specific contingencies should occur. Reserved Cash increased by $1.7 million from September 30, 2004 to March 31, 2005, to a balance of $23.2 million, primarily as a result of the establishment of the litigation appeals provision, and offset in part by expenditures from the Wind-down and Litigation Reserves, all as discussed below.

Restricted Cash as of September 30, 2004 of $9.3 million related primarily to a letter of credit collateralizing the Kemper Claim. During January 2005, $7.4 million of Restricted Cash was released to

Other Cash following a reduction in the letter of credit to a balance of $1.6 million, which resulted from the December 2004 settlement of the Kemper Claim.

Other Cash, which is not designated to a specific reserve or fund, increased primarily as a result of the release of $7.4 million from Restricted Cash, as described above, and preference collections during the six months ended March 31, 2005, offset in part by the establishment of the litigation appeals provision, as described under "C., Contingency reserves", below. Subsequent to March 31, 2005, the Liquidation Trustee filed a Notice of Fourth Interim Distribution with the Bankruptcy Court, indicating that an additional Distribution in the amount of 1.0% of Impaired Claims will be made to holders of Allowed Impaired Claims during May 2005.

2. Preference receivables and other assets

Preference receivables, net of costs of recovery, decreased by $2.8 million, to a balance of $0.4 million as of March 31, 2005, compared to September 30, 2004, primarily due to ongoing preference collections. Collections of preference receivables totaled $3.7 million, and costs to collect, including significant non-recurring expert fees, totaled $1.0 million.

Other assets increased by $0.9 million, to a balance of $1.1 million as of March 31, 2005, compared to September 30, 2004, primarily due to the $0.6 million settlement in the Kemper Complaint and a $0.4 million distribution announced in the liquidation of the Debtors' former company-owned life insurance policy carrier.

B. Liabilities

Estimated costs of liquidation decreased by $2.4 million, to a balance of $3.5 million as of March 31, 2005, compared to September 30, 2004. The decrease is due to disbursements totaling $1.3 million from the Wind-down Reserve and $1.1 million from the Litigation Reserve.

C. Contingency reserves

The most significant component in contingency reserves is the Fleet Reserve, established at a total of $11.0 million pursuant to a stipulated order between Fleet Retail Finance Inc. ("Fleet") and the Liquidation Trust. The Fleet Reserve is likely to be drawn upon if Fleet, as a defendant in the Committee Action and the Bondholder Action, should ultimately prevail in one or both of such actions. No liability has been recorded in connection with the Fleet Reserve because the Liquidation Trust has appealed the adverse decision and judgment in the Bondholder Action, does not consider Fleet likely to ultimately prevail in either of these Actions, and has no access to information to estimate the amount, if any, that Fleet may validly assert against the Fleet Reserve.

The litigation appeals provision represents cash held in reserve to allow the Liquidation Trust to pursue or defend future appeals and re-trials of the Committee Action and the Bondholder Action. The Liquidation Trustee designated this contingency reserve as of March 31, 2005 because the anticipated future cash receipts of the Liquidation Trust may not be sufficient to fund such actions prospectively. No liability has been accrued in connection with such possible future actions because the Liquidation Trust has not determined that any such action will be required.

V. <u>Contingencies</u>

The Liquidation Trust is pursuing litigation against various parties, in particular the cases described as the Bondholder Action and the Committee Action, as described in "Legal Proceedings," below. The Liquidation Trust cannot predict with any certainty the ultimate outcome of any of the litigation or the amount or range of potential recoveries.

VI. <u>Forward-Looking Statements</u>

This quarterly report on Form 10-Q contains forward-looking statements about the business, financial condition and prospects of the Liquidation Trust. The actual results of the Liquidation Trust could differ materially from those indicated by the forward-looking statements because of various risks and uncertainties, including, without limitation, the Liquidation Trust' s success in securing claims settlements on the terms currently contemplated in ongoing negotiations and in other estimates of settlement value, the effect of substantial delays in settling contingent assets and liabilities, resulting in a prolonged period of liquidation, economic conditions, changes in tax and other government rules and regulations applicable to the Liquidation Trust and other risks. These risks are beyond the ability of the Liquidation Trust to control, and in many cases, the Liquidation Trust cannot predict the risks and uncertainties that could cause its actual results to differ materially from those indicated by any forward-looking statements included in this Form 10-Q. When used in this quarterly report, the words "believes," "estimates," "plans," "expects," "anticipates" and other similar expressions as they relate to the Liquidation Trust or the Liquidation Trustee are intended to identify forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Liquidation Trust does not hold any market risk sensitive instruments.

Item 4. Controls and Procedures

The Liquidation Trust has designed and maintains disclosure controls and procedures to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission' s rules and regulations. These controls and procedures are also designed to ensure that such information is communicated to the Liquidation Trustee, to allow him to make timely decisions about required disclosures.

The Liquidation Trust, including the Liquidation Trustee, has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Liquidation Trustee concluded that the Liquidation Trust' s disclosure controls and procedures are effective as of March 31, 2005.

There has been no change in the Liquidation Trust' s internal control over financial reporting that occurred during the Liquidation Trust' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Liquidation Trust' s internal control over financial reporting.

As a result of delays in implementation of certain requirements of the Sarbanes – Oxley Act of 2002, the Liquidation Trust' s internal controls over financial reporting will not be subject to audit until the fiscal year ending September 30, 2006. However, the requirements of the Sarbanes – Oxley Act of 2002 have been taken into account in planning for the future administrative requirements of the Liquidation Trust when it suspends day-to-day operations. In addition to the Liquidation Trustee, the Liquidation Trust had two employees as of March 31, 2005. In the next three months, the Liquidation Trust expects to cease much of its day-to-day operations and to minimize staffing accordingly, which may result in deficiencies in internal accounting controls related to a lack of segregation of duties.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Further background information about the following cases is disclosed in Part I, Item 3 – Legal Proceedings, of the Liquidation Trust's Form 10-K for the fiscal year ended September 30, 2004.

Federal Court Cases

The Bondholder Action

In March 2004, following a non-jury trial held in October 2003, the Court issued an opinion and order (collectively, "the Decision") in the Bondholder Action, directing the entry of judgment in favor of the defendants. In April 2004, the Liquidation Trust filed an appeal from the Decision and related judgment. The Liquidation Trust and the defendants each completed the filing of appeal briefs during September 2004. The Court of Appeals has scheduled oral argument for the appeal during June 2005. The timing of a ruling is unknown.

The Committee Action

In April 2004, the Committee Action was assigned to the judge who presided in the Bondholder Action, who has scheduled the Committee Action for trial in August 2005. During December 2004 and January 2005, the Court heard oral argument on motions, including motions for summary judgment, filed by various defendants. The timing of a decision on defendants' motions is unknown.

The various defendants are vigorously opposing the Bondholder Action and the Committee Action. There is no assurance that the Liquidation Trust will prevail on the claims asserted in the Committee Action and in the appeal of the Bondholder Action. The Liquidation Trust cannot predict with any certainty the outcome of the litigation or the amount or range of potential recoveries.

Bankruptcy Court Case

The Kemper Complaint

During December 2004, Kemper and the Liquidation Trust reached an agreement to settle Kemper's secured Claim, for unliquidated workers' compensation claims against the Debtors, for $1.7 million, offset by a $0.1 million prepayment held by a third-party claims administrator. During January 2005, pursuant to this agreement, Kemper reduced the letter of credit collateralizing its Claim to $1.6 million, and released a $12.0 million bond held as additional security, which bond constitutes most of the largest remaining Disputed Impaired Claim.

During March 2005, the Liquidation Trust's claims against Kemper for the return of excess collateral, deposits and other amounts due to the Liquidation Trust were settled for $0.6 million under an agreement in principle, subject to approval by the Bankruptcy Court.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

Subsequent to March 31, 2005, the Liquidation Trustee filed a Notice of Fourth Interim Distribution with the Bankruptcy Court, indicating that an additional Distribution in the amount of 1.0% of Impaired Claims will be made to holders of Allowed Impaired Claims during May 2005.

Item 6. Exhibits

Exhibit Number	Document
31.1	Certification by Liquidation Trustee
32.1	Liquidation Trustee' s Certification Pursuant to 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HECHINGER LIQUIDATION TRUST

Date: May 2, 2005

By: /s/ Conrad F. Hocking
Name: Conrad F. Hocking
Title: Liquidation Trustee

INDEX TO EXHIBITS
FORM 10-Q

Exhibit No.

31.1 Certification by Liquidation Trustee

32.1 Liquidation Trustee’ s Certification Pursuant to 18 U.S.C. Section 1350

EXHIBIT 31.1

CERTIFICATION

I, Conrad F. Hocking, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hechinger Liquidation Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, changes in financial condition and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant’ s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant’ s internal control over financial reporting that occurred during the registrant’ s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’ s internal control over financial reporting.

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’ s auditors and representatives of the Committee:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’ s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’ s internal control over financial reporting.

Date: May 2, 2005

By: /s/ Conrad F. Hocking

Conrad F. Hocking
Liquidation Trustee

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Hechinger Liquidation Trust on Form 10-Q for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Conrad F. Hocking, the Liquidation Trustee of the Liquidation Trust, certify, pursuant to 18 U.S.C. Section 1350, that, to the best of my knowledge:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Liquidation Trust.

Date: May 2, 2005

By: /s/ Conrad F. Hocking

Conrad F. Hocking
Liquidation Trustee