

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF GEORGIA  
ATLANTA DIVISION**

<b>In re:</b>	)	<b>Chapter 11</b>
	)	
<b>RHODES, INC., et al.,</b>	)	<b>Case Nos. 04-_____ through 04-_____</b>
	)	
<b>Debtors.</b>	)	<b>Jointly Administered</b>
	)	

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**MOTION FOR ADDITIONAL TIME TO FILE SCHEDULES  
AND STATEMENTS OF FINANCIAL AFFAIRS**

Rhodes Holdings, Inc. (“Holdings”), Rhodes Holdings II, Inc. (“Holdings II”), and Rhodes, Inc. (“Rhodes”) (collectively, the “Debtors”) file this Motion, respectfully showing the Court as follows:

**Jurisdiction**

1. This Court has jurisdiction to consider this Motion pursuant to 28 U.S.C. § 1334. Consideration of this Motion is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue of this proceeding is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

**Background**

2. On the date hereof (the “Petition Date”), each of the Debtors filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”). The Debtors are authorized to operate their businesses as debtors-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

**A. Company Background.**

3. Rhodes, a Georgia corporation, is engaged in the business of selling brand-name residential furniture to a broad base of middle-income customers. As of the Petition Date, Rhodes operated eighty-nine (89) stores in thirteen (13) southern and midwestern states. Rhodes

is headquartered in Atlanta, Georgia, and as of the Petition Date employed approximately 2,889 persons.

4. The remaining Debtors, Holdings and Holdings II are both Delaware corporations. Rhodes is a wholly-owned subsidiary of Holdings II, and Holdings II is a wholly-owned subsidiary of Holdings. The capital stock of Holdings is privately held. Holdings and Holdings II have no business operations other than their ownership of Rhodes.

5. Effective July 1, 1999, Holdings II purchased and acquired from Heilig-Meyers Company (“Heilig”) all of the then-outstanding capital stock of Rhodes in exchange for \$60 million in cash, a \$40 million subordinated note of Holdings II payable to Heilig (the “Subordinated Note”), and certain stock options (the “Rhodes Acquisition”). Lifestyle Holdings Ltd. (“Lifestyle”) provided \$10 million of the purchase price and, in exchange for Lifestyle’s payment of a portion of the purchase price, Holdings issued a \$10 million payment-in-kind note (the “PIK Note”) to Lifestyle. In connection with the Rhodes Acquisition, Heilig agreed to provide up to \$20 million in additional subordinated financing to Holdings II after the closing of the Rhodes Acquisition. However, in August 2000, Heilig and certain of its affiliates (the “Heilig Debtors”) commenced Chapter 11 bankruptcy cases in the United States Bankruptcy Court for the Eastern District of Virginia (Richmond Division) (the “Heilig Court”), and Heilig defaulted on its obligation to provide this additional financing.

**B. Debt Structure.**

6. On February 5, 2002, Rhodes obtained from Wells Fargo Retail Finance, LLC (“Wells Fargo”) a five-year term loan in an aggregate principal amount of \$11 million (the “Term Loan”) and a five-year, \$65 million revolving credit facility (the “Revolver;” the Term Loan and the Revolver are referred to collectively as the “Credit Facility”). Rhodes’ obligations under the Credit Facility are secured by substantially all of Rhodes’ assets. As of October 15,

2004, the outstanding balance of the Term Loan was approximately \$7,574,068, and the outstanding balance due under the Revolver was approximately \$32 million.

7. Pursuant to the Subordinated Note, Holdings II agreed to pay Heilig the principal amount of \$40 million on or before November 15, 2004, plus interest at a rate of ten percent (10%) per annum, payable in kind. The Debtors and the Heilig Debtors subsequently entered into a Settlement Agreement, which was approved by the Heilig Court on or about August 25, 2004 (the "Heilig Settlement"). The Heilig Settlement included (among other things) the following components: (a) Holdings II executed a consent judgment in favor of Heilig in the amount of \$48,119,947 (the "Consent Judgment"); (b) Heilig and Holdings II executed an allonge to the Subordinated Note (i) reducing the principal amount thereof to \$20 million, (ii) extending the maturity of the Subordinated Note to March 15, 2005, and (iii) providing that interest shall accrue on the unpaid principal amount of the Subordinated Note beginning on November 16, 2004 at a rate per annum equal to 10% until paid in full; (c) the Heilig Debtors agreed that no action to enforce the Consent Judgment or to collect on the Subordinated Note could be taken prior to March 15, 2005; (d) Heilig acknowledged and agreed that the payment of the Consent Judgment and Subordinated Note is subject to the terms of an intercreditor agreement and, as a result, is subordinate to the prior payment in full in cash of amounts due to Wells Fargo under the Credit Facility; and (e) Holdings II retained its counterclaims and rights of setoff and recoupment with respect to amounts due under the Subordinated Note.

8. Effective July 1, 1999, Holdings issued the \$10 million PIK Note to Lifestyle. The PIK Note was originally due and payable on November 15, 2004, and interest on the PIK Note is payable semi-annually on May 15 and November 15, commencing on November 15, 1999, at 11 percent per annum while paid by accrual into the principal, or 10.5 percent while

paid by cash. The PIK Note is subordinated to the Credit Facility and the Subordinated Note. In August 2004, Lifestyle agreed to take no collection action on the PIK Note until March 15, 2005.

**C. Events Leading to the Debtors' Chapter 11 Cases.**

9. During Rhodes' fiscal year ended February 29, 2004, Rhodes incurred a net loss (calculated in accordance with generally accepted accounting principles) in an amount equal to approximately \$19 million, and Rhodes has continued to incur losses during the first two fiscal quarters of this year.

10. Recently, Rhodes has experienced a liquidity crunch due to a combination of factors. First, earlier this year, after experiencing an excessive buildup in its inventory levels, Rhodes developed an aggressive plan to reduce its inventory levels. This resulted in a period of time in which Rhodes was not acquiring material amounts of new inventory from its vendors, which led to destabilization of vendor confidence and support. Second, in July 2004, Breuners Home Furnishings Corp. and its affiliates, which were significant furniture retailers, filed Chapter 11 bankruptcy cases and commenced an immediate liquidation of their businesses. The immediacy of the Breuners' liquidation caused furniture and bedding vendors to reassess their overall credit exposure in the market, and some of Rhodes' vendors began reducing the amount of trade credit offered to Rhodes. Third, in early September 2004, UBS Securities published an investment report that contained a number of false statements about Rhodes, and the publication of this inaccurate and unsubstantiated report caused many of Rhodes' vendors to further reduce the trade credit offered to Rhodes. This reduction in trade credit occurred at the same time Rhodes was seeking to replenish its then-depleted inventory levels. Finally, a series of hurricanes hit the region of the United States where a material portion of Rhodes' stores are located, which has resulted in a significant (albeit temporary) decline in same-store sales.

11. As a result of the foregoing, Rhodes does not have access to the funds necessary to replenish its inventory and to meet its other operating expenses, and Rhodes will be faced with a loss of enterprise value if it cannot restructure its existing debt and obtain additional financing. Therefore, the Debtors have concluded, after evaluating their alternatives (including, without limitation, a possible sale of Rhodes' furniture business) and after consulting with their advisers and their respective Boards of Directors, that the Debtors' interests and the interests of their creditors and employees will be best served by a reorganization under Chapter 11 of the Bankruptcy Code.

#### **Relief Requested**

12. By this Motion, the Debtors respectfully request the entry of an order, pursuant to Bankruptcy Rule 1007(c), extending the time to file their schedules and statements of financial affairs until the date which is 45 days after the commencement of these cases.

#### **Basis for Relief**

13. Due to the substantial size of the Debtors and the complexity of their operations, the Debtors believe that they will be unable to compile all the information necessary for the preparation and filing of schedules and statements of financial affairs within 15 days after the Petition Date, as required by Fed. R. Bankr. P. 1007(c).

14. To prepare the schedules and statements, the Debtors must gather information from books, records, and documents housed at various locations and relating to a multitude of transactions. Consequently, collection of the necessary information requires the expenditure of substantial time and effort on the part of the Debtors' already overburdened employees. The Debtors submit that employee efforts during the initial stages of these cases are critical and should be focused on attending to the Debtors' businesses and operations to maximize the value

of the Debtors' estates. The Debtors currently have several employees working diligently to assemble and collate the necessary information. The Debtors anticipate that they will need a minimum of 45 days from the Petition Date within which to prepare and file their schedules and statements of financial affairs in the appropriate format.

15. Fed. R. Bankr. P. 1007(c) permits extensions, for cause, of the time for filing schedules and statements. The Debtors submit that in view of their substantial size and the vast amount of information that must be assembled and compiled, ample cause exists for the requested extension.

16. Moreover, the relief requested in this Motion will not prejudice any party in interest. As required by Section 521(1) of the Bankruptcy Code and Fed. R. Bankr. P. 1007(a)(1) and (d), the Debtors have filed (i) a list setting forth the names and addresses of all of their creditors and (ii) a list setting forth the names, addresses, and claim amounts of creditors holding the thirty largest unsecured claims, excluding insiders, on a consolidated basis. Thus, the Office of the United States Trustee has the information necessary for the formation of an unsecured creditors committee.

#### **Notice**

17. Notice of this Motion has been provided to the Office of the United States Trustee, counsel for the Debtors' pre-petition secured lenders, counsel to the Agent for the Debtors' proposed debtor-in-possession lenders, and the Debtors' thirty largest unsecured creditors on a consolidated basis. In light of the nature of the relief requested, the Debtors submit that no further notice is necessary.

**Conclusion**

WHEREFORE the Debtors respectfully request entry of an order granting the relief requested herein, and granting the Debtors such other and further relief as may be just.

Dated: Atlanta, Georgia  
November 4, 2004

Respectfully submitted,

KING & SPALDING LLP

/s/ Sarah Robinson Borders

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PROPOSED ATTORNEYS FOR THE DEBTORS

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	)	
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<b>Debtors.</b>	)	<b>Jointly Administered</b>
<hr/>	)	

**ORDER GRANTING DEBTORS ADDITIONAL TIME TO FILE SCHEDULES  
AND STATEMENTS OF FINANCIAL AFFAIRS**

This matter is before the Court on the motion of Rhodes Holdings, Inc., Rhodes Holdings II, Inc., and Rhodes, Inc. (collectively, the “Debtors”) for an extension of time to file the schedules and statements of financial affairs required by Section 521(1) of the Bankruptcy Code and Federal Rule of Bankruptcy Procedure 1007 (the “Motion”).

The Court has considered the Motion, the Declaration of Joel H. Dugan in Support of First-Day Applications and Motions, and the matters reflected in the record of the hearing held on the Motion. It appears that the Court has jurisdiction over this proceeding; that this is a core proceeding; that notice of the Motion has been given to the Office of the United States Trustee, counsel for the Debtors’ pre-petition secured lenders, counsel to the Agent for the Debtors’ proposed debtor-in-possession lenders, and the Debtors’ thirty largest unsecured creditors on a consolidated basis; that no further notice is necessary; that the relief sought in the Motion is in the best interests of the Debtors, their estates, and their creditors; and that good and sufficient cause exists for such relief.

Accordingly, it is hereby ORDERED as follows:

1. The Motion is GRANTED.

2. The time within which the Debtors are required to file their schedules and statements of financial affairs is hereby extended until 45 days after the date of the commencement of these Chapter 11 cases.

3. The entry of this Order is without prejudice to the right of the Debtors to seek a further extension of time to file their schedules and statements of financial affairs for good cause shown.

4. The Court shall retain jurisdiction to hear and determine all matters arising from the implementation of this Order.

**SO ORDERED.**

At Atlanta, Georgia this \_\_\_ day of November, 2004.

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UNITED STATES BANKRUPTCY JUDGE

Prepared and presented by:

KING & SPALDING LLP

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