Docket #2026 Date Filed: 12/20/2009

This is a PROPOSED Disclosure Statement. It cannot be used to solicit votes until it has been approved by the Bankruptcy Court, at a hearing scheduled to commence on December 28, 2009. This PROPOSED Disclosure Statement is also subject to further changes either at or before the hearing, or otherwise as part of the approval process.

UNITED STATES BANKRUPTCY COURT
DISTRICT OF SOUTH CAROLINA

In re:	§	
BI-LO, LLC, *et al.*,	§	**Case No. 09-02140 (HB)**
	§	
Debtors.	§	**Chapter 11**
	§	**(Joint Administration)**
	§	
	§	

DISCLOSURE STATEMENT
PART A
FOR THE DEBTORS'
CHAPTER 11 PLAN OF REORGANIZATION FOR THE DEBTORS

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December 20, 2009

STRUCTURE OF THIS DISCLOSURE STATEMENT

Introduction and Overview of this Disclosure Statement

Part A – Background Information on the Debtors' Business and Summary of the Key Events in Their Chapter 11 Cases

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1 Disclosure Statement Order
2 Corporate Ownership Chart
3 Selected Historical Financial Information
4 Best Interests Analysis

Part B – Disclosure Concerning the Plan

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I Plan
II Equity Purchase Agreement
III Financial Forecast Assuming Confirmation of the Plan

INTRODUCTION AND OVERVIEW OF THIS DISCLOSURE STATEMENT

I. WHY YOU HAVE RECEIVED THIS DISCLOSURE STATEMENT

BI-LO Holding, LLC and its subsidiaries (collectively, these affiliated companies are referred to in this document as "BI-LO" or the "Debtors") commenced chapter 11 bankruptcy cases in the United States Bankruptcy Court for the District of South Carolina (the "Bankruptcy Court") on March 23, 2009 (the "Commencement Date"). Since that time, BI-LO has taken a number of steps to rehabilitate its business, and it has now reached the final stage of the chapter 11 process, where creditors will be asked to approve a plan of reorganization for BI-LO. That plan of reorganization will determine how BI-LO's property will be distributed to satisfy the claims of its creditors and other parties in interest, and will provide for BI-LO's emergence from bankruptcy. The Debtors have proposed a plan of reorganization for BI-LO, titled the Debtors' First Amended Plan of Reorganization (the "Plan"), and are now seeking its approval by BI-LO's creditors

Before voting on any chapter 11 plan, the Bankruptcy Code requires that creditors and other interested parties be given a "disclosure statement" that describes the plan, as well as background information about the debtor and the chapter 11 case, to enable parties to make an informed decision about whether to vote to accept the plan. The disclosure statement must be approved by the Bankruptcy Court before it is used to solicit votes, to assure that it complies with the Bankruptcy Court's requirement that it contain adequate information. Once it has been approved by the Bankruptcy Court, the disclosure statement is sent to all parties in interest, and creditors who are entitled to vote on the plan are also sent ballots to execute and return to the balloting agent before the voting deadline.

You have received this disclosure statement (the "Disclosure Statement") as a creditor or other party in interest in the BI-LO chapter 11 cases. If you are a creditor entitled to vote, you should also find a ballot (the "Ballot") enclosed as well. This Disclosure Statement and the form of the Ballot were approved by the Bankruptcy Court on December __, 2009 for transmittal to you.

The Bankruptcy Court has also set certain important dates which you should be aware of:

- Deadline for receipt of Ballots from creditors (the "Voting Deadline"): **___, 2010 at 8:00 PM Eastern Time**.
- Deadline for objections to confirmation of the Plan: **___, 2010 at 5:00 PM Eastern Time.**
- The hearing to consider confirmation of the Plan: **___, 2010 at 9:30 AM Eastern Time.** The hearing will be held before the Honorable Helen E. Burris, United States Bankruptcy Judge at the Donald Stuart Russell Federal Courthouse, 201 Magnolia Street, Spartanburg, South Carolina, 23906.

II. OTHER FREQUENTLY ASKED QUESTIONS

Am I entitled to vote on the plan?

For purposes of voting on a chapter 11 plan, creditors' claims are separated into "classes" of claims with similar legal characteristics, and they vote by class. The Plan provides for the following five classes to vote:

Class 2 – Secured Claims – This class consists of claims that are validly secured by property of the Debtors with a value that is equal to or greater than the amount of the claim.

Class 3 – Term Lender Claims – These are claims that arise from the $260 million secured Credit Agreement dated March 26, 2007 among BI-LO Holding, LLC, BI-LO, LLC, the lenders thereunder, and the lenders' agents.

Class 4 – General Unsecured Claims (other than Classes 5 "Convenience Claims" described below) – These are claims for which there is no allowed offset, collateral, or other interest to secure the claim.

Class 5 – Convenience Claims – This class consists of individual creditors holding total claims that are no greater than (or are voluntarily reduced to) $5,000

Even if you have a claim in one of the five voting classes, you are only entitled to vote your claim (if at all) in an amount determined by application of tabulation rules that are attached to the order approving the Disclosure Statement. A copy of that order is attached as Exhibit 1 to this Disclosure Statement.

The amount of your claim for voting purposes as determined by these tabulation rules is solely for purposes of counting votes on a plan. These tabulation rules do not determine whether your claim is or will be disputed, nor do they determine the amount of your claim for purposes of receiving a recovery under a plan.

Generally, if you are entitled to vote under the tabulation rules, you will receive a Ballot, and your Ballot will indicate the amount of the claim that you will be entitled to vote under the tabulation rules, unless you obtain a specific order of the Bankruptcy Court pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") prior to the Voting Deadline, and timely submit your Ballot.

How do I fill out my Ballot?

You must follow the instructions on the Ballot explaining how it is to be filled out. If you fail to properly follow these instructions, your vote will not be counted.

What is the "Record Date" for purposes of voting and distributions under the plan?

The Record Date for being eligible to vote on the plan is [ ], 2009. If you purchased your claim from a creditor after that date, or sold your claim to someone else before that date, you are not entitled to vote.

The Record Date for being eligible to receive a distribution under the plan is the date the Bankruptcy Court enters an order confirming the plan. If you purchased your claim from a creditor after that date, or sold your claim to someone else before that date, you are not entitled to receive any distribution under the plan.

What would I recover as a creditor under the Plan?

The chart attached at the end of this Introduction and Overview summarizes the treatment of creditors under the Plan.

You are urged to carefully read Part B (description of the Plan) of this Disclosure Statement for a detailed discussion of the Plan before making a decision to vote.

What are the voting requirements for a plan to be considered approved by creditors?

As noted, voting is done by class. A plan is considered to have been "accepted" (i.e., approved) by a class of creditors if those voting in favor of the plan constitute at least half the number of creditors voting, and hold at least two-thirds of the amount of total claims being voted in that class.

A plan can be "confirmed" (i.e., approved by the Bankruptcy Court as satisfying all legal standards) even if only one "impaired" class (i.e., a class whose creditors are not being paid in full under the plan) votes in favor of it, as long as it satisfies other conditions necessary for confirmation. For a more detailed discussion of the requirements for confirmation of a plan, please see Article III of Part A of this Disclosure Statement.

Where do I send my Ballot to be counted?

To be counted, all Ballots must be received by Kurtzman Carson Consultants LLC (who serves as the "Solicitation Agent" for all voting) at the following address:

BI-LO Claims Processing Center
c/o Kurtzman Carson Consultants LLC
Attn: Ballot Processing Department
2335 Alaska Avenue
El Segundo, CA 90245

Ballots must be sent to the Solicitation Agent by U.S. mail, by hand delivery, or by couriers such as Fedex or UPS. It is recommended – but not required – that you use hand delivery or a courier service, which may be more reliable than the U.S. mail. *Ballots sent by facsimile, email, or other electronic means will not be counted.*

Can I change my mind once I have submitted a Ballot?

Yes, if you submit a new Ballot before the Voting Deadline. After the voting deadline, you cannot change your vote unless you first obtain permission from the Bankruptcy Court pursuant to Rule 3018(a). If multiple Ballots are received from you, the most recent Ballot will be the one that is counted.

Who do I contact if I believe I am entitled to vote but I did not receive a Ballot?

As noted above, if your claim is the subject of a dispute, you are not entitled to vote on the plan unless you obtain an order of the Bankruptcy Court under Rule 3018(a) before the Voting Deadline. If you nonetheless believe you are entitled to vote but did not receive a Ballot along with this Disclosure Statement, please contact the Solicitation Agent, Kurtzman Carson Consultants LLC, at the following toll-free number during regular business hours in Pacific Time: [(866) 381-9100] or email them at **biloinfo@kccllc.net**.

Why did I get more than one Ballot?

If you have claims in more than one class, or if you have more than one claim in a single class, you should have received a separate Ballot for each of your claims in each class that is entitled to vote.

Who do I contact if I have other questions about the voting procedures or obtain copies of other documents related to the plan?

Please contact the Solicitation Agent, Kurtzman Carson Consultants LLC, at the following toll-free number during regular business hours in Pacific Time: [(866) 381-9100] or email them at **biloinfo@kccllc.net**. You can also get copies of documents that have been filed in the chapter 11 cases at their website: **http://www.kccllc.net/bilo.**

What do I do if I want to object to confirmation of the Plan?

You must make your objection in writing and specify in detail your name and address, all the reasons for your objection, and the amount of claim(s) that you hold. You must then file it with the Bankruptcy Court, send a copy to the chambers of the Honorable Helen E. Burris, United States Bankruptcy Judge, at the Donald Stuart Russell Federal Courthouse, 201 Magnolia Street, Spartanburg, South Carolina, 23906, and send copies to the following parties:

> *Attorneys for the Debtors:* Vinson & Elkins L.L.P., 3700 Trammell Crow Center, 2001 Ross Avenue, Dallas, Texas, 75201-2975 (Attn: Josiah M. Daniel, III, Esq.), Vinson & Elkins L.L.P., 666 Fifth Avenue, 26th Floor, New York, New York 10103 (Attn: Dov Kleiner, Esq. and Ali Kelly, Esq.) and Nelson Mullins Riley & Scarborough, LLP, 1320 Main Street, 17th Floor, PO Box 11070 (29211), Columbia, South Carolina 29201 (Attn: George B. Cauthen, Esq.);
>
> *Attorneys for the Official Creditors' Committee:* Otterbourg, Steindler, Houston & Rosen, P.C., 230 Park Avenue, New York, New York 10169 (Attn: Glenn B. Rice, Esq. and Scott L. Hazan, Esq.) and McCarthy Law Firm, LLC, 1715 Pickens Street (29201), P.O. Box 11332, Columbia, South Carolina 29211-1332 (Attn: G. William McCarthy, Jr., Esq.);
>
> *Attorneys for Lone Star:* King & Spalding LLP, 1100 Louisiana Street, Suite 4000, Houston, TX 77002-5213 (Attn: Ed Ripley, Esq.) and Levy Law Firm, LLC, 2300 Wayne Street, Columbia, South Carolina 29201 (Attn. R. Geoffrey Levy, Esq.); and
>
> *The Office of the United States Trustee for the District of South Carolina*, 1835 Assembly Street, Suite 953, Columbia, South Carolina 29201 (Attn: J. Timothy Stack, Esq.).

All objections must be filed and copies received by these parties by the deadline set by the Bankruptcy Court, which is **___, 2010 at 5:00 PM Eastern Time.**

[Remainder of page left blank; summary chart to follow]

III. SUMMARY OF KEY FEATURES OF THE PLAN

The following chart describes key features of the Plan. These are summaries only.

You are urged to read carefully Part B of this Disclosure Statement, which contain important additional information about the Plan.

Claim Type or Class	Proposed Treatment
Administrative Claims	Paid in full.
Priority Tax Claims	Paid in full.
Class 1 – Priority Non-Tax Claims	Paid in full or receive such other treatment as may be agreed in writing by such holder and the Debtors or, after the Effective Date, by the holder and the Reorganized Debtors. *Estimated Amount of Total Class 1 Claims: de minimis* *Estimated Recoveries: 100%Estimated Recoveries: 100%*
Class 2 – Secured Claims	At the option of the Reorganized Debtors, the creditor will either (a) have such claim reinstated on its existing terms; (b) be paid in full in cash with interest to the extent it is required to be paid pursuant to section 506(b) of the Bankruptcy Code; (c) be given back the collateral securing the claim; or (d) receive such other treatment as may be agreed upon in writing by the creditor and the Debtors or, after the Effective Date, the Reorganized Debtors. *Estimated Amount of Total Class 2 Claims: Minimal* *Estimated Recoveries: 100%*

Claim Type or Class	Proposed Treatment
Class 3 – Term Lender Claims	The Term Lenders will receive $260 million in cash. The Term Lenders will also be entitled to retain all "adequate protection" payments made by the Debtors during the chapter 11 cases (estimated to be $[15.8] million assuming a February 28, 2010 exit from bankruptcy). *Estimated Amount of Total Class 3 Claims: $260 million in principal plus certain interest and fees arising under the Term Loan Credit Agreement.* *Estimated Recoveries: 94.5% of asserted claim*
Class 4 – General Unsecured Claims other than Convenience Claims	Each holder of an allowed General Unsecured Claim will receive its proportionate share of a Creditors' Trust, and be paid the Trust Recoveries, if any, as they are realized. The assets from which the Trust Recoveries will come are ▪ $30 million in cash, minus trust expenses estimated at $1.5 million, the capped litigation expenses of $1 million and an estimated $0.8-1.3 million set aside for the Convenience Claims Class; and ▪ the Trust Causes of Action and all related rights and remedies. *Estimated Amount of Class 4 Claims: $80 – $[ ] million* *Estimated Recoveries: 17.5% - 32.7%*
Class 5 – Convenience Claims ($5,000 or less)	Total claims in this Class are $1.3 - $2.5 million. Holders of a Class 5 Convenience Claim will receive 60% of its claim in cash
Class 6 – Old Equity Interests	There will be no recoveries to Old Equity Interests

Feature	Proposed Treatment
Selection of Creditors' Trust Trustee	Appointed by the Debtors, in consultation with the Official Creditors' Committee, the 20 largest unsecured creditors, and the U.S. Trustee
Selection of Creditors' Trust Advisory Board	Appointed by the Debtors, in consultation with the Official Creditors' Committee, the 20 largest unsecured creditors, and the U.S. Trustee; it is intended that the Trust Advisory Board will consist of creditors holding significant unsecured claims.
Key parties against whom the Trust Causes of Action (held by the Creditors' Trust for the benefit of Class 4 creditors) may be prosecuted	Under the Plan, the Creditors' Trust is assigned potential claims against (i) the Debtors' *former* officers or directors not serving immediately prior to the Effective Date; (ii) Lone Star; (iii) Ahold; (iv) Bruno's; and (vi) any officer, manager, director, principal, member, partner, stockholder, employee, agent, professional, advisor or attorney of any of Lone Star, Ahold or Bruno's. If the Trustee decides to assert a Trust Cause of Action against the Debtors' former officers and directors, the Trustee can only look to insurance policies of the Debtors for any recoveries from them, and not to these individuals' personal assets.
Estimated Amount of Funded Debt on the Reorganized Debtors' Balance Sheet on Emergence from Chapter 11	New Term Loan (to be held by new lender(s): 200 million ABL Loan: $[ ] million
Interest Rate Charged Under the Term Loan	At the option of the Borrower: (i) 5% plus the greater of (A) Adjusted LIBOR and (B) 2% or (ii) 4% plus Alternate Base Rate
Amount of Equity Invested by Lone Star	$150 million
Treatment of C&S Supply Agreement	The supply agreement will be amended to, among other things: ▪ eliminate C&S's exclusive first right to negotiate for the acquisition of BI-LO stores; ▪ waive inflation-related adjustments to certain charges, rebates and surcharges; ▪ provide BI-LO sublease savings of $52,524 per week; and ▪ provide for a cash payment of $15 million by BI-LO to C&S in full satisfaction of the obligations of BI-LO and BI-LO Holding, LLC under the existing supply agreement and

Feature	Proposed Treatment
	guaranty
Anticipated Number of Reorganized BI-LO Stores	Reorganized BI-LO will retain substantially all of the store locations currently in operation, subject to the Debtors obtaining necessary rent concessions from landlords at certain underperforming locations.

IV. LEGAL DISCLAIMERS APPLICABLE TO THIS DISCLOSURE STATEMENT

THIS DISCLOSURE STATEMENT (WHICH INCLUDES ITS VARIOUS PARTS, EXHIBITS, AND OTHER ATTACHMENTS) ARE THE ONLY DOCUMENTS AUTHORIZED BY THE BANKRUPTCY COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ON THE PLAN.

THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT IS NOT A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. THE BANKRUPTCY COURT'S APPROVAL IS NOT AN ENDORSEMENT OF THE MERITS OF EITHER PLAN.

THIS DISCLOSURE STATEMENT SHOULD NOT BE TREATED AS PROVIDING ANY LEGAL, FINANCIAL, SECURITIES, TAX, OR BUSINESS ADVICE. CREDITORS ARE URGED TO CONSULT WITH THEIR OWN ADVISORS CONCERNING THE DEBTORS' CHAPTER 11 CASES, THE PLAN, AND THE PROPOSED TRANSACTIONS CONTEMPLATED BY EACH PLAN.

THE INFORMATION IN THIS DISCLOSURE STATEMENT IS BEING PROVIDED SOLELY FOR PURPOSES OF VOTING TO ACCEPT OR REJECT THE PLAN OR OBJECTING TO ITS CONFIRMATION. NOTHING IN THIS DISCLOSURE STATEMENT MAY BE USED BY ANY PERSON FOR ANY OTHER PURPOSE.

THIS DISCLOSURE STATEMENT CONTAINS ONLY A SUMMARY OF THE KEY FEATURES OF THE PLAN, TO ASSIST PARTIES WITH THEIR REVIEW OF THE ACTUAL PLAN AND RELATED DOCUMENTS. ALL CREDITORS ARE URGED TO REVIEW THE FULL TEXT OF EACH DOCUMENT AND TO READ CAREFULLY THIS ENTIRE DISCLOSURE STATEMENT BEFORE DECIDING WHETHER TO VOTE TO ACCEPT THE PLAN. THE PLAN IS ATTACHED AS AN EXHIBIT TO PART B (DISCLOSURE CONCERNING THE PLAN).

THIS DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE ACTUAL PROVISIONS OF EACH PLAN. IN THE EVENT OF A CONFLICT BETWEEN AN ACTUAL PLAN AND THE DESCRIPTION OF ITS TERMS IN THIS DISCLOSURE STATEMENT, THE PROVISIONS OF THE PLAN WILL GOVERN.

IN DECIDING WHETHER TO VOTE TO ACCEPT THE PLAN, CREDITORS MUST RELY ON THEIR OWN EVALUATION AND ANALYSIS, INCLUDING CAREFULLY CONSIDERING THE RISK FACTORS DISCUSSED IN PART B (ARTICLE __ – DISCUSSION OF RISKS RELATED TO THE PLAN).

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BELIEVED TO BE CORRECT AS OF THE DATE OF ITS FILING, UNLESS OTHERWISE SPECIFIED. READERS SHOULD NOT ASSUME THAT THERE HAVE BEEN NO CHANGES SINCE THAT DATE.

CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD-LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS, AND FINANCIAL PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL FUTURE RESULTS. THE WORDS "BELIEVE," "MAY," "WILL," "ESTIMATE," "CONTINUE," "ANTICIPATE," "INTEND," "EXPECT," AND SIMILAR EXPRESSIONS IDENTIFY THESE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO A NUMBER OF RISKS, UNCERTAINTIES, AND ASSUMPTIONS, INCLUDING THOSE DESCRIBED IN THIS DISCLOSURE STATEMENT. IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THE FORWARD-LOOKING EVENTS AND CIRCUMSTANCES DISCUSSED IN THIS DISCLOSURE STATEMENT MAY NOT OCCUR AND ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING

STATEMENTS. NEITHER THOSE PROPOSING THE PLAN, NOR THE REORGANIZED DEBTORS, UNDERTAKE ANY OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE. FORWARD-LOOKING STATEMENTS ARE PROVIDED IN THIS DISCLOSURE STATEMENT PURSUANT TO THE SAFE HARBOR ESTABLISHED UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

EXCEPT WHERE SPECIFICALLY NOTED, THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT AND MAY NOT HAVE BEEN PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES.

ALTHOUGH THE ATTORNEYS, ACCOUNTANTS, ADVISORS AND OTHER PROFESSIONALS EMPLOYED BY THE DEBTORS, THE OFFICIAL CREDITORS' COMMITTEE AND THE TERM LENDER COMMITTEE HAVE ASSISTED IN PREPARING THIS DISCLOSURE STATEMENT BASED UPON FACTUAL INFORMATION AND ASSUMPTIONS RESPECTING FINANCIAL, BUSINESS, AND ACCOUNTING DATA FOUND IN THE BOOKS AND RECORDS OF THE DEBTORS, THEY HAVE NOT INDEPENDENTLY VERIFIED THIS INFORMATION AND MAKE NO REPRESENTATIONS AS TO THE ACCURACY OF THIS INFORMATION. THESE ATTORNEYS, ACCOUNTANTS, ADVISORS AND OTHER PROFESSIONALS WILL HAVE NO LIABILITY FOR THE INFORMATION IN THIS DISCLOSURE STATEMENT.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS, AND OTHER ACTIONS OR THREATENED ACTIONS IN CONNECTION WITH THE DEBTORS, THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AND SHOULD NOT BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION, OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS.

CERTAIN HOLDERS OF CLAIMS OR EQUITY INTERESTS MAY BE LIABLE FOR CAUSES OF ACTION BELONGING TO THE DEBTORS OR THEIR ESTATES. UNLESS OTHERWISE SPECIFIED, THESE CAUSES OF ACTION WILL NOT BE WAIVED UPON CONSUMMATION OF EITHER PLAN.

THIS DISCLOSURE STATEMENT WILL NOT BE SUBMITTED TO, AND HAS NOT BEEN APPROVED OR DISAPPROVED, BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY SIMILAR STATE SECURITIES REGULATOR. NEITHER THE SEC NOR ANY SIMILAR STATE SECURITIES REGULATOR HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION IT CONTAINS.

IN THE UNITED STATES BANKRUPTCY COURT
DISTRICT OF SOUTH CAROLINA

In re:	§	
	§	**Case No. 09-02140 (HB)**
BI-LO, LLC, *et al*.,	§	
	§	**Chapter 11**
	§	
Debtors.	§	
	§	**(Joint Administration)**

DISCLOSURE STATEMENT
FOR THE CHAPTER 11 PLAN OF REORGANIZATION FOR THE DEBTORS

PART A

GENERAL DISCLOSURE

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I. GENERAL INFORMATION ABOUT THE DEBTORS

A. Overview of Business Operations

BI-LO, LLC ("BI-LO"), headquartered in Greenville, South Carolina, operates as a major food retailer primarily under the "BI-LO" and "Super BI-LO" banners. As of the date of the commencement of these chapter 11 cases (the "Commencement Date"), BI-LO was one of the largest food retailers in the Southeast United States, operating over 200 stores in South Carolina, North Carolina, Georgia and Tennessee, with the majority of stores in South Carolina.

BI-LO offers national brands, as well as many of its own private-label products. BI-LO earns income predominantly by selling products at price levels that produce revenues in excess of its costs. Such costs include facility occupancy and operational costs and overhead expenses.

Substantially all of BI-LO's stores offer grocery, meat, seafood, produce, deli, bakery, floral, health and beauty and other general merchandise items. A number of BI-LO's stores also include pharmacies, special merchandise and customer services, including check-cashing services, Western Union services, DVD rentals, Coinstar® machines, banking/automatic teller machines and third-party merchandise kiosks.

B. Organizational Structure

BI-LO is the parent of seven wholly-owned subsidiaries. BI-LO's corporate headquarters are located in Greenville, South Carolina. BI-LO's corporate structure is reflected in Exhibit 2 to this Part A, and is summarized below:

- BI-LO's wholly-owned subsidiaries include ARP Ballentine LLC, ARP James Island LLC, ARP Moonville LLC, ARP Chickamauga LLC, ARP Morganton LLC, ARP Hartsville LLC and ARP Winston Salem LLC (collectively, the "Subsidiaries"). Six of the Subsidiaries hold one or more pieces of real property; the seventh holds no assets.
- BI-LO is wholly-owned by its parent, BI-LO Holding, LLC, a Delaware limited liability company ("BI-LO Holding").
- BI-LO Holding also wholly owns BG Cards, LLC, a South Carolina limited liability company ("BG Cards"), that provides store gift cards to BI-LO.
- BI-LO Holding is a holding company whose assets are its equity in BI-LO and BG Cards.
- BI-LO Holding is owned by LSF5 BI-LO Investments, LLC, its non-Debtor parent.
- BI-LO is the only operating Debtor.

C. Stores and Facilities

As of the Commencement Date, the Debtors were party to approximately 250 unexpired leases of nonresidential real property (each, a "Lease" and, collectively, the "Leases"), some of which related to "dark" stores (i.e., locations where operations had been shut down but BI-LO continued to be obligated to pay rent), or to stores that have been subleased to third parties for their use.

During the course of these chapter 11 cases, the Debtors have rejected (i.e., terminated) Leases governing 29 store locations, including [__] dark stores, as well as certain Leases that were previously assigned to Bruno's. As of the date of this Disclosure Statement, the Debtors operated 214 stores under Leases, and have three Leases which relate to their headquarters in Greenville, South Carolina.

	Owned	**Leased**	**Total**
Operating Retail Stores	0	214	214
Corporate Headquarters	0	3	3
Dark Stores	0	4	4
Total	0	221	221

Current remaining lease terms under the Leases range from March 2010 to March 2030. The large majority of the Leases contain renewal options, though the length of these renewal terms, as well as the number of renewal terms offered under a particular Lease, vary.

Koninklijke Ahold NV, or certain of its affiliates (collectively, "Ahold") was the former owner of BI-LO and in that capacity guaranteed approximately [ ] of the Leases prior to the Commencement Date. To the extent that Ahold has to perform under its guarantees, Ahold can assert a claim against the Debtors in these cases.

D. Operational Matters

1. *Suppliers and Raw Materials Sources.*

BI-LO receives the products sold in its stores and the raw materials used in its food preparation operations from a number of sources. C&S Wholesaler Grocers, Inc. ("C&S") is BI-LO's largest supplier, providing BI-LO more than 70% of its retail merchandise. C&S delivers goods to BI-LO pursuant to the Amended and Restated BI-LO LLC Supply Agreement by and between C&S and BI-LO dated as of March 23, 2007 (as amended, the "C&S Supply Agreement"). Cardinal Health provides substantially all of BI-LO's prescription and over-the-counter drugs, comprising approximately 10% of BI-LO's retail merchandise. Approximately 500 different vendors and third party food manufacturers deliver the remaining 20% of BI-LO's merchandise directly to its stores.

In addition to supplying the majority of BI-LO's goods, C&S provides distribution and delivery services to BI-LO under the C&S Supply Agreement. BI-LO's retail products are delivered to its stores primarily from warehouses that are either subleased to C&S from BI-LO or owned by C&S. To facilitate C&S's distribution of goods to BI-LO, BI-LO and C&S, among others, entered into the Asset Purchase Agreement dated as of December 22, 2004 (the "C&S Purchase Agreement"), which was subsequently incorporated into the C&S Supply Agreement. Under the C&S Purchase Agreement, BI-LO, among other things, (a) subleased to C&S BI-LO's rights to distribution facilities in Mauldin, South Carolina and Chattanooga, Tennessee, and (b) sold C&S its perishable distribution facility in Mauldin, South Carolina. These distribution facilities comprise the C&S distribution centers for BI-LO's stores. BI-LO also subleases from C&S, through take-back subleases, office and maintenance space in portions of the Mauldin property on which the distribution facilities are located.

BI-LO believes that its products and raw materials generally are available in sufficient quantities to meet customer demand adequately. As with any supermarket, many brands have high consumer recognition. Though BI-LO may be able to find alternate suppliers for a particular product type, it would likely experience negative customer response if it was unable to supply a particular brand of product.

2. *Vendor Allowances.*

BI-LO receives allowances or rebates from certain vendors in the form of promotional allowances, quantity discounts and payments under merchandising agreements and other allowances that relate to new item introductions, slotting fees, placement of the vendors' products in premier locations within BI-LO's stores and temporary price reductions offered to customers. The allowances reduce cost of sales if the product has been sold, or reduce ending inventory if the product has not yet been sold.

3. *Competitors.*

The supermarket industry is highly competitive and generally characterized by high inventory turnover and narrow profit margins. BI-LO must compete based on product quality, variety, and price, as well as location, service, convenience, and store condition. BI-LO competes directly with national, regional and local supermarket chains in addition to independent supermarkets. BI-LO also competes with supercenters and other non-traditional grocery retailers such as dollar-discount stores, drug stores, convenience stores, and warehouse club stores. Beyond retailers, BI-LO also faces competition from restaurants and fast-food chains due to consumers purchasing and consuming food away from home. The number and type of competitors varies by location, as does BI-LO's competitive position across individual operating markets. In general, BI-LO's principal supermarket competitors include (in alphabetical order): Food Lion, LLC, Harris Teeter Inc., Ingles Markets Inc. ("Ingles"), Kroger Co., Publix Supermarkets, Inc. and Wal-Mart, Inc.

4. *Environmental Matters.*

The Debtors are subject to federal, state and local environmental laws that apply to property ownership, property development and store operations. The Debtors may be subject to certain environmental regulations regardless of whether it leases or owns stores or land, or whether environmental conditions were created by the owner, a prior tenant of the premises or the Debtors.

The Debtors believe that compliance with federal, state, and local environmental laws and regulations has not had a material effect on its capital expenditures, operating results or competitive position. However, it is possible that the Debtors' various environmental investigations of certain of its properties might not have revealed all potential environmental liabilities or might have underestimated certain potential environmental issues. It is also possible that future environmental laws and regulations or new interpretations of existing environmental laws will impose material environmental liabilities on the Debtors, or that current environmental conditions of properties that the Debtors own or lease will be adversely affected by hazardous substances associated with other nearby properties or the actions of unrelated third parties. The costs to defend any future environmental claims, perform any future environmental remediation, satisfy any environmental liabilities, or respond to changed environmental conditions could have a material adverse effect on the Debtors' financial condition and operating results.

5. *Trademarks.*

The Debtors actively enforce and defend their rights related to their intellectual property portfolio, which is of material importance to their operations. Including the BI-LO and Super BI-LO trademarks, the Debtors own approximately 49 trademarks that are registered in the United States Patent and Trademark Office.

6. *Seasonality.*

Due primarily to the influx of winter residents to the Southeast, and increased purchases of food items for the Thanksgiving and Christmas holiday seasons, the Debtors typically experience increased sales during the

months of November through April as compared to the rest of the year, although certain locations show increased sales during the summer months.

7. *Government Regulation.*

The Debtors are subject to regulation by a number of federal, state and local governmental agencies. The Debtors' stores also are subject to laws regarding zoning, land use, pharmacy operations, tobacco sales, and alcoholic beverage sales, among others. The Debtors believe they are in material compliance with these laws and regulations.

8. *Customer Programs.*

BI-LO may offer sales discounts to customers at the time of sale as part of its Customer Reward Card program, as well as other promotional events. In addition, BI-LO periodically offers awards to customers in the form of sales discounts to be used on a future purchase based on an accumulation of points, as part of its Customer Reward Card program.

E. **Management and Employees**

1. *Board of Directors.*

BI-LO's board of directors oversees BI-LO's management, reviews its long-term strategic plans, and exercises direct decision-making authority in key areas.

Set forth below is information with respect to the members of BI-LO's board of directors serving during the chapter 11 cases:

- R. Randall Onstead, Jr. – Randall Onstead, Jr. has over 27 years experience in the retail food industry. He is the former Chairman and Chief Executive Officer of Randalls Food Markets, Inc., a $2.7 billion Houston-based supermarket chain. After Randalls, Mr. Onstead became a Managing Director of Chapman Partners, L.L.C., a private investment-banking firm and became President of Onstead Investments, L.P. Later he became President and Chief Executive Officer of Garden Ridge Corp., a Houston-based crafts and décor retailer with 44 stores in 13 states, then President of Dominick's Finer Foods, based in Oak Brook, IL. He also served as Interim Chief Executive Officer and President of BI-LO, LLC from October 31, 2008 to February 23, 2009. Mr. Onstead is not affiliated with Lone Star. He was appointed to BI-LO's board on November 8, 2008.

- John Kinzer – John Kinzer serves as a Director for the Private Equity Investments and Commercial Real Estate portfolio for Hudson Americas, an entity affiliated with the Debtors' shareholder, the private equity fund Lone Star (as that term is defined below). Prior to joining Hudson, he served as Chief Investment Officer for Provident Realty Advisors. Mr. Kinzer previously served as the Director of Acquisitions for Milestone Group. From 2000 to 2004, Mr. Kinzer was a Senior Acquisition Manager for the Archon Group in Dallas, Texas. Mr. Kinzer was appointed to BI-LO's board on February 16, 2009.

2. *Executive Officers.*

Set forth below is information with respect to the current key executive officers of BI-LO:

- Mike Byars, CEO – Mr. Byars most recently served as President and CEO of Minyard Food Stores in the Dallas/Fort Worth area for five years. Prior to his tenure at Minyard Food Stores, Mr. Byars spent over 25

years with Food Lion, most recently with their Florida-based Kash N Karry Supermarket division. Mr. Byars joined BI-LO in February 2009.

- Brian Carney, EVP/CFO – Mr. Carney has been employed by BI-LO since October 2005. Prior to joining BI-LO, he spent eight years as EVP & CFO of Jo-Ann Stores and eight years as SVP & CFO for Revco Drug Stores. He also spent seven years at Arthur Andersen.
- Ken Jones, SVP, Finance and Treasurer – Prior to joining BI-LO in April 2005, Mr. Jones served as VP and Treasurer for Denny's Corp., where he directed its centralized treasury organization as well as corporate financial planning and investor relations.

3. *Additional Officers*

- Anthea Jones – Mr. Jones has over 25 years of experience in the supermarket industry. He has been with the company for ten years and currently serves as the Senior Vice President of Store Operations. Over his BI-LO career, Anthea has held various positions, including Group Vice President of Center Store, Vice President of Non-Foods and Pharmacy, Regional Vice President of Operations, and Director of Customer Service. Prior to 1999, Anthea was Director of Store Operations with Food Lion and held other essential roles within that organization.

- William Nasshan – Mr. Nasshan has 34 years of experience in retail and join BI-LO as Senior Vice President – Marketing and Merchandising in July 2009. Prior to joining BI-LO, Bill spent two years with Shaw's Supermarkets, five years with The Borders Group, two years in Retail Consulting, and 24 years with Dominick's Finer Foods. Bill has had successful experience in Store Operations, Marketing, Merchandising, and Procurement.

- Marc L. Lipshy – Mr. Lipshy is a Vice President of Hudson Advisors LLC. He is employed as an attorney in the Legal Department of Hudson Advisors LLC and is responsible for the legal affairs relating to the North American investments of Lone Star Funds. Mark is a director, manager or officer of numerous non-public companies which are owned or controlled by Lone Star Funds or affiliates of Lone Star Funds. Prior to joining Hudson Advisors LLC, he was a partner with the law firm of Jenkens & Gilchrist, P.C. He earned his BA degree from Tufts University, Medford, Massachusetts and his JD from The University of Texas School of Law, Austin, Texas.

- Layne B. LeBaron – Mr. LeBaron has served as Assistant Secretary for BI-LO since January 31, 2005 and concurrently serves as the Worldwide Compliance Manager for Hudson Advisors LLC. Prior to joining Hudson in June 2004, he served as Regulatory Compliance Specialist for Aurum Technology Inc. from 2000 to 2004. Prior to joining Aurum, he served as a Regulatory Compliance Analyst for Electronic Data Systems (EDS) from 1998 to 2000.

- Dwane H. Bryant – Mr. Bryant, currently serving as Vice President, General Counsel, and Secretary, has 19 years of experience in the retail grocery industry. In addition to his J.D., Dwane holds a B.S. and an M.B.A. and earlier in his career, served the company in various financial positions.

4. *Employees.*

As of the Commencement Date, the Debtors employed approximately 15,500 employees, of whom approximately 6,100 were employed on a full-time basis and 9,400 on a part-time basis. None of the Debtors' employees are covered by a collective bargaining agreement.

F. The Debtors' Prepetition Capital Structure

1. *Prepetition ABL and Term Loan Credit Agreements.*

BI-LO and certain of its affiliates are parties to the Credit Agreement dated as of March 26, 2007 (the "ABL Credit Agreement") with GE Business Financial Services, Inc. (formerly known as Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc.), as administrative agent, and certain lenders (the "ABL Lenders"), which provided for a $100 million revolving credit facility (the "ABL Facility") used for general corporate purposes. The ABL Facility matured on March 26, 2009.

In addition, BI-LO and certain of its affiliates are also parties to the Credit Agreement dated as of March 26, 2007 (the "Term Credit Agreement") with The Bank of New York Mellon, as Administrative Agent, and certain lenders (the "Term Lenders"), which provided for a $260 million term loan (the "Term Loan"). The Term Loan matured on March 26, 2009.

Pursuant to § 5.1(a) of each of the ABL Credit Agreement and the Term Credit Agreement, BI-LO, BI-LO Holding and their respective subsidiaries (the "Loan Parties") entered into Guarantee and Collateral Agreements, each dated as of March 26, 2007 (the "Guarantee and Collateral Agreements"), pursuant to which the Loan Parties granted liens and security interests on substantially all of their personal property assets in favor of the respective groups of Lenders. Additionally, pursuant to § 6.9 of each of the ABL Credit Agreement and the Term Credit Agreement, BI-LO granted mortgage liens on 14 leasehold interests in their real estate holdings in favor of the respective groups of Lenders.

The priorities of the ABL Lenders and the Term Lenders regarding their collateral are contained in an Intercreditor Agreement dated as of March 26, 2007 (the "Intercreditor Agreement").

Under the Intercreditor Agreement, the ABL Lenders have a first lien on certain types of the collateral, primarily cash, pharmacy prescriptions, receivables and inventory (the "ABL Priority Collateral," as defined in the Intercreditor Agreement) and the Term Lenders have a first lien on the remaining types of collateral, primarily equipment, intellectual property such as trademarks, and the 14 leases (the "Term Priority Collateral," as defined in the Intercreditor Agreement). The ABL Lenders have a second lien on the Term Priority Collateral, and the Term Lenders have a second lien on the ABL Priority Collateral.

As of the Commencement Date, $260 million in principal amount was outstanding under the Term Loan, and $[ ] million in principal amount was outstanding under the ABL Credit Agreement (including $[ ] million in letters of credit), all of the ABL amounts were refinanced after the Commencement Date by the DIP Financing (as described below).

2. *Prepetition Ownership*

Substantially all of the equity interests in BI-LO Holding and BI-LO are indirectly owned by Lone Star Fund V (U.S.), L.P. ("Lone Star Fund V"), LSF V International Finance, L.P. (Bermuda) or their affiliates ("Lone Star"), which, together with other affiliates, comprise a private equity fund headquartered in Dallas, Texas. A corporate organizational chart for the Debtors and Lone Star is attached as Exhibit 2 to this Part A of the Disclosure Statement.

G. Selected Historical Financial Information

Attached as Exhibit 3 to this Part A of the Disclosure Statement is selected consolidated financial information for BI-LO Holding and its subsidiaries.

H. Acquisition of the Debtors By Lone Star

On December 22, 2004,[1] Lone Star acquired all of the membership interests of BI-LO Holding, LLC from Ahold. The purchase price was $567.3 million. At that time, BI-LO Holding, LLC owned BI-LO, which in turn owned Bruno's Supermarkets, Inc., subsequently known as Bruno's Supermarkets LLC ("Bruno's"). BI-LO and Bruno's served different regions, demographics, and customer bases, with BI-LO serving South Carolina, North Carolina, Georgia, and Tennessee, and Bruno's serving Alabama, Mississippi, Georgia and Florida.

Also on December 22, 2004, BI-LO entered into the initial C&S Supply Agreement (which was subsequently amended and restated) providing for C&S to supply grocery merchandise to both BI-LO and Bruno's.

Following Lone Star's acquisition of BI-LO and Bruno's, BI-LO Holding entered into an Asset Advisory Agreement with Hudson Advisors, L.L.C. ("Hudson"), an affiliate of Lone Star, pursuant to which Hudson acted as manager of Lone Star's interests in BI-LO Holding.

Also following the acquisition, under the management of Lone Star, BI-LO undertook a series of store sales, sale-leasebacks and closures of stores, including, among other things (a) the sale or closure of certain BI-LO stores in certain geographic markets, (b) the sale of BI-LO's warehouse and distribution assets to C&S and entry into a new supply agreement with C&S, (c) the closure (which had begun under Ahold's ownership) of Bruno's corporate offices and commencement of efforts to consolidate Bruno's corporate functions into BI-LO's corporate offices in Greenville, South Carolina, and (d) the sale on April 22, 2005 of 109 stores – some Bruno's and some BI-LO – to various affiliates of C&S (collectively, the "SFM Buyer"). C&S guaranteed all obligations of SFM Buyer under the purchase agreement and certain lease obligations with respect to the transferred stores. Subject to certain conditions and adjustments, C&S's lease payment guaranty is capped at $26.5 million.

In addition, on June 30, 2005, BI-LO and Bruno's entered into a sale-leaseback transaction with Cardinal Capital Partners, Inc. ("Cardinal") whereby BI-LO sold six of its stores (the "BI-LO Cardinal Stores") and Bruno's sold twelve of its stores (the "Bruno's Cardinal Stores" and together with the BI-LO Cardinal Stores, the "Cardinal Stores") to Cardinal, and Cardinal leased the Cardinal Stores back to BI-LO, although the Bruno's Cardinal Stores were always operated as Bruno's stores and never as BI-LO stores.

By January of 2006, BI-LO operated 230 stores, and Bruno's operated 90 stores.

I. BI-LO's Spin-Off of Bruno's Supermarkets

According to the Debtors, for numerous competitive and operational reasons, Bruno's suffered from continued sales and profit declines. In 2007, after a potential sale of Bruno's was not consummated, Lone Star decided to spin-off Bruno's from BI-LO.

On March 25, 2007, BI-LO sold all of its membership interests in Bruno's to LSF5 Bruno's Investments, LLC, a sister portfolio company within Lone Star (the "Spin-Off"). On the same date, BI-LO entered into various agreements including a Transition Services Agreement and an Employee Leasing Agreement in connection with the spin-off to assist Bruno's in its newly-separated operations. As part of the Spin-Off, BI-LO assigned its interest as lessee under the leases for the Bruno's Cardinal Stores to Bruno's.

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[1] The dates listed in this chronology refer to the date of signing definitive agreements effectuating the relevant events. The closing date of each of these events occurred after the date of signing in most cases.

In addition, the C&S Supply Agreement with C&S was bifurcated on March 23, 2007, with BI-LO and Bruno's each entering into separate supply agreements with C&S, and with BI-LO entering into a guaranty pursuant to that certain Amended and Restated Guaranty by and between BI-LO Holding, LLC, BI-LO, LLC and C&S dated March 23, 2007 (the "C&S Guaranty") of Bruno's obligations under its separate supply agreement with C&S.

BI-LO also provided working capital to Bruno's, using funds drawn from BI-LO's own credit facilities. There is currently a dispute between the Debtors and the Term Lenders regarding BI-LO's right under the Term Credit Agreement to advance more than $10 million in loans to Bruno's. The Term Lenders assert that the $10 million cap applies to all advances made, in the aggregate amount of all such advances. The Debtors assert that the cap was meant to apply to advances outstanding at any given time. If the Term Lenders are correct, prepetition interest would have accrued at the default rate from the date the total aggregate amount of the advances exceeded $10 million. If the Debtors are correct, prepetition interest would not have accrued at the default rate.

Bruno's filed a voluntary chapter 11 case in Birmingham, Alabama on February 5, 2009 (the "Bruno's Commencement Date"), styled and numbered *In re Bruno's Supermarkets, LLC*, Case No. 09-00634, Bankr. N.D. Ala (the "Bruno's Chapter 11 Case"). Efforts to sell the Bruno's business in the Bruno's Chapter 11 Case resulted in only one bid – from an affiliate of C&S – who ultimately purchased 57 Bruno's stores, for a price of $6.4 million plus certain costs relating to inventory and outstanding administrative claims of the C&S affiliate.

J. Events That Lead to the Commencement of the Debtors' Chapter 11 Cases

Following the Bruno's Spin-Off in 2007, Lone Star began efforts to sell BI-LO, and entered into the ABL Credit Agreement and the Term Loan to refinance BI-LO's existing indebtedness.

BI-LO operates in a supermarket industry that is generally characterized by intense competition and narrow profit margins. BI-LO competes directly with national, regional, and local supermarket chains and independent supermarkets, as well as with Wal-Mart, similar supercenters and other non-traditional grocery retailers such as dollar discount stores, drug stores, convenience stores and warehouse club stores.

During the period when Lone Star was seeking a sale, BI-LO's financial performance deteriorated significantly. BI-LO reported EBITDA (fully loaded for rent expense under both operating and capital leases) of $114 million in 2006; $96 million in 2007; $76 million in 2008. This decline was traceable to, among other things, changes in senior management, declines in same store sales and a contraction in margin rates from mounting competition, and increases in product and supply costs and operating expenses from increased energy prices and burdensome obligations relating to its dark and underperforming store locations, and a supply agreement with C&S that was designed for a larger store footprint, saddling BI-LO with certain fixed minimum charges regardless of declines in actual volume. As BI-LO's performance declined, the costs of servicing its debt obligations became more burdensome as well, although BI-LO never missed a scheduled payment prior to the Petition Date.

Beginning in November 2008, according to the Debtors, BI-LO initiated a series of actions designed to enhance its competitive position by appointing new merchandising leadership, including the appointment of Mike Byars, as Chief Executive Officer in February 2009, focusing sales efforts to offset negative trends, and identifying underperforming stores and negotiating with landlords in an effort to improve store performance. In addition, BI-LO implemented a series of general and administrative cost reductions over the last two years, which, in the aggregate, have yielded savings of approximately $22.0 million on an annual basis.

However, when the financing provided by the Term Lenders approached maturity on March 27, 2009, BI-LO was unable to refinance that indebtedness or obtain an agreement from the Term Lenders to extend the

maturity date. In preparation for the commencement of these chapter 11 cases, BI-LO entered into an amendment to the C&S Supply Agreement (the "C&S Amendment") that, among other things, eliminated or deferred until December 1, 2009 certain surcharges, and obligates C&S to continue performance under the C&S Supply Agreement pending assumption or rejection of the C&S Agreement under § 365 of the Bankruptcy Code. The Debtors believe that the C&S Amendment helped BI-LO improve its operating cash flow and simplified the administration of the chapter 11 cases.

II. THE DEBTORS' CHAPTER 11 CASES

On March 23, 2009, the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtors continue to conduct their businesses and manage their properties as debtors-in-possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code.

A. Overview of the Chapter 11 Process

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor may continue to operate its business and remain in possession of its property as a "debtor in possession." The commencement of a chapter 11 case creates a bankruptcy "estate" that consists of all of a debtor's legal and equitable interests as of the filing date.

Chapter 11 provides a debtor with a variety of legal tools to rehabilitate its business, including the ability to "reject" (i.e., terminate) burdensome contracts or leases, sell unprofitable or non-core assets, identify the universe of all potential liabilities or claims against the debtor, and restructure those claims through a collective process rather than through time-consuming individual negotiations with each creditor.

This restructuring of claims is done through a chapter 11 plan. The plan can be proposed by a debtor or any other party in interest after an initial period of the case when the debtor has the exclusive right to propose a plan. That right is colloquially referred to as the debtor's "exclusivity". The plan process is supervised by the Bankruptcy Court, who must approve all materials sent to solicit their votes on a plan, and then must determine if the legal requirements for court approval ("confirmation") of the plan have been satisfied. Subject to certain limited exceptions, and other than as provided in the plan itself or the Bankruptcy Court's order confirming the plan (the "confirmation order"), the order discharges the debtor from any obligations that arose prior to the confirmation date, and imposes on the debtor and parties in interest the obligations specified in the confirmed chapter 11 plan.

For purposes of a chapter 11 plan, the Bankruptcy Code requires that prepetition claims against a debtor be segregated into separate "classes" so that legally dissimilar claims are not in the same class. For instance, secured claims are put in a separate class ("classified") from unsecured claims, and secured claims themselves can be put into separate classes if they don't share the same collateral. Each creditor holding a claim in a given class will receive the same treatment as every other creditor in that class, unless the creditor specifically agrees to less favorable treatment.

Creditors in classes that are receiving payment in full under a chapter 11 plan (i.e., are "unimpaired" by the plan), are not entitled to vote on the plan; they are deemed to have accepted it. If a class of creditors or equity holders is slated to receive nothing under a chapter 11 plan, that class is also not entitled to vote on the plan; it is deemed to have rejected the plan.

Classification is also relevant to voting to accept a chapter 11 plan. As discussed more fully in Article III of this Part A to the Disclosure Statement, if the requisite percentages of creditors in a class vote to "accept" a plan (i.e., the plan is approved by more than half of those voting who hold at least two-thirds of all claims voted), and the plan is confirmed, the plan is binding on all creditors in that class, even if they did not vote to accept it.

B. Early Stages of the Debtors' Chapter 11 Cases

1. *First Day Orders*

On the first day of the chapter 11 cases, the Debtors filed several applications and motions seeking relief by virtue of so-called "first day orders." First day orders are intended to facilitate the transition between a debtor's prepetition and postpetition business operations by approving certain regular business practices that may not be specifically authorized under the Bankruptcy Code or as to which the Bankruptcy Code requires prior approval by the bankruptcy court. The first day orders obtained in the chapter 11 cases, which are typical of orders entered in business reorganization cases across the country, authorized, among other things:

- joint administration of the Debtors' cases;
- specific notice procedures;
- extension of the deadline for filing schedules and statements;
- appointment of Kurtzman Carson Consultants LLC as claims, noticing and balloting agent;
- continued use of the existing cash management system and bank accounts and continued use of current investment and deposit policy;
- payment of certain prepetition employee compensation, payroll taxes, benefits, and related obligations, payment of expenses related to independent contractors, and continuation of employee programs on a postpetition basis;
- payment of prepetition claims arising under the Perishable Agricultural Commodities Act and other related statutes;
- payment of certain prepetition taxes and other ordinary course governmental obligations;
- payment of prepetition obligations to certain vendors of alcoholic beverages and lottery agencies and to honor lottery tickets presented by the Debtors' customers;
- honoring of certain prepetition customer obligations and continuation of customer programs and practices;
- turn over of certain funds held in trust and honoring of obligations under consignment arrangements;
- deeming utilities adequately assured of payment, prohibiting utilities from altering, refusing, or discontinuing services and establishing procedures for resolving requests for adequate assurance;
- establishment of procedures for the interim compensation and reimbursement of expenses for retained professionals;
- establishment of procedures for the retention and payment of ordinary course professionals; and
- continued payment of prepetition insurance and workers' compensation programs and payment of prepetition premiums, related obligations and premium financing payments.

2. *Debtor in Possession Financing, Cash Collateral, and Adequate Protection*

To address their immediate liquidity issues and ensure a seamless transition into chapter 11, the Debtors negotiated term sheets and commitment letters for a $125 million debtor-in-possession secured, superpriority revolving credit facility (as amended, the "DIP Facility") from General Electric Capital Corporation, as administrative agent for itself and the other financial institutions from time to time parties to the DIP Facility credit agreement. The obligations under the DIP Facility are guaranteed by all of the Debtors and are secured by a lien on substantially all of the Debtors' assets (with certain limitations), which lien has senior priority with respect to substantially all such assets (other than the Term Lender's collateral) and by a superpriority administrative expense claim. The Debtors have estimated that as of the date of this Disclosure Statement, approximately $45.0 million was outstanding on the DIP Facility, including outstanding letters of credit of $25.0 million.

On the Commencement Date, the Debtors sought authority to enter into the DIP Facility. Certain parties objected, and certain other parties, including Ahold and Bayside Capital (an affiliate of one of the Term Lenders) made proposals to provide debtor-in-possession financing to the Debtors. After a competitive process and a series of contested hearings on the proposed DIP Facility, the Bankruptcy Court authorized the Debtors' entry into the DIP Facility on an interim basis on April 3, 2009, and on a final basis on April 16, 2009.

In addition, on the Commencement Date the Debtors sought to satisfy their obligation to provide "adequate protection" to the ABL Lenders and the Term Lenders. Adequate protection is a term of art under the Bankruptcy Code that refers to a debtor's obligation to protect prepetition secured lenders from any diminution in value of their interests in their collateral. The Debtors' adequate protection proposal was contested by the Term Lenders and there were a series of hearings on the dispute. While the parties were negotiating a resolution, they agreed to interim use of cash collateral, and the Bankruptcy Court approved those interim agreements on March 24, 2009, March 27, 2009, April 3, 2009 and April 8, 2009. On May 1, 2009, the disputes were resolved and the Bankruptcy Court entered an order to reflect the settlement (the "Adequate Protection Consent Order").

Among other things, the Adequate Protection Consent Order authorized the Debtors to make an initial cash payment to the Term Lenders of $2.45 million, and subsequent payments of $1.45 million a month. The characterization of these payments (i.e., whether they should be applied to reduce the Term Loan principal or be treated as payment of postpetition interest) was expressly left to further determination. The Plan settles any disputes over the value of the Term Lenders' collateral, and provides that these payments will be retained by the Term Lenders. It is estimated that these payments will total $[15.8] million by the time a plan is confirmed, assuming a February 28, 2010 confirmation.

3. *Retention of the Debtors' Professional Advisors*

The Debtors are represented in their chapter 11 cases by Vinson & Elkins L.L.P. and Nelson Mullins Riley & Scarborough, LLP as co-bankruptcy counsel, and Womble Carlyle Sandridge & Rice, PLLC as special corporate and litigation counsel.

The Debtors obtained the financial and operational restructuring consulting services of AP Services, LLC ("APS"), and the auditing, accounting and tax advisory services of Deloitte & Touche LLP ("Deloitte"). In addition, the Debtors retained the special real estate consulting services of DJM Asset Management, LLC ("DJM"). Michael Feder of APS, serves as Chief Restructuring Officer. The Debtors also retained William Blair & Company, LLC ("Blair") for financial advisory and investment banking services.

4. *Appointment of Official Committee of Unsecured Creditors*

On March 30, 2009, the Office of the United States Trustee (the "U.S. Trustee") appointed, pursuant to sections 1102(a) and 1102(b) of the Bankruptcy Code, the following entities holding general unsecured claims to

the Official Creditors' Committee: C&S Wholesaler Grocers, Inc.; Coca-Cola Bottling, Inc.; Kraft/Nabisco; Bottling Group, LLC; Kellogg Company; Flowers Baking Co. of Morristown, LLC; Sara Lee Corp.; Cardinal Health 110, Inc.; and Developers Diversified Realty Corp. At the invitation of the Official Creditors' Committee, American Greetings became an *ex officio* member.

The Official Creditors' Committee is represented by the law firms of Otterbourg, Steindler, Houston & Rosen, P.C. and McCarthy Law Firm, LLC. The Official Creditors' Committee retained the financial advisory services of FTI Consulting, Inc. The expenses of members of this committee, and the fees and expenses of the professionals serving on their behalf, are entitled to be paid by the Debtors, subject to approval by the Bankruptcy Court.

As of the date hereof, no other official committees have been appointed in the Chapter 11 Cases.

5. *The Ad Hoc Committee of Secured Term Lenders*

Jones Day and McNair Law Firm, P.A. serve as counsel to the Term Lender Committee. The Term Lender Committee is also represented by the financial advisory firm of Houlihan Lokey.

6. *Appointment of Consumer Privacy Ombudsman*

On May 28, 2009, the U.S. Trustee appointed Lucy L. Thomson as the Consumer Privacy Ombudsman pursuant to section 332 of the Bankruptcy Code to monitor ongoing sales of private/personally identifiable information.

C. **Employee Matters.**

Since the Commencement Date, the Debtors have filed two significant motions relating to employee and compensation issues. First, on June 22, 2009, the Debtors filed a motion seeking authority to continue and make payments to certain of their employees under the three employee incentive bonus programs (the "Employee Bonus Programs") that the Debtors had in place prior to the Commencement Date. Those programs were (a) the General Management Incentive Plan, a bonus program for approximately 250 of the Debtors' salaried and executive-level employees based on the achievement of certain pre-established performance metrics related to overall corporate sales and earnings before interest, taxes, depreciation and amortization ("EBITDA"); (b) the Store Management Incentive Program, a bonus program for approximately 1,700 employees consisting of eligible store directors, assistant store directors and key store department managers based on the achievement of certain pre-established performance metrics related to specific stores sales, overall corporate sales and EBITDA; and (c) the Pharmacy Incentive Plan, a bonus program for approximately 270 eligible pharmacy managers and staff pharmacists based on the achievement of certain pre-established performance metrics related to overall corporate sales and EBITDA. After negotiations with the U.S. Trustee and other parties in interest, the Bankruptcy Court approved the motion, as modified through the negotiations, on June 30, 2009.

In addition, on September 2, 2009, the Debtors filed a motion seeking authority to implement an executive management compensation program. This motion was filed after significant negotiations with the Official Creditors' Committee, the Term Lender Committee and the U.S. Trustee regarding the appropriate structure and contours of an executive incentive program. The motion sought approval of certain bonuses for the Debtors' CEO, CFO and Treasurer, based upon the achievement of certain targeted performance metrics. The motion was approved by the Bankruptcy Court on November 6, 2009.

D. **Vendor Matters**

1. *Designation of C&S as a Critical Vendor.*

As noted, on March 21, 2009, BI-LO entered into the C&S Amendment, which among other things, eliminates or defers certain surcharges and obligates C&S to continue performance under the C&S Supply Agreement pending assumption or rejection of the C&S Agreement under section 365 of the Bankruptcy Code. The C&S Amendment required payment of all outstanding prepetition amounts to C&S as a critical vendor (in the approximate amount of $21 million) and the waiver of certain avoidance action claims by the Debtors' estates. On March 25, 2009, the Debtors filed a motion seeking to designate C&S as a critical vendor, and to take such other actions as were required by the C&S Amendment. The C&S Amendment provided significant relief to BI-LO, including the elimination of cost increases otherwise scheduled to take effect on April 1, 2009. The estimated value of the elimination of such cost increases saves BI-LO approximately $4.0 million in 2009. C&S also agreed to forebear on the collection of reduced volume surcharges until December 1, 2009, at which time such payments would be due, and would accrue at a rate of approximately $1 million a month thereafter. C&S agreed to continue to perform, subject to the conditions contained in the C&S Amendment, pending assumption or rejection of the C&S Agreement under section 365 of the Bankruptcy Code. The Bankruptcy Court approved the motion on May 28, 2009. On December 7, 2009, the Debtors paid C&S its $5.2 million administrative claim pursuant to the C&S Amendment.

2. *The 503(b)(9) Program.*

On May 22, 2009, the Debtors filed a motion (the "503(b)(9) Motion") requesting an order approving procedures for payment of certain claims asserted pursuant to section 503(b)(9) of the Bankruptcy Code. The Debtors' 503(b)(9) Motion sought authority to expedite payment of certain administrative expense claims pursuant to section 503(b)(9) of the Bankruptcy Code ("503(b)(9) Claims") and the release of preference actions arising under section 547 of the Bankruptcy Code against certain vendors that agreed to provide normalized trade terms and promotional programs to the Debtors. The 503(b)(9) Motion was initially approved in part and denied in part by the Bankruptcy Court. Thereafter, the Debtors refiled an amended 503(b)(9) Motion that was supported by major parties in interest. On August 11, 2009, the Bankruptcy Court entered an order (the "503(b)(9) Order") granting the Debtors' amended 503(b)(9) Motion.

In the ordinary course of the Debtors' business, the Debtors purchase materials, supplies, goods, products and other related items (collectively, the "Goods") from various vendors for use and sale in their stores. Prior to and after the Commencement Date, the Debtors received demands from their vendors asserting a right to reclaim their Goods under § 2-702(2) of the Uniform Commercial Code and § 546(c) of the Bankruptcy Code. The deadline to assert a reclamation demand was April 12, 2009. The 503(b)(9) Order tolled the deadline for vendors participating in the 503(b)(9) Program to enforce their reclamation demands to October 1, 2009.

E. **Asset Dispositions.**

One component of the Debtors' restructuring efforts has been to review and take steps to rationalize their portfolio of assets. Since the Commencement Date, the Debtors have sold or made arrangements to sell certain idle, non-core, or other miscellaneous assets, including the following:

1. *Sale of Pharmacy Assets.*

On April 19, 2009, the Debtors sought Bankruptcy Court authority to sell certain pharmacy inventory and records related to a retail store in Charlotte, North Carolina, to CVS/pharmacy for $150,000. BI-LO's lease of the store was scheduled to expire in May 2009 and it was required to remove all inventory and equipment before May 25, 2009. The Debtors sought a prompt sale of the pharmacy assets and authority to apply the net proceeds of the

sale to amounts outstanding under the DIP Facility. The sale of the pharmacy assets was approved on April 23, 2009.

2. *Appointment of Grafe and Sale of Certain Equipment Assets*

As discussed, the Debtors had certain dark stores on the Commencement Date. These contained various assets including packaging materials, raw materials, office furniture, supplies, computers, printers, other electronics, racking, shelving, and machinery (collectively, the "Equipment") that were idle assets and, in the Debtors' business judgment, were not needed in the ongoing operation of the estates nor are necessary for a successful reorganization. Thus, on April 20, 2009, the Debtors filed a motion seeking authority to (i) employ and retain Grafe Auction Company to assist the Debtors with the sale of the Equipment; (ii) sell the Equipment free and clear of liens; and (iii) pay the net sale proceeds to the agent for the Term Lenders, subject to any later determination regarding the application of the payment to principal, interest, fees and/or charges. The motion was approved on May 1, 2009. Proceeds from the sale of the Equipment of approximately $320,000 were turned over to the agent for the Term Lenders.

3. *De Minimis Asset Sale Procedures*

Prior to the Commencement Date, the Debtors routinely and in the ordinary course of their business sold or disposed of non-core assets that had minimal value to their operations. As part of this ongoing process, the Debtors determined that they had certain obsolete, excess, or burdensome assets, including various outdated equipment parts, equipment in need of further repair, other products, fixtures and other items held by the Debtors but no longer used or necessary for the Debtors' operations. Thus, on August 6, 2009, the Debtors filed a motion seeking authority to establish streamlined procedures for the sale, transfer, or abandonment of these *de minimis* assets, and authority to pay the necessary fees and expenses incurred in the sale or abandonment of the assets, including, but not limited to, commission fees to agents, brokers, auctioneers and liquidators. Further, if an asset sold was encumbered, the Debtors sought authority to pay the net proceeds of the sale over to the lienholder, or if such liens are held by the Term Lenders, to the agent for the Term Lenders, subject to any later determination regarding the application of the payment to principal, interest, fees and/or charges. The motion was approved on August 20, 2009.

F. **Executory Contract and Lease Matters.**

1. *Ahold*

As noted, Ahold is guarantor for a majority of the Debtors' Leases, dating from Ahold's ownership of BI-LO prior to the sale to Lone Star. As described above, Ahold objected to the Debtors' motion to enter into the DIP Facility, and offered to provide debtor-in-possession financing for the Debtors. To facilitate the resolution of Ahold's DIP objection and to minimize administrative obligations of the Debtors' estates, on April 3, 2009, the Debtors sought entry of an order approving a Cost-Sharing Agreement (the "Cost Sharing Agreement") with Ahold. Under the Cost-Sharing Agreement, Ahold agreed to, among other things, withdraw its objection to the DIP Motion. In addition, pursuant to the Cost-Sharing Agreement, Ahold assumed certain Lease obligations and related costs for Leases that the Debtors determined were burdensome and would otherwise seek to reject under section 365 of the Bankruptcy Code. Ahold has reimbursed the Debtors approximately $4.2 million through October 2009 for these lease costs.

The Cost-Sharing Agreement also required the Debtors to provide notice to Ahold of a potential rejection of a Lease. If Ahold informed the Debtors that it did not want that Lease rejected, Ahold would be responsible for all obligations arising under section 365(d)(3) of the Bankruptcy Code arising from and after April 1, 2009 until assumption or rejection of the Lease. Ahold exercised its rights under the Cost Sharing Agreement to override

rejection of the leases relating to BI-LO stores 78, 94, 258[2], 264, 356, 390, 404, 426, 520, 527, 551, and 636. Ahold has paid approximately $2 million through October 2009 on account of these section 365(d)(3) obligations.

Ahold also obtained the right, in its sole discretion, to have any lease designated for rejection by the Debtors to be assumed and assigned to Ahold, provided that Ahold pay any and all cure costs with respect to that assumption and assignment (excepting any obligations under section 365(d)(3) of the Bankruptcy Code arising before the date of Ahold's non-consent to rejection of the lease). Pursuant to this right, Ahold designated the Leases associated with BI-LO stores 78, 94, 101, 103, 264, 266, 356, 426, 527 and 636. Stores 101, 102 and 266 were subleased by Ahold back to BI-LO. All ten leases (and associated subleases) were assumed and assigned to Ahold in accordance with the following orders of the Bankruptcy Court:

Order Approving Assumption, Assignment, and Sublease of Certain Nonresidential Real Property Leases [Docket No. 1580] (Stores 78, 94, 264, 356, 426, 101, and 266)
Certified Consent Order Approving Assumption and Assignment of Unexpired Lease of Nonresidential Real Property [Docket No. 1598] (Store 636)
Certified Consent Order Approving Assumption, Assignment, and Sublease of a Certain Nonresidential Real Property Lease [Docket No. 1599] (Store 103)
Order Approving Assumption and Assignment of a Certain Nonresidential Real Property Lease [Docket No. 1601] (Store 527)

2. *Approval of Procedures for the Rejection of Unexpired Non-Residential Real Property Leases.*

On the Commencement Date, the Debtors sought approval of certain streamlined procedures for the rejection of Leases. The procedures were approved by order of the Bankruptcy Court dated April 13, 2009.

3. *Extension of Time to Assume or Reject Unexpired Non-Residential Real Property Leases.*

Section 365(d)(4) of the Bankruptcy Code allows a debtor an initial 60-day period for determining whether to assume or reject nonresidential real property leases, which period may be extended by order of the bankruptcy court. As of the Commencement Date, the Debtors were parties to hundreds of Leases. A failure to assume or reject a non-residential real property lease during this period or to obtain an extension of the period results in a deemed rejection of nonresidential real property leases.

Given the size and complexity of these chapter 11 cases and the need to delay decisions as to the Leases until the structure of the Debtors' reorganization was determined, the Debtors sought, by motion dated April 30, 2009, to extend the assumption or rejection period through the earlier of (a) the Effective Date or (b) October 19, 2009. The motion was granted by order of the Bankruptcy Court dated May 21, 2009.

As a result of the 2005 amendments to the Bankruptcy Code, the Debtors were not permitted to seek further extensions of the section 365(d)(4) deadline beyond October 19, 2009, unless the Debtors obtained consent of the landlord. Thus, with the assistance of DJM, the Debtors sought specific consents for those Leases they were not prepared to reject, to extend further the time within which the Debtors could assume or reject the Lease. The Debtors subsequently entered into stipulations with substantially all of their landlords to further extend the assumption or rejection deadline through March 31, 2010,[3] and sought, by motion dated August 7, 2009, authority to waive preference claims arising under section 547 of the Bankruptcy Code against landlords who entered into such stipulations. The motion was granted by the Bankruptcy Court on September 1, 2009.

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[2] Store No 258 had previously been assigned to Ingles.

[3] For six leases the deadline was extended only to December 2009 or January 2010.

4. *Disposition of Executory Contracts and Unexpired Leases*

Pursuant to section 365 of the Bankruptcy Code, the Debtors may choose to (a) assume, (b) assume and assign, or (c) reject executory contracts and unexpired leases of personal property, subject to approval of the Bankruptcy Court. As a condition to assumption, or assumption and assignment, unless otherwise agreed by the non-Debtor party, the Debtors must cure all existing defaults under the contract or lease, and must provide adequate assurance of future performance of the contract or lease. If the contract or lease is rejected, any resulting rejection damages are treated as a prepetition unsecured claim. Generally, and with certain exceptions, postpetition obligations arising under a contract or lease must be paid in full in the ordinary course of business during the chapter 11 case.

As of the date of this Disclosure Statement, the Debtors had rejected approximately 2 executory contracts and 29 Leases (including those for four Cardinal Stores). The Debtors may file additional motions seeking to assume or reject certain of the Debtors' remaining executory contracts and Leases prior to the Confirmation Date. Please consult Part B to determine how individual executory contracts and Leases are being treated under the Plan.

G. Summary of Other Significant Motions

Set forth below is a brief summary of certain of the principal motions the Debtors have filed during the pendency of the Chapter 11 Cases.

1. *Blue Cross Assumption Motion.*

As of the Commencement Date, the Debtors maintained a group healthcare program that is administered pursuant to an Administrative Services Agreement, effective January 1, 2009, as amended by the Specific Stop Loss & Aggregate Insurance Protection addendum, dated February 20, 2009 but effective January 1, 2009 (the "BCBSSC Contract") between BI-LO as purchaser and Blue Cross and Blue Shield of South Carolina ("BCBSSC"). After the Commencement Date, the Debtors and BCBSSC operated under the terms of the BCBSSC Contract, with certain post-petition modifications to payment terms requested by BCBSSC. The Debtors and BCBSSC negotiated the terms of an amendment to the BCBSSC Contract that provided the Debtors with certain financial benefits. On July 14, 2009, the Debtors filed a motion authorizing the Debtors to enter into the amendment and assume the amended contract pursuant to section 365 of the Bankruptcy Code. In addition, the Debtors sought authority to pay all valid employee medical benefit claims, regardless of amount. The motion was approved by the Bankruptcy Court on July 22, 2009.

2. *Motion for Approval of BI-LO's Agreement to Subordinate a Portion of its Claims Against Bruno's Estate.*

At the time of the Bruno's Spin-Off, BI-LO and Bruno's each entered into individual and separate supply agreements with C&S:

- BI-LO and C&S entered into that certain C&S Supply Agreement;
- Bruno's and C&S entered into the Bruno's Interim Supply Agreement and the Bruno's Amended and Restated Supply Agreement, each dated March 23, 2007 (collectively, the "Bruno's–C&S Supply Agreement").

At the same time, BI-LO executed the C&S Guaranty, which guaranteed payment of certain (but not all) obligations of Bruno's to C&S under the Bruno's–C&S Supply Agreement. The C&S Guaranty contained a

subordination clause that subordinates any debt owed by Bruno's to BI-LO to certain obligations owed by Bruno's to C&S under the Bruno's–C&S Supply Agreement.

BI-LO is a party in interest in Bruno's chapter 11 case as both Bruno's co-debtor to C&S (by virtue of the C&S Guaranty) and also as a creditor in its own right. BI-LO's claims against Bruno's are generally described as:

- Promissory Note, dated December 17, 2008, between Bruno's, as maker, and BI-LO, as payee, in the principal amount of $3.3 million, as amended by the Amendment to Promissory Note, dated January 30, 2009;

- The C&S Guaranty and the below-described claim of C&S that BI-LO paid pursuant to C&S's demand on the C&S Guaranty;

- Irrevocable Standby Letter of Credit (No. SM233389W), dated December 2, 2008 and amended on December 5, 2008, December 10, 2008 and February 9, 2009, issued by Wachovia Bank, N.A. for the account of BI-LO to C&S for the benefit of Bruno's in the amount of $6.5 million;

- Irrevocable Standby Letter of Credit (No. SM227176W), dated September 5, 2007 and amended on February 26, 2008, issued by Wachovia Bank, N.A. for the account of BI-LO to Ace American Insurance Company for the benefit of Bruno's in the amount of $4,456,908;

- Irrevocable Standby Letter of Credit (No. SM227167W), dated August 22, 2007, issued by Wachovia Bank, N.A. for the account of BI-LO to RLI Insurance Company in the amount of $746,750 and Irrevocable Standby Letter of Credit (No. SM227165W), dated August 22, 2007, issued by Wachovia Bank, N.A. for the account of BI-LO to RLI Insurance Company in the amount of $282,000, each as collateral in respect of certain surety bonds arranged by BI-LO, LLC for the benefit of Bruno's (total exposure of BI-LO in respect of these bonds relating to Bruno's Supermarkets, LLC is $532,785); and

- Various claims pertaining to various equipment leases, service agreements, software and technology agreements, and lease-related agreements.

About six weeks into Bruno's chapter 11 case, C&S made a demand for payment upon BI-LO, based upon the C&S Guaranty, for payment of the invoice of C&S to Bruno's for grocery shipments during the last week before Bruno's bankruptcy plus other charges aggregating approximately $5.98 million. On March 17, 2009, BI-LO paid the amount demanded by C&S and thereby became subrogated to C&S with respect to that claim (the "Subrogated Claim"). The Debtors believe that the majority of the claim, in the approximate amount of $3.8 million, is, pursuant to Bankruptcy Code section 503(b)(9), an administrative claim in Bruno's chapter 11 case because it represents groceries and merchandise supplied by C&S to Bruno's during the 20 days (actually during the last several days) before its bankruptcy.[4]

The Debtors believe that the $5.9 million payment by BI-LO to C&S paid off all prepetition debt of Bruno's to C&S. Bruno's has paid each postpetition invoice of C&S for groceries and merchandise. Accordingly, the Debtors and Bruno's believe that Bruno's owes no current amounts to C&S, and the Debtors and Bruno's believe that Bruno's will not owe anything to C&S as a consequence of the rejection of the Bruno's–C&S Supply Agreement in Bruno's chapter 11 case.

As noted, Bruno's sold or otherwise disposed of all of its assets during its chapter 11 case. In the course of that sale process, C&S submitted several offers to Bruno's for or relating to the purchase of certain assets of

[4] The remainder of the claim is comprised of certain surcharges that accrued prior to the 20-day period preceding the Bruno's bankruptcy.

Bruno's estate. The offers required that Bruno's reject the Bruno's–C&S Supply Agreement and that Bruno's stipulate to a liquidated damage claim in favor of C&S in the amount of $60 million (and initially even a higher figure), which C&S advised BI-LO it would assert as a liquidated claim against BI-LO by virtue of the C&S Guaranty. Initially, the Bruno's Committee declined C&S's proposal.

However, in discussions during the auction on April 29, 2009 (which lasted two days), the Bruno's creditors committee advised BI-LO that it and Bruno's were going to accept C&S's revised proposal to pay a $2 million premium (on top of the price offered for those of the Bruno's stores that are financially viable and other Bruno's assets) in exchange for a stipulated, liquidated, unchallengeable $60 million claim (which C&S offered to subordinate to a limited extent to Bruno's creditors). The Debtors believe that this attempt to create such a large claim in favor of C&S – where they believe that none was or will be owing because the supply agreement was a requirements contract – was a significant problem for the Debtors because C&S took the position that if the $60 million claim was approved in Bruno's, C&S would automatically have a claim in BI-LO's chapter 11 case in the same amount.

On April 29, 2009, BI-LO made a proposal to the Bruno's creditors' committee to subordinate $2 million of the approximately $5.9 million of the Subrogated Claim if the Bruno's creditors committee would decline the revised C&S proposal. The Bruno's creditors committee declined BI-LO's proposal.

Meanwhile, Lone Star offered to Bruno's creditors committee that it would give Bruno's estate $2 million in cash for distribution to Bruno's unsecured creditors; BI-LO repeated its $2 million subordination proposal. The Bruno's creditors committee considered the package and, in the early morning hours of April 30, 2009, after BI-LO had increased its subordination proposal to $2.25 million (collectively, the offer from Lone Star and the subordination proposal from BI-LO, the "Lone Star/BI-LO Agreement") agreed to support it.

After a hearing held on May 4, 2009, the bankruptcy court in the Bruno's chapter 11 case approved the sale of certain of Bruno's assets to C&S (through its affiliate SFM Buyer) but did not approve any particular claim of C&S under the Bruno's–C&S Supply Agreement. The next day, the Bruno's bankruptcy court approved the Lone Star/BI-LO Agreement.

On May 12, 2009, the Debtors filed a motion in these chapter 11 cases seeking authority to subordinate their claim in the Bruno's chapter 11 case as provided in the Lone Star/BI-LO Agreement. The motion was approved by the Bankruptcy Court on June 10, 2009. Thereafter, the Debtors filed a proof of claim [Claim No. 793] in the Bruno's bankruptcy case in the amount of $9,806.529.44.

3. *Exclusivity*

As noted, the Bankruptcy Code provides for an initial period of 120 days after the commencement of a chapter 11 case during which a debtor in possession has the exclusive right to propose a chapter 11 plan. In addition, the Bankruptcy Code provides that if a debtor proposes a plan within its exclusive period, it has the remaining balance of 180 days after the commencement of a chapter 11 case to solicit acceptances of such plan. During these exclusive periods, plans may not be proposed by any party in interest other than the debtor. Under section 1121(d) of the Bankruptcy Code, these exclusive periods may be extended if the Bankruptcy Court determines there's good cause to do so.

On June 17, 2009, the Debtors filed a motion seeking to extend their exclusive periods. Thereafter, the Debtors, the Official Creditors' Committee, and the Term Lender Committee agreed to a consent order, entered by the Bankruptcy Court on June 30, 2009, that extended the Debtors' exclusive period to propose a plan through September 21, 2009 and their exclusive period to solicit acceptances through November 21, 2009.

As those deadlines approached, the Debtors, the Official Creditors' Committee and the Term Lender Committee sought to address the committees' request to have the same right as the Debtors to file their own plan and solicit acceptances to it, i.e., the committees sought "co-exclusivity". In order to allow the parties further time to negotiate, on September 16, 2009, the Bankruptcy Court extended the Debtors' exclusive period for filing a plan through October 7, 2009 and their exclusive period for soliciting acceptances through December 8, 2009.

The negotiations among the Debtors, the Official Creditors' Committee, and the Term Lender Committee were ultimately unsuccessful, and significant litigation ensued, culminating in a hearing before the Bankruptcy Court on October 5-6, 2009. On October 7, 2009, the Bankruptcy Court entered an order granting the requested "co-exclusivity" through November 20, 2009 for filing their respective plans, and through January 19, 2009 for soliciting acceptances to their plans. On November 20, 2009, both the Debtors and the Committee/Term Lenders filed plans of reorganization. On December 18, 2009, the Debtors filed the Plan.

H. The Debtors' Five Year Business Plan

In June of 2009, the Debtors, in consultation with their advisors, initiated a comprehensive review of their business and began to formulate a detailed five year business plan (the "Five Year Plan"), which involved a number of detailed analyses and work streams, the purpose of which was to improve operations, increase profitability, and create a path to reorganize under and emerge from chapter 11. At the time, the Debtors did not have a meaningful forecast that extended past 2009. The Debtors completed their Five Year Plan in August 2009, and thereafter presented the Five Year Plan to the Official Creditors' Committee, the Term Lender Committee and other parties-in-interest.

I. Claims

In chapter 11 cases, claims against a debtor are established either as a result of being listed in the debtor's schedules of liabilities or through assertion by the creditor in a timely filed proof of claim form. Once established, the claims are either "allowed" or "disallowed." If allowed, the claim will be recognized and dealt with under the chapter 11 plan. If disallowed, the creditor will have no right to obtain any recovery on, or to otherwise enforce, its claim against the debtor.

1. *The Debtors' Schedules and Statements*

On May 1, 2009, the Debtors filed their schedules of assets and liabilities, schedules of executory contracts and unexpired leases and statements of financial affairs; these were updated in a filing on December 1, 2009[5] (collectively, as amended, the "Schedules"). The Schedules set forth, among other information, the claims of known creditors against each of the Debtors as of the Commencement Date, based upon the Debtors' books and records. The Debtors reserved the right to amend their Schedules during these chapter 11 cases as more information becomes known to them.

2. *Claims Bar Date*

By notice dated May 11, 2009, the Debtors established August 13, 2009 as the deadline (the "Bar Date") for filing proofs of claim against the Debtors by creditors (other than governmental units) who are required to, and established September 21, 2009 as the Bar Date applicable to governmental units. In compliance with procedures approved by the Bankruptcy Court, the Debtors, through Kurtzman Carson Consultants LLC, acting as the Debtors' claims agent, provided timely notice of the Bar Date by mail.

[5] The Debtors retain the right to further update the Schedules.

3. *Claims Objection Process*

Approximately [3,950] proofs of claim have been filed against the Debtors or are listed on the Schedules, totaling approximately $[5.9 billion] as filed or scheduled. The Debtors expect to file objections seeking disallowance of certain asserted claims prior to the deadline established in the Plan (the "Claims Objection Deadline"). If the Debtors or other parties in interest do not object to a proof of claim by the Claims Objection Deadline in a plan, that claim will be considered "allowed" under the Plan.

4. *Claims Filed on Behalf of the Bruno's Bankruptcy Estate*

Both Bruno's and the Bruno's creditors' committee filed proofs of claim against the Debtors on behalf of the Bruno's estate, with both asserting essentially the same claims, all related to the Spin-Off. Because these claims have been asserted in such large amounts, the claims are described below. Also summarized are some of the principal defenses that the Debtors have to the claims. Nothing in the summary is intended to be or is to be construed as a waiver of any defenses, claims, counterclaims or other rights on the part of the Debtors or their estates. As discussed in part B of this Disclosure Statement, the Official Creditors' Committee is investigating certain of the events and transactions discussed in the following paragraphs:

a. *The Lease Assignment.*

The Bruno's creditors' committee's first basis for alleging fraudulent transfers is the allegation that Bruno's was harmed by the assignment of twelve (12) store leases from BI-LO to Bruno's pursuant to that certain Assignment and Assumption of Leases dated March 23, 2007 (the "Lease Assignment"). They argued that these leases were losing money and transferred by BI-LO to Bruno's in 2007 so as to mitigate BI-LO's losses on them. They asserted a $13 million claim related to this lease assignment, based on an alleged total of rental payments made by Bruno's under those leases in the two years following the Lease Assignment.

Importantly, however, these leases, on which BI-LO was a tenant in name only, were leases for stores operated by Bruno's, and were never BI-LO stores. Accordingly it was logical to assign them to Bruno's in connection with the Spin-Off. Furthermore, the assignment did not release BI-LO from liability on those leases by the landlords following the Spin-Off.

The Debtors contend that it is not accurate to characterize the assignment of the leases to Bruno's as a fraudulent transfer because they were Bruno's stores. Bruno's paid the rent, possessed, and operated the stores, and enjoyed all revenues from their operation. Therefore, the Debtors believe that the $13 million claimed by the Bruno's creditors' committee should be denied in full. For the same reasons, the Debtors contend that a claim for the alleged operating losses associated with those twelve (12) stores after the Spin-Off (in an amount claimed to exceed $15 million) should also be denied in full. The Debtors contend that any gains or losses on those stores, which were always Bruno's stores, are not the result of the Spin-Off or the assignment of those leases.

b. *The C&S Supply Agreements*

The Bruno's creditors' committee has also alleged that the fact of Bruno's entering into the Bruno's–C&S Supply Agreement with C&S in 2007 constituted a fraudulent transfer to the extent BI-LO received benefits from Bruno's entering into this contract because Bruno's allegedly did not receive reasonably equivalent value for it and was insolvent at the time or was rendered insolvent by the transaction. Prior to the Bruno's–C&S Supply Agreement, Bruno's had obtained groceries and goods under the 2005 supply agreement between BI-LO and C&S (the "Supply Agreement").

The Debtors believe that this claim is also without merit. First, Bruno's transferred nothing to BI-LO. The obligations Bruno's incurred under the Bruno's–C&S Supply Agreement were to C&S, and not to BI-LO,

and Bruno's transferred nothing to BI-LO in that connection or otherwise in the Spin-Off. Bruno's waived all claims against C&S in connection with Bruno's sale of all its stores to C&S's affiliate. Furthermore, prior to entering into the Bruno's–C&S Supply Agreement, Bruno's was already obligated to pay for its supply under the prior supply agreement. The Debtors believe that the allegation of fraudulent transfer is therefore without merit on its face.

Moreover, the Debtors note that BI-LO Holding, LLC and BI-LO executed the C&S Guaranty in favor of C&S with respect to purchases of groceries and merchandise by Bruno's under the Bruno's–C&S Supply Agreement. Thus, BI-LO was not fully relieved of its prior obligation to stand good for grocery purchases from C&S by Bruno's. Indeed, as noted, BI-LO paid approximately $5.98 million to C&S in March 2009 on behalf of Bruno's, when C&S demanded payment from BI-LO under its C&S Guaranty. In addition, as required by the Bruno's–C&S Supply Agreement, BI-LO procured an Irrevocable Standby Letter of Credit (No. SM233389W) dated December 2, 2008 and amended on December 5, 2008, December 10, 2008, and February 9, 2009, issued by Wachovia Bank, N.A. for the account of BI-LO to C&S for the benefit of Bruno's in the amount of $6.5 million. In June of 2009, C&S drew the full amount of that letter of credit. Contrary to the arguments made by the Bruno's creditors' committee, the Debtors believe that BI-LO has not avoided liability to C&S, but rather has financially supported Bruno's in having its own independent Bruno's–C&S Supply Agreement since March 2007.

c. *Preferential and/or Other Fraudulent Transfers*

The Bruno's creditors' committee asserts that payments to BI-LO of "at least $198,719,195" in the year prior to Bruno's filing its bankruptcy petition are "preferential transfers" that can be recovered under section 547 of the Bankruptcy Code, or are recoverable fraudulent transfers.

BI-LO has acknowledged that, indeed, there were transfers from Bruno's to BI-LO totaling $198,719,193[6] during that period. However, the Debtors note that the Bruno's creditors' committee has ignored the decisive fact that BI-LO transferred amounts totaling $203,356,673 to Bruno's during that same span of time. This was an intercompany account by which BI-LO loaned funds to Bruno's and Bruno's repaid BI-LO on a routine basis every week from the time of the March 2007 Spin-Off until Bruno's obtained its asset-based loan from Regions Bank in the summer of 2008. After netting payments to and from Bruno's during the one year prior to Bruno's bankruptcy petition, the Debtors believe that BI-LO was a net payor to Bruno's of approximately $4.6 million. Thus, the Debtors contend that not only should the Bruno's creditors' committee's claim with respect to the $198,719,193 be disallowed in its entirety, but, under the Bruno's creditors' committee's own analysis and argument, it is BI-LO which is owed money from Bruno's.

Furthermore, the Debtors believe that the payments from Bruno's to BI-LO are not avoidable as preferences because they fall under the exceptions set forth in Bankruptcy Code section 547(c)(2)(A) as being made in the ordinary course of business or financial affairs of the debtor and section 547(c)(4) as payments made for new value extended on an ongoing basis by BI-LO to Bruno's. The Debtors also believe that Bruno's was not insolvent during the relevant time period because after the Spin-Off, Bruno's had no bank debt whatsoever, and the Spin-Off gave Bruno's a good start in its separate existence, with net assets of over $57 million at that time.

Finally, the Debtors contend that Bruno's cannot properly claim it received "less than reasonably equivalent value" (one of the tests for a fraudulent conveyance) in exchange for any of the transactions with BI-LO following the Spin-Off. BI-LO provided substantial transition services and other beneficial acts for Bruno's, and it expected to be fairly compensated for them. Accordingly, BI-LO has filed its proof of claim in an amount in excess of $9.8 million (the first $2.25 million of which has been subordinated to all other creditors in the Bruno's chapter 11 case as discussed above).

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[6] BI-LO's calculation yielded a total that is $2 less than the Bruno's creditors' committee's calculations.

To the extent that the Bruno's Committee also urges other unspecified preference and fraudulent transfer claims, BI-LO denies the same. The Debtors believe that the dealings between BI-LO and Bruno's simply do not form a basis for preference and fraudulent transfer claims.

d. *Unjust Enrichment/ Money Had and Received/ Additional Preferences and Fraudulent Transfers.*

The Bruno's creditors' committee has also asserted that Bruno's has unspecified claims against BI-LO for improper distributions, unjust enrichment and/or money had and received, and for potential additional preference and fraudulent transfer claims based upon the cash management arrangement between BI-LO and Bruno's being commingled prior to the Spin-Off. BI-LO denies all these unspecified claims.

On August 31, 2009 the Debtors filed objections to the Bruno's and Bruno's creditors' committee proofs of claim. A hearing on the Debtors' objections to the claims is scheduled for December 29, 2009.

5. *The Bruno's Pension Fund Claims*

On August 11, 2009, the United Food and Commercial Workers Unions and Employers Pension Fund (the "Pension Fund") filed claims against each of the Debtors, alleging that the Debtors are members of the "controlled group" of organizations of Bruno's and, accordingly, are allegedly jointly and severally liable for "withdrawal liability" in the amount of $63,806,631.00 (the "Pension Fund Claims") that the Union Pension Fund asserts arise pursuant to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. §§ 1001, *et seq*., in connection with Bruno's liquidation sale in its bankruptcy case.

On August 31, 2009, the Debtors filed an objection to the Pension Fund Claims (the "Original Objection") [Docket No.1367]. On September 14, 2009, the Debtors filed their First Supplement to their objections (the "First Supplement", and together with the Original Objection, the "Pension Fund Claims Objection") [Docket No. 1415]. In the Pension Funds Claims Objection, the Debtors assert that they are not a member of the "controlled group" of organizations of Bruno's, and thus are not liable for any of the asserted withdrawal liability.

On September 30, 2009, the Union Pension Fund filed its response to the Debtors' Pension Fund Claims Objection (the "Response") [Docket No. 1484]. On September 30, 2009, the Union Pension Fund also filed a motion to compel arbitration of the Pension Fund Claims, or alternatively, for relief from the automatic stay to allow them to pursue arbitration (the "Union Pension Fund Motion") [Docket No. 1489].

On October 10, 2009, the Debtors timely filed their objection to the Union Pension Fund Motion and argued, among other things, that (a) arbitration is neither required, given that the dispute concerns an issue that falls within the "core" jurisdiction of the Bankruptcy Court, nor prudent, given the nature of the dispute and the size of the claims; and (b) sufficient cause does not exist to lift the automatic stay. A hearing on the Union Pension Fund Motion is scheduled for January 6, 2010.

6. *Litigation Claims*

The nature of the Debtors' businesses is such that they are from time to time named as defendants in litigation, particularly resulting from "slip and fall" and other similar incidents occurring in their operating locations. As a result of the commencement of these chapter 11 cases, all litigation pending against the Debtors was automatically stayed pursuant to section 362 of the Bankruptcy Code. As of the date of this Disclosure Statement, four requests have been made for relief from the automatic stay. The Debtors estimate that, as of the date of this Disclosure Statement, approximately 150 prepetition litigation claimants asserting claims in the aggregate amount of approximately $16 million have not yet settled or liquidated their claims.

The Debtors anticipate that, ultimately, liability on these claims in the aggregate will be significantly less than the amounts asserted by the plaintiffs.

J. Causes of Action Created by the Bankruptcy Code Belonging to the Debtors' Estates

In addition to rights to sue third parties (generally referred to as "causes of action") that the Debtors' estates may have under other state and federal laws, the Bankruptcy Code creates certain causes of action that allow the Debtors to recover certain transfers (i.e., those determined to be "preferences" and "fraudulent conveyances") they made prior to the Commencement Date, as described below.

1. *Preferences*

A debtor may recover a transfer of property it made prior to its bankruptcy filing if that transfer was: (a) in payment of a pre-existing debt; (2) allowed the transferee to receive more than it would have received had the transfer not been made and the debtor had been liquidated under chapter 7 of the Bankruptcy Code; and (c) made during the 90 days immediately prior to its bankruptcy filing (or, if the transferee was an insider, during the one year immediately prior to the bankruptcy filing).

There are certain statutory defenses to preference actions. A transfer made in the ordinary course of the debtor's and transferee's business and according to ordinary business terms may not be recoverable. Furthermore, if the transferee gave, subsequent to the transfer, new value to the debtor (and for which the transferee was not paid), the new value constitutes an offset against the amount of any recovery. If a transfer is recovered by the debtor, the transferee has a general unsecured claim against the debtor to the extent of the recovery.

2. *Fraudulent Transfers*

Under the Bankruptcy Code and under various state laws, a debtor may recover a transfer of property it made while insolvent or that rendered it insolvent if and to the extent the debtor received less than reasonably equivalent value for such property. Transfers made up to six years prior to the bankruptcy filing may be recovered under some state statutes.

3. *Transfers By the Debtors*

The Debtors' Schedules are required to include a listing of payments the Debtors made in the 90 days immediately preceding the Commencement Date, as well as a listing of all payments to insiders. The Debtors have conducted an analysis of potential preferences paid to their vendors in connection with approval of the 503(b)(9) Program, and for their landlords in connection with the preference waiver granted to landlords in exchange for extensions of time period to assume or reject Leases pursuant to section 365(d)(4) of the Bankruptcy Code. Other than these analyses, no analysis of the other payments has been made at this time.

Accordingly, the Debtors cannot estimate potential recoveries, if any, from possible litigation surrounding such payments, if any. Under the Plan, certain causes of action related to preferences and fraudulent conveyances will be transferred to the creditors trust proposed under the Plan, unless those causes of action are released or otherwise resolved before the Effective Date or under the Plan.

III. LEGAL REQUIREMENTS FOR CONFIRMATION OF A PLAN

Nothing in the following discussion is intended to convey legal advice, or provide a comprehensive explanation of the applicable statutes, rules, or case law. It is provided solely for the purpose of explaining why the proponents of the Plan believe it can be confirmed. You are urged to consult with your own lawyer for any advice or explanation of this area of law which is highly specialized and complex.

A. Section 1129 of the Bankruptcy Code

At the hearing to begin on [_______, 2010] to consider confirmation of the Plan, the Bankruptcy Court will determine whether the requirements for confirmation contained in section 1129 of the Bankruptcy Code have been satisfied. The legal requirements relevant in the Debtors' cases for confirmation are summarized as follows:

- The plan must comply with the applicable provisions of the Bankruptcy Code.
- The proponents of the plan must comply with the applicable provisions of the Bankruptcy Code.
- The plan must be proposed in good faith and not by any means forbidden by law.
- Any payment made or promised under the plan for services or for costs and expenses in, or in connection with, the chapter 11 cases, or in connection with the plan and incident to the chapter 11 cases, must be disclosed to the Bankruptcy Court, and any such payment must be approved by the Bankruptcy Court as reasonable.
- Each holder of an impaired claim or equity interest must accept the plan, or receive a recovery under the plan that is at least equal to the amount that the holder would receive if the Debtors were liquidated on that date under chapter 7 of the Bankruptcy Code. This test is known as the "best interests" test.
- Each class of claims or equity interests that is entitled to vote on the plan has either accepted the Plan or is not impaired under the plan, or the plan can be confirmed without the approval of each class pursuant to the "cram down" provisions of section 1129(b) of the Bankruptcy Code requiring that (a) at least one impaired class of creditors has voted to accept the plan, (b) the plan "does not discriminate unfairly," and (c) the plan is "fair and equitable" to non-accepting classes. These two terms are discussed in greater detail below as they relate to creditors. The Debtors intend to seek confirmation of the Plan under these cram down provisions.
- Except to the extent that the holder of a claim will agree to a different treatment, the plan must provide for the full payment of administrative and priority claims in full on the plan's effective date, or as soon thereafter as practicable.
- At least one class of impaired claims must vote to accept the plan, without counting the votes of insiders holding claims in that class.
- The plan must be feasible, meaning that after the plan is confirmed, it is not likely to be followed by a liquidation, or the need for further reorganization.
- All fees of the type described in 28 U.S.C. § 1930, including the fees of the United States Trustee, must be paid as of the effective date of the plan.

The Debtors believe that the Plan will satisfy these requirements for confirmation, and the Official Creditors' Committee and the Term Lender Committee believe that the Creditors' Plan will satisfy these requirements. Each side has reserved the right to argue that the other's plan does *not* satisfy the requirements.

B. Best Interests Test/Best Interests Analysis

The first step in meeting the best interests test is to determine the proceeds that the hypothetical liquidation of a debtor's assets and properties would generate in the context of a chapter 7 liquidation. The gross amount available would be the sum of the proceeds from liquidating the debtor's assets plus the cash held by the

debtor at the time the hypothetical chapter 7 case is commenced. The amount of any claims secured by these assets, the costs and expenses of the liquidation, and any additional administrative expenses and priority claims that may result from the termination of the debtor's businesses and the use of chapter 7 for the purposes of a hypothetical liquidation would reduce the amount of these proceeds. Any remaining net cash would be allocated to creditors and equity interest holders in strict priority in accordance with section 726 of the Bankruptcy Code.

The Debtors' management, with the assistance of APS, has prepared a best interests analysis on the Debtors' behalf, which is attached as Exhibit 4 to this Part A of the Disclosure Statement (the "Best Interests Analysis"). The Best Interests Analysis is based upon projected assets and liabilities of the Debtors as of the effective date of a plan (assumed to be [March 1], 2010). It incorporates estimates and assumptions developed by the Debtors, which are subject to potentially material changes with respect to economic business conditions, as well as uncertainties not within the Debtors' control.

C. The "No Unfair Discrimination" and "Fair and Equitable" Requirements for Cram Down

In general, a plan does not discriminate unfairly if it treats a class substantially equivalent to how other classes that have equal legal rights are treated. Courts will take into account a number of factors in determining whether a plan discriminates unfairly, including the effect of applicable subordination agreements between parties. Accordingly, a plan could treat two classes of unsecured creditors differently without unfairly discriminating against either class.

Generally speaking, the requirement that a plan be "fair and equitable" to a non-accepting class of secured claims means that the secured creditor must receive the full value of its collateral under a plan, either through cash payment, the sale of the collateral, or receipt of the "indubitable equivalent" of its collateral (this usually means giving the collateral to the creditor).

The requirement that a plan be "fair and equitable" with respect to a non-accepting class of unsecured creditors means that those creditors must be paid in full if any junior creditor or equity interest holder is to receive a distribution under the terms of the plan.

IV. RISK FACTORS COMMON TO BOTH PLANS [SHOULD BE MOVED TO PART B]

Competition

The food retailing business is highly competitive. Supermarket chains generally compete on the basis of location, quality of products, service, price, product variety and store condition. The Debtors compete with several national, regional and local supermarket chains, including Wal-Mart, as well as similar supercenters and other non-traditional grocery retailers such as dollar discount stores, drug stores, convenience stores, warehouse club stores and conventional department stores.

Heightened competition could include the intensification of price competition, the entry of new competitors and the expansion, renovation and opening of new stores by new and existing competitors. If the Debtors or Reorganized Debtors fail to successfully respond to competitive pressures in this industry, or to effectively implement their strategies to respond to these pressures, their operating results may be negatively affected.

Some of the Debtors' principal competitors have greater financial resources than the Debtors and either have or may in the future use those resources to take steps which may have an adverse effect on the Debtors' competitive position and financial performance.

Geographic Concentration

The Debtors operate in the southeastern United States. The Debtors may be adversely effected by a decline in economic conditions, or a natural or other catastrophic event, that impacts this region.

C&S Supply Relationship; Dependency on Suppliers

C&S supplies approximately 70% of the Debtors' merchandise. Any material change in C&S's method of operation or a termination or material modification of the Debtors' contractual relationships with C&S could have an adverse impact on the Debtors' supply chain, sales, and earnings. If the supply contract with C&S is terminated, the Debtors may be unable to locate alternative, comparable sources from which to purchase its retail merchandise, which could increase their costs and adversely affect their operations. Moreover, if there is a comparable replacement for C&S, a change in suppliers could cause a delay in distribution and a possible loss of sales, which would affect operating results adversely.

Cardinal provides the Debtors with its prescription and over-the-counter drugs, comprising approximately 10% of the Company's merchandise. In addition to C&S and Cardinal, approximately 500 other vendors and third party food manufacturers deliver the remaining 20% of the Debtors' merchandise directly to their stores. Any interruption in the ability of the Debtors to obtain merchandise and secure the delivery of such merchandise to its stores could materially and negatively impact the results of their operations. Any adverse change to the terms on which the Debtors obtain merchandise and the delivery thereof could also materially and negatively impact the results of their operations.

Extended time in Chapter 11 Could Be Damaging

Continuing the chapter 11 cases, if no plan is confirmed in the time frame currently contemplated, could further adversely affect the Debtors' relationship with their customers, suppliers and employees.

Dependencies on Leasehold Properties

The Debtors lease substantially all of their stores. Loss of leases or the inability to renew leases at reasonable rental rates could have a material adverse affect on the Debtors' business. Furthermore, after emergence from chapter 11, the Debtors' leases will typically provide for multiple year durations, which decreases the Debtors' flexibility in closing any stores that may subsequently become under-performing.

Financial Forecasts Are Fundamentally Uncertain.

Forecasts that assume the Plan is confirmed are attached as Exhibit III to Part B of this Disclosure Statement. The forecasts are dependent upon the validity of the assumptions underlying the projections. These forecasts are intended to illustrate the estimated effects of the Plan, and the related transactions, on the results of operations, cash flow, and financial position of the Reorganized Debtors for the periods indicated. The reorganized Debtors' future operating results are subject to and likely to be affected by a number of factors, including significant business, economic, regulatory and competitive uncertainties, many of which are beyond the control of the Debtors. Accordingly, actual results may vary materially from those shown in either set of forecasts.

The financial forecasts were not prepared with a view towards public disclosure other than in this Disclosure Statement, or with a view towards complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. Neither the Debtors nor the Official Creditors' Committee and Term Lender Committee intend to update or otherwise revise their respective financial forecasts to reflect events or circumstances existing or arising after the date of this Disclosure Statement,

or to reflect the occurrence of unanticipated events. Each of the Debtors, on the one hand, and the Official Creditors' Committee and Term Lender Committee on the other hand, believe that their respective financial forecasts were prepared on a reasonable basis and represent a reasonable view of the expected future financial performance of the Reorganized Debtors after the Effective Date. Nevertheless, the financial forecasts should not be regarded as a representation or assurance by anyone that the forecasts will be achieved. Parties in interest are therefore cautioned not to place undue reliance on them.

Historical Financial Information Will Not Be Comparable.

As a result of the consummation of either the Plan, the Reorganized Debtors will operate under a new capital structure. In addition, the Reorganized Debtors will be subject to the fresh start accounting rules. Accordingly, the financial condition and results of the Reorganized Debtors' operations from and after the effective date of any plan will not be comparable to the financial condition or results of operations reflected in the Debtors' historical financial statements.

Dated: December 20, 2009

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By its counsel:

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<u>EXHIBIT 1</u>

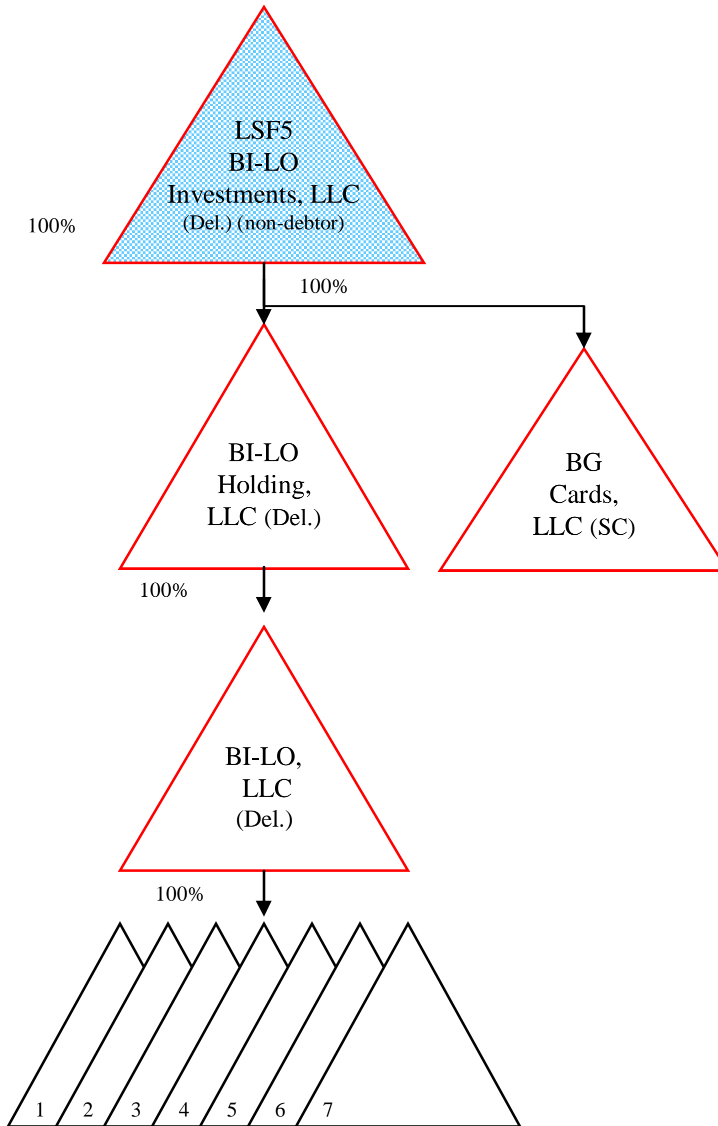
Disclosure Statement Order

(to be provided)

EXHIBIT 2

Corporate Ownership Chart

BI-LO Organization Structure



7 Delaware LLC Subsidiaries

1. ARP Ballentine LLC
2. ARP James Island LLC
3. ARP Moonville LLC
4. ARP Chickamauga LLC
5. ARP Morganton LLC
6. ARP Hartsville LLC
7. ARP Winston Salem LLC

EXHIBIT 3

Selected Historical Financial Information
(to be provided)

EXHIBIT 4

Best Interests Analysis

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PRELIMINARY DRAFT

[DRAFT – FIGURES SUBJECT TO UPDATE]

LIQUIDATION ANALYSIS

A Chapter 11 Plan cannot be confirmed unless it is in the 'best interest' of all holders of claims and interests that are impaired by the plan and that have not accepted the plan. The 'best interests' test is satisfied if a plan provides to each member who has not accepted the plan with a recovery of property of a value, as of the effective date of the plan, that is not less than the amount that such holder would recover if the debtor were liquidated under a Chapter 7 of the Bankruptcy Code.

Conversion to Chapter 7 would likely result in additional cost to the Estate. Costs of liquidation under Chapter 7 of the Bankruptcy Code would include the compensation of a trustee, as well as of counsel and other professionals retained by the trustee, asset dispositions expenses, all unpaid expenses incurred by the debtor in its bankruptcy case (such as compensation of attorneys, financial advisors, and restructuring consultants) that are allowed in the Chapter 7 case, litigation costs, and claims arising from the operations of the debtor during the pendency of the bankruptcy case.

The following is a summary of the estimated recoveries for claimants in a hypothetical liquidation commencing January 4, 2010 under Chapter 7 of the Bankruptcy Code.

($ in thousands)	Estimated Allowable Claims		Estimated Recovery Range		Estimated Recovery Range	
	Low	High	Low	High	Low	High
Net Estimated Proceeds Available For Unsecured Claims			**$0**	**$0**		
Adjusted trade payables (pre-petition)	$13,702	$13,702	$0	$0	0%	0%
Term loan unsecured portion (a)	0	0	0	0	0%	0%
Term loan interest	0	0	0	0	0%	0%
C&S charges (b)	0	0	0	0	0%	0%
C&S contract rejection claims (b)	50,000	75,000	0	0	0%	0%
C&S/Bruno's guaranty on supply contract (b)	60,000	70,000	0	0	0%	0%
Store Lease rejections (already rejected)	31,064	31,064	0	0	0%	0%
Store Lease rejections (operating store leases not sold) (c)	88,602	88,602	0	0	0%	0%
Store lease rejections (3 dark stores)	1,686	1,686	0	0	0%	0%
Mauldin facility lease rejection	16,274	16,274	0	0	0%	0%
Bruno's workers compensation	0	0	0	0	0%	0%
General liability claims	2,389	2,389	0	0	0%	0%
Pension	1,242	1,242	0	0	0%	0%
Other unsecured/severance (d)	594	594	0	0	0%	0%
Executory contract claims (ex C&S)	7,000	9,000	0	0	0%	0%
SFM related claims	7,514	7,514	0	0	0%	0%
Misc. employee claims	149	149	0	0	0%	0%
Misc. contract claims	134	134	0	0	0%	0%
Uncategorized	36	36	0	0	0%	0%
Total (e)	$280,386	$317,386	$0	$0	0%	0%
Net Estimated Proceeds Available For Equity Interest			**$0**	**$0**		

Notes:
(a) The Analysis assumes the Term Lenders are fully secured although no judicial determination has been made to that effect.
(b) Assumes amounts due to C&S per contract are paid in pd 12 FY2009. Priority of C&S rejection claims are assumd to be unsecured pre-petition, although no judicial determination has been made to that effect.
(c) Lease rejection claims on 124 operating store leases not assumed and assigned (sold) in the GOB Sale. 13 assumed operating leases are assumed to be sold.
(d) Amounts include executive severance only and does not include severance related to the GOB Sale.
(e) No assumption made for claims against the estate related to Bruno's.

The accompanying appendix is an integral part of this Analysis

[DRAFT – FIGURES SUBJECT TO UPDATE]

APPENDIX
LIQUIDATION ANALYSIS

OVERVIEW AND LIQUIDATION PERIOD

Attached is the Best Interests Analysis (the *"Analysis"*) of BI-LO Holding, LLC and its 9 subsidiaries in bankruptcy proceedings (collectively *"BI-LO"*, the *"Company"* or the *"Debtors"*). The Analysis was prepared as if the Debtors were substantively consolidated. Although the Analysis was prepared after the deadline for filing claims against the estates of the Debtors, those claims have not been fully evaluated by the Company or adjudicated by the court and, accordingly, the amount of the final allowed claims against the estates may differ from the claim amounts used in this Analysis. Finally, the Analysis is based on a liquidation commencing January 4, 2010 (except as indicated) and the actual amount of assets available to the estates as of the date of liquidation may differ from the amount of assets used in this Analysis.

Management of the Company, with the assistance of its financial advisors, prepared the Analysis. The Analysis presents management's estimated net value of the Company's assets if the Debtors were to be liquidated under the provisions of Chapter 7 of the United States Bankruptcy Code (the *"Code"*) and the net proceeds of the liquidation were to be applied in strict priority to satisfy claims against the Debtors. The Analysis is based on the Debtors' consolidated and unaudited preliminary balance sheet as of October 10, 2009, and is predicated on the assumption that the Debtors' liquidation commences on January 4, 2010. The Analysis assumes that the actual October 10, 2009 balance sheet, with certain roll forward adjustments, is a reasonable proxy for the January 4, 2010 balance sheet. The Analysis does not include recoveries resulting from any potential preference claims, fraudulent conveyance litigation or other avoidance actions.

The purpose of the Analysis is to provide information in order that the Bankruptcy Court may determine that the Plan of Reorganization ("*POR*") is in the best interests of all classes of creditors and equity interest holders impaired by the plan. The "best interests" test requires that the Bankruptcy Court find that the Plan provides to each member of each impaired class of claims and interests a recovery that has a value at least equal to the value of the distribution each member would receive if the Debtors were liquidated under Chapter 7 of the Code. The Analysis was prepared to assist the Bankruptcy Court in making this determination, and it should not be used for any other purpose. The presentation utilized in this Analysis is not designed for those who are not informed about such matters.

The Analysis is limited to presenting information that was the representation of management and does not include an evaluation of the support for the underlying assumptions. The Analysis has not been examined or reviewed by independent accountants in accordance with standards promulgated by the American Institute of Certified Public Accountants. The estimates and assumptions, although considered reasonable by management, are inherently subject to significant uncertainties and contingencies beyond the control of management. Accordingly, there can be no assurance that the results shown would be realized if the Company were liquidated and actual results in such case could vary materially from those presented. If actual results were lower than those shown, or if the assumptions used in formulating the Analysis were not realized, distribution to each member of each class of claims could be adversely affected.

[DRAFT – FIGURES SUBJECT TO UPDATE]

APPENDIX
LIQUIDATION ANALYSIS

OVERVIEW AND LIQUIDATION PERIOD (CONT'D)

For purposes of this Analysis, management assumes a liquidation would require three phases and would take place over twelve months.

Phase I would comprise a one and a half month period during which inventories would be sold in a lawful going-out-of-business sale ("*GOB Sale*") conducted by a third-party. In addition, during this time the Company would market and sell its leases and pharmacy scripts. By the end of the GOB Sale substantially all store and field associates would be terminated. During Phase I, certain headquarters associates would be terminated including, for instance, staff of merchandising, merchandise finance, advertising, stores operations, loss prevention, maintenance, accounts payable, training and communications.

Phase II would comprise the next four and half months (some of the activities completed in Phase II would actually have started in Phase I). During Phase II, the Company's real estate and non-real estate fixed assets would be marketed and sold. In addition, headquarters operations would continue to wind-down and most remaining headquarters associates would be terminated. Certain headquarters personnel, such as staff in legal, finance & accounting, treasury, collections, information technology, tax, human resources and real estate would be retained as necessary to support Phase III.

Phase III would comprise a six month period after completion of Phase II during which any remaining litigation would be pursued, final tax returns filed, bankruptcy court reports and schedules filed and remaining assets disposed.

Certain assets and liability balances are assumed to change during the GOB Sale and their recovery assumptions are based on February 15, 2010 balances (the date the retail operations are assumed to cease).

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PRELIMINARY DRAFT

[DRAFT – FIGURES SUBJECT TO UPDATE]

APPENDIX
LIQUIDATION ANALYSIS
($ in thousands)

I. Calculation of Estimated Net Proceeds Available for Unsecured Creditors

($ in thousands)	See Note	Estimated Book balance 1/4/2010	Estimated Recovery Rate Range		Estimated Recoveries	
			Low	High	Low	High
A. STATEMENT OF ASSETS						
Cash and equivalents	A	$32,343	100%	100%	$32,343	$32,343
Cash recovery on letter of credit draw (a)	A	24,634	90%	90%	22,280	22,280
Accounts receivables (b)	B	13,315	69%	82%	9,211	10,903
Inventories	C	170,445	52%	102%	88,711	174,601
Prepaid expenses & other current assets	D	16,302	41%	43%	6,622	6,972
Receivable - related party	E	1,837	0%	0%	0	0
Income tax receivable	F	775	100%	100%	775	775
Deferred income taxes	G	8,273	0%	0%	0	0
Property and equipment, net	H	417,280	6%	12%	25,397	49,343
Intangible assets, net	I	141,186	0%	7%	0	10,000
Other assets	J	4,841	17%	17%	827	827
Total Assets		$831,230	22%	37%	$186,166	$308,044
B. SALE OF LEASES	K				40,185	48,735
C. SALE OF RX SCRIPTS	L				5,429	9,048
D. GROSS PROCEEDS					231,780	365,827
E. CREDITOR RECOVERY EXPENSES						
Professional fees & US Trustee Fees	M				(5,382)	(5,382)
Trustee Fees - 3% of Gross Proceeds	N				(6,953)	(10,975)
Corporate Severance	O				(12,056)	(12,056)
Retail Severance	P				(26,887)	(26,887)
Wind Down Related Payroll and Benefits	Q				(11,697)	(11,697)
Corporate Retention Bonus	R				(4,679)	(4,679)
Retail Associates GOB Retention Bonus	S				(2,700)	(2,700)
Other Wind Down Costs	T				(5,828)	(5,828)
C&S Wind Down Costs (c)					0	0
Total Creditor Recovery Expenses					(76,182)	(80,203)
Net Estimated Proceeds Available For Secured/Admin. & Priority Claims					**$155,598**	**$285,624**

	Estimated Allowable Claims					
F. SECURED/ADMINISTRATIVE & PRIORITY CLAIMS (d)	Low	High				
DIP loan (e)	(61,634)	(68,634)	100.0%	100.0%	(61,634)	(68,634)
Term loan	(259,987)	(259,987)	36.1%	83.5%	(93,964)	(216,990)
Professional fees - unpaid at emergence	(10,000)	(15,000)	0.0%	0.0%	0	0
503(b)(9) claims	0	0			0	0
Reclamation claims (f)	0	0			0	0
Administrative and Priority claims						
BI-LO Lease Cure Costs (g)	(2,371)	(2,371)	0.0%	0.0%	0	0
Accounts payable (b)	(3,615)	(3,615)	0.0%	0.0%	0	0
Accrued payroll and related expenses	(30,792)	(30,792)	0.0%	0.0%	0	0
Other accrued expenses	(64,380)	(64,380)	0.0%	0.0%	0	0
Liabilities of discontinued ops.	(681)	(681)	0.0%	0.0%	0	0
Other long term liabilities	(3,020)	(3,020)	0.0%	0.0%	0	0
Incremental medical claims	(4,000)	(4,000)	0.0%	0.0%	0	0
Unaccrued FY2009 bonuses	(3,200)	(3,200)	0.0%	0.0%	0	0
Total Administrative and Priority claims	(112,058)	(112,058)	0.0%	0.0%	0	0
Total Secured/Administrative and Priority Claims	(443,679)	(455,679)	35.1%	62.7%	(155,598)	(285,624)
Net Estimated Proceeds Available For Unsecured Claims					**$0**	**$0**

Notes:

(a) Cash recovery on $24.6mm letter of credit draw (cash collateralization) after settlement of secured claims.
(b) Estimated accounts receivable and accounts payable book balances are $56.9mm and $42.1mm, respectively. Trade accounts receivable balance is assumed to partially offset the accounts payable balance at January 4, 2010 ($38.5mm) and pre 503(b)(9) marketing monies are used to offset pre-petition payables ($5.0mm).
(c) Analysis does not included estimated C&S wind down expenses after liquidation announcement on January 4, 2010.
(d) In the event of a proceeds shortfall, claims paid in accordance with absolute priority rule.
(e) DIP loan balance includes a $24.6mm letter of credit draw (cash collateralization).
(f) The Bankruptcy Court in South Carolina has previously upheld the "Priming Lien" defense.
(g) Cure costs on 90 leases assumed and assigned (sold) to third parties.

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APPENDIX
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($ in thousands)

II. Calculation of Estimated Net Proceeds Available for Unsecured Creditors and Equity Interests

($ in thousands)	See Note	Estimated Allowable Claims		Estimated Recovery Range		Estimated Recovery Range	
		Low	High	Low	High	Low	High
G. **Net Estimated Proceeds Available For Unsecured Claims**				**$0**	**$0**		
Adjusted trade payables (pre-petition)		$13,702	$13,702	$0	$0	0%	0%
Term loan unsecured portion (a)		0	0	0	0	0%	0%
Term loan interest		0	0	0	0	0%	0%
C&S charges (b)		0	0	0	0	0%	0%
C&S contract rejection claims (b)		50,000	75,000	0	0	0%	0%
C&S/Bruno's guaranty on supply contract (b)		60,000	70,000	0	0	0%	0%
Bruno's UCC claim		0	0	0	0	0%	0%
Store Lease rejections (already rejected)		31,064	31,064	0	0	0%	0%
Store Lease rejections (operating store leases not sold) (c)		88,602	88,602	0	0	0%	0%
Store lease rejections (3 dark stores)		1,686	1,686	0	0	0%	0%
Mauldin facility lease rejection		16,274	16,274	0	0	0%	0%
Bruno's workers compensation		0	0	0	0	0%	0%
General liability claims		2,389	2,389	0	0	0%	0%
Pension		1,242	1,242	0	0	0%	0%
Other unsecured/severance (d)		594	594	0	0	0%	0%
Executory contract claims (ex C&S)		7,000	9,000	0	0	0%	0%
SFM related claims		7,514	7,514	0	0	0%	0%
Misc. employee claims		149	149	0	0	0%	0%
Misc. contract claims		134	134	0	0	0%	0%
Uncategorized		36	36	0	0	0%	0%
Total (e)		$280,386	$317,386	$0	$0	0%	0%
H. **Net Estimated Proceeds Available For Equity Interest**				**$0**	**$0**		

Notes:
(a) The Analysis assumes the Term Lenders are fully secured although no judicial determination has been made to that effect.
(b) Assumes amounts due to C&S per contract are paid in pd 12 FY2009. Priority of C&S rejection claims are assumd to be unsecured pre-petition, although no judicial determination has been made to that effect.
(c) Lease rejection claims on 124 operating store leases not assumed and assigned (sold) in the GOB Sale. 13 assumed operating leases are assumed to be sold.
(d) Amounts include executive severance only and does not include severance related to the GOB Sale.
(e) No assumption made for claims against the estate related to Bruno's.

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($ in thousands)

NOTE A: CASH AND EQUIVALENTS

The Analysis assumes that operations during the liquidation period would not generate additional cash available for distribution except for the net proceeds from the disposition of non-cash assets. Cash and equivalents include cash-on-hand balances, highly liquid short term investments and cash due from banks for third party credit and debit cards. Estimated cash and equivalents as of January 4, 2010 of approximately $32.3mm, net of $2.0mm in outstanding checks. It is assumed the cash and equivalents held in the accounts of all Debtors are fully collectible. In addition, the Analysis assumes a $24.6mm letter of credit draw to cash collateralize potential issuer obligations. After settlement of secured claims, management estimates a $22.3mm cash recovery.

NOTE B: ACCOUNTS RECEIVABLE

Accounts receivable primarily include amounts due from vendors and from third party insurance companies. Accounts receivable are carried at estimated net realizable value.

Trade receivables represent allowances for which the Company has fulfilled its contractual obligations but has not yet received payment from the vendor. Allowances are received for a variety of merchandising activities such as placement of the vendor's products in the Company's advertising or placement of a vendor's product in prominent locations. Estimated trade receivables at January 4, 2010 are [$43.5mm], of which [$38.5mm] are set off against estimated accounts payable and [$5.0mm] of pre 503(b)(9) marketing monies are set off against pre-petition accounts payables. The recovery for trade receivables is assumed to have a low and high recovery of 70% and 80%, respectively, based on management’s experience and data points from a Southeastern grocery store chain best interest analysis prepared in 2006 (“*Grocery Analysis*”).

Pharmacy receivables include amounts due from third-party insurance companies in connection with filling prescriptions. The recovery for pharmacy receivables is assumed to have a low and high recovery of 80% and 90%, respectively, based on the borrowing base advance rate, historical experience and the Grocery Analysis.

Other Receivables represent third party collections and have varying degrees of estimated collectability. The recovery for other receivables is assumed to have a low and high recovery of 40% and 60%, respectively, based on the Grocery Analysis.

($ in thousands)		Recovery Rate Range		Estimated Proceeds Range	
Accounts Receivable	Estimated Book balance as of 1/4/10	Low	High	Low	High
Trade Receivables, net (a)	$0			$0	$0
Pharmacy Receivables, net	9,713	80%	90%	7,771	8,742
Other Receivables	3,601	40%	60%	1,441	2,161
Total Accounts Receivable	$13,315			$9,211	$10,903

Notes:
(a) Estimated book balance, net is $43.5mm. $38.5mm is assumed to offset accounts payable at January 4, 2010 and $5.0mm of marketing monies attributable to the period prior to 20 days before to the petition date are used to offset pre-petition payables.

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NOTE C: INVENTORIES

Merchandise inventories are assumed to be disposed of through a lawful "going-out-of-business sale" commencing January 4, 2010 with no restrictions on the Company's ability to aggressively advertise the sale as a "going-out-of-business sale". The GOB Sale would be conducted by a third party and take place over a one and a half month period. The sale assumptions below reflect the Company's best estimates for a mass store liquidation. The Low Recovery scenario reflects a lowered net recovery resulting from deeper discounts and increased direct expense. The High Recovery scenario reflects a higher net recovery resulting from less discounting and decreased direct expenses. For purposes of the Analysis, merchandise inventory is the expected inventory balance at cost as of January 4, 2010.

($ in thousands)

Estimated Merchandise Inventories at Cost at 1/4/10 (a)	197,393
Add: Inventory Received after 1/4/2010 (b)	6,939
Add: C&S Warehouse inventory sell down after 1/4/2010 (c)	75,000
GOB Sale Merchandise Inventories at Cost	279,332
Assumed Selling Value of Merchandise Inventories	$380,044
Assumed Selling Value Gross Margin	26.5%

	Baseline GOB Sale	Low Recovery		High Recovery	
Merchandise Inventory @ Retail	100.0%	$380,044	100.0%	$380,044	100.0%
Sales (Gross Recovery)	80.0%	266,031	70.0%	342,040	90.0%
Payments for inventory received after 1/4/2010	21.6%	81,939	21.6%	81,939	21.6%
Store Direct Expenses:					
Labor	12.0%	46,391	12.2%	44,871	11.8%
Supplies	0.4%	2,398	0.6%	877	0.2%
Utilities	1.5%	6,536	1.7%	5,016	1.3%
Other	0.5%	2,677	0.7%	1,157	0.3%
Repair & Maintenance	0.5%	2,789	0.7%	1,269	0.3%
Occupancy	3.7%	14,942	3.9%	13,421	3.5%
Advertising (d)	1.5%	6,461	1.7%	4,941	1.3%
Misc. expenses	1.2%	5,207	1.4%	3,686	1.0%
Total Store Direct Expenses	21.4%	87,400	23.0%	75,239	19.8%
Liquidation Fees (e)	2.4%	7,981	2.1%	10,261	2.7%
Total GOB Expenses	45.4%	177,320	46.7%	167,439	44.1%
Estimated Cash Proceeds From Sale	34.6%	$88,711	23.3%	$174,601	45.9%

Notes:

(a) Inventory at cost amount excludes LIFO reserve ($16.1mm) and deferred volume incentive ($10.8mm).
(b) Items such as bread and milk kept in stock to facilitate successful GOB Sale.
(c) Inventory in C&S warehouse at time of liquidation commencement.
(d) Advertising expense increased beyond normal run rate by 0.5% to account for incremental GOB Sale advertising efforts.
(e) Assumed to be 3% of gross recovery in low and high recovery cases.

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NOTE D: PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid Expenses and Other Current Assets is comprised of variety of accounts, the most sizeable being vendor deposits, rent, taxes, insurance, utility deposits and software maintenance.

Vendor deposits represent amounts paid to Pepperidge Farm ($195k) in February 2009 prior to the Company's Chapter 11 bankruptcy filing. These deposits are assumed to be fully collectible.

Prepaid rent represents amounts paid to landlords in advance of a rental period. The Company's rent payments are typically made on the 1st of the month to cover the current month. One and a half months of GOB Sale occupancy costs are contemplated in Note C. The recovery for prepaid rent is assumed to be 50% based on management estimates. The less than full recovery is due to the assumption that approximately 50% of store base would require an extra month of rent expense to facilitate cleaning/closing.

Prepaid taxes represent franchise taxes typically paid in advance of a tax year that are reconciled and cleared upon the filing of tax returns. Amounts due to the Company are assumed to be fully collectible.

Prepaid insurance is comprised of premiums paid for property/casualty, workers compensation and general liability insurance in advance of coverage periods. The recovery for prepaid insurance is assumed to have a low and high recovery of [40%] and [60%], respectively.

Utility deposits represent negotiated post-petition deposit amounts (~1 month service) paid to the Company's utility providers. One and a half months of GOB Sale utility costs are contemplated in Note C. The recovery for utility deposits is assumed to be 50% based on management estimates. The less than full recovery is due to the assumption that approximately 50% of store base would require an extra month of utility expense to facilitate cleaning/closing.

Software maintenance represents amounts paid to information technology service providers to monitor and maintain the Company's mainframe computer infrastructure. The recovery for prepaid software maintenance is assumed to have no recovery based on management's experience.

Other prepaid expenses and current assets are comprised of a variety of smaller balances and include such items as store related supplies. The recovery for other prepaid expenses and current assets assumed to have no recovery.

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NOTE D: PREPAID EXPENSES AND OTHER CURRENT ASSETS (CONT'D)

($ in thousands) Prepaid Expenses and Other Current Assets	Estimated Book Balance as of 1/4/2010	Recovery Rate Range		Estimated Proceeds Range	
		Low	High	Low	High
Vendor deposits	$195	100%	100%	195	$195
Rent (a)	6,115	50%	50%	3,057	3,057
Taxes	1,220	100%	100%	1,220	1,220
Insurance	1,751	40%	60%	700	1,050
Utility deposits (b)	2,899	50%	50%	1,450	1,450
Software maintenance	2,408	0%	0%	0	0
Other	1,714	0%	0%	0	0
Total prepaid expenses and other current assets	$16,302			$6,622	$6,972

Notes:
(a) 1.5 months of GOB Sale occupancy costs are contemplated in Note C. The less than full recovery above is due to the assumption that approximately 50% of store base would require an extra month of rent to facilitate cleaning/closing.
(b) 1.5 months GOB Sale utility costs are contemplated in Note C. The less than full recovery above is due to the assumption that approximately 50% of store base would require an extra month of utility expense to facilitate cleaning/closing.

NOTE E: RECEIVABLE – RELATED PARTY

Receivable – related party represents amounts due to the Company from Bruno's arising from past transactions. Bruno's filed for protection under Chapter 11 of the Code in February 2008. While the Debtor has filed and is pursuing its claim against the Bruno's estate, the recovery of such an amount is too uncertain to estimate at this time.

($ in thousands) Receivable - related party	Estimated Book Balance as of 1/4/2010	Recovery Rate Range		Estimated Proceeds Range	
		Low	High	Low	High
Receivable - related party	$1,837	0%	0%	$0	$0

NOTE F: INCOME TAX RECEIVABLES

Income tax receivables represent amounts due to the Company from various tax authorities and are assumed to be fully collectible.

NOTE G: DEFERRED INCOME TAXES

Deferred income taxes reflect Generally Accepted Accounting Principles ("*GAAP*") conventions and are assumed to have no recovery value.

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NOTE H: PROPERTY AND EQUIPMENT

Property and equipment recovery values are based on a specific valuation of each asset class. Net property and equipment includes owned land, buildings, furniture, leasehold improvements and equipment at the stores and corporate headquarters facility, net of depreciation. Certain property and equipment is recorded as capital lease assets in accordance with GAAP.

The assumed recovery rate for land and buildings is based on a real estate advisor appraisal completed in 2009. The assumed recovery rates for buildings, furniture, fixtures and equipment is based on management estimates. Capital lease assets are considered to be principally building and real estate assets and leasehold improvements are considered part of those assets. Anticipated recoveries on capital lease assets and leasehold improvements are assumed to be through the sale of leases (see Note K).

($ in thousands)	Estimated	Recovery Rate Range		Estimated Proceeds Range (a)	
Property & Equipment, net	Book Balance as of 1/4/2010	Low	High	Low	High
Land - stores (b)	$14,739	100%	118%	$14,808	$17,421
Land - sale/leaseback	125	0%	0%	0	0
Land - capital lease, net	62,134	0%	0%	0	0
Fixed Assets - Land	76,998			14,808	17,421
Fixed Assets - Land improvements	166	0%	0%	0	0
Building - stores (b)	15,538	36%	42%	5,525	6,500
Building - sale/leaseback	2,982	0%	0%	0	0
Buildings - capital lease, net	111,685	0%	0%	0	0
Fixed Assets - Buildings	130,206			5,525	6,500
FF&E - stores, net	90,363	5%	25%	4,518	22,591
FF&E - office, net	9,673	5%	25%	484	2,418
FF&E - transportation, net	315	20%	40%	63	126
Software, net	2,875	0%	10%	0	288
FF&E - sale/leaseback	150	0%	0%	0	0
FF&E - transportation sale/leaseback, net	399	0%	0%	0	0
Fixed Assets - Equipment	103,776			5,065	25,423
Leasehold improvements - stores, net	51,228	0%	0%	0	0
Leasehold improvements - office, net	1,564	0%	0%	0	0
Leasehold improvements - sale/leaseback, net	1,123	0%	0%	0	0
Fixed Assets - Leasehold Improvements	53,915			0	0
Fixed assets - construction in process	58	0%	0%	0	0
Stores - capital lease, net	51,293	0%	0%	0	0
Lease rights - capital, net	868	0%	0%	0	0
Capital Lease Assets	52,161			0	0
Total property & equipment, net	$417,280			$25,397	$49,343

Notes:
(a) All recovery values based on a lawful "going out of business sale" or liquidation.
(b) Low proceeds based on 85% of appraised value. High proceeds based on 100% of appraised value.

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($ in thousands)

NOTE I: INTANGIBLE ASSETS

Intangible assets are comprised of BI-LO Center naming rights, pharmacy customer lists, non-compete agreements and trade names.

BI-LO has naming rights for the BI-LO Center Arena in Greenville, South Carolina. The recovery for the BI-LO Center naming rights is assumed to have no recovery value based on management estimates.

Recoveries related to pharmacy customer lists and scripts assumed to take place as part of a sales process initiated in Phase I of the Company's liquidation plan (see Note L). The Company's non-compete agreements are assumed to have no value to third parties.

Trade names represent intangible assets related to the "BI-LO" and "SouthernHome" trade names. The recovery for trade names is assumed to have a low and high recovery of 0% and 7%, respectively, based on management estimates.

($ in thousands)		Recovery Rate Range		Estimated Proceeds Range (a)	
Intangible assets, net	Estimated Book Balance as of 1/4/2010	Low	High	Low	High
BI-LO Center naming rights, net	$673	0%	0%	$0	$0
Pharmacy customer lists, net	2,072	0%	0%	0	0
Non-competes, net	959	0%	0%	0	0
Trade names, net	137,483	0%	7%	0	10,000
Total intangibles, net	$141,186			$0	$10,000

Notes:
(a) All recovery proceeds are subject to change and verification upon court approval of the retention of Streambank LLC.

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NOTE J: OTHER ASSETS

Other assets include pension assets, operating lease rights and prepaid rents.

Pension assets represent investment securities held by the Company and are assumed to be fully collectible.

Operating lease rights represent the present value of the difference, as measured at the LoneStar acquisition date in January 2005, between the future contract lease obligation and the estimated market lease rate over the term of the lease. The Operating lease right asset reflects GAAP conventions and is assumed to have no recovery value. Anticipated recoveries on leases are assumed to take place as part of a sales process initiated in Phase I of the Company's liquidation plan (see Note K).

Prepaid rent represents an asset created when future rent payments are assumed to occur using a straight line calculation. This asset reflects GAAP conventions and is assumed to have no recovery value.

($ in thousands)		Recovery Rate Range		Estimated Proceeds Range	
Other assets	Estimated Book Balance as of 1/4/2010	Low	High	Low	High
Pension assets	$827	100%	100%	$827	$827
Lease rights - operating	1,878	0%	0%	0	0
Prepaid rent	2,136	0%	0%	0	0
Total other assets	$4,841			$827	$827

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NOTE K: SALE OF LEASES

The number of leases assumed and assigned (sold) and recoveries per lease are based on management estimates. Recoveries for leases are assumed to take place as part of a sales process initiated in Phase I of the Company's liquidation plan and run parallel to the GOB Sale. Leases with below market rents are assumed and assigned (sold) to third parties while remaining leases are assumed to be rejected as part of the Company's overall liquidation plan.

($ in thousands)		Recovery per lease (b)		Estimated Proceeds Range	
Sale of leases (a)	Below market Leases	Low	High	Low	High
Eligible Stores (c)	90	$470	$570	$42,300	$51,300
Less: 5% Brokerage Fees				(2,115)	(2,565)
Net Proceeds				$40,185	$48,735

Notes:
(a) Leases are assumed and assigned to third parties.
(b) Based on management estimates.
(c) 13 assumed operating leases are assumed to be part of 90 store leases assumed and assigned (sold).

NOTE L: SALE OF RX SCRIPTS

The recoveries for RX scripts are based on recent script activity, management estimates and the Grocery Analysis. Recoveries for pharmacy scripts are assumed to take place as part of a sales process initiated in Phase I of the Company's liquidation plan and run parallel to the GOB Sale.

($ in thousands)		Recovery per script (a)		Estimated Proceeds Range	
Sale of RX scripts	Amount	Low	High	Low	High
Number of stores with RX	116				
Annual scripts per store (000's)	31				
Total Estimated scripts (000's)	3,619	$1.5	$2.5	$5,429	$9,048

Notes:
(a) Recovery based on management historical experience and the Grocery Analysis.

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($ in thousands)

NOTE M: PROFESSIONAL FEES & US TRUSTEE FEES

Professional and U.S. Trustee Fees are necessary to ensure an orderly liquidation. Forecasted fees begin at the liquidation commencement on January 4, 2010 and represent $6.1 million in total for Phases I, II and III. Estimated fees and expenses for the trustee's professionals could be substantially larger if the unsecured creditors opt to litigate substantive consolidation.

($ in thousands)

Professional fees (a)	Amount per Month	Duration in Months	Total Fees
Phase I	$1,000	1.5	$1,500
Phase II	500	4.5	2,250
Phase III	250	6.0	1,500
			$5,250

US Trustee fees (a)	Amount per Quarter	Duration in Quarters	Total Fees
Phase I	$33	0.5	$17
Phase II	33	1.5	50
Phase III	33	2.0	66
			$132
Total professional fees and US trustee fees			$5,382

Notes:
(a) Professional fees paid start at liquidation commencement on January 4, 2010.

NOTE N: TRUSTEE FEES

Trustee fees are assumed to be approximately 3% of the estimated gross proceeds.

NOTE O: CORPORATE SEVERANCE

Corporate severance is based on the current liquidation plan and is expected to cost $12.1mm.

($ in thousands)

Corporate Severance	Severance	COBRA (a)	Outplacement	Total Severance
Total payments	$9,336	1,416	1,304	$12,056

Notes:
(a) COBRA amounts do not include incurred but not reported medical claims as of 1/4/2010.

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NOTE P: RETAIL SEVERANCE

Retail severance is based on the current liquidation plan and is expected to cost $26.9mm.

($ in thousands)

Retail Severance	Severance	COBRA (a)	Outplacement	Total Severance
Total payments	$22,114	2,765	2,007	$26,887

Notes:
(a) COBRA amounts do not include incurred but not reported medical claims as of 1/4/2010.

NOTE Q: WIND DOWN RELATED PAYROLL AND BENEFITS

Employee related wind down costs are necessary to complete the liquidation plan. The wind down related payroll and benefits is assumed to cover all employees required throughout the 12 month liquidation period. Store labor costs are contemplated in the inventory liquidation process outlined in Note C (store labor costs are between $45-$46mm).

($ in thousands)

Department	Average month expense level	Phase I %	Phase I (1.5 months)	Phase II %	Phase II (4.5 month)	Phase III %	Phase III (6 months)	Total
Store Labor (a)	$18,000	0%	$0	0%	$0	0%	$0	$0
Management	105	100%	158	50%	237	10%	63	458
Marketing	843	50%	632	10%	379	0%	0	1,011
Store Operations	519	50%	389	5%	117	0%	0	506
Human Resources	204	80%	245	40%	367	20%	245	857
Finance and Admin	1,540	80%	1,848	40%	2,773	20%	1,848	6,469
Real Estate	344	100%	517	80%	1,240	30%	620	2,377
Distribution	26	50%	19	0%	0	0%	0	19
Total	$21,581		$3,808		$5,113		$2,777	$11,697

Notes:
(a) Store labor costs are contemplated in the inventory liquidation process outlined in Note C.

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NOTE R: CORPORATE RETENTION BONUS

Corporate retention bonuses are necessary to retain key employees during the business liquidation and business wind down periods in order to achieve estimated asset recoveries and an orderly business wind down. Below is a summary of the program:

($ in thousands)

Department payroll & benefits	Phase I	Phase II	Phase III	Total
Management	$158	$237	$63	$458
Marketing	632	379	0	1,011
Store Operations	389	117	0	506
Human Resources	245	367	245	857
Finance and Admin	1,848	2,773	1,848	6,469
Real Estate	517	1,240	620	2,377
Distribution	19	0	0	19
Total	$3,808	$5,113	$2,777	$11,697
Retention bonus pool percentage	40.0%	40.0%	40.0%	
Retention bonus pool	$1,523	$2,045	$1,111	$4,679

NOTE S: RETAIL ASSOCIATES GOB RETENTION BONUS

Retail associates GOB retention bonuses are necessary to achieve estimated recoveries through a lawful "going out of business" sale. Below is a summary of the program.

($ in thousands)

Store classification	Avg. Month Expense	Duration in months	Bonus %	Total Bonus
All 214 stores	$18,000	1.5	10.0%	$2,700

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NOTE T: OTHER WIND DOWN COSTS

Other wind down costs relate to corporate overhead incurred during the 12 month liquidation process. The Company will occupy its headquarters facility for 3 months then all operations will be physically moved to the Annex for the remainder of the liquidation. The costs below are incremental to the payroll and benefits costs outlined in Note S.

($ in thousands)

Wind Down Cost	Monthly cost	Months	Total cost
General office - rent/taxes/insurance/utilities	$35	3	$105
Annex - rent/taxes/insurance/utilities	75	12	903
Repair & maintenance (primarily software)	495	6	2,967
Office supplies	34	12	412
Miscellaneous	120	12	1,441
Total	$759		$5,828

The accompanying appendix is an integral part of this Analysis