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This is a PROPOSED Disclosure Statement. It can
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

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)

JOINT DISCLOSURE STATEMENT FOR THE ALTERNATIVE PLANS OF REORGANIZATION FILED BY (I) DEBTORS' AND (II) THE CREDITORS

PART B

DISCLOSURE CONCERNING THE CREDITORS' PLAN

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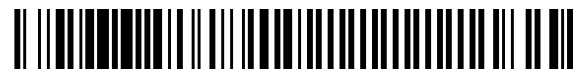
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THE CREDITORS' PLAN

This Part B of the Joint Disclosure Statement for the Debtors' and the Creditors' Alternative Plans of Reorganization for the Debtors has been prepared by the Official Creditors' Committee and the Term Lender Committee, who are the joint proponents of the Creditors' Plan. All statements in this section are the sole responsibility of the joint proponents. The Debtors, who are proposing their own plan, do not necessarily agree or disagree with any of the statements in this section.

This description of the Creditors' Plan is intended to guide creditors in reviewing the Creditors' Plan. Therefore, this description summarizes only the key features of the Creditors' Plan, and does not include important details that are contained in the Creditors' Plan itself, a copy of which is attached to this Part B of the Joint Disclosure Statement as Exhibit A. Creditors are urged to read carefully the full Creditors' Plan and all related exhibits before casting their ballots.

Unless otherwise defined in this section, capitalized words used in this section of the Joint Disclosure Statement are defined in the Creditors' Plan. In the event of any inconsistency between a description of the Creditors' Plan contained in this summary and the actual terms of the Creditors' Plan, the Creditors' Plan is the governing document.

Information about what creditors will recover under the Creditors' Plan is summarized in the table on page 6 of this Part B.

I.OVERVIEW OF THE CREDITORS' PLAN

A. Background

During the course of BI-LO's chapter 11 cases, the Official Creditors' Committee and the Term Lender Committee, as representatives of the majority of the creditors in the cases, became increasingly concerned about the direction the cases were taking. Among other things, these two creditor groups believed that the Debtors' prepetition shareholder, the investment fund Lone Star, was controlling the Debtors' cases for its own benefit, and was not acting in the best interests of creditors or the Debtors' estates. As a consequence, the Official Unsecured Creditors Committee and the Term Lender Committee asked the Bankruptcy Court to allow them to propose the Creditors' Plan, and the Bankruptcy Court granted that request on October 7, 2009.

The Creditors' Plan is premised on two key features: first, the **investment of $79.5 million in new capital** by, WCM-BL Holding, LLC ("Wellspring") and BILO Recovery, LLC ("Bayside", and together with Wellspring, the "Investors"), who are affiliates of members of the Term Lender Committee. The terms of this investment are governed by the Investment Agreement, a copy of which is attached to this Joint Disclosure Statement as Exhibit ___. The second key feature of the plan is the agreement by the Term Lenders to **convert approximately $100 million of their prepetition debt into equity** as part of a settlement of potential litigation over the value of the Term Lenders' collateral, which could have been a costly and time-consuming process.

This combined amount of $175.4 million in new equity and a new, post-bankruptcy credit facility, will enable Reorganized BI-LO Holding to have significantly lower debt levels than it did before the commencement of these chapter 11 cases, and give it ample liquidity for the conduct of its business going forward.

In addition, the Creditors' Plan includes a settlement of claims and a restructuring of the contractual relationship with C&S Wholesale Grocers, Inc. ("C&S") the Debtors' primary supplier and distributor, to provide more favorable terms and significant cost savings to BI-LO than the current C&S arrangement. As part of this settlement, C&S will receive a 5% share in the equity of Reorganized BI-LO Holding.

The Creditors' Plan also provides for meaningful recoveries to unsecured creditors. A Creditors' Trust will be created to hold assets for distributions to unsecured creditors. The trust will be governed by an advisory board selected by the Official Creditors' Committee. Included in the trust's assets will be $30 million in cash, as well as the right to assert certain claims against third parties, if any are found to exist following appropriate investigation. These claims could include, among others, claims against Lone Star, its advisors and affiliates, and the prepetition officers and directors of the Debtors. A detailed description of the Creditors' Trust, its assets, and its functioning is contained in Article VI of this Part B to the Joint Disclosure Statement.

Unsecured creditors holding claims in a "liquidated" amount (i.e., a specific amount, as opposed to an "unliquidated", or unspecific amount) of $5,000 or less, or creditors willing to reduce their claims to $5,000, will be separately treated as Class 5 Convenience Claims and will receive a recovery of 60% in cash for their claims shortly after the confirmation of the Creditors' Plan. Such creditors can also opt to have their claims treated as Class 4 General Unsecured Claims.

The Official Creditors' Committee estimates that claims of $5,000 and under represent approximately two-thirds of the claims filed in these chapter 11 cases.

The Official Creditors' Committee estimates that the cost to the Creditors' Trust of paying these Class 5 Convenience Claims will be approximately $800,000 – $1.3 million. The balance of general unsecured claims that have been filed in a liquidated amount will, on the other hand, receive a smaller initial distribution shortly after confirmation of the Creditors' Plan from the cash contributed to the Creditors' Trust, and will await a final distribution based on the resolution of disputed general unsecured claims and the investigation and possible pursuit of Trust Causes of Action.

The Term Lenders' recoveries under the Creditors' Plan on account of $260 million in principal amount of secured prepetition debt will primarily consist of $164.1 million in New Term Notes and 43.1% of the equity of Reorganized BI-LO Holding, subject to certain liquidity and investment rights described more fully below.

Other secured creditors (which are expected to be minimal) will receive a 100% recovery on their claims, either through reinstatement of such claims, payment in cash, or the return of collateral.

The Creditors' Plan has been designed to foster the successful operation of BI-LO upon its exit from bankruptcy, for the ultimate benefit of its customers, employees, suppliers, landlords, and the communities in which it operates.

B. **The Creditors' Plan Proponents**

As noted, the Official Creditors' Committee and the Term Lender Committee are co-proponents of the Creditors' Plan (the "Creditors' Plan Proponents"). The Official Creditors' Committee was appointed on March 30, 2009 by the United States Trustee. It is currently comprised of the following entities, which are representatives of various trade vendors and one landlord: Kraft/Nabisco (co-chair), C&S Wholesale Grocers, Inc. (co-chair), Kellogg Company, Sara Lee Corp., Cardinal Health 110, Inc., Coca-Cola Bottling, Inc., Flowers Baking Co. of Morristown, LLC, Bottling Group, LLC (Pepsi), and Developers Diversified Realty Corp. In addition, American Greetings is an *ex officio* member of the Creditors' Committee

The Creditors' Committee has retained the law firms of Otterbourg, Steindler, Houston & Rosen, P.C. and McCarthy Law Firm, LLC as its legal counsel and FTI Consulting, Inc. as its financial advisor.

The Term Lender Committee is comprised of the following entities (and/or certain affiliated entities): Ares Management LLC, Canyon Capital Advisors, LLC, Kohlberg Kravis Roberts & Co. (Fixed Income) LLC, Merrill Lynch Credit Products, L.L.C., C. Saunders LLC (affiliated with Wellspring), and Grace Bay Holdings II, LLC

(affiliated with Bayside). The six members of the Term Lender Committee and/or certain of their affiliated entities own, manage, and/or act as investment advisors for all of the Term Lenders.

The Term Lender Committee has retained the law firms of Jones Day and the McNair Law Firm, P.A. as its legal counsel and Houlihan Lokey as its financial advisor.

II. TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. Substantive Consolidation

Like many plans of reorganization, the Creditors' Plan provides for a limited form of "substantive consolidation" in order to simplify the administration of the plan of reorganization. This limited substantive consolidation involves the theoretical pooling and merging of the assets and liabilities of all the Debtors, so that they are treated as if they were a single corporate and economic entity, solely for purposes of voting and distributions under the plan. Consequently, each creditor's claim is treated under the Creditors' Plan as an obligation of the consolidated group of affiliated debtors, rather than a claim against a particular debtor. As part of the process of confirming the Creditors' Plan, the Bankruptcy Court must decide whether the legal prerequisites for this limited substantive consolidation have been satisfied, i.e., that creditors are not prejudiced by this mechanism simply to foster efficiency. The Creditors' Plan Proponents believe the prerequisites have been satisfied, and that the Bankruptcy Court will authorize this limited substantive consolidation.

B. Administrative and Priority Tax Claims

1. Administrative Claims

Generally speaking, an administrative claim is a claim against a debtor or its estate that first arose "postpetition," which means *after* the filing of the bankruptcy petition that commences a bankruptcy case, as compared to "prepetition" a term that refers to all periods *before* the commencement of the case. An administrative claim must also arise from an actual and necessary cost of preserving the value of the debtor's estate during the bankruptcy process. Typical administrative claims include claims for postpetition wages of the debtor, goods sold postpetition to the debtor, and services or other value provided to the debtor during its bankruptcy case. Under the Bankruptcy Code, administrative claims are given a priority over all prepetition claims, and must be paid in full or otherwise satisfied before the debtor can emerge from bankruptcy. These provisions of the Bankruptcy Code were designed to encourage employees, vendors, service providers, and other parties to continue to do business with a debtor despite the fact that it is in bankruptcy.

There are two exceptions to the prepetition/postpetition distinction for administrative claims that is relevant in these chapter 11 cases. First, vendors who delivered goods in the ordinary course of the Debtors' business prepetition in the 20 days prior to the commencement of the chapter 11 cases, and have not been paid, will have administrative claims pursuant to section 503(b)(9) of the Bankruptcy Code. Second, vendors who have valid "reclamation" claims for goods delivered prepetition are given administrative priority under the Creditors' Plan if they satisfy the Bankruptcy Code's requirements for a reclamation claim.

Administrative claims can also have different priorities with respect to each other. The claims of a postpetition lender for repayment of amounts lent to finance the debtor's bankruptcy case (such financing is referred to as "debtor in possession" financing, or "DIP" financing) are given "superpriority" under the Bankruptcy Code, which means that they are entitled to be paid ahead of administrative claims that do not have such priority.

Under the Creditors' Plan, all administrative claims – regardless of their priority – that have been "allowed" (i.e., approved as legitimate claims) will be paid in full, including DIP Financing Claims, and Fee Claims, as described more fully in the following paragraphs.

a. DIP Financing Claims

On the Effective Date, all allowed DIP Financing Claims will be paid in full, in cash, and all letters of credit issued and outstanding under the DIP Credit Agreement will either be returned to the issuer undrawn and marked cancelled, or will be collateralized either in cash or through a new back-to-back letter of credit, in an amount equal to 105% of the face amount of the old letter of credit.

b. Fee Claims

As described in more detail in the "Definitions" section (Section 1.1(a)) of the Creditors' Plan, Fee Claims are claims against the Debtors by advisors who were retained pursuant to a Bankruptcy Court order to provide services to the Debtors or to the Official Committee of Unsecured Creditors during these chapter 11 cases. Under the Bankruptcy Code, these are payable by the Debtors.

In order to be paid, all Fee Claims must also be approved by the Bankruptcy Court. Any entity seeking such approval must prepare its final application for Fee Claims incurred through the Effective Date, and file and serve the application on the attorneys for the Creditors' Plan Proponents and for the Debtors (whose names and addresses are listed on the front of the Joint Disclosure Statement) no later than 45 days after the Effective Date. Any objection to the allowance of a Fee Claim must be filed and served on the Fee Claim applicant, as well as on the attorneys for the Creditors' Plan Proponents and the Debtors, within 20 days after the application was served. As soon as practicable (but no later than 5 Business Days) after the Bankruptcy Court has entered a Final Order allowing a Fee Claim, it will be paid in full in cash.

c. All Other Administrative Claims

All other allowed administrative claims will be paid in full in cash. Except for administrative claims that relate to the ordinary course of the Debtors' business, creditors seeking to be paid administrative claims must first file with the Bankruptcy Court an application for allowance of an administrative claim, and explain the particularities of the claim. This application must be filed with the Bankruptcy Court and served on the attorneys for the Creditors' Plan Proponents and the Debtors no later than the Bar Date for administrative claims (a date to be set by the Bankruptcy Court as the deadline for filing all administrative claims, after which the claims will be "barred," the creditor will not be entitled to any payment of that claim, and the claim will be "discharged" or eliminated). No Bar Date for administrative claims has been set by the Bankruptcy Court as of the date of this Joint Disclosure Statement, and if one is set, separate notice will be given.

If an administrative claim Bar Date is not otherwise set by the Bankruptcy Court, then the deadline will be deemed to be 60 days after the Effective Date.

For creditors who hold administrative claims that relate to the ordinary course of business, or to an express contract, an application for approval need not be filed, and that claim will be paid according to the trade terms or contract provisions which govern that particular relationship.

Holders of administrative claims will not be entitled to vote on the Creditors' Plan.

2. *Priority Tax Claims*

Priority Tax Claims are certain tax-related claims of a governmental unit against a Debtor or its Estate that are given priority pursuant to section 507(a)(8) of the Bankruptcy Code. Allowed Priority Tax Claims will receive the following distribution under the Creditors' Plan, at the option of the Reorganized Debtors: (a) the amount of such holder's allowed Priority Tax Claim, at the rate applicable under non-bankruptcy law, in quarterly cash installment payments over a period ending not later than five years after the Commencement Date (provided that the Reorganized Debtors may prepay the balance of any such Allowed Priority Tax Claim at any time without

premium or penalty); (b) cash on the Distribution Date in the amount equal to the Allowed Priority Tax Claim; or (c) such other treatment as may be agreed upon in writing between the holder and the Creditors' Plan Proponents, subject to approval of the Bankruptcy Court, or, after the Effective Date, between the holder and the Reorganized Debtors. Penalties related to Priority Tax Claims will not be allowed and will be discharged under the Creditors' Plan.

Holders of Priority Tax Claims will not be entitled to vote on the Creditors' Plan.

C. Classification and Treatment of All Other Claims and Equity Interests

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 it specifically agrees otherwise.

Classification is also relevant to voting to accept a plan of reorganization. As discussed more fully elsewhere in this Joint 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 in number and more than two-thirds in dollar amount of all claim votes), and the plan is confirmed, the plan is binding on all creditors in that class, even if they did not vote to accept it.

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. Classes 2, 3, 4, and 5 will be entitled to vote on the Creditors' Plan.

The Creditors' Plan provides the treatment for each class of claims and equity interests as set forth in the following chart. The chart also provides the Creditors' Plan Proponents' estimates of what this treatment will mean in terms of actual recoveries to creditors, using certain assumptions about the amount of claims in a given class, and certain assumptions about the value of the non-cash property that is being distributed for the benefit of the class members. Some of these assumptions are described after the chart. The Creditors' Plan Proponents believe these are reasonable assumptions given all available information. Importantly, however, the actual recoveries to creditors could vary significantly from the estimates set forth in the chart, depending on the amount of claims in a given class that are eventually allowed, and the actual value of non-cash property (such as the Trust Causes of Action or the New Common Units) once it is eventually converted to cash.

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Class	Treatment Under the Creditors' Plan	Estimate of Total Allowed Claims	Estimated % Recovery
***Class 1* - Priority Non-Tax Claims**	Priority non-tax claims will be paid in full on the Distribution Date or receive such other treatment as may be agreed in writing by such holder and the Creditors' Plan Proponents or, after the Effective Date, by the holder and the Reorganized Debtors.	[ ]	100%
***Class 2* - Secured Claims**	At the option of the Reorganized Debtors, all allowed secured claims in this class 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; or (c) be given back the collateral securing the claim.	Minimal	100%
***Class 3* - Term Lender Claims**	The Term Lenders will receive: (a) the New Term Notes in the aggregate principal amount of $164.1 million; and (b and (b) New Common Units representing 43.1% of the New Common Units issued and outstanding immediately following the Effective Date (subject to change pursuant to Term Lender Liquidity Right or Term Lender Investment Right, and subject to dilution by any subsequent employee incentive plans). 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 confirmation of the plan on February, 28 2010).	$260 million in principal amount, plus interest, fees, and other amounts due under the Term Loan Agreement	[ ]%
***Class 4* - General Unsecured Claims (other than Convenience Claims)**	Each holder of an allowed General Unsecured Claim will receive its proportionate share of the Creditors' Trust, to be paid from the Trust Recoveries as they are realized. Trust Recoveries will be ▪ $30 million in cash minus amounts set aside for Convenience Claims (estimated to be $[ ] million), and for the expenses of the trust; and ▪ the net proceeds, if any, from any Trust Causes of Action (i.e., claims of the Debtors' Estates against certain third parties) that may be pursued by the Creditors' Trust.	$80 - $150 million	16% – 30%
***Class 5* - Convenience Claims**	Each holder of an allowed Class 5 Convenience Claim (i.e., one that is no greater than $5,000, or one that the creditor has agreed to reduce to $5,000) will receive cash equal to 60% of the claim shortly after confirmation of the Creditors' Plan. A holder of a Class 5 Convenience Claim may elect to have its Class 5 Convenience Claim treated as a General Unsecured Claim in Class 4.	$800,000 – $1.3 million	60%
***Class 6* - Old Equity Interests**	No property will be distributed to or retained by Lone Star and any other preferred or common holder of the Old Equity Interests of BI-LO Holding LLC on account of those interests.	$0	0%

The amounts under "Estimated Percentage Recovery" in the previous chart were derived by dividing the assumed value of the consideration available to be distributed to all holders of allowed claims in a given class by the estimated amount of all Allowed Claims in that class.

The actual value of the Trust Causes of Action is impossible to determine at this stage, so the assumed value is zero for purposes of calculating recoveries to general unsecured creditors.

The assumed value of the New Common Units to be distributed to the Term Lenders under the Creditors' Plan is the midpoint of the range provided by Houlihan Lokey, financial advisor to the Term Lender Committee pursuant to the Houlihan Recovery Valuation Analysis set forth in Exhibit D to this Part B of the Joint Disclosure Statement. The Creditors' Plan Proponents can provide no assurances that the New Common Units will have that value. The New Common Units will not be listed on any national securities exchange or quoted on any inter-dealer quotation system, and the Creditors' Plan Proponents do not anticipate that the New Common Units will be so listed or quoted in the foreseeable future, thus restricting their marketability. The New Common Units will also be subject to a shareholder agreement which could further limit the rights of the holder to sell the New Common Units.

The estimates of total allowed claims in a given class are based on a preliminary review of the Debtors' claims register, the Debtors' schedules of assets and liabilities that have been filed with the Bankruptcy Court, and other information received from the Debtors. For purposes of these estimates, C&S is assumed to have no claims in any of these classes as a result of the global settlement with C&S embodied in the Creditors' Plan. The estimates of allowed claims in Classes 4 and Class 5 have been developed by the Official Creditors' Committee. The eventual amount of allowed general unsecured claims could be significantly different from these estimates, and could result in significantly lower or higher recoveries for general unsecured creditors.

The range of estimates for the recoveries on account of the Term Lenders' claims is based upon the range of claims that may be asserted by the Term Lenders as well as the uncertain value of the New Common Units the Term Lenders will be receiving under the Creditors' Plan. The Term Lenders' claims may include (to the extent not otherwise limited by the Bankruptcy Code) prepetition and postpetition interest at the default rate, and prepetition and postpetition fees and expenses (including fees and expenses of counsel or other professionals). The recovery analysis assumes that the adequate protection payments made by the Debtors during the chapter 11 cases are included in the calculation of the Term Lenders' recovery.

The recoveries under the Creditors' Plan are in full and complete settlement, satisfaction, and discharge of all claims against and equity interests in the Debtors.

III. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. Assumption of Certain Executory Contracts and Unexpired Leases Under the Creditors' Plan

Any executory contract or unexpired lease that is not listed on the Contract Rejection Schedule, or has previously been assumed pursuant to an order of the Bankruptcy Court, will be deemed to be assumed under the Creditors' Plan on the Effective Date, and will become a binding obligation of the Reorganized Debtor counterparty. If a non-debtor counterparty to an executory contract or unexpired lease agrees to modifications of the contract or lease prior to the Effective Date, that contract or lease will be deemed to be assumed as modified on the Effective Date.

1. Cure Amount Schedule and Determination of Cure Amounts

Upon the assumption of an executory contract or unexpired lease on the Effective Date, the Reorganized Debtors will pay in cash in full any amounts that are in arrears or otherwise in default under

the agreement on the Effective Date (the "Cure Amounts"), unless the non-debtor counterparty reaches an agreement with the Creditors Plan Proponents and Wellspring otherwise.

The Creditors' Plan Proponents will prepare and file a schedule of what they believe are the cure amounts related to each contract or lease to be assumed (the "Cure Amount Schedule"). Importantly, if an executory contract or unexpired lease is not listed on either the Contract Rejection Schedule or the Cure Amount Schedule, then that contract or lease will be assumed under the Creditors' Plan with a deemed cure amount of zero. To the extent that a non-debtor counterparty to an executory contract or unexpired lease disagrees with a Cure Amount that is deemed to be zero, or a Cure Amount that is contained in the Cure Amount Schedule the non-debtor counterparty must file a notice of dispute with the Bankruptcy Court and serve such notice on the counsel to the Creditors' Plan Proponents at least five (5) days prior to the Confirmation Hearing. If there are disputes regarding the Cure Amount and the Cure Amount is materially higher than the Creditors' Plan Proponents or Wellspring anticipated, the contract or lease may be moved to the Contract Rejection Schedule and rejected.

Unless the parties to the contract or lease agree otherwise, all disputed defaults that are required to be cured shall be cured within thirty (30) days of the entry of a Final Order determining the amount, if any, of the Debtors' or the Reorganized Debtors' liability with respect thereto; *provided, however,* that if, prior the applicable payment date, the Creditors' Plan Proponents (with the consent of Wellspring), or, from and after the Effective Date, the Reorganized Debtors, file a motion to reject such contract or lease in accordance with Section 3.2(a) of the Creditors' Plan, the Cure Amount shall not be required to be paid unless and until the motion to reject is denied or withdrawn with prejudice, in which case, the Cure Amount shall be paid within ten (10) days after such denial or withdrawal.

If an executory contract or unexpired lease is removed from the Contract Rejection Schedule at any time prior to the tenth (10th) day before the Confirmation Hearing, the Creditors' Plan Proponents will file an addendum to the Cure Amount Schedule, stating the Cure Amount for such contract or lease, and give notice to the applicable non-Debtor counterparty. .

2. Effect of Assumption

Executory contracts and unexpired leases slated for assumption under the Creditors' Plan will be deemed to be assumed on the Effective Date, and become binding obligations of the relevant Reorganized Debtor and non-debtor counterparty, without the need to obtain any party's consent to the assumption. If there is a dispute with respect to any cure obligation under a contract slated for assumption, that contract will be deemed assumed on the date a Final Order is entered resolving that dispute, unless the Reorganized Debtors choose to reject the contract at that time.

Even though the Reorganized Debtors will experience a change of control under the Creditors' Plan, it will not give non-debtor counterparties the right to enforce change of control provisions (such as those specifying termination upon a change of control) in their contracts or leases.

There are other important details in Article III of the Creditors' Plan concerning the assumption of executory contracts and unexpired leases, ***certain pledges in connection with such assumptions****, the potential assignment to subsidiaries of Reorganized BI-LO Holding, and the determination of cure amounts. Non-debtor counterparties are urged to read Article III carefully.*

B. Rejection of Certain Executory Contracts and Unexpired Leases Under the Creditors' Plan

1. The Contract Rejection Schedule

The Creditors' Plan Proponents will file a schedule (the "Contract Rejection Schedule") ten days before the deadline for voting on the Creditors' Plan, listing all executory contracts and unexpired leases that will be rejected under the Creditors' Plan on the Effective Date. With the prior consent of Wellspring, the Creditors' Plan Proponents can modify the Contract Rejection Schedule to add or remove

executory contracts and unexpired leases. Notice of any changes to the Contract Rejection Schedule will be filed with the Bankruptcy Court and served on the non-debtor counterparty to the contract or lease affected by a change.

There are other important details in Article III of the Creditors' Plan concerning the rejection of executory contracts and unexpired leases. Non-debtor counterparties are urged to read Article III carefully.

Unless otherwise provided on the Contract Rejection Schedule, each executory contract or unexpired lease listed on that schedule will be deemed to include all modifications, amendments and other related documents, even if they are not specifically listed on the schedule. Where a contract listed on the schedule relates to real estate, the listing will be deemed to include all other related rights and agreements regarding that real estate.

2. Contract Rejection Damage Claims

By rejecting the contracts and leases set forth on the Contract Rejection Schedule, such contracts and leases are essentially being terminated, and the Debtors (and the Reorganized Debtors) will be discharged from any further obligations under those agreements. A non-debtor counterparty to a rejected agreement is entitled to file a claim for any damages it incurred from the rejection, and the Debtors' estates are entitled to assert defenses to the claims. All claims for rejection damages are considered prepetition claims under the Bankruptcy Code, even though the agreement was rejected postpetition. Rejection damage claims are treated as general unsecured claims under the Creditors' Plan, unless the non-debtor counterparty holds a valid interest in collateral or a permissible right of setoff, in which case the non-debtor counterparty's damage claim is treated as a Class 2 secured claim to the extent of the value of that collateral or setoff.

3. Bar Date for Filing Contract Rejection Damage Claims

In order to assert a contract rejection damage claim under the Creditors' Plan, the non-debtor counterparty must file a proof of claim in accordance with the procedures that will be set forth in the Confirmation Order, and no later than the latest of: (a) thirty (30) days after the Effective Date, (b) the date that is thirty (30) days after service of a notice that an executory contract or unexpired lease has been added to the Contract Rejection Schedule, (c) if any objection to addition of an executory contract or unexpired lease to the Contract Rejection Schedule is timely filed, the date that is thirty (30) days after the withdrawal of, or overruling of, such objection, (d) such later date as may be agreed by the Creditors' Plan Proponents prior to the Effective Date or, after the Effective Date, by the Reorganized Debtors and the Creditors' Trust, or (e) another date that may be set by the Bankruptcy Court for which separate notice will be provided to the relevant non-debtor counterparties. The appropriate form for this proof of claim is available upon request to the Claims Agent, Kurtzman Carson Consultants LLC, whose contact information is listed in the initial section of this Joint Disclosure Statement.

The Creditors' Plan Proponents intend to attempt to send notice to all non-debtor counterparties whose executory contracts or unexpired leases are listed on the Contract Rejection Schedule that their contracts are scheduled to be rejected under the Creditors' Plan. As a precautionary measure, however, persons with agreements with the Debtors should check the court's docket after the Contract Rejection Schedule has been filed to determine if their agreements are being rejected under the Creditors' Plan, in order to timely file a proof of claim.

If a proof of claim for the rejection of an executory contract or unexpired lease is not timely filed, the non-debtor counterparty will receive no recovery under the Creditors' Plan on account of that claim, and the claim will be permanently barred and discharged.

C. Contracts and Leases Entered into after the Commencement Date

Contracts and leases entered into after the Commencement Date by any Debtor, and any executory contracts and unexpired leases assumed by any Debtor prior to confirmation of the Creditors' Plan, will be performed by the relevant Debtor or Reorganized Debtor in the ordinary course of its business.

D. Employee and Retiree Compensation and Benefits

The Creditors' Plan Proponents intend for the Reorganized Debtors to assume substantially all of the employment, compensation and benefit plans and policies of the Debtors, including, all savings plans, retirement plans, healthcare plans, disability plans, severance benefit plans, incentive plans, life, accidental death and dismemberment and workers' compensation insurance plans. Once assumed, the Reorganized Debtors will continue to have the right to modify or terminate any employment-related plans if permitted by the terms of those plans.

There may, however, be certain specific employment-related contracts or obligations that the Reorganized Debtors will not assume. If this is the case, the Creditors' Plan Proponents will include those contracts or obligations in the Contract Rejection Schedule, or a separate schedule, no later than ten days prior to the voting deadline on the Creditors' Plan.

IV. RELEASES OF THIRD PARTIES UNDER THE CREDITORS' PLAN

A. Background

Plans of reorganization customarily contain certain releases of claims held by the debtors against third parties, as part of either a settlement of disputes with those parties, or in consideration for a contribution the party makes to the reorganization process. Granting such releases does not mean that the debtor necessarily has any valid claims against the party being released, but rather parties seek releases for purposes of finality, so that they can know that their relationship with the debtor has been fully resolved, just as the consummation of the plan of reorganization gives the debtor finality with respect to the issues and events that preceded its bankruptcy case.

Similarly, it is also customary to provide "exculpation" to key parties who participated in the debtor's chapter 11 case so long as they have not acted with gross negligence or willful misconduct. Exculpation is a legal term meaning that a party will have no liability for its actions. This is a slightly different legal concept compared to a release, which releases liability that theoretically may have existed based on actions or conduct not related to the debtor's chapter 11 case.

These releases and exculpations must be approved by the Bankruptcy Court as part of confirmation of the plan of reorganization, and must satisfy certain legal standards for approval.

B. Releases By the Debtors and Exculpation Under the Creditors' Plan

The Creditors' Plan contains releases by the Debtors of claims the Debtors may theoretically have against various parties. With certain exceptions described in the definition of "Released Parties" in Section 1.1(a) of the Creditors' Plan, these Released Parties include the Debtors' employees, managers, and officers who continue to work for the Reorganized Debtors after the Effective Date of the Creditors' Plan (but not directors or officers who served prior to the Commencement Date).

The Released Parties also include the "Specified Released Parties", defined in the "Definitions" section (Section 1.1(a)) of the Creditors' Plan to include the DIP Agent, the DIP Lenders, the Prepetition Agents, the Prepetition Lenders, the Term Loan Predecessor Agent, the Lender Indemnified Entities, the

Term Lender Committee, the Official Creditors' Committee, the Exit Facility Agent, the Exit Facility Lenders, the Investors, C&S and each of their respective officers, managers, directors, and other agents.

The Creditors' Plan Proponents do not believe the Debtors have any meaningful claims against any of these parties.

In addition, the Creditors' Plan provides releases to various vendors who provided goods and services to the Debtors in the ordinary course of business. These releases are confined to releases of claims under Section 547 of the Bankruptcy Code to recover preferential payments that may have been made to these creditors during the statutory three month "preference period" prior to the commencement of these chapter 11 cases. Here again, the Creditors' Plan Proponents do not believe that these released parties have any meaningful liability to the Debtors in the aggregate, and wish to avoid any unnecessary litigation with these future suppliers to the Reorganized Debtors.

Finally, the Creditors' Plan provides exculpation to the "Exculpated Parties", defined in the "Definitions" section (Section 1.1(a)) of the Creditors' Plan to include the Specified Released Parties described above, as well as the Debtors, the Reorganized Debtors, and, with certain exceptions, the Debtors' employees, managers, and officers, and advisors (but not directors or officers who served, or, with certain potential exceptions advisors that were retained and that served, prior to the Commencement Date). These exculpated parties will be deemed to be free of any liability for their conduct during the chapter 11 cases, unless they are found to have acted with gross negligence or willful misconduct. Given that the Bankruptcy Court has supervised the conduct of these chapter 11 cases, as well as the general transparency of the process, the Creditors' Plan Proponents do not believe the Exculpated Parties otherwise have engaged in any conduct that would result in liability to others for their conduct in the cases.

C. Releases Involving Certain Parties

1. *Releases Involving C&S*

As part of a global settlement, the Reorganized Debtors will assume the New C&S Agreement and issue the C&S New Common Units to C&S on the Effective Date, and the Debtors will grant C&S a full release of any and all claims they may have against C&S. C&S, on the other hand, will agree to the assumption of the New C&S Agreement by the Reorganized Debtors and will relinquish any and all claims it may have against the Debtors or their Estates (or, as of the Effective Date, the Reorganized Debtors), except as provided for in the New C&S Agreement.

C&S is not settling or releasing any claims, rights or defenses it has or may have against chapter 11 debtor BFW Liquidation, LLC, f/k/a Bruno's Supermarkets, LLC or any other related entity with respect to the bankruptcy proceeding captioned "In re: BFW Liquidation, LLC, f/k/a Bruno's Supermarkets, LLC, Debtor, 09-00634 BGC11", pending in the United States Bankruptcy Court for the Northern District of Alabama.

2. *Releases Involving Ahold*

The Creditors' Plan preserves for the Creditors' Trust all potential lawsuits against Ahold, the former owner of the Debtors and the current guarantor of a significant number of the Debtors' store leases. Under certain circumstances, however, the Creditors' Trust may not seek a cash recovery on any judgment against Ahold, and can only use judgments to offset claims Ahold may assert against the Debtors.

3. *Releases Involving Certain Executives*

As noted above, there are certain exceptions to the releases of the Debtors' employees, officers, and directors who serve in that role on and after the date the Creditors' Plan becomes effective. For

instance, claims, if any exist, by the Creditors' Trust against the Debtors' current CEO, CFO, and Treasurer can only be satisfied from available insurance policies, and none of those individuals' personal assets can be taken by the trust.

D. Approval By the Bankruptcy Court

The Creditors' Plan Proponents will present evidence at the Confirmation Hearing to demonstrate that they have met the legal requirements for the releases and exculpations contained in the Creditors' Plan, and the Bankruptcy Court will determine if they are appropriate.

Parties are urged to carefully review Sections 4.2(f) through 4.2(i) of the Creditors' Plan for a complete description of the plan's releases and exculpations.

V. PROCEDURES FOR DISTRIBUTIONS TO CREDITORS AND RESOLUTION OF DISPUTED CLAIMS

A. General

To receive a distribution under a plan of reorganization, a creditor must have an "allowed" claim, i.e., one that has either been agreed to by the debtor or its representatives, or one that has been validated by the Bankruptcy Court. Although most claims are readily resolved through a consensual reconciliation process, some remain disputed and require further negotiations or litigation to determine whether, and in what amount, the claims will be allowed.

On the date that a chapter 11 plan becomes effective, there are usually numerous claims that have not been agreed to or litigated to a resolution, and the "claims reconciliation" process (generally begun during the chapter 11 case) continues so that the full universe of parties entitled to a recovery can be determined. Where creditors in a given class will share in a single pool of assets for their recoveries, reserves are established both to permit distributions to holders of allowed claims, and to assure that there will be sufficient assets remaining for creditors with unreconciled claims to receive that same percentage recovery, if their claims are eventually allowed.

Plans of reorganization contain detailed procedures for the reconciliation of claims and distributions to creditors. These generally involve appointing one or more "disbursing agents" to handle the administrative paperwork involved in tracking creditors' claims, and insuring that creditors receive all amounts they are entitled to receive under the plan. These disbursing agents are customarily exculpated from liability for their activities, unless they act with gross negligence or willful misconduct.

Plans of reorganization also specify who will be authorized to conduct the claims reconciliation process – i.e., to settle or litigate disputed claims. In many instances, it is the debtor or the reorganized debtor. In cases where a creditors' trust is established under a plan, containing cash or assets that are to eventually be converted to cash for distribution to creditors, it is customary for the creditors' trust to handle the claims reconciliation process for that class of claims.

In order to expedite distributions to creditors holding allowed claims to be satisfied from a creditor's trust, plans of reorganization can provide for partial interim distributions from the trust, provided that like amounts have been reserved for the payment of disputed claims that may eventually be allowed.

B. Procedures for Distributions to Creditors

1. The Claims Reconciliation Process and the Disbursing Agents

The Creditors' Plan contains claims reconciliation procedures that are typical for plans of this type. The Creditors' Trust (or its designee) will serve as disbursing agent for Class 4 General Unsecured Claims and Class 5 Convenience Claims. The Reorganized Debtors (or their designee) will serve as disbursing agent for distributions to all other classes of creditors under the plan.

The Creditors' Trust will have the exclusive authority to object to and resolve claims in Classes 4, and 5. Once the Creditors' Plan becomes effective, the Creditors' Trust and the Reorganized Debtors will have authority to settle and allow claims without seeking Bankruptcy Court approval, but the Bankruptcy Court will remain available to determine disputes that must be litigated.

The Creditors' Trust and the Reorganized Debtors will also have the ability to ask the Bankruptcy Court to estimate the amount of a disputed claim pursuant to section 502(c) of the Bankruptcy Code.

2. Distributions Made Only to Those Who Are Creditors as of the Record Date

In certain instances, creditors may sell or assign their claims to other parties. Under Rule 3001 of the Federal Rules of Bankruptcy Procedure, notices of such transfers may be required to be filed with the Bankruptcy Court, which allows the Debtors to keep an accurate "claims register" listing all parties holding claims. On the Effective Date, the claims register will be "closed", and any subsequent transfers by creditors will not be recognized by the disbursing agent. The disbursing agent will be authorized to deal only with those creditors listed in the claims register as of the date the Bankruptcy Court dockets an order confirming the Creditors' Plan (the "Record Date"), and the disbursing agent will not be obligated to recognize any claim transfers after that date, or provide distributions to any party not listed as a creditor as of the Record Date.

3. Establishment of Reserves for Disputed General Unsecured Claims and Trust Costs

For purposes of calculating the initial distribution and interim distributions from the Creditors' Trust to holders of allowed Class 4 General Unsecured Claims (and the necessary reserves that must be established for the eventual payment of disputed claims in that class) disputed claims will be assumed to be worth the Maximum Allowable Amount (as defined in detail in Section 1.1(a) of the Creditors' Plan) of such claims.

Generally speaking, the Maximum Allowable Amount of a disputed claim that is "liquidated" (i.e., an actual dollar amount has been placed on it by the claimant, as opposed to an "unliquidated" claim where the claimant has not yet determined the dollar value of its claim) will be the lower of (a) the amount asserted by the creditor in its proof of claim, (b) the amount agreed to by the creditor and the Creditors' Plan Proponents or the Creditor's Trust as the Maximum Allowable Amount, or (c) the amount ordered by the Bankruptcy Court as the Maximum Allowable Amount. The Maximum Allowable Amount of a disputed claim that is unliquidated or contingent (for example a litigation claim) will be the lower of (a) the estimated amount of the claim as determined by the Bankruptcy Court, or (b) the amount agreed to by the creditor and the Creditors' Plan Proponents or the Creditors' Trust.

The Trustee of the Creditors' Trust will also segregate sufficient funds to pay for anticipated fees, costs, expenses of the trust, including the costs, if any, of investigating and prosecuting the lawsuits against third parties that are assigned to the Creditors' Trust under the Creditors' Plan. Distributions to creditors Class 4 General Unsecured Claims will be reduced by these costs of the administration of the trust.

4. Timing of Distributions

Article VI of the Creditors' Plan contains important details concerning the timing of distributions to creditors. Class 4 General Unsecured Claims that have been allowed as of the Effective Date will be paid an initial distribution as soon as practicable after the Effective Date, after the establishment of

reserves for disputed claims and the anticipated costs of the Creditors' Trust discussed above. Thereafter, as disputed claims are "disallowed" or allowed in lesser amounts than the Maximum Allowable Amount reserved, additional funds will be distributed to creditors with allowed claims. Similarly, if the Creditors' Trust commences any lawsuits and recovers any money from those lawsuits, additional distributions may possibly be made. If a Class 4 General Unsecured Claim becomes allowed after the Effective Date, it will be eligible for its relevant distribution on the next Distribution Date, which is generally once every calendar quarter.

Claims in all other classes that have been allowed as of the Effective Date will be paid as soon as practicable after the Effective Date. If they become allowed after the Effective Date, they will be paid on the next Distribution Date.

5. *Cash*

The disbursing agents will have the option to distribute cash to creditors by a check drawn on a domestic bank or by wire transfer, except that (a) the payment of cash to the holders of allowed DIP Financing Claims will be made by wire transfer of immediately available funds as directed by the DIP Agent, and (b) the payment of cash to any Term Lenders will be made by wire transfer of immediately available funds as directed by the Term Loan Agent.

If a creditor receives a check on account of its distributions under the Creditors' Plan, and fails to cash that check within 180 days of the date of the check, the check will be voided and be of no value. If a creditor loses a check before it is cashed, the creditor must request a replacement check from the disbursing agent within 90 days after the lost check was issued.

No distribution of cash less than $25 will be made by a disbursing agent unless it is a payment on account of a Class 5 Convenience Claim, or the creditor makes a written request for such a payment to the disbursing agent within 30 days after the Effective Date.

6. *Addresses for Delivery of Distributions to Creditors; Unclaimed Distributions*

Unless the Creditors' Plan Proponents (or, after the Effective Date, Reorganized BI-LO Holding or the Creditors' Trust) have been notified in writing of an address change, all distributions to creditors will be sent to the creditor's address listed on the creditor's proof of claim if one was timely filed or, if none was timely filed, the Debtor's Schedules that are in effect on the Record Date. These Schedules are filed with the Bankruptcy Court and are available upon request to the Debtors' claims agent, Kurtzman Carson Consultants LLC, whose contact information is listed in the initial section of this Joint Disclosure Statement.

If a distribution is unclaimed six months after it is distributed, or if a check is returned as undeliverable mail, then the funds will be deemed unclaimed property under section 347(b) of the Bankruptcy Code and the funds will revert to the Reorganized Debtors or the Creditors' Trust, as applicable, and the creditor for whom those funds were intended will have no right to any distributions.

It is important that creditors insure that they have provided the Debtors with their correct mailing address.

7. *Surrender of Notes and Other Instruments; Payment of Taxes*

As set forth in greater detail in Section 6.1(d) of the Creditors' Plan, the disbursing agents may require, as a condition to giving a distribution to a particular creditor, that the creditor turn over to the disbursing agent any note or other written evidence of the claim that is to be paid. If a creditor refuses to do so, or otherwise fails to reach an agreement acceptable to the disbursing agent, that creditor may forfeit its rights to receive any distribution under the Creditors' Plan. Regardless of whether the document is turned over to the disbursing agent, it will be deemed cancelled and discharged.

The disbursing agents are required to comply with all applicable tax and similar laws that impose withholding or reporting requirements, but each creditor is responsible for the payment of any tax or similar obligation imposed by law on the creditor.

C. Procedures for Resolution of Disputed Claims

1. Objections to Claims

As noted above, on and after the Effective Date, the Creditors' Trust will have the exclusive right to object to the allowance of Class 4 General Unsecured Claims and Class 5 Convenience Claims, and the Reorganized Debtors will have the exclusive right to object to the allowance of all other claims.

Unless otherwise ordered by the Bankruptcy Court, all objections to proofs of claim or requests for payment that have been filed with the Bankruptcy Court (other than applications for allowance of Fee Claims) must be filed and served upon the claimant/applicant by the applicable Claims Objection Deadline. For Administrative Claims, the deadline for objecting is 90 days after the proof of claim or request for payment was filed. For all other claims, the deadline to object is 120 days after the Effective Date. The Bankruptcy Court may also extend these deadlines. If no objection to a claim is filed by the applicable deadline, the claim is deemed to be allowed.

No creditor with a disputed claim will be entitled to a distribution until all disputes related to that claim have been resolved. In addition, if a creditor holds both a disputed claim and an allowed claim, no distributions will be made to it until the disputed claim has been resolved.

2. Recoveries From the Debtors' Insurance Coverage

Any Litigation Claim (i.e., one that relates to personal injury, property damage, products liability, unlawful discrimination, employment practices, or other torts, or one that is currently being litigated) will be deemed to be an allowed claim only to the extent the claimant cannot recover from third parties through the Debtors' insurance coverage, unless that coverage is the Debtors' self-insurance.

3. Nonpayment of Claims of Parties Holding Recoverable Property; Setoff

If a creditor holds property (including money) that is recoverable, or is alleged to be recoverable, by the Debtors or their Estates under sections 542, 543, 550, or 553 of the Bankruptcy Code, or if that creditor is alleged to be a transferee of a transfer avoidable under section 544, 545, 547, 548, or 549 of the Bankruptcy Code, that creditor will not be entitled to receive a distribution on an allowed claim. The distribution will be made only after the creditor has turned over the property, or the Bankruptcy Court has determined that the creditor is not required to turn over the property.

As described in greater detail in Section 6.2(g) of the Creditors' Plan, if the Reorganized Debtors or the Creditors' Trust are owed money by a creditor, the Reorganized Debtors or the Creditors' Trust, as applicable, are entitled to setoff any amounts owed to that creditor against amounts the creditor owes the Reorganized Debtors or the Creditors' Trust. Neither the failure to setoff nor the allowance of any claim will constitute a waiver or release by a Debtor or Reorganized Debtor or the Creditors' Trust of any Cause of Action that it has against the holder of the claim.

VI. THE CREDITORS' TRUST

A. The Administration of the Creditors' Trust

As noted, the Creditors' Trust will be established on the Effective Date. The Creditors' Trust will hold the Trust Assets, which are $30 million in cash and the Trust Causes of Action, which are potential claims by the Debtors' estates against third parties. As described below, the Committee is still

investigating whether any claims exist, and if so, their viability and value. No determination has been made as to whether such claims will be asserted.

The interests of general unsecured creditors in the Creditors' Trust will be uncertificated and will be non-transferable except upon death of the creditor or by operation of law. The Creditors' Plan Proponents believe that the offer and sale of interests in the Creditors' Trust (to the extent those interests are deemed to constitute "securities") to general unsecured creditors under the Creditors' Plan satisfy the requirements of section 1145(a)(1) of the Bankruptcy Code (which requirements are discussed more fully under "New Terms and New Common Units to be Distributed to the Term Lenders Under the Creditors' Plan – Common Stock – Securities Law Matters" below) and are, therefore, exempt from registration under the Securities Act and state securities laws.

NEITHER THE SEC NOR ANY STATE SECURITIES REGULATOR HAS PASSED UPON THE AVAILABILITY OF SUCH EXEMPTIONS OR UPON THE ACCURACY OR ADEQUACY OF ANY STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT.

Article VII of the Creditors' Plan contains important details about the Creditors' Trust, and a copy of the actual Trust Agreement governing the trust will be separately filed with the Bankruptcy Court. The Creditors' Plan provides for the appointment of a trustee (the "Trustee") selected by the Official Creditors' Committee prior to the hearing to confirm the Creditors' Plan. The Trustee will be independent of the Debtors and the Reorganized Debtors.

In addition, a trust advisory board (the "Trust Advisory Board") will be created under the Creditors' Plan, consisting of three voting members designated by the Official Creditors' Committee prior to the hearing to confirm the Creditors' Plan, and one ex-officio, non-voting member designated by the Reorganized Debtors. The Trustee will consult regularly with the Trust Advisory Board and take direction from the Trust Advisory Board as described in the Trust Agreement.

The Trustee's job will be to oversee the administration of the trust, including resolving disputed claims, overseeing distributions to unsecured creditors in Class 4 and Class 5, and investigating and, if appropriate, litigating the Trust Causes of Action. However, the Investors, as the new owners of the Reorganized Debtors, have required that if the Trustee decides to assert a Trust Cause of Action against certain executives of the Reorganized Debtors in connection with their actions prior to the commencement of these chapter 11 cases, the Trustee can only look to insurance policies of the Debtors for any recoveries from these executives, and not to their personal assets.

The Trust Advisory Board, by a majority vote, must approve all settlements of Trust Causes of Action, if any, authorize the Trustee to invest the trust's cash in certain investments, and may remove the Trustee for any reason. Neither the Trust Advisory Board members, nor their representatives, will have any liability except for their gross negligence or willful misconduct, and they will not be liable for any act or omission done in accordance with the guidance of their professional advisors.

The Trustee will be authorized to retain professional advisors to assist in the performance of his, her or its duties, and the costs of those professionals, as well as the Trustee's compensation, will be paid for from the Creditors' Trust. Members of the Trust Advisory Board will be entitled to reimbursement of the reasonable and necessary expenses incurred by them, also payable by the Creditor Trust.

The Trustee may provide unsecured creditors with copies of annual, audited financial statements of the Creditors' Trust.

The Creditors' Trust will have a term of five years from the Effective Date. With limited exceptions, the term can be extended by the Trust Advisory Board if approved by the Bankruptcy Court.

B. The Official Creditors' Committee's Investigation of Potential Trust Causes of Action

The following is a summary of an investigation that was undertaken by the Official Creditors' Committee into potential Trust Causes of Action. This summary represents only the views of the Official Creditors' Committee and nothing contained in the summary can be construed as an admission by the Term Lender Committee or the Investors, nor do the Term Lender Committee or Investors necessarily agree with the statements in this summary. Terms that are defined in this section apply only to this section.

1. Background

During the course of the Chapter 11 Cases, the Official Creditors' Committee, as a fiduciary for unsecured creditors in these cases, initiated an investigation (the "Investigation") into certain prepetition events and transactions to preliminarily determine if any claims relating such prepetition events and transactions are held by the Debtors' estates, and if so, to assess their viability and potential value.

To date, the Investigation has included the review of documents produced by the Debtors at the written request of the Official Creditors' Committee. In addition, the Official Creditors' Committee has, or will in the future, issue subpoenas pursuant to Rule 2004 of the Federal Rules of Bankruptcy Procedure ("Rule 2004") to obtain documents and testimony as permitted by Rule 2004, to among others, and without limitation, former officers and directors, consultants and holders of equity interests of the Debtors and certain additional Persons that the Official Creditors' Committee believes may possess knowledge relevant to the Investigation.

2. Areas of Investigation

Set forth below is a brief description of certain transfers, transactions and conduct that are among the subjects the Official Creditors' Committee is investigating. The Investigation is not complete and additional relevant transactions and actions or omissions may be uncovered in the future.

a. Lone Star's Acquisition of the Debtors

In January 2005,[1] Lone Star Fund V (U.S.), L.P., LSF V International Finance, L.P., and their affiliates (collectively, "Lone Star" or the "Lone Star Entities") through the newly formed entity, LSF5 BI-LO Holdings, LLC, and its wholly owned subsidiary, LSF5 BI-LO Investments, LLC (the "Parent"), acquired (the "Acquisition") substantially all of the assets of BI-LO, LLC (collectively, "BI-LO") from Ahold. At the time of the Acquisition, Ahold owned BI-LO through a holding company BI-LO Holding, LLC. In turn, BI-LO owned 100% of the equity interests of Bruno's Supermarkets LLC ("Bruno's"), previously Bruno's Supermarkets, Inc. The Committee's investigation of the Acquisition includes investigation of the funding of the Acquisition, the consideration, and source of consideration, received by Ahold at the closing and thereafter.

b. Control by Lone Star

Following the Acquisition, on or about January 30, 2005, Parent 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 the membership interests of BI-LO Holding, LLC. The Official Creditors' Committee is investigating, among other things, the management and the control by Lone Star, including through its affiliate, Hudson, regarding, among other things, its operations, management, assets and

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[1] The signing of the definitive documentation relating to the Acquisition occurred on December 22, 2004.

strategic planning, including efforts to sell BI-LO, and sources and uses of capital. In addition, many of the officers and directors of BI-LO were also employees, directors, and/or officers of Lone Star.

c. Restructuring After Acquisition

Upon information and belief, following the Acquisition, Lone Star, acting alone or in concert with other Persons, orchestrated a series of store sales, sale-leasebacks and closures of stores, including, among other things (1) the sale or closure of certain BI-LO stores in certain geographic markets, (2) the sale of BI-LO's warehouse and distribution assets to C&S and entering into a new supply agreement with C&S, (3) the phased out closure 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 (4) the sale on April 22, 2005 of over one hundred stores – some Bruno's and some BI-LO – to Southern Family Markets Acquisition LLC, an affiliate of C&S. 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 (6) 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 banner stores and never as BI-LO stores and which leases were assigned to Bruno's following the Spin-Off (defined below).

d. The Marketing of BI-LO and Bruno's for Sale

Upon information and belief, after the initial store sales and store closures, Lone Star attempted to sell each of BI-LO and Bruno's or their assets. Upon information and belief, Merrill Lynch and William Blair & Co., LLC were retained to assist in the sale of the companies. Lone Star was unable to sell either BI-LO or Bruno's prior to the bankruptcy filing of each company.

e. Spin-Off of Bruno's

On March 25, 2007, BI-LO's "spun-off" Bruno's by selling all of its membership interests in Bruno's to an affiliate of Lone Star (the "Spin-Off"). The Committee's investigation included an investigation of the transactions, acts and omissions concerning the Spin-Off. In excess of 70 stores that operated as Bruno's stores were included in the Spin-Off. In connection with the Spin-Off, BI-LO entered into a series of agreements, including the following:

- Membership Interest Purchase Agreement, effective March 25, 2007, among BI-LO, LLC, Parent, and Bruno's Supermarkets, LLC.
- Promissory Note, dated March 25, 2007 in the amount of $57,800,088 from LSF5 Bruno's Investments, LLC in favor of BI-LO, LLC (the "Spin-Off Promissory Note").
- The Transition Services Agreement effective as of March 25, 2007 among BI-LO, LLC and LSF5 Bruno's Investments, LLC and Bruno's Supermarkets, LLC (the "Transition Services Agreement").
- Employee Leasing Agreement, effective as of March 25, 2007, between Bruno's Supermarkets, LLC and BI-LO LLC (the "Employee Leasing Agreement").

Also in connection with the Spin-Off, on March 23, 2007, Lone Star arranged for Bruno's to enter into an Interim Supply Agreement and an Amended and Restated Supply Agreement with C&S and for BI-LO to execute the Amended and Restated Guaranty dated March 23, 2007 in favor of C&S (the "Supply Agreement Guaranty").

Following the Acquisition in 2005, BI-LO entered into a certain credit facility. In 2007, Lone Star arranged for BI-LO to replace its existing credit facilities with new credit facilities:

- Credit Agreement, dated March 26, 2007, with GE Business Financial Services, Inc., as Administrative Agent, and certain lenders party to the Credit Agreement from time to time, which provided for a $100 million revolving credit facility (the "Revolving Loan Facility") to be used for general corporate purposes; and

- Credit Agreement, dated March 26, 2007, with The Bank of New York Mellon, as Administrative Agent, and the Term Lenders party thereto, which provided for a $260 million term loan (collectively with the Revolving Loan Facility, the "Credit Facilities") to mature on March 26, 2009.

Among other things, the Official Creditors' Committee's investigation includes an investigation of the overall cost to the Debtors' estates of entering into the Credit Facilities and payoff of the existing credit facility.

Following the Spin-Off, two of the Bruno's stores that were sold with the assets (*i.e.*, owned by Bruno's) were sold to In-Line, an affiliate of Lone Star, for $8 million.

f. Use of Funds for Bruno's/Lone Star's Benefit

Following the Spin-Off, BI-LO remained contingently obligated for certain of Bruno's liabilities: (i) certain of Bruno's obligations to C&S based upon the Supply Agreement Guaranty, (ii) Bruno's rent obligations on the Cardinal Stores that were leased from Cardinal in connection with the sale/leaseback transaction, but operated as Bruno's stores and assigned to Bruno's following the Spin-Off and (iii) Bruno's self-insured worker's compensation obligations. In addition, BI-LO entered into the Transition Services Agreement with Bruno's, pursuant to which BI-LO provided information technology, accounting, and merchandising support to Bruno's.

BI-LO also provided cash advances to Bruno's following the Spin-Off. Upon information and belief, a significant advances of loans drawn under the Credit Facilities were used for purposes related to Bruno's that were in no way related to BI-LO's working capital.

As discussed in Article II.G.2. of Part A of this Joint Disclosure Statement, BI-LO filed claims against Bruno's in the Bruno's bankruptcy proceeding.

g. Lone Star Guarantee of Bruno's Obligations to BI-LO

Pursuant to a guarantee from LSF V International Finance, L.P., Lone Star guaranteed that if Bruno's was unable to repay any advance borrowed from BI-LO, Lone Star would repay the amount due to BI-LO (the "Lone Star Guarantee"). Upon information and belief, there are outstanding amounts due from Bruno's to BI-LO that are subject to the terms of the Lone Star Guarantee.

h. Transfers of BI-LO's Assets

The Official Creditor's Committee's Investigation includes an investigation of transfers from the Debtors to Lone Star, Ahold, Bruno's or any related persons, or professionals retained by the Debtors pre-petition.

i. Bruno's Complaint

On or about November 25, 2009, the liquidating trustee of the Bruno's estate commenced a lawsuit (the "Bruno's Action") in the United States District Court for the Northern District of Texas, asserting claims on behalf of the Bruno's estate against many of the persons and entities that the Committee is investigating. A comparison of the defendants named in the Bruno's Action with the claim register in the Debtors' cases shows that at least fifteen of the defendants in the Bruno's Action filed indemnification claims against the Debtors' estates.

3. Potential Estate Claims

The Official Creditors' Committee is continuing its investigation into various prepetition acts, conduct and transactions, including the various matters described above, and certain of which are included in the Bruno's Action.

While the Official Creditors' Committee's investigation is ongoing and there has been no determination that estate claims exist, or if so, their viability and value, the Official Creditors' Committee believes that the Debtors' estates may have suffered material economic harm as a result of the prepetition acts and omissions of certain parties relating to the above described events, as well as others that may yet be discovered. The Official Creditors' Committee will continue to investigate such prepetition acts and omissions to determine whether viable causes of action exist and whether to pursue such causes of action.

It is difficult to calculate or estimate the extent of injury that may have been caused to BI-LO. There is no assurance such lawsuits will be brought by the Trustee of the Creditors' Trust or of any recovery on account of such lawsuits. The officers and directors of the Debtors who, upon information and belief, were each retained and employed with the consent of and at the direction of Lone Star, are potentially covered by directors' and officers' liability insurance up to the aggregate amount of $60 million. In addition, it is believed that there are additional sources of recovery from other entities that may have harmed BI-LO. Any return based upon estate causes of action is highly speculative.

It cannot be predicted at this date which claims the Trustee will determine exist or would choose to pursue. Nor can the outcome of any such litigation be foreseen. Nor would it be in the estates' interest at this juncture to lay out a road map for potential defendants by providing a detailed report of the evidentiary basis for such claims. However, the Committee believes that credible evidence exists and is continuing to be developed that may form the basis for asserting various estate causes of action.

In particular, the Official Creditors' Committee believes that the investigation may provide evidence to support the conclusion that causes of action may exist stemming from the Acquisition of BI-LO, the Spin Off and related transactions, the Lone Star Guarantee of payment of Bruno's obligations to BI-LO, BI-LO's financial support of Bruno's, the Asset Advisory Agreement with Hudson and the depletion of BI-LO's assets caused by transfers to Lone Star, Ahold, Bruno's or any related persons, or professionals retained by the Debtors pre-petition.

Accordingly, the Official Creditors' Committee believes, but has not yet determined, that the Debtors' estates may, subject to further investigation, have claims against, among others, (i) certain of the Debtors' current or former officers or directors, including, without limitation, Brian Hotarek, Brian P. Carney, Kenneth E. Jones, Marc Lewis Lipshy, Layne B. Lebaron, David M. West, Len William Allen, Jr., Michael Prushan, Susan Warzecka, Phil Barker, John Symons, Tye Anthony, Kevin L. Mcdougall, Michael G. Crandall, Michael R. Yakovsky, R. Randall Onstead, Robert Zielinski, Scott North, Mark T. Miller, Eric Ullman, Laura Southall, Tony Pilegge and Bob Riddell, certain of whom filed indemnification claims against the Debtors; (ii) the Debtors' pre-petition professionals, including accountants, accounting firms, auditors, consulting firms, consultants, advisors, attorneys, law firms, investment bankers and investment banks; (iii) Lone Star; (iv) Ahold; (v) Bruno's; and (vi) any officer, manager, director, control person, principal, member, partner, equity holder, employee, agent, professional, advisor or attorney of any of Lone Star, Ahold or Bruno's. The Investors, as the new owners of the Reorganized Debtors, have required that if the Trustee decides to assert a Trust Cause of Action against Brian Carney (who is expected to be Reorganized BI-LO's CFO) or Kenneth Jones (who is expected to be Reorganized BI-LO's treasurer), the Trustee can only look to insurance policies of the Debtors for any recoveries from these executives, and not to these individuals' personal assets.

These potential claims include, without limitation, such claims as breach of fiduciary duties of due care, loyalty, good faith, and candor; gross negligence; fraud; aiding and abetting breach of fiduciary duty; breach of contract; professional negligence; malpractice and related misconduct; contract claims; alter ego and related claims; undercapitalization of BI-LO; avoidance actions under state law and

bankruptcy law, including claims for avoidance of fraudulent conveyances and preferential transfers; and certain additional bankruptcy-related claims. Additional contract claims may also exist to enforce the Lone Star Guarantee and the Spin-Off Promissory Note.

C. Tax Matters

The Creditors' Trust is intended to be treated for U.S. federal income tax purposes in part as a liquidating trust within the meaning of Treasury Regulations Section 301.7701-4(d) and in part as one or more disputed claims reserves taxed as discrete trusts pursuant to Section 641 *et seq*. of the Internal Revenue Code (the "IRC"). Accordingly, on and after the Effective Date, the holders of Allowed General Unsecured Claims in Class 4 will be treated for federal income tax purposes as the grantors and deemed owners of their respective shares of the Trust Assets, subject to any liabilities of the Debtors or the Creditors' Trust payable from the proceeds of such assets. The Trustee and the holders of Allowed General Unsecured Claims in Class 4 will be required to use consistent valuations for all Trust Assets for all tax reporting purposes. Other important information concerning tax matters related to the Creditors' Trust is contained in Section 7.3(g) of the Creditors' Plan and "Certain Federal Income Tax Issues Related to the Creditors' Plan" below.

VII. CERTAIN CONSIDERATION TO BE DISTRIBUTED TO THE TERM LENDERS UNDER THE CREDITORS' PLAN

A. New Term Notes

On the Effective Date, Reorganized BI-LO will be authorized to issue the New Term Notes in an aggregate principal amount of $164.1 million. The New Term Notes will be issued pursuant to and governed by a credit agreement. The principal terms of the New Term Notes will be as follows:

Borrower	Reorganized BI-LO
Guarantors	The other Reorganized Debtors
Facility Type	Term Loan
Amount	$164.1 million
Maturity	Fourth anniversary of the Effective Date
Amortization; Prepayments	No amortization; mandatory and optional prepayment provisions that are customary for financings of this type.
Interest Rate	LIBOR + 8% for years 1 and 2; LIBOR + 10% for year 3; LIBOR + 12% for year 4; LIBOR floor of 3%
Fees	2% of principal balance outstanding on the date that is 12 months after the Effective Date, 1% of principal balance outstanding on the date that is 18 months after the Effective Date, 1% of principal balance on the date that is outstanding on 24 months after the Effective Date; and other customary fees.
Security	The New Term Notes will be secured by a second lien on the ABL-type collateral pledged to secure the Exit Facility, and a first lien on substantially all of the remaining assets of the Reorganized Debtors, including first liens on all of the Reorganized Debtors' leasehold interests, equipment, investment property, intellectual property and general intangibles and all proceeds thereof. In the event of a dispute regarding whether, under the terms of a lease or applicable law (including bankruptcy law), the granting of a lien on such leasehold interest is

	permitted, then, the Requisite Term Lenders (as such term is defined in the Investment Agreement), in their sole discretion, may either (a) proceed to have the Bankruptcy Court determine, pursuant to the Confirmation Order, that such lien is permissible, or (b) require that the Creditors' Plan provide the collateral agent for the holders of the New Term Notes with such other rights with respect to the leasehold interest subject to the dispute as will result in the collateral agent receiving substantially similar benefits (as determined by the Requisite Term Lenders in their reasonable discretion) as a lien on such leasehold interest. If the Requisite Term Lenders seek such a determination by the Bankruptcy Court, and the Bankruptcy Court determines not to grant such lien, then it shall be a condition to confirmation that the Creditors' Plan provide the collateral agent for the holders of the New Term Notes receives substantially similar benefits (as determined by the Requisite Term Lenders in their reasonable discretion) as a lien on such leasehold interest.
Intercreditor	Lien priority and other rights with respect to Exit Facility will be set forth in an intercreditor agreement, which is to be reasonably satisfactory to the Term Lenders.
Representations, Warranties, Covenants, Events of Default	Customary for financings of this type. Gross total leverage test (total funded debt, excluding undrawn letters of credit and capital lease obligations, divided by fully loaded EBITDA) and a fixed charge coverage test (EBITDAR (fully loaded EBITDA plus rent) divided by fixed charges (cash interest expense, mandatory principal repayments plus taxes plus total rent expense)) to be tested quarterly and determined by reference to a business plan agreed upon by the Term Lenders and Investors, with a cushion of 30% to such plan through 2011, 25% for 2012, and 20% for 2013.

The form of the credit agreement governing the New Term Notes will be filed with the Bankruptcy Court as a Plan Document at least ten days prior to the voting deadline for the Creditors' Plan.

B. **New Common Units**

1. General

On the Effective Date, Reorganized BI-LO Holding will issue the number of New Common Units authorized to be distributed on the Effective Date. Each Term Lender, as well as C&S and the Investors, will be required to execute the Reorganized BI-LO Holding LLC Agreement as a condition to receiving any New Common Units and becoming a member of Reorganized BI-LO Holding. The form of the Reorganized BI-LO Holding LLC Agreement will be filed with the Bankruptcy Court as a Plan Document at least ten days prior to the voting deadline for the Creditors' Plan.

The holders of New Common Units will have certain rights as equity holders of Reorganized BI-LO Holding. These include the right to receive any dividends or distributions of Reorganized BI-LO Holding (such dividends and distributions to be made by the board of managers in its sole discretion). In addition to the restrictions on transfer described below, there are several other provisions affecting the ownership of the New Common Units which are more fully described in the Reorganized BI-LO Holding LLC Agreement, including the payment of management fees to Wellspring and Bayside, and certain registration rights of the members following an initial public offering of the equity interests in Reorganized BI-LO Holding (an "IPO").

2. Restrictions on Transfer

The New Common Units may be subject to significant transfer restrictions prior to an IPO. These restrictions will be fully described in the Reorganized BI-LO Holding LLC Agreement and will generally provide that: (a) no transfers will be permitted without the approval of the board of managers and the holders of a majority of the Reorganized BI-LO Holding's outstanding equity interests to the extent that such transfers would cause the Reorganized BI-LO Holding to become subject to the reporting requirements of any securities laws, or would be reasonably likely to result in the loss of any licenses or approvals that are material to Reorganized BI-LO Holding or its subsidiaries; (b) any transfers during the first 30 months following the execution of the Reorganized BI-LO Holding LLC Agreement (the "ROFR Period") by a holder of the New Common Units to a third party shall be subject to a right of first refusal in favor of (i) first, Reorganized BI-LO Holding and (ii) second, Wellspring and Bayside; and (c) any transfers following the ROFR Period shall be subject to a right of first offer in favor of (i) first, Reorganized BI-LO Holding and (ii) second, Wellspring and Bayside.

The holders of New Common Units (the "Members") will also be subject to drag along rights whereby the board of managers may cause all of the Members to sell all or a portion of their equity interests in Reorganized BI-LO Holding, on a pro rata basis, or otherwise support a sale of all or substantially all of the assets of Reorganized BI-LO Holding to a buyer that is not affiliated with Wellspring or Bayside if such a sale would result in a change of control of the Reorganized BI-LO Holding.

Additionally, in connection with the proposed sale of equity interests of Reorganized BI-LO Holding by any holder of New Common Units that holds more than 18% of the aggregate amount of equity interests then outstanding in any transaction or series of related transactions, prior to an IPO the other Members will be entitled to exercise tag along rights on a pro rata basis, subject to the same terms and conditions.

3. Tax Matters

Reorganized BI-LO Holding will be a Delaware limited liability company that will elect to be treated as of the Effective Date as a corporation for all federal income tax purposes, unless Wellspring and all of the Term Lenders agree that the limited liability company should be treated as a pass-thru entity for tax purposes.

The tax treatment of Reorganized BI-LO Holding cannot be changed prior to an IPO without the consent of the members who are Term Lenders and Investors on the Effective Date, or is a transferee that is an affiliate of such Term Lenders or Investors.

4. Securities Laws Matters

a. Exemptions from Registration Requirements for Initial Offer and Sale

Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under the federal Securities Act and state securities laws if three principal requirements are satisfied:

- the securities must be securities of the debtor, an affiliate participating in a joint plan with the debtor or a successor to the debtor under the plan;
- the recipients of the securities must hold a prepetition or administrative expense claim against the debtor or an interest in the debtor or an affiliate participating in a joint plan with the debtor; and

- the securities must be issued entirely in exchange for the recipient's claim against or interest in the debtor or an affiliate participating in a joint plan with the debtor, or principally in such exchange and partly for cash or other property.

The Creditors' Plan Proponents believe that the provisions of section 1145(a)(1) of the Bankruptcy Code exempt the offer and sale of New Common Stock to the Term Lenders under the Creditors' Plan from federal and state securities registration requirements. In addition, the Creditors' Plan Proponents believe that such provisions exempt the offer and sale of New Common Units to C&S as contemplated by the Creditors' Plan from such registration requirements, and that other available exemptions exempt the offer and sale of New Common Stock to the Investors as contemplated by the Creditors' Plan from such registration requirements. Accordingly, no registration statement will be filed under the Securities Act or any state securities laws, with respect to the offer and sale of New Common Units in connection with the Creditors' Plan.

NEITHER THE SEC NOR ANY STATE SECURITIES REGULATOR HAS PASSED UPON THE AVAILABILITY OF SUCH EXEMPTIONS OR UPON THE ACCURACY OR ADEQUACY OF ANY STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT.

b. Exemption from Registration Requirements for Subsequent Transfers

In general, because under section 1145(c) of the Bankruptcy Code New Common Units offered and sold to the Term Lenders under the Creditors' Plan will be deemed to have been publicly offered, all resales and subsequent transactions in such securities will be exempt from registration under the Securities Act pursuant to section 4(1) thereof, unless the holder thereof is deemed to be an "affiliate" of Reorganized BI-LO Holding or otherwise is deemed to be an "underwriter" with respect to such securities under section 2(11) of the Securities Act.

Pursuant to section 1145(b) of the Bankruptcy Code, the following persons will be considered to be "underwriters" under section 2(11) of the Securities Act:

- persons who purchase a claim against, an interest in or a claim for administrative expense against a debtor with a view to distributing any security received in exchange for such claim or interest;

- persons who offer to sell securities offered or sold under a plan for the holders of such securities;

- persons who offer to buy securities offered or sold under a plan from the holders of such securities, if the offer to buy is both with a view to distributing such securities and under an agreement made in connection with the plan, with the consummation of the plan or with the offer or sale of securities under the plan; and

- a person who is an "issuer" with respect to the securities, as defined in section 2(11) of the Securities Act.

Under section 2(11) of the Securities Act, an "issuer" includes any "affiliate" of the issuer. Rule 144 under the Securities Act defines "affiliate" of an issuer as any person directly, or indirectly through one or more intermediaries, controlling, controlled by or under common control with the issuer. Whether or not any particular person would be deemed to be an "affiliate" of Reorganized BI-LO Holding or otherwise would be deemed to be an "underwriter" with respect to securities offered and sold under the Creditors' Plan would depend upon various facts and circumstances applicable to that person. Accordingly, the Creditors' Plan Proponents express no view as to whether any person would be deemed to be an "affiliate" of Reorganized BI-LO Holding or otherwise would be deemed to be an "underwriter" with respect to any securities.

State securities laws generally provide registration exemptions for subsequent transfers by a bona fide owner for the owner's own account and subsequent transfers to institutional investors. Such exemptions generally are expected to be available for subsequent transfers of the New Common Units distributed to the Term Lenders under the Creditors' Plan.

GIVEN, AMONG OTHER THINGS, THE COMPLEX NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON MAY BE AN "AFFILIATE" OF REORGANIZED BI-LO HOLDING OR OTHERWISE MAY BE AN "UNDERWRITER" WITH RESPECT TO NEW COMMON UNITS OFFERED AND SOLD UNDER THE CREDITORS' PLAN, THE CREDITORS' PLAN PROPONENTS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN SUCH SECURITIES UNDER APPLICABLE SECURITIES LAWS AND RECOMMEND THAT HOLDERS OF CLAIMS CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES UNDER APPLICABLE SECURITIES LAWS.

Notwithstanding the foregoing, under the terms of the Reorganized BI-LO Holding LLC Agreement, transferability of New Common Units will be limited.

Persons intending to transfer New Common Units are urged to consult their own counsel as to the applicability of the provisions of the Reorganized BI-LO Holding LLC Agreement to any particular circumstances.

VIII. CONFIRMATION AND IMPLEMENTATION OF THE CREDITORS' PLAN

A. General

As discussed in greater detail in Part A of this Joint Disclosure Statement, in order for a chapter 11 plan to be confirmed, a creditor vote is held, followed by a hearing before the Bankruptcy Court to determine whether all the other legal requirements under the Bankruptcy Code for confirmation have been satisfied.

In addition, most chapter 11 plans contain certain additional conditions to confirmation, and these conditions are contained in the plan itself. After these conditions have been met, and the plan has been confirmed, it does not become effective until further conditions (also contained in the plan itself) are satisfied. Once these conditions are satisfied (the "effective date" of a plan), the plan becomes binding on all persons according to its terms. The debtor's business is considered to have emerged from bankruptcy and is no longer subject to the rules and constraints of chapter 11, or the supervision of the Bankruptcy Court.

B. Confirmation

Part A of this Joint Disclosure Statement contains a more detailed discussion of the legal requirements for confirmation of a chapter 11 plan. The Creditors' Plan Proponents believe that the Creditors' Plan will satisfy these requirements.

As described in Part A, one of these requirements is that the plan provide a recovery to every creditor or equity holder that is at least equal to what that party would receive if the debtor were liquidated under chapter 7 of the Bankruptcy Code, a test known as the "best interests" test. The Debtors have undertaken a "best interests" analysis of the likely recoveries to creditors if they were liquidated under chapter 7. Attached as Exhibit 4 to Part A of this Joint Disclosure Statement is the "best interest" analysis that the Debtors prepared, showing the estimated recoveries to creditors in a hypothetical chapter 7 liquidation. The Creditors' Plan Proponents believe that they will be able to demonstrate at the Confirmation Hearing that the Creditors' Plan provides recoveries that are greater than what would be received if the Debtors were liquidated, and so satisfies this requirement

Another requirement is applicable if a plan proponent seeks to confirm a plan that has not been accepted by all classes, but has been accepted by at least one class that does not receive a full recovery under the plan. Known colloquially as a "cram down" plan, the Bankruptcy Code requires that such a plan (i) not discriminate unfairly in its relative treatment of claims and equity interests, and (ii) be "fair and equitable" in respecting the relative legal priorities of holders of claims and equity interests. The Creditors' Plan Proponents believe that they will be able to demonstrate at the Confirmation Hearing that the Creditors' Plan does not discriminate unfairly, and is fair and equitable.

Assuming the Creditors' Plan meets the statutory requirements for confirmation under the Bankruptcy Code, it cannot be considered confirmed unless the Bankruptcy Court's order confirming the plan (usually a lengthy and detailed document) as well as all other Plan Documents, are in a form that is reasonably satisfactory to the Creditors' Plan Proponents and to Wellspring.

As set forth in detail in Section 4.2 of the Creditors' Plan, the Bankruptcy Court order confirming the Creditors' Plan will, as of the Effective Date, discharge all prepetition claims and liabilities of the Debtors and terminate all prepetition equity interests. This order will operate as an injunction (i.e., a prohibition) against all entities from suing or otherwise seeking to collect on the Debtors' prepetition claims, liabilities, or equity interests, or from prosecuting actions against any party released or exculpated under the Creditors' Plan.

C. **Conditions to Effectiveness**

The Creditors' Plan will become effective when each of the following conditions have been satisfied (or waived as provided in Section 4.1(c) of the Creditors' Plan):

- The Confirmation Order has become a Final Order, meaning it cannot be appealed, and there is no judicial order stopping the Creditors' Plan from becoming effective.
- The conditions to the Investors' obligation to make the $79.5 million investment in Reorganized BI-LO Holding have been satisfied. These conditions are contained in Article III of the Investment Agreement, a copy of which is attached as Exhibit B to this Part B of the Joint Disclosure Statement, and include the following requirements:
  - The Term Lenders and the Official Creditors' Committee must have performed all their obligations under the Investment Agreement;
  - The Confirmation Order must have been entered on the Bankruptcy Court's docket within 60 days of the commencement of the vote solicitation process (although this deadline can be extended by another 45 days if at least one class of impaired creditors has voted to accept the plan and the Confirmation Hearing was commenced – though not concluded – within the initial 60 day period);
  - The Creditors' Plan has satisfied all other conditions to effectiveness by the earlier of 20 days after the entry of the Confirmation Order, or April 2, 2010;
  - No "Material Adverse Effect" with respect to the Debtors or their business has occurred. This term is defined in detail in Section 11.1 of the Investment Agreement, but is generally intended to cover extremely negative events that may have transpired since the signing of the Investment Agreement which have significantly damaged the Debtors' entire business or have seriously hindered the ability of the parties to go forward with the investment transaction;
  - Wellspring must have been able to obtain a commitment by a lender or lenders for a new $125 million working capital facility for the Reorganized Debtors, and all conditions that the lender(s) imposed on the commitment have been satisfied so that it can be available immediately;

    - The new supply agreement with C&S must be in place; and
    - Any governmental requirements for the investment and the Creditors' Plan have been satisfied.

- The Creditors' Plan has not been materially amended, altered or modified from the version confirmed by the Confirmation Order, without Wellspring's consent.

These conditions to effectiveness can be waived by the Creditors' Plan Proponents, other than the conditions in the Investment Agreement to the Investor's obligation to make the $79.5 million investment. Those latter conditions can be waived if each of the Creditors' Plan Proponents and the Investors agree to do so.

The Creditors' Plan also provides that if these conditions to effectiveness have not been satisfied or waived by August 17, 2010, then the Creditors' Plan Proponents can withdraw the plan and the confirmation order will be "vacated" (cancelled).

As of the date of this Joint Disclosure Statement, the Creditors' Plan Proponents believe that the conditions to effectiveness can and will be satisfied.

D. Implementation of the Creditors' Plan

A number of actions will be taken on the Effective Date to implement the Creditors' Plan, including the following:

- Execution of various corporate and loan documents, including the Reorganized Debtor LLC Agreements, the Registration Rights Agreement, the credit agreement governing the New Term Notes, the Exit Facility Agreement, the New Intercreditor Agreement, New C&S Agreement, the Trust Agreement, and the Management Services Agreement.

- Transfer of the Trust Assets to the Creditors' Trust.

- Issuance of the New Common Units to the Term Lenders, after any adjustments related to any Term Lender's exercise of its Term Lender Liquidity Right or its Term Lender Investment Right.

- Issuance of the C&S New Common Units to C&S.

- Issuance of the New Term Notes to the Term Lenders.

- Installation of the initial managers and election of the initial officers of the Reorganized Debtors.

- Implementation of the Restructuring Transactions (as defined in Section 1.1(a) of the Creditors' Plan), if any, to make changes to the corporate organization structure of the Debtors, including dissolving dormant or unnecessary subsidiaries.

- Subject to allowance by the Bankruptcy Court after the Effective Date, once the of Fee Claims of the legal and financial advisors to the Debtors and the Official Creditors' Committee in connection with their services rendered during these chapter 11 cases have been allowed, they will be paid by the Reorganized Debtors.

- Reimbursement by the Reorganized Debtors to the Investors for the costs the Investors incurred in obtaining the Exit Facility for the Reorganized Debtors. The Reorganized Debtors will also pay the reasonable costs and expenses of the Investors and their affiliates incurred during these chapter 11 cases in connection with the Creditors' Plan and the Investment Agreement, as well as customary post-Effective Date matters, up to a cap of $3 million.

- Reimbursement by the Reorganized Debtors of the "Deferred Fee" owed by the Term Lender Committee to Houlihan Lokey as the committee's financial advisor, and reimbursement of the Term Lenders' reasonable costs and expenses incurred in connection with arranging the Exit Facility for the Reorganized Debtors an for addressing customary Effective Date closing matters.

- Dissolution of the Official Creditors' Committee and release of its members from all of their duties in connection with these chapter 11 cases, other than to be involved in the process of determining allowed Fee Claims and any challenges to the Creditors' Plan or appeals of the Confirmation Order.

IX. THE REORGANIZED DEBTORS

A. Business

Following the implementation of the Creditors' Plan, the Reorganized Debtors will operate in excess of approximately 200 supermarkets in the southeastern United States largely in accordance with the Debtors' existing business plan. The Reorganized Debtors, however, will emerge from chapter 11 with significantly reduced leverage and enhanced liquidity as a result of the investment of significant new equity capital in connection with the Creditors' Plan. In addition to the improved balance sheet, the Reorganized Debtors will have a revised supply agreement with their largest vendor, C&S, providing more favorable terms than C&S's prior supply agreement.

B. Financial Projection

Attached as Exhibit C to this Part B of the Joint Disclosure Statement are certain financial projections for the Reorganized Debtors after their emergence from bankruptcy that were prepared by Houlihan Lokey, the financial advisor to the Term Lender Committee. These projections are dependent on the validity of the assumptions underlying the financial projections, but the Creditors' Plan Proponents believe the assumptions are reasonable as of the date of this Joint Disclosure Statement.

C. Liquidity and Capital Structure

The Reorganized Debtors will have access to up to $125 million under the Exit Facility, which is anticipated to be substantially undrawn upon exiting bankruptcy, thus providing significant liquidity for the company's operations. The Creditors' Plan Proponents anticipate that this new credit facility will be secured by the same type of collateral as the prepetition working capital facility.

Other than trade debt and small amounts of miscellaneous secured debt, the Reorganized Debtors' total debt as of the Effective Date is anticipated to be only the drawn portion of the Exit Facility, and $164.1 million in New Term Notes.

D. Ownership

The ownership of the Reorganized Debtors, assuming that no Term Lenders elect to participate in the Term Lender Liquidity Right or the Term Lender Investment Right, will be 51.9% owned by the Investors, 43.1% owned by the Term Lenders (including certain Term Lenders that are affiliated with the Investors), and 5% owned by C&S. The Creditors' Plan Proponents understand that the Investors will each own approximately equal percentages of the New Common Units. The equity interests of the Investors, Term Lenders, and C&S will be subject to dilution by any equity issued pursuant to any employee incentive plan that is implemented for the Reorganized Debtors.

If, however, all of the eligible Term Lenders elect to participate in the Term Lender Investment Right, the Term Lenders (including the Term Lenders affiliated with the Investors) would own ___% of the New Common Units and the Investors would own ___% of the New Common Units. Conversely, if

all of the eligible Term Lenders elect to participate in the Term Lender Liquidity Right, the Term Lenders (including the Term Lenders affiliated with the Investors) would own [__]% of the New Common Units and the Investors would own ___% of the New Common Units.

E. **Governance**

On the Effective Date, the initial board of managers of Reorganized BI-LO Holding will be comprised of seven members: (i) four of whom will be designated by Wellspring, one of which will be an industry executive, and (ii) three of whom will be designated by the Term Lenders (other than Term Lenders affiliated with the Investors) and Bayside, *provided* that Bayside (unless Wellspring has assumed Bayside's obligations under the Investment Agreement) will designate one of these three members. The identities and affiliations of all board members on the Effective Date will be disclosed in a filing with the Bankruptcy Court at or prior to the Confirmation Hearing.

Each individual serving as an officer of BI-LO Holding immediately prior to the Effective Date will hold the same office with Reorganized BI-LO Holding on and after the Effective Date, unless changes are made by the board of managers of Reorganized BI-LO Holding on or after the Effective Date.

On the Effective Date, the initial board of managers of Reorganized BI-LO Holding will appoint the managers of the initial board of managers of each of the other Reorganized Debtors. Thereafter, the method of selection of managers for the boards of each of the Reorganized Debtors will be as provided in their organizational documents.

Each individual serving as an officer of a Debtor other than BI-LO Holding immediately prior to the Effective Date will hold the same office with the applicable Reorganized Debtor on and after the Effective Date, unless changed by the Reorganized Debtor's board of mangers after the Effective Date.

X. CERTAIN FEDERAL INCOME TAX ISSUES RELATED TO THE CREDITORS' PLAN

A. **General**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, EACH HOLDER OF A CLAIM OR AN INTEREST IS HEREBY NOTIFIED THAT (1) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY HOLDER OF A CLAIM OR AN INTEREST FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A HOLDER OF A CLAIM OR AN INTEREST UNDER THE IRC; (2) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE SOLICITATION OF VOTES ACCEPTING THE CREDITORS' PLAN; AND (3) A HOLDER OF A CLAIM OR AN INTEREST SHOULD SEEK ADVICE BASED UPON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

A DESCRIPTION OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE CREDITORS' PLAN IS PROVIDED BELOW. THE DESCRIPTION IS BASED ON THE IRC, TREASURY REGULATIONS, JUDICIAL DECISIONS AND ADMINISTRATIVE DETERMINATIONS, ALL AS IN EFFECT ON THE DATE OF THIS DISCLOSURE STATEMENT AND ALL SUBJECT TO CHANGE, POSSIBLY WITH RETROACTIVE EFFECT. CHANGES IN ANY OF THESE AUTHORITIES OR IN THEIR INTERPRETATION COULD CAUSE THE FEDERAL INCOME TAX CONSEQUENCES OF THE CREDITORS' PLAN TO DIFFER MATERIALLY FROM THE CONSEQUENCES DESCRIBED BELOW.

THE FEDERAL INCOME TAX CONSEQUENCES OF THE CREDITORS' PLAN ARE COMPLEX AND IN IMPORTANT RESPECTS UNCERTAIN. NO RULING HAS BEEN REQUESTED FROM THE INTERNAL REVENUE SERVICE (THE "IRS"); NO OPINION HAS

BEEN REQUESTED FROM COUNSEL TO THE CREDITORS' PLAN PROPONENTS CONCERNING ANY TAX CONSEQUENCE OF THE CREDITORS' PLAN; AND NO TAX OPINION IS GIVEN BY THIS DISCLOSURE STATEMENT.

THE DESCRIPTION THAT FOLLOWS DOES NOT COVER ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO THE DEBTORS OR HOLDERS OF CLAIMS OR INTERESTS. FOR EXAMPLE, THE DESCRIPTION DOES NOT ADDRESS ISSUES OF SPECIAL CONCERN TO CERTAIN TYPES OF TAXPAYERS, SUCH AS DEALERS IN SECURITIES, LIFE INSURANCE COMPANIES, FINANCIAL INSTITUTIONS, TAX EXEMPT ORGANIZATIONS AND NON-U.S. TAXPAYERS (EXCEPT TO THE EXTENT PROVIDED BELOW), NOR DOES IT ADDRESS TAX CONSEQUENCES TO HOLDERS OF EQUITY INTERESTS IN THE DEBTORS OR HOLDERS OF BANKRUPTCY CODE SECTION 510(b) CLAIMS AGAINST THE DEBTORS. IN ADDITION, THE DESCRIPTION DOES NOT DISCUSS STATE, LOCAL, NON-U.S., OR NON-INCOME TAX CONSEQUENCES.

FOR THESE REASONS, THE DESCRIPTION THAT FOLLOWS IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND PROFESSIONAL TAX ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM OR INTEREST. HOLDERS OF CLAIMS OR INTERESTS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE CREDITORS' PLAN.

B. **U.S. Federal Income Tax Consequences to the Debtors**

The Creditors' Plan Proponents believe, based upon the filings made by the Debtors in the Chapter 11 Cases, that each of the Debtors is a "disregarded entity" for federal income tax purposes; in other words, each of the Debtors is a single-member limited liability company that, pursuant to Treasury Regulations Section 301.7701-2(c)(2)(i), is disregarded for income tax purposes as an entity separate from its sole owner, LSF5 BI-LO Investments, LLC (the "Non-Debtor Parent," which the Creditors' Plan Proponents believe is an entity that is taxed as a corporation).

As disregarded entities, all of the Debtors' income, gain, loss, assets, liabilities, operations, and activities, including accumulated net operating losses ("NOLs"), are imputed to the Non-Debtor Parent and reflected on its federal income tax return, and the Debtors are deemed not to exist for federal income tax purposes. Accordingly, the Non-Debtor Parent, not the Debtors, would recognize any cancellation of debt ("COD") income triggered by the Creditors' Plan. The Non-Debtor Parent would also retain any NOLs and other Tax attributes that survive the effectiveness of the Plan, subject to limitations.

The Creditors' Plan provides that Reorganized BI-LO Holding will emerge as a Delaware limited liability company, which shall elect to be treated as a corporation for federal income tax purposes as of the Effective Date unless Wellspring and all of the Term Lenders jointly determine that such limited liability Company shall be treated as a pass-thru entity for tax purposes. If Reorganized BI-LO Holding elects to be treated as a corporation, the Non-Debtor Parent will be deemed, for federal income tax purposes, to have contributed the Debtors' assets, subject to the Debtors' liabilities, to Reorganized BI-LO Holding in exchange for New Common Units and as transferring those New Common Units to the holders of Claims entitled to receive them under the Creditors' Plan. Because the Non-Debtor Parent would not have "control" of Reorganized BI-LO Holding after the deemed distribution, IRC Section 351's non-recognition provisions would not apply, the Non-Debtor Parent would recognize gain or loss on the deemed transfer of the Debtor assets, and Reorganized BI-LO Holding would take a basis in those assets equal to their fair market values on the Effective Date.

If Reorganized BI-LO Holding does not elect to be treated as a corporation for federal income tax purposes, it will be treated as a partnership for such purposes. In that event, IRC Section 721's non-recognition provisions would generally apply to the Non-Debtor Parent's deemed transfer of the Debtors' assets to Reorganized BI-LO Holding, the Non-Debtor Parent would recognize gain or loss on the deemed

transfer of the New Common Units received in exchange to the holders of claims entitled to receive them under the Creditors' Plan, and Reorganized BI-LO Holding's basis in the Debtor's assets would equal the basis of those assets immediately before their deemed transfer by the Non-Parent Debtor.

C. **U.S. Federal Tax Consequences to Creditors**

The federal income tax consequences of the Creditors' Plan to a holder of a claim will depend, in part, on whether the claim constitutes a "tax security" for federal income tax purposes, what type of consideration was received in exchange for the claim, whether the holder reports income on the accrual or cash basis, whether the holder has taken a bad debt deduction or worthless security deduction with respect to the claim and whether the holder receives distributions under the Creditors' Plan in more than one taxable year.

There is no precise definition of the term "security" under the federal income tax law. Rather, all facts and circumstances pertaining to the origin and character of a claim are relevant in determining whether it is a security. Nevertheless, courts generally have held that a debt instrument having a term of less than five years will not be considered a tax security, while corporate debt evidenced by a written instrument and having an original maturity of ten years or more will be considered a tax security.

None of the exchanges occurring under the Creditors' Plan with respect to holders of claims in Classes 3, 4, or 5 is expected to constitute tax-free exchanges of securities.

1. Holders of Allowed Claims in Class 3

Under the Creditors' Plan, holders of Allowed Term Lender Claims in Class 3 will receive New Term Notes, New Common Units, cash in lieu of New Common Units (if the holder has elected to participate in the Term Lender Liquidity Right), and additional New Common Units (if the holder has elected to participate in the Term Lender Investment Right) and will retain cash received in respect of "adequate protection" payments.

A holder of an Allowed Term Lender Claim in Class 3 would recognize gain or loss in an amount equal to the difference between (a) the fair market value of the New Common Units, plus the issue price of the New Term Notes, plus the amount of any cash received by the holder in satisfaction of its claim (other than any claim for accrued but unpaid interest) and (b) the holder's adjusted tax basis in its Allowed Claim (other than any claim for accrued but unpaid interest).

Generally, any gain or loss recognized by a holder of an Allowed Term Lender Claim in Class 3 would be a long term capital gain or loss if the claim is a capital asset in the hands of the holder and the holder has held such Claim for more than one year, unless the holder had previously claimed a bad debt or worthless securities deduction or the holder had accrued market discount with respect to such claim. See "Market Discount" below for a discussion of the character of any gain recognized from a claim with accrued market discount.

Following the Effective Date, a holder of an Allowed Term Lender Claim in Class 3 will be required to recognize interest income on the New Term Notes in accordance with its regular method of tax accounting. If the New Term Notes are issued with original issue discount ("OID") the holder would be required to recognize the OID over the term of the New Term Notes, in advance of the holder's receipt of the associated cash.

Each holder of an Allowed Term Lender Claim in Class 3 that is not a United States person (as defined in the IRC) is urged to consult its tax advisor regarding the tax treatment of its distributions under the Creditors' Plan, which would generally depend, in part, on whether (a) the holder is an individual who was present in the U.S. for 183 days or more during the taxable year and such holder has a "tax home" in the U.S. and certain conditions are met, and (b) such gain is effectively connected with

such holder's conduct of a trade or business within the U.S. (and if an income tax treaty applies, such gain is attributable to a permanent establishment maintained by such holder in the U.S.).

2. Holders of Allowed Claims in Class 4

As described above in "The Creditors' Trust – Costs and Expenses; Tax Matters," the Creditors' Trust is intended to be treated for U.S. federal income tax purposes (a) in part as a liquidating trust within the meaning of Treasury Regulations Section 301.7701-4(d) for the benefit of the holders of Allowed General Unsecured Claims in Class 4 and (b) in part as one or more Disputed Claims reserves taxed as discrete trusts pursuant to Section 641 et seq. of the IRC. Accordingly, except as to any Disputed Claims reserves (discussed below), for U.S. federal income tax purposes, the transfer of the Trust Assets to the Creditors' Trust will be treated as a transfer of the Trust Assets from the Debtors to the holders of Allowed General Unsecured Claims in Class 4, subject to any liabilities of the Debtors or the Creditors' Trust payable from the proceeds of such assets, followed by such holders' transfer of such assets (subject to such liabilities) to the Creditors' Trust. Thus, each holder of an Allowed General Unsecured Claim in Class 4 on the Effective Date should be treated as transferring its Claim to the Debtors in exchange for its Pro Rata share of the Trust Assets (subject to any Creditors' Trust liabilities), followed by the holder's transfer of such assets (subject to such liabilities) to the Creditors' Trust.

The holder should recognize gain or loss equal to the difference between the fair market value of its Pro Rata Share of the Trust Assets (reduced to reflect any liabilities to which such assets are subject) and the holder's adjusted basis in its Allowed General Unsecured Claim in Class 4. The tax basis of the Trust Assets deemed received in the exchange will equal the amount realized by the holder, and the holding period for such assets will begin on the day following the exchange. A holder's gain or loss generally would be a long-term capital gain or loss if the holder's Claim is a capital asset in the hands of the holder and the holder has held such Claim for more than one year, unless the holder had previously claimed a bad debt or worthless securities deduction or the holder had accrued market discount with respect to such Claim. See "Market Discount" below for a discussion of the character of any gain recognized from a Claim with accrued market discount. See "Installment Method" below for a discussion of the potential deferral of any such gain or loss.

The holders of Allowed General Unsecured Claims in Class 4 will thereafter be treated for U.S. federal income tax purposes as the grantors and deemed owners of their Pro Rata Shares of the Trust Assets (subject to the liabilities of the Creditors' Trust) and any income or earnings thereon as of the date of the transfer of such Trust Assets to the Creditors' Trust. Each holder of an Allowed General Unsecured Claim in Class 4 will be required to include in its annual taxable income, and pay Tax to the extent due on, its Pro Rata Share of each item of income, gain, loss, deduction or credit recognized by the Creditors' Trust (including interest income or dividend income earned on bank accounts and other investments), and the Trustee of the Creditors' Trust will allocate such items to the holders using a reasonable allocation method. If the Creditors' Trust sells or otherwise disposes of a Trust Asset in a transaction in which gain or loss is recognized, each holder of an Allowed General Unsecured Claim in Class 4 will be required to include in income gain or loss equal to the difference between (i) the holder's Pro Rata Share of the Cash or property received in exchange for the asset sold or otherwise disposed of, and (ii) the holder's adjusted basis in the holder's Pro Rata Share of the asset. The character and amount of any gain or loss will be determined by reference to the character of the asset sold or otherwise disposed of. Holders of Allowed General Unsecured Claims in Class 4 will be required to report any income or gain recognized on the sale or other disposition of a Trust Asset whether or not the Creditors' Trust distributes the sales proceeds currently and may, as a result, incur a tax liability before the holder receives a distribution from the Creditors' Trust.

Notwithstanding the foregoing, income and gain recognized with respect to the Trust Assets in any Disputed Claims reserve will be subject to an entity-level tax to the extent the income or gain is not distributed to holders of Allowed General Unsecured Claims in Class 4 within the same taxable year, and distributions from Disputed Claims reserves will be made net of such entity-level tax.

3. Holders of Allowed Claims in Class 5

A holder of an Allowed Convenience Claim in Class 5 would recognize gain or loss in an amount equal to the difference between (a) the amount of Cash it receives in exchange for its Claim (other than any Claim for accrued but unpaid interest) and (b) the holder's adjusted tax basis in its Claim (other than any Claim for accrued but unpaid interest).

Such gain or loss generally would be a long term capital gain or loss if the Claim is a capital asset in the hands of the holder and the holder has held such Claim for more than one year, unless the holder had previously claimed a bad debt or worthless securities deduction or the holder had accrued market discount with respect to such Claim. See "Market Discount" below for a discussion of the character of any gain recognized from a Claim with accrued market discount. See "Installment Method" below for a discussion of the potential deferral of any such gain or loss.

D. Certain Other Tax Consequences for Creditors

1. Pre-Effective Date Interest

In general, a creditor that was not previously required to include in its taxable income any accrued but unpaid pre-Effective Date interest on its claim may be required to take such amount into income as taxable interest upon receiving a distribution with respect to such interest. A creditor that was previously required to include in its taxable income any accrued but unpaid pre-Effective Date interest on the claim may be entitled to recognize a deductible loss to the extent that such interest is not satisfied under the Creditors' Plan.

The Creditors' Plan provides that, to the extent applicable, all distributions or payments to a holder of an allowed claim will apply first to the principal amount of such claim until such principal amount is paid in full and then to any interest accrued on such claim as of the Commencement Date and thereafter, to the extent the distribution is sufficient to satisfy such principal and interest accrued as of the Commencement Date, to any interest accrued on such claim from the Commencement Date through the Effective Date, until paid in full. There is no assurance, however, that the IRS will respect this treatment and will not determine that all or a portion of amounts distributed to such holder is properly allocable to prepetition interest.

Each holder of a claim on which interest has accrued is urged to consult its tax advisor regarding the tax treatment of its distributions under the Creditors' Plan and the deductibility of any accrued but unpaid interest for federal income tax purposes.

2. Post-Effective Date Interest

Certain holders of claims may receive distributions subsequent to the Effective Date. The imputed interest provisions of the IRC may apply to treat a portion of any post-Effective Date distribution as imputed interest. Imputed interest may, with respect to certain holders, accrue over time using the constant interest method, in which event the holder may, under some circumstances, be required to include imputed interest in income prior to receipt of a distribution.

3. Reinstatement of Claims

Creditors whose claims will be reinstated generally would not recognize gain, loss or other taxable income upon the reinstatement of their claims under the Creditors' Plan. Taxable income, however, may be recognized by those holders if they are considered to receive interest, damages or other income in connection with the reinstatement or if the reinstatement is considered for tax purposes to involve a substantial modification of the claim.

4. Bad Debt Deduction

A creditor who, under the Creditors' Plan, receives on account of a claim an amount less than the creditor's tax basis in the claim may be entitled in the year of receipt (or in an earlier year) to a bad debt deduction in some amount under IRC Section 166(a). The rules governing the character, timing and amount of bad debt deductions place considerable emphasis on the facts and circumstances of the holder, the obligor, the instrument or claim, and the transaction establishing the loss with respect to which a deduction is claimed.

Creditors are urged to consult their tax advisors with respect to their ability to take, and the amount and character of, such a deduction.

5. Market Discount

A creditor that purchased its claim from a prior holder with market discount will be subject to the market discount rules of the IRC. Under those rules, assuming that the creditor has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of its claim (subject to a de minimis rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such claim as of the date of the exchange.

6. Installment Method

A creditor whose claim constitutes an installment obligation for tax purposes may be required to recognize currently any gain remaining with respect to the obligation if, pursuant to the Creditors' Plan, the obligation is considered to be satisfied at other than its face value, distributed, transmitted, sold, or otherwise disposed of within the meaning of IRC Section 453B.

In addition, certain holders of claims may be deemed to receive an installment obligation in satisfaction of their claims because of the potential additional payments such creditors would receive if one or more Disputed Claims are disallowed. Under the IRC's installment method of reporting, any loss and a portion of any gain realized by such a holder would be deferred until the holder has received its final distribution from the Creditors' Trust.

Holders of allowed claims are urged to consult their tax advisors regarding the possible application of, or ability to elect out of, the installment method of reporting gain that may be recognized in respect of a claim.

7. Information Reporting and Backup Withholding

All distributions under the Creditors' Plan will be subject to applicable federal income tax reporting and withholding. The IRC imposes "backup withholding" (currently at a rate of 28%) on certain "reportable" payments to certain taxpayers, including payments of interest. Under the IRC's backup withholding rules, a creditor may be subject to backup withholding with respect to distributions or payments made pursuant to the Creditors' Plan, unless the creditor (a) comes within certain exempt categories (which generally include corporations) and, when required, demonstrates this fact or (b) provides a correct taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that the taxpayer is not subject to backup withholding because of a failure to report all dividend and interest income. Backup withholding is not an additional federal income tax, but merely an advance payment that may be refunded to the extent it results in an overpayment of income tax. A creditor may be required to establish an exemption from backup withholding or to make arrangements with respect to the payment of backup withholding.

E. **Importance of Obtaining Professional Tax Assistance**

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE CREDITORS' PLAN, AND IS NOT A

SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE DISCUSSION IS FOR INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX CONSEQUENCES OF THE CREDITORS' PLAN.

XI. CERTAIN RISKS TO BE CONSIDERED IN CONNECTION WITH THE CREDITOR'S PLAN

Part A of this Joint Disclosure Statement contains a description of certain risks to creditors associated with the chapter 11 cases and a plan of reorganization, regardless of whether it is the Creditors' Plan or the Debtors' Plan that is ultimately confirmed. The following discussion focuses on risks that are specific to the Creditors' Plan. Creditors are advised to compare this discussion to the Debtors' discussion in Part C of this Joint Disclosure Statement of the risks that are specific to the Debtors' Plan.

The Creditors' Plan Might Not Be Confirmed

Although the Creditors' Plan Proponents believe that the Creditors' Plan will satisfy all requirements for confirmation under the Bankruptcy Code, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Furthermore, if both the Debtors' Plan and the Creditors' Plan satisfy the legal requirements for confirmation, the Bankruptcy Court will decide which plan will be confirmed, after taking into account the preferences of creditors and equity interest holders.

The Creditors' Plan Proponents Do Not Control the Activities of the Debtors

The Creditors' Plan Proponents do not control the activities of the Debtors, and there can be no assurances that the Debtors will take such actions as may be necessary to satisfy the various conditions to the confirmation and effectiveness of the Creditors' Plan.

The General Unsecured Claims May Be Allowed in Amounts Materially Different from the Estimates

This Disclosure Statement has been prepared based on preliminary information concerning filed claims and the Debtors' publicly filed schedules of assets and liabilities. Upon completion of more detailed analyses of filed claims, the actual amount of allowed claims may differ materially from the Creditors' Plan Proponents' current estimates.

Approximately __________ general unsecured claims were filed against the Debtors, totaling in excess of $_________, plus contingent and other unliquidated amounts. The Creditors' Plan Proponents believe that there may be valid objections to certain of the claims that have been filed, and that the ultimate allowed amounts of those claims will be significantly less than the asserted amount of such claims. The amount of disputed claims in these cases is expected to be material. These disputed claims, include, among other things, litigation claims and lease or contract rejection claims, including rejection claims filed by landlords in excess of the applicable statutory limitations upon such claims.

The Creditors' Plan Proponents' estimates of the recoveries set forth in this description of the Creditors' Plan are predicated on an estimate by the Official Creditors' Committee of $______ of total Class 4 General Unsecured Claims being allowed and $_____ of total Class 5 Convenience Claims being eventually allowed. There can be no assurance that this estimated amount of general unsecured claims is correct. The actual allowed amount of claims will likely differ in some respect from the estimates, and that difference could be material. The estimated amounts are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, the actual allowed amount of general unsecured claims may vary materially from these estimates.

Holders of allowed Class 4 General Unsecured Claims will receive a recovery from a finite amount of assets. While that amount is not presently known (as a result of, among other things, uncertainty about the value, if any, of the Trust Causes of Action, and the amount of the expenses of the Creditors' Trust), if individual Class 4 General Unsecured Claims are allowed in amounts in excess of estimates, the recovery to creditors in this class could be substantially diluted.

Risk Factors Relating to Securities Laws

Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a chapter 11 plan from registration under the Securities Act of 1933, as amended (the "Securities Act") and state securities laws if three principal requirements are satisfied: (i) the securities must be offered and sold under a chapter 11 plan and must be securities of the debtor, an affiliate participating in a joint plan with the debtor or a successor to the debtor under the plan; (ii) the recipients of the securities must hold a prepetition or administrative expense claim against the debtor or an interest in the debtor; and (iii) the securities must be issued entirely in exchange for the recipient's claim against or interest in the debtor, or principally in such exchange and partly for cash or property.

To the extent that the rights to distributions from the Creditors' Trust are deemed to constitute securities issued in accordance with the Creditors' Plan, the Creditors' Plan Proponents believe that such interests satisfy the requirements of section 1145(a)(1) of the Bankruptcy Code and, therefore, such interests are exempt from registration under the Securities Act and applicable state securities laws, but there can be no certainty on this matter.

Non-Transferability of Interests

Creditors holding Class 4 General Unsecured Claims should be aware that their rights to distribution from the Creditors' Trust are not transferable. Therefore, there will not be any trading market for those rights, nor will they be listed on any public exchange or other market. This lack of liquidity may have a negative impact on the value of these rights.

Expenses of the Creditors' Trust

The ultimate amount of cash available for distribution to beneficiaries of the Creditors' Trust depends, in part, on the manner in which the Trustee operates the Creditors' Trust, and the expenses the Trustee and the Trust Advisory Board incur. The expenses of the Trustee (including its professionals) and the Trust Advisory Board will be given priority over distributions to creditors. As a result, the amount of professional fees or other expenses will affect the amount of cash remaining to satisfy allowed claims.

Uncertainty of Value of Certain Creditors' Trust Assets

The ultimate amount of cash available for distribution to creditors holding Class 4 General Unsecured Claims will be affected by, among other things, whether, following the investigation of potential Trust Causes of Action, any are found to exist, and whether the Trustee pursues, and obtains a recovery on, those Trust Causes of Action. In addition, if Trust Causes of Action are pursued, the performance and relative success of the Trustee in pursuing the Trust Causes of Action is unknown, and there may be substantial delays in collecting cash on account of the Trust Causes of Action. The less successful the Trustee is in pursuing Trust Causes of Action, if any are pursued, the less cash there will be available for distribution to creditors holding Class 4 General Unsecured Claims. To be conservative, in estimating the recoveries to creditors holding Class 4 General Unsecured Claims, the Creditors' Plan Proponents have not assumed any recovery from the Trust Causes of Action.

In addition the amount of distribution to the creditors from the Creditors' Trust, will depend on the effects of any changes in tax and other government rules and regulations applicable to the Creditors' Trust.

Indebtedness

The Creditors' Plan provides for a significant deleveraging of the Debtors' balance sheet. However, the Reorganized Debtors will nevertheless be subject to significant indebtedness after the Effective Date. This indebtedness could adversely affect the Reorganized Debtors by reducing their flexibility to respond to changing business and economic conditions.

Risks Associated With A Lack of a Market for the New Term Notes and the New Common Units

There may not be a market for the New Term Notes or the New Common Units. On the Effective Date, the New Common Units will not be listed on any national securities exchange or quoted on any inter-dealer quotation system, and the Creditors' Plan Proponents do not anticipate that the shares will be so listed or quoted in the foreseeable future, thus restricting their marketability.

No assurance can be given that a holder of the New Term Notes or the New Common Units will be able to sell those securities in the future, or as to the price at which any such sale would occur. If a trading market were to develop, the liquidity of the market for these securities, and the prices at which these securities would trade, will depend upon many factors, including the number of holders, investor expectations, and other factors beyond the control of the Creditors' Plan Proponents.

Risks Associated With Restrictions on Transfers of the New Common Units

There are certain restrictions in the Reorganized BI-LO Holding organizational documents on the ability of the holders of the New Common Units to sell the New Common Units. The New Common Units will be subject to a right of first refusal for thirty months following the executing of the Reorganized BI-LO Holding LLC Agreement and a right of first offer thereafter, in each case prior to an initial public offering.

A Significant Amount of the New Common Units May Be Held by a Few Shareholders.

On the Effective Date, Reorganized BI-LO Holding will be controlled by Wellspring, which will have the right to designate four of the seven managers of Reorganized BI-LO Holding's board of managers, and Bayside which will have the right to designate one manager. In addition, the Investors will own between [___] (assuming that no Term Lenders participate in the Term Lender Investment Right) and all of the eligible Term Lenders exercise the Term Lender Liquidity Right) and [____] (assuming the eligible Term Lenders acquire $12 million in New Common Units pursuant to the Term Lender Investment Right, and no Term Lenders participate in the Term Lender Liquidity Rights) prior to giving effect to dilution for an employee incentive plan. In addition, entities affiliated with Wellspring and Bayside will acquire New Common Units on account of their Term Loan Claims. This concentration of ownership and control could facilitate or hinder a negotiated change of control of the Reorganized Debtors and, consequently, could have an impact on the value of the New Common Units.

Dividends on the New Common Units Are Not Anticipated.

The Creditors' Plan Proponents do not anticipate that cash dividends or other distributions will be paid with respect to the New Common Units in the foreseeable future. In addition, the Reorganized Debtors will be subject to loan covenants that will restrict their ability to pay dividends.

The Ability of the Company to Repay the New Term Notes Will Depend on the Company's Financial Performance in the Future.

The ability of the Reorganized Debtors to timely repay the New Term Notes will depend on the future performance of the Reorganized Debtors. Future performance is, to an extent, subject to general economic, financial, competitive, legislative, regulatory, and other factors that will be beyond the control of the Reorganized Debtors. Although there can be no assurances, the Creditors' Plan Proponents believe

that cash flow from operations, and the liquidity provided by the Exit Facility will be adequate to meet the future liquidity needs of the Reorganized Debtors.

Dated: December 21, 2009

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By its counsel:

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EXHIBIT A

Creditors' Plan

(to be provided)

EXHIBIT B

Wellspring Investment Agreement

(to be provided)

EXHIBIT C

Financial Forecast Assuming Confirmation of the Creditors' Plan

(to be provided)

EXHIBIT D

Houlihan Recovery Valuation Analysis

(to be provided)