

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

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| In Re |) | |
| CHARTER BEHAVIORAL HEALTH |) | Case Nos. 00-00989 (RRM) |
| SYSTEMS, LLC, <i>et al.</i> , |) | through 00-01089 (RRM), |
| |) | 00-10555 (RRM), and 00-02231 |
| Debtors and Debtors-in-Possession. |) | (RRM) through 00-02237 (RRM) |
| |) | Jointly Administered |
| |) | Chapter 11 |

OBJECTION DEADLINE: SEPTEMBER 12, 2001, 4:00 P.M. ET
HEARING DATE: SEPTEMBER 19, 2001, 10:00 A.M. ET

**NOTICE OF MOTION FOR ORDER APPROVING THE STIPULATION OF
SETTLEMENT WITH WARN ACT CLAIMANTS, CRESCENT REAL ESTATE
EQUITIES COMPANY, CRESCENT REAL ESTATE EQUITIES, LTD.,
CRESCENT REAL ESTATE EQUITIES LIMITED PARTNERSHIP,
CRESCENT OPERATING, INC. AND THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF THE DEBTORS**

TO: ALL CREDITORS AND PARTIES IN INTEREST

Charter Behavioral Health Systems, LLC, and its related debtor entities (collectively, the “**Debtors**”) have filed a motion (“**Motion**”) for an Order Approving a Stipulation of Settlement¹ (“**Settlement**”) with proposed Class Counsel for the Workers Adjustment and Retraining Notification Act Claims (“**WARN Act Claims**”), Crescent Real Estate Equities Company, Crescent Real Estate Equities, Ltd., Crescent Real Estate Equities Limited Partnership (collectively, “**Crescent**”), Crescent Operating, Inc. (“**COPI**”), and the Official Committee of Unsecured Creditors in the Debtors’ cases (“**Committee**”).

Deadlines.

Any objection or response to the Motion must be filed with the United States Bankruptcy Court for the District of Delaware, Marine Midland Plaza, 824 Market Street, 6th Floor, Wilmington, Delaware 19801, no later than 4:00 p.m. Eastern Daylight Time on September 12, 2001. At the same time, you must also serve a copy of any objection or response on: (1) John C. Lankenau, Esq., Stuart J. Miller, Esq., Sugar Law Center, 1740 Broadway, New York, NY 10019; (2) Ezra H. Cohen, Esq., Douglas E. Ernst, Esq., Harris B. Winsberg, Esq., Troutman Sanders LLP, Bank of America Plaza, 600 Peachtree Street, NE, Suite 5200, Atlanta, GA 30308-2216; (3) Thomas Catliota, Esq., Andrew Love, Esq., Shaw Pittman LLP, 2300 N. Street, NW, Washington, DC 20037-1128; (4) Michael Sheehan, Esq., Thompson & Knight LLP, 501 Cherry Street, Suite 1600, Fort Worth, TX 76102-6816; and (5) Ronald R. Peterson, Esq., Jenner & Block LLP, One IBM Plaza, Chicago, IL. 60611.

¹ Capitalized terms used herein will have the same meaning as set forth in the Settlement.

ANY PARTY WHO RECEIVES NOTICE OF THIS SETTLEMENT AND FAILS TO OBJECT TIMELY WILL FOREVER WAIVE ANY RIGHT TO OBJECT TO THE SETTLEMENT'S INCLUSION IN ANY PLAN OF LIQUIDATION SUBSEQUENTLY FILED BY THE DEBTORS.

A hearing on the Motion will be held on September 19, 2001, at 10:00 a.m. Eastern Daylight Time. IF YOU FAIL TO RESPOND TIMELY WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF DEMANDED IN THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

Summary of Settlement.

Under the WARN Act, a former employee might be entitled to a claim of up to 60 days pay if the employee did not receive 60 days prior notice of the closing of his or her workplace.

Approximately ten separate WARN related lawsuits involving potentially thousands of employees have been filed against the Debtors both before and after the bankruptcy in various states across the country. The Debtors denied liability under the WARN Act and prepared to litigate the issues presented. The Debtors then concluded that such litigation could be unusually time consuming (potentially delaying distribution to creditors for several years) and prohibitively expensive to the estates. The Debtors further concluded that based upon the facts of this case and the status of case law, either party could lose some or all of the matters at issue. Consequently, in order to administer efficiently these estates and to ensure at least partial payment on the WARN Act Claims, the Debtors and the Committee entered into negotiations with representatives of the WARN Act claimants. The Settlement is the result of those negotiations.

In the Motion, the Debtors ask the Court to approve and authorize the Debtors to enter into the Settlement. If you are a former employee of the Debtors and believe you may have a WARN Act Claim, you will receive notice at a later date, pursuant to procedures described more fully herein, of the amount and priority of your WARN Act Claim, if any, as determined by the Debtors and an opportunity to object to those determinations at that time. You will also be given at a later date an opportunity to object to and "opt-out" of the Settlement as it applies to the resolution of the WARN Act lawsuit filed in the United States Bankruptcy Court as an adversary proceeding styled Joann Allen v. Charter Behavioral Health System, LLC, et al., Adversary No. A-0-562 (RRM) (Bankr. D. Del.) and a second case filed in the United States District Court styled as Cathleen Sweeney, et al., v. Crescent Real Estate Equities Company, et al., Case No. 00-674 (RRM) (D. Del). Accordingly, this notice is not intended to advise you at this time of either the amount and priority of your claim or the opportunity for you personally to object to or opt-out of the Settlement as a potential member of the class of plaintiffs in those cases.

The Settlement is a global resolution of many issues and claims. Some of the key provisions are as follows:

The Resolution of Former Employee's Alleged Claims under the WARN Act.

Upon the approval of the Settlement, the Debtors will adjudicate each Claimant's (former employee of the Debtors) WARN Act Claim as follows:

(a) the Debtors will file a report (the “**PENTA Report**”) detailing the amount of each Claimant’s administrative WARN Act Claim as well as each Claimant’s Pre-Petition WARN Act Claim along with the relative priority of each pre-petition WARN Act Claim;

(b) the Debtors will seek an order from this Court granting the Debtors authority to conditionally allow (notwithstanding the Proof of Claim Bar Date) Pre-Petition WARN Act Claims, including the priority of such claims, and Post-Petition WARN Act Claims and to disallow unconditionally the WARN Act Claims of Claimants who do not have WARN Act Claims as set forth on the PENTA Report or who have asserted claims in excess of that set forth in the PENTA Report;

(c) the Debtors will mail to each Claimant a notice of the conditional amount, if any, of the Claimant’s WARN Act Claim and provide each Claimant an opportunity to object to the amounts or priorities set forth on the PENTA Report;

(d) if the Claimant fails to object timely to his or her WARN Act Claim as set forth in the PENTA Report, the Claimant’s WARN Act Claim as specified in the PENTA Report will be conditionally allowed in that amount and priority if the Settlement becomes Final and if the Claimant does not Opt-Out, except that the Claimants’ WARN Act Claims shall be unconditionally disallowed and final as to those Claimants who are shown by the PENTA Report to have no WARN Act Claim;

(e) if a Claimant objects to the amount or priority (or disallowance) of his or her conditional WARN Act Claim as set forth in the PENTA Report, such objection shall be resolved through the claims objection procedures in this Court; and

(f) if a Claimant does not timely object to the amount and priority of his or her WARN Act Claim listed in the PENTA Report, such Claimant’s WARN Act Claim shall be allowed in the amount and priority set forth in the PENTA Report only upon (1) the Settlement becoming Final and (2) such Claimant not Opting-Out of the Class, except that the Claimants’ WARN Act Claims shall be unconditionally disallowed and final as to those Claimants who are shown by the PENTA Report to have no WARN Act Claim.

The Payment of Former Employee Claims for Purported WARN Act Violations.

This Settlement establishes the following five accounts of funds to pay, pursuant to a subsequently approved plan of liquidation, the purported WARN Act Claims and the other claims against the estates:

(a) Administrative Fund - Used to pay all administrative WARN Act Claims in a total amount (including all related taxes) not to exceed \$2,000,000.00. The Debtors will use the estates’ money to fund this account and believe this fund will pay 80% or more of the total administrative WARN Act Claims before the payment of any counsel fees that may be awarded Class Counsel by the Court. In the event of a funding shortfall, administrative WARN Act Claims will be paid pro rata and any unpaid WARN Act Claims of post-petition WARN Act Claimants will be treated as general unsecured claims and paid pro-rata with other general unsecured claims;

(b) FUND A - Approximate funding of \$3.7 million from third parties or the assignment of third party claims. These moneys shall be paid, pro rata, to the Pre-Petition Settlement Class Members, after payment of taxes and Class Counsel Fees;

(c) FUND B - Funded by excess proceeds from the estates in an amount estimated to be between \$3.0 and 3.5 million, assuming such funds are available. After payment of Class Counsel Fees, these moneys will be distributed, pro rata, to all of those claimants holding pre-petition § 507(a)(3) priority claims against the estates. For this purpose, any WARN priority claim will be treated as a § 507(a)(3) priority claim;

(d) FUND C - Subordinate to FUND B and funded by excess proceeds from the estates in an amount equal to the remaining § 507(a)(3) claims, assuming such funds are available. In this fund, the WARN Act Claimants essentially assign 40% of their right to the priority distribution to the general unsecured non-WARN creditors. After payment of Class Counsel Fees, the remaining 60% of the WARN portion of Fund C will be distributed, pro rata, to all of those claimants holding pre-petition § 507(a)(3) priority WARN claims against the estates. The WARN Act Claimants' unsecured, non-priority claims, however, will be increased by the amount of the distributions to the general unsecured claimants from this FUND C; and

(e) FUND D - Remaining moneys of the estates available for distribution to creditors after payment of administrative expenses, Class Counsel Fees, taxes, the other three funds contemplated by the Settlement, the other pre-petition § 507(a) priority claims, and an initial distribution of \$3.0 million to general unsecured creditors other than the unsecured claims of post-petition WARN Act Claimants. This fund shall be divided between pre-petition unsecured WARN Act Claims and the remaining general unsecured claims on a 60/40 basis respectively, until the pre-petition unsecured WARN Act Claims are paid in full with any balance to be paid to the remaining general unsecured creditors.

The Resolution of Various other Claims asserted by Former Employees.

This Settlement directs the Debtors to pay the accrued post-petition matching contribution to the 401(k) Plan pro rata with other administrative expenses. The Debtors are also directed to pay the unpaid pre-petition 401(k) liability in accordance with the priorities established under the Bankruptcy Code and in accordance with this Settlement. The Settlement also permits the Debtors to resolve other employee claims, such as unpaid vacation pay, as it executes its responsibilities under this Settlement. In this regard, the Debtors must notice each employee as to the amount of such employee's purported claim and each employee must have the opportunity to object.

The Payment of Class Counsel Fees.

The fees and expenses incurred by Class Counsel shall be paid solely from the moneys set aside in the funds to pay WARN Act Claims. No payment shall be made until Class Counsel's fee requests are approved by the Court. All such payments shall be deemed for the benefit of settlement Class Members.

The Settlement of Claims between and among the estates, Crescent, and the Committee.

On the approval date of this Motion, Crescent agrees to subordinate its pre-petition general unsecured claim (approximately \$40.0 million) to all other pre-petition general unsecured claims and the Committee agrees to dismiss its appeal and adversary proceeding with respect to Crescent. The Settlement allows Crescent's and COPI's other claims in the priority and amounts set forth in detail in exhibits attached to the Settlement.

The Creation of a Preference Amnesty Program.

Under the Settlement, the Debtors have agreed to offer amnesty for preferential transfers to all creditors holding claims against the estates. The Debtors will notify each such creditor in writing of its right to elect the amnesty as well as the amount of the alleged preference. In order to elect amnesty, the creditor must waive all of its claims against the estates. If a creditor fails to elect preference amnesty timely, the election will be forever waived.

The Release of WARN Act Claims Against Crescent and COPI.

All WARN Act Claims asserted against Crescent and/or COPI will be deemed released, except as to those class members who ultimately opt-out of the Settlement in accordance with a notice that will subsequently be given.

The Release of Claims Between the Parties to the Settlement.

The Debtors' execution of its responsibilities under the Settlement will be deemed a release of any further liability to the WARN Act Claimants that participated in this Settlement. In addition, upon the approval date of the Motion, the Debtors and the Committee will release Crescent, and COPI and the Debtors' former shareholders, officers and employees of all claims.

Right of Crescent and COPI To Terminate the Settlement.

Crescent and COPI will have the right to terminate the Settlement if participation in the Settlement falls below certain criteria. Such criteria will not be made public and will be filed under seal with the Court.

The Settlement is Conditioned on Class Certification.

The Settlement is conditioned on the District Court certifying the Class and Approving the Settlement in the Cathleen Sweeney, et al. v. Crescent Real Estate Equities Company, et al., Case No. 00-674 (RRM) (D. Del.) lawsuit and the Joann Allen, et al. v. Charter Behavioral Health Systems, LLC, Adversary No. A-0-562 (RRM) (Bankr. D. Del.) lawsuit.

Copies of Motion and Settlement.

ALL PARTIES INTERESTED IN UNDERSTANDING THE COMPLETE TERMS OF THE SETTLEMENT ARE URGED TO CONTACT AN ATTORNEY AND TO REVIEW THE SETTLEMENT AGREEMENT IN DETAIL.

A copy of the Motion and the Settlement are posted on Troutman Sanders LLP's web site located at <http://www.troutmansanders.com/cbhswarn.htm>. Copies of the Motion and the Settlement may also be obtained by sending an e-mail request to CBHSWarn@troutmansanders.com. For those who do not have access to the internet, copies of the Motion and the Settlement may be requested by calling **(404) 885-2514**. The Motion and Settlement are also on file in the clerk's office of the United States Bankruptcy Court for the District of Delaware.

Dated: August 16, 2001

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