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UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA, SACRAMENTO DIVISION

In re Highlands Community Charter and Technical Schools, Debtor and Debtor in Possession.[1]	Case No. 26-25868 Chapter 11 DCN: SMR-3 Judge: Hon. [●] Date: [●], 2026 Time: [●] Place: [●]

MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF DEBTOR'S EMERGENCY MOTION FOR ENTRY OF AN ORDER AUTHORIZING REJECTION OF CERTAIN UNEXPIRED LEASES

[1] The last four digits of the Debtor's federal tax identification number is 0967. The mailing address for the Debtor is 1111 Howe Ave. Suite 505 Sacramento, CA 95825.

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Highlands Community Charter and Technical Schools ("HCCTS" or, the "Debtor"), a California Non-Profit Corporation organized under the laws of the State of California, and the above-captioned debtor and debtor-in-possession in this voluntary chapter 11 case (the "Chapter 11 Case") filed on the date hereof (the "Petition Date") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), hereby submits this Memorandum of Points and Authorities (the "Memorandum") in support of its motion (the "Motion") for entry of an order, substantially in the form attached to the Exhibit List as Exhibit A filed concurrently herewith, pursuant to § 365 of the Bankruptcy Code: (a) authorizing, but not directing, the Debtor to reject the unexpired leases identified and set forth on Exhibit B to the Exhibit List (including any amendments or modifications, each a "Lease" and together, the "Leases"), effective as of the Petition Date; and (b) granting related relief. In support of this Motion, the Debtor refers to the *Declaration of Jonathan Raymond in Support of Chapter 11 Petition and First Day Motions* (the "First Day Declaration"), the *Declaration of Jonathan Raymond in Support of Debtor's Emergency Motion for Entry of an Order Authorizing Rejection of Certain Unexpired Leases* (the "Raymond Declaration"), and the exhibits in support of this Motion (the "Exhibit List"), each filed contemporaneously herewith, and such other evidence and testimony as may be presented at the hearing on this Motion (the "Hearing").[2]

I. JURISDICTION AND VENUE

The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and General Orders 182 and 223 of the United States District Court for the Eastern District of California. The Debtor confirms its consent, pursuant to Bankruptcy Rule 7008, to the entry of a final order by the Court in connection with this Motion to the extent that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution.

[2] A more detailed description of the Debtor and its business, and the facts and circumstances supporting this Motion and the Debtor's Chapter 11 Case, are set forth in greater detail in the First Day Declaration. Capitalized terms used but not otherwise defined in this Motion have the meanings ascribed to them in the Raymond Declaration and the First Day Declaration or as indicated elsewhere in this Motion.

This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

The bases for the relief requested herein are §§ 365 and 554 of the Bankruptcy Code and Rules 3002(c)(4), 6006 and 6007 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

II. FACTUAL BACKGROUND

A. General Background

The Debtor filed the Chapter 11 Case on the Petition Date. The Debtor is operating its business and managing its properties as a debtor in possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in this Chapter 11 Case, and no committees have been appointed or designated.

The Debtor is a 501(c)(3) non-profit corporation that owns, manages and operates two adult-serving charter schools in Sacramento County: Highlands Community Charter School ("HCCS") and California Innovative Career Academy ("CICA" and, together with HCCS, the "Schools"). The Twin Rivers Unified School District ("Twin Rivers") issued the current charters (the "Charters") for both HCCS and CICA, and since opening in August 2014, HCCTS has served approximately 60,000 students. The Debtor is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. A more detailed description of the Debtor, including its current and historical business operations and the events precipitating the Chapter 11 Case, are set forth in the First Day Declaration.

B. Facts Relevant to this Motion

Since assuming responsibility for the Debtor's affairs, the current management team has undertaken a thorough and diligent review of the Debtor's real estate footprint, as well its financial obligations, including the full universe of leases and contracts that were entered into by prior management to identify areas where liabilities can be reduced. This comprehensive evaluation was undertaken with the express purpose of identifying those liabilities or obligations that are no longer in use, operational or productive, that impose undue financial or administrative burdens upon the Debtor's estate, or that are simply unnecessary to support the Debtor's contemplated go-

forward business operations. The current management team has approached this review with a keen awareness of both the Debtor's current financial condition and its long-term reorganization objectives, recognizing that the elimination of unnecessary or burdensome obligations is a critical component of any successful restructuring effort.

C. The Leases.

As a result of this comprehensive review, as of the Petition Date, the Debtor has chosen at this time to reject the seven (7) Leases identified and set forth on Exhibit B to the Exhibit List, without prejudice to the Debtor's future business decision(s) to reject any additional unexpired leases or executory contracts at any point during this Chapter 11 Case. Following careful analysis, the Debtor has determined that each of the identified Leases is no longer aligned with, or supportive of, the Debtor's current business plan, and that continued performance under these Leases would not confer any meaningful benefit upon the Debtor's estate or its creditors, and would, in fact, burden the Debtor's estate with unnecessary additional financial liability for the Leases. The Leases consist of in part of various classroom and schoolhouse spaces (collectively, the "Premises"), that are either not in use, not occupied or the Schools no longer need such spaces to efficiently operate the Schools, and, in other part, in connection with certain equipment (collectively, the "Equipment"), that are either not in use, or the Schools no longer need such Equipment to efficiently operate the Schools.

Because the Debtor no longer requires use of the Premises or the Equipment, it has determined, in its business judgment, that it is in the best interests of its estate to reject the Leases. Accordingly, the rejection of these Leases is not only appropriate but necessary to the Debtor's reorganization efforts as the Debtor seeks to shed real estate and other financial obligations that no longer serve its operational needs or align with its current business model.

The financial benefit of rejecting the Leases is substantial and immediate. The Debtor estimates that rejection of the Leases will result in a substantial reduction of monthly liabilities in the aggregate each month, which reduced liabilities are spread out among the Leases. This significant reduction in recurring monthly obligations will provide the Debtor with meaningful financial relief, enabling the Debtor to right-size its cost structure, rationalize its operations, and

redirect resources toward those aspects of its business that are central to a successful reorganization for the benefit of the Debtor's creditors, employees and other parties in interest. Absent rejection of the Leases, the Debtor would be obligated to pay fees, expenses and other costs under the Leases even though it has ceased operations at, and will no longer be utilizing, the Premises, and will no longer be using the Equipment. Ultimately, the rejection of these Leases represents a prudent and necessary step in the Debtor's broader efforts to restructure its operations and emerge from bankruptcy as a viable, sustainable enterprise.

D. Abandonment of Personal Property, if any, Remaining on the Premises

As of the Petition Date, the Debtor has fully vacated the collective Premises subject to the relevant Leases. The Debtor has inspected all of its personal property located at such Premises and has removed any such property deemed to be of value or that will be used in continuing operations during the Chapter 11 Case. To the extent that any personal property of the Debtor's estate remains at such Premises, retention of such property either would be burdensome to the estate or is no or of inconsequential value to it. Therefore, the Debtor seeks an order rejecting the Leases and also authorizing the abandonment of personal property of the Debtor's estate, if any, remaining at the Premises pursuant to section 554(a) of the Bankruptcy Code.

III. BASIS FOR RELIEF

A. Authority to Reject the Leases and the Business Judgment Standard.

Section 365(a) of the Bankruptcy Code expressly authorizes a debtor in possession, subject to court approval following notice and a hearing, to assume or reject any executory contract or unexpired lease. 11 U.S.C. § 365(a). The determination of whether a particular contract or lease ought to be rejected — and, if not, upon what terms it may be assumed — is fundamentally a matter of business judgment. *See Group of Institutional Investors v. Chicago, Milwaukee, St. Paul and Pacific R. Co.*, 318 U.S. 523, 550 (1943). Consistent with this foundational principle, the overwhelming majority of courts that have addressed the question under the Bankruptcy Code have applied the business judgment test when evaluating a debtor's decision to assume or reject a contract or unexpired lease. *See Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.)*, 4 F.3d 1095, 1099 (2d Cir. 1993); *Richmond Leasing Co. v. Capital Bank, N.A.*,

762 F.2d 1303, 1309 (5th Cir. 1985); *see also Agarwal v. Pomona Valley Med. Group, Inc. (In re Pomona Valley Med. Group, Inc.)*, 476 F.3d 665, 670 (9th Cir. 2007); *Durkin v. Benedor Corp. (In re G.I. Indus., Inc.)*, 204 F.3d 1276, 1281-82 (9th Cir. 2000) ("a bankruptcy court applies the business judgment rule to evaluate a trustee's rejection decision"). Most courts have further recognized that debtors in possession should generally be permitted to exercise their business judgment in determining which contracts to assume or reject, and that a debtor's decision should be granted as a matter of course absent compelling reason to the contrary. *See In re S. Cal. Sound Sys., Inc.*, 69 B.R. 893, 896 (Bankr. S.D. Cal. 1987); *Summit Land Co. v. Allen (In re Summit Land Co.)*, 13 B.R. 310, 315 (Bankr. D. Utah 1981).

The Ninth Circuit has made clear that judicial review under the business judgment standard need only be cursory. *In re Pomona Valley Med. Group, Inc.*, 476 F.3d at 670. In reviewing a debtor's decision to assume or reject a lease, the court should "presume that the debtor-in-possession acted prudently, on an informed basis, in good faith, and in the honest belief that the action taken was in the best interests of the bankruptcy estate." *Id.* A debtor's decision will not be disturbed unless the bankruptcy court finds that it "is so manifestly unreasonable that it could not be based on sound business judgment, but only bad faith, or whim, or caprice." *Id.* The Ninth Circuit Bankruptcy Appellate Panel has further articulated that, in considering whether assumption or rejection is in the debtor in possession's legitimate business judgment, "[t]he primary issue is whether [assumption or] rejection would benefit the general unsecured creditors." *Robertson v. Pierce (In re Chi-Feng Huang)*, 23 B.R. 798, 801 (9th Cir. B.A.P. 1982). Accordingly, rejection of an executory contract or unexpired lease is appropriate where such rejection would confer a benefit upon the estate, and the requisite standard is satisfied upon a showing that the debtor in possession has made a reasonable business determination to that effect. *See Sharon Steel Corp. v. Nat'l Fuel Gas Distribution Corp. (In re Sharon Steel Corp.)*, 872 F.2d 36, 40 (3d Cir. 1989); *Commercial Fin. Ltd. v. Hawaii Dimensions, Inc. (In re Hawaii Dimensions, Inc.)*, 47 B.R. 425, 427 (D. Haw. 1985) ("under the business judgment test, a court should approve a debtor's proposed rejection if such rejection will benefit the estate.").

Rejection of the Leases, as proposed herein, is well within the deferential business judgment rule and will benefit the estate. The Leases are not a source of potential value for the Debtor's estate, creditors, or other stakeholders. Indeed, the costs and other obligations associated with the Leases outweigh any potential value of the Leases to the Debtor's estate. Due to this reality, the Debtor, on an informed basis, has determined that the Leases constitute unnecessary drains on the Debtor's resources and, therefore, rejection of the Leases reflects the Debtor's exercise of sound business judgment to free its estate from burdensome obligations that do not promote a successful reorganization. *National Labor Relations Board v. Bildisco & Bildisco*, 465 U.S. 513, 528, 104 S. Ct. 1188, 1997 (1984); *see also In re Rega Properties, Ltd.,* 894 F.2d 1136, 1140 (9th Cir. 1990).

Indeed, the Debtor estimates that rejection of the Leases will result in a substantial reduction of monthly liabilities in the aggregate each month, which reduced liabilities are spread out among the Leases— a material and direct benefit to the estate and its creditors, as it will preserve liquidity for the Debtor's estate and its ongoing operations during the Chapter 11 Case.

Accordingly, the rejection of the Leases is in the best interests of the Debtor and its bankruptcy estate. Under *G.I. Industries* and *Pomona Valley*, that showing is more than sufficient to establish sound business judgment, and approval of the Debtor's decision to reject the Leases is warranted.

B. The Court Should Deem the Leases Rejected Effective as of the Petition Date

It is well settled in the Ninth Circuit that a bankruptcy court may approve retroactive rejection of executory contracts or unexpired leases. In *In re At Home Corp*., 392 F.3d 1064, 1065 (9th Cir. 2004), the Ninth Circuit held, in approving rejection of an unexpired lease, that retroactive rejection is within a bankruptcy court's equitable powers "when 'necessary or appropriate to carry out the provisions of' § 365(d)." *Id.* at 1071; *see also* 10 COLLIER ON BANKRUPTCY ¶ 6006.01[3] (16th ed. rev. 2011) (noting that the "new majority view" is to allow "retroactive application of an order of rejection, back to the date that the motion was filed, based on equitable considerations.").

Here, it would be inequitable for the Debtor, who has abandoned, and no longer uses, the Premises, and who no longer uses the Equipment, to continue to incur unnecessary and costly administrative liabilities under the Leases during the pendency of this Chapter 11 Case. This provides no value or benefit to the estate or its creditors.

In contrast, counterparties to the Leases, who will receive sufficient notice of this Motion, will not be unduly prejudiced if the rejection is deemed effective as of the Petition Date. Notably, the Debtor has sought the relief requested herein at the earliest possible moment in this Chapter 11 Case and does not seek to reject the Leases effective as of the Petition Date due to any undue delay on its own part. Under these circumstances, the Debtor respectfully submits that the equities favor the Court's granting of the relief requested in this Motion, effective as of the Petition Date.

C. The Court Should Authorize the Debtor to Abandon any Remaining Property

Further, the abandonment of any personal property remaining at the Premises is appropriate and authorized by the Bankruptcy Code. *See* 11 U.S.C. § 554(a). Section 554(a) provides that "[a]fter notice and a hearing, the trustee may abandon any property of the estate that is burdensome to the estate or that is of inconsequential value and benefit to the estate." *Id.* Courts generally give a debtor in possession great deference to its decision to abandon property. *See In re Vel Rey Props., Inc*., 174 B.R. 859, 867 (Bankr. D.D.C. 1994) ("Clearly, the court should give deference to the trustee's judgment in such matters."). Unless certain property is harmful to the public, once a debtor has shown that it is burdensome or of inconsequential value to the estate, a court should approve the abandonment. *Id.*

In the process of vacating the Premises, the Debtor removed all personal property that would have any value in continuing its further operations. All remaining personal property at the Premises, if any, represents a burden, or is of no or inconsequential value to, the estate and should be abandoned pursuant to section 554(a) of the Bankruptcy Code. Any efforts by the Debtor to move, store or market any abandoned property would have unnecessarily delayed the Debtor's rejection of the relevant Leases and provided no benefit to the estate.

IV. REJECTION CLAIM BAR DATE

In connection with the rejection of the Leases, the Debtor also requests that the Court, pursuant to Bankruptcy Rule 3002(c)(4), establish the later of (a) thirty (30) days after entry of an order granting the Motion, or (b) the deadline set by the Court for prepetition claims to be filed, as the deadline for filing a claim arising from rejection of the Leases.

V. RESERVATION OF RIGHTS

Nothing contained in this Motion or any order granting the relief requested in this Motion, and no action taken by the Debtor pursuant to the relief requested or granted (including any payment made in accordance with any such order), is intended as or shall be construed or deemed to be: (a) an admission as to the amount of, basis for, priority, or validity of any claim against the Debtor under the Bankruptcy Code or other applicable nonbankruptcy law; (b) a waiver of the Debtor's or any other party in interest's rights to dispute any claim on any grounds; (c) a promise or requirement to pay any particular claim; (d) an implication, admission or finding that any particular claim is an administrative expense claim, other priority claim or otherwise of a type specified or defined in this motion or any order granting the relief requested by this motion; (e) a request or authorization to assume, adopt, or reject any agreement, contract, or lease pursuant to section 365 of the Bankruptcy Code; (f) an admission as to the validity, priority, enforceability or perfection of any lien on, security interest in, or other encumbrance on property of the Debtor's estates; or (g) a waiver or limitation of any claims, causes of action or other rights of the Debtor or any other party in interest against any person or entity under the Bankruptcy Code or any other applicable law. If the Court grants the relief sought herein, any payment made pursuant to the Court's order is not intended and should not be construed as an admission as to the validity, priority, or amount of any particular claim or a waiver of the Debtor's rights to subsequently dispute such claim.

Moreover, nothing contained in this Motion or any order granting the relief requested in this Motion, and no action taken by the Debtor pursuant to the relief requested or granted pursuant to this Motion shall prohibit, limit, or impair the Debtor from seeking to assume, assume and assign, or reject any other, additional or separate executory contracts or unexpired leases at any

time during this Chapter 11 Case. The Debtor reserves all rights to take any action with respect to any other, additional or separate executory contracts or unexpired leases at any time during this Chapter 11 Case in its business judgment.

VI. WAIVER OF BANKRUPTCY RULE 6004(A) AND 6004(H)

The Debtor requests a waiver of any applicable notice requirements under Bankruptcy Rule 6004(a) and any stay of the order granting the relief requested herein under Bankruptcy Rule 6004(h), to the extent applicable. As set forth above and in the First Day Declaration, the relief requested herein is necessary to avoid immediate and irreparable harm to the Debtor's ongoing operations and value-maximizing process. Accordingly, ample cause exists to justify waiver of the notice requirements under Bankruptcy Rule 6004(a) and the 14-day stay imposed by Bankruptcy Rule 6004(h), to the extent such requirements and stay are applicable.

VII. NOTICE

The Debtor will provide notice of the Motion and this Memorandum via first class mail, facsimile or email (where available) to: (a) the Office of the U.S. Trustee; (b) the holders of the twenty (20) largest unsecured claims against the Debtor filed in accordance with Bankruptcy Rule 1007(d); (c) the State of California through the Attorney General for the State of California; (d) the United States of America through the United States Attorney for the Eastern District of California; (e) Twin Rivers; (f) counterparties to each of the Leases; and (g) parties that file with the Court and serve upon the Debtor requests for notice of all maters in accordance with Bankruptcy Rule 2002(i) (collectively, the "Notice Parties"). If the Court grants the relief requested by the Motion, the Debtor shall provide notice of the entry of the order granting such relief upon each of the foregoing parties and any other parties in interest as the Court directs. The Debtor submits that such notice is sufficient and that no other or further notice be given. No prior request for the relief sought herein has been made by the Debtor to any other court.

VIII. CONCLUSION

For the reasons set forth herein and in the Motion, the Debtor respectfully requests entry of an order, pursuant to section 365 of the Bankruptcy Code and Bankruptcy Rule 6006, (i) authorizing the Debtor to reject the Leases effective as of the Petition Date, (ii) authorizing the

abandonment of any personal property of the Debtor's estate remaining at the Premises, (iii) establishing the later of (a) thirty (30) days after entry of an order granting the Motion, or (b) the deadline set by the Court for prepetition claims to be filed, as the deadline for filing a claim arising from rejection of the Leases, and (iv) for such other and further relief as the Court deems just and proper.

Dated: October 4, 2026

SHEPPARD, MULLIN, RICHTER & HAMPTON LLP

By */s/ Ori Katz*
Ori Katz

Proposed Counsel for Highlands Community Charter and Technical School