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SHEPPARD, MULLIN, RICHTER & HAMPTON LLP
A Limited Liability Partnership
Including Professional Corporations
ORI KATZ, State Bar No. 209561
KIRK RIDER, State Bar No. 364539
Four Embarcadero Center, 17th Floor
San Francisco, California 94111-4109
Telephone: (415) 434-9100
Facsimile: (415) 434-3947
Email: okatz@sheppard.com
krider@sheppard.com

Proposed Counsel for Highlands Community Charter and Technical Schools

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-7 Judge: Hon. [●] Date: [●], 2026 Time: Place:

DEBTOR'S EMERGENCY MOTION FOR INTERIM AND FINAL ORDERS: (I) AUTHORIZING THE DEBTOR TO MAINTAIN, RENEW, OR SUPPLEMENT ITS INSURANCE POLICIES AND SATISFY ALL OBLIGATIONS RELATED THERETO; AND (II) GRANTING RELATED RELIEF

[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.

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 motion (the "Motion") for entry of interim and final orders, substantially in the forms attached to the Exhibit List as Exhibit A and Exhibit B (the "Interim Order" and the "Final Order" respectively) filed concurrently herewith, pursuant to §§ 105 and 363 of the Bankruptcy Code, Rules 6003 and 6004 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), and Rules 9014-1(f)(3) and (4) of the Local Rules of Practice (the "LBR"): (a) authorizing, but not directing, the Debtor to maintain, renew, or supplement its insurance policies and honor all obligations in respect thereof; and (b) granting related relief. In addition, the Debtor requests that the United States Bankruptcy Court for the Eastern District of California (the "Court") schedule a final hearing within twenty-one (21) days of the commencement of this Chapter 11 Case to consider approval of this Motion on a final basis. In support of this Motion, the Debtor refers to the *Declaration of Jonathan Raymond in Support of First Day Motions* (the "First Day Declaration"), the *Declaration of Jonathan Raymond in Support of Debtor's Emergency Motion For Interim and Final Orders: (I) Authorizing the Debtor to Maintain, Renew, or Supplement its Insurance Policies and Satisfy All Obligations Related Thereto; and (II) Granting Related Relief* (the "Raymond Declaration"), the *Memorandum of Points and Authorities in support of Debtor's Emergency Motion For Interim and Final Orders: (I) Authorizing the Debtor to Maintain, Renew, or Supplement its Insurance Policies and Satisfy All Obligations Related Thereto; and (II) Granting Related Relief* (the "Memorandum"), and the exhibits in support of this Motion as set forth on the exhibit list (the "Exhibit List"), each filed contemporaneously herewith and incorporated herein by reference, and such other evidence and testimony as may be presented at the hearing on this Motion (the "Hearing").[2]

[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 Memorandum, the Raymond Declaration and the First Day Declaration or as indicated elsewhere in this Motion.

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.

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 §§ 105(a), 363, 1107(a), and 1108 of the Bankruptcy Code, Rules 6003 and 6004 of the Federal Rules of Bankruptcy Procedure, and Rules 9014-1(f)(3) and (4) of the LBR.

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 California non-profit public benefit 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") that authorize HCCTS to operate both HCCS and CICA. 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. The First Day Declaration is expressly incorporated herein.

B. Facts Relevant to this Motion

In the ordinary course of business, the Debtor maintains multiple insurance policies (the "Insurance Policies") administered by certain third-party insurance carriers (collectively, the "Insurance Carriers"). Specifically, the Debtor maintains coverage for, without limitation: (i) property; (ii) general liability; (iii) commercial auto; (iv) inland marine coverage; (v) crime; (vi) employee benefits admin. E&O; (vii) director and officer liability; (viii) cyber liability; (ix) active assailant; (x) blanket student accident coverage; (xi) commercial umbrella liability; and (xii) workers' compensation & employers liability. The Insurance Policies are annual policies that renew throughout the year based on when the policy was originally purchased. The aggregate annual premiums (the "Insurance Premiums") for the Insurance Policies is approximately $664,779.10, plus applicable taxes and surcharges. The Insurance Premiums are paid in full upon entering into the binding coverage, with the exception of the following Insurance Policies which are paid on a monthly basis: (i) Commercial Package through Philadelphia Indemnity Insurance Company; (ii) Commercial Umbrella Liability through Philadelphia Indemnity Insurance Company; and (iii) Workers' Compensation & Employers Liability through WCF National Insurance Company.

In the ordinary course of business, the Debtor utilizes HUB International Insurance Services Inc. (the "Insurance Broker") to obtain Insurance Policies. The Insurance Broker primarily assists the Debtor with the procurement and negotiation of the Insurance Policies, enabling the Debtor to obtain the Insurance Policies on advantageous terms and at competitive rates. The Insurance Broker is compensated for its services through a commission from the Insurance Carriers (the "Broker Fees") and paid as part of the premium owed to the Insurance Carriers.

The Debtor is required to pay deductibles ("Insurance Deductibles") and other out-of-pocket costs up to certain amounts on a per-occurrence basis. The Debtor is also required to fund retention amounts on a per claim basis (the "Insurance Retentions") for certain Insurance Policies. The Insurance Deductibles and Insurance Retention amounts are contractual conditions to coverage, and any failure to fund the Insurance Deductibles risk lapses in insurance protection.

The Debtor is required to pay Insurance Deductibles ranging from $1,000 to $25,000 for claims arising from certain insurance coverages, including, without limitation, its (i) property coverage, inland marine coverage, and crime coverage through Philadelphia Indemnity Insurance Company; (ii) is active assailant coverage through Certain Underwriters at Lloyd's (CFC); and (iii) its cyber liability coverage through Certain Underwriters at Lloyd's. Ongoing payment of Insurance Deductibles ensures that these claims are administered without delay, preserves the value the insurance programs that protect the Debtor and its estate and avoids exposing the Debtor's estate to unfunded liability.

In the ordinary course of business, the Debtor is also required to fund retention amounts on a per claim basis (the "Insurance Retentions") for certain Insurance Policies. The Insurance Retentions are contractual conditions to coverage, and any failure to fund the Insurance Retentions risk lapses in insurance protection. As more particularly described in the Insurance Schedule set forth on Exhibit C of the Exhibits List, and in the Raymond Declaration, the Debtor is required to pay Insurance Retentions ranging from $10,000 to $200,000 for claims arising from certain insurance coverages, including, without limitation its (i) Management Liability (D&O / EPL) coverage through RSUI Indemnity Company, and its (ii) Commercial Umbrella Liability coverage through Philadelphia Indemnity Insurance Company.

Ongoing payment of Insurance Retentions and Insurance Deductibles ensures that claims are administered without delay, preserves the value the insurance programs that protect the Debtor and its estate and avoids exposing the Debtor's estate to unfunded liability.

III. RELIEF REQUESTED

By this Motion, the Debtor requests entry of an Interim order, substantially in the form attached as Exhibit A to the Exhibit List filed contemporaneously herewith (the "Proposed Interim Order"), authorizing the Debtor to:

i. continue the Insurance Policies and pay any prepetition or postpetition obligations related to the Insurance Policies, including the payment of the Insurance Premiums, Insurance Deductibles, and Insurance Retentions in

accordance with the same practices and procedures as were in effect prior to the Debtor's commencement of the Chapter 11 Case;

ii. renew, amend, supplement, extend, or purchase Insurance Policies to the extent that the Debtor determines that such action is in the best interest of its estate; and

iii. issue postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests that are dishonored as a consequence of this Chapter 11 Case with respect to prepetition amounts owed in connection with the relief granted herein.

The Debtor also respectfully requests that the Court set a final hearing to enter in the Final Order, substantially in the form attached as Exhibit B to the Exhibit List, filed contemporaneously herewith (the "Proposed Final Order"), authorizing the Debtor to:

i. continue the Insurance Policies and pay any prepetition or postpetition obligations related to the Insurance Policies, including the payment of the Insurance Premiums, Insurance Deductibles, and Insurance Retentions (SIRs) in accordance with the same practices and procedures as were in effect prior to the Debtor's commencement of the Chapter 11 Case;

ii. renew, amend, supplement, extend, or purchase Insurance Policies to the extent that the Debtor determines that such action is in the best interest of its estate; and

iii. issue postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests that are dishonored as a consequence of this Chapter 11 Case with respect to prepetition amounts owed in connection with the relief granted herein.

III. BASIS FOR RELIEF REQUESTED

Section 1112(b)(4)(C) of the Bankruptcy Code provides that "failure to maintain appropriate insurance that poses a risk to the estate or to the public" is "cause" for mandatory conversion or dismissal of a chapter 11 case. 11 U.S.C. § 1112(b)(4)(C).

In addition to the statutory laws and regulations requiring the maintenance of insurance policies, in many instances, the coverage provided under the Insurance Policies is also required by the regulations, laws, and contracts that govern the Debtor's business and commercial activities, including the operating guidelines issued by the U.S. Trustee (the "U.S. Trustee Operating Guidelines"). Under the U.S. Trustee Operating Guidelines, "[t]he debtor must maintain the following insurance coverage, as appropriate: general comprehensive liability; property loss from fire, theft, water, or other extended coverage; workers' compensation; vehicle; products liability; fidelity bonds for employees; and such other coverage as is customary in the debtor's business. The debtor must provide the United States Trustee with proof of appropriate insurance. . . Failure to maintain insurance that poses a risk of loss to the estate or the public is cause for conversion or dismissal of the case. Section 1112(b(4)(C)." Region 17 U.S. Trustee Chapter 11 Operating and Reporting Guidelines, § 6. Therefore, continued maintenance of the Insurance Policies is essential for the Debtor to be able to reorganize.

Furthermore, § 363(c)(1) provides that the Debtor may "enter into transactions . . . in the ordinary course of business" and "use property of the estate in the ordinary course of business without notice or a hearing." 11 U.S.C. § 363(c)(1). However, to the extent that the Debtor's continuation of the Insurance Policies is outside of the ordinary course of business, § 363(b)(1) of the Bankruptcy Code provides, in relevant part, that "[t]he [debtor], after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1). Based on the information provided in this Motion, the Memorandum, the Raymond Declaration and the First Day Declaration, the Debtor submits that, in its reasonable business judgement, continuation of the Insurance Policies is necessary for the Debtor's ability to reorganize. Further, courts recognize that a debtor in possession has a fiduciary duty to, among

other things, protect and preserve the bankruptcy estate. *See In re CoServ*, 273 B.R. 487, 497 (Bankr. N.D. Tex. 2002). The relief requested in the Motion is consistent with this fiduciary duty because it is necessary to avoid immediate and irreparable harm in the accrual during this Chapter 11 Case of claims, penalties, and legal expenses in connection with any failure to continue and maintain the Insurance Policies.

As an additional legal basis for relief, the Debtor points to § 105(a) and relevant case law. Under section 105(a), courts have invoked the "necessity of payment" doctrine as a mechanism by which the bankruptcy court can exercise its equitable power to authorize the immediate payment of a debtor's prepetition obligations to unsecured creditors before plan confirmation when such payment is essential to the continued operation of the debtor in a chapter 11 reorganization. *See In re Columbia Gas Sys., Inc*., 171 B.R. 189, 192 (Bankr. D. Del. 1994); *In re Penn Cent. Transp. Co.*, 467 F.2d 100, 102 and n.1 (3d Cir. 1972); *In re Lehigh & New Eng. Ry*., 657 F.2d 570, 581 (3d Cir. 1981); *In re Just for Feet, Inc*., 242 B.R. 821, 824–25 (D. Del. 1999).

The Ninth Circuit has recognized the "necessity of payment" doctrine. *See Burchinol v. Cent. Wash. Bank (In re Adam's Apple, Inc.),* 829 F.2d 1484, 1490 (9th Cir. 1987). The *Adam's Apple* court in its discussion did not limit the doctrine to railroad cases only. Rather, for application of the "necessity of payment" doctrine there would need to be "sufficient justification." *Id.* at 537. Numerous courts throughout the country have held that the doctrine survived the 1978 Bankruptcy Code changes and can apply to non-railroad debtors. *See e.g., In re Just for Feet, Inc.*, 242 B.R. 821 (Bankr. D. Del. 1999); *In re Columbia Gas Sys*., Inc., 171 B.R. 189, 191–92 (Bankr. D. Del. 1994); *In re Ionosphere Clubs, Inc*., 98 B.R. 174, 177 (Bankr. S.D.N.Y. 1983).

Bankruptcy courts in the Ninth Circuit, including in this District, have consistently approved payment of pre-petition claims for insurance in various bankruptcy cases pursuant to section 105(a) and otherwise. *See, e.g., In re Oroville Hospital, et al*., (Bankr. E.D. Cal. December 12, 2025) [Docket No. 99]; *In re Watsonville Hospital Corporation*, Case No. 21-51477 (Bankr. N.D. CA December 8, 2021) [Docket No. 52]; *In re Beverly Community Hospital Association*, Case No. No. 23-12359-SK (Bankr. C.D. Cal. April 21, 2023) [Docket. No. 75]; *In re Verity*

Health System of California, Inc., Case No. 2:18-bk-20151-ER (Bankr. C.D. Cal. Sept 7, 2018) [Docket No. 131]; *In re Solid Landings Behavioral Health, Inc.*, Case No. 8:17-bk-12213-CB (Bankr. C.D. Cal. June 30, 2017) [Docket No. 112].

IV. CONCLUSION

WHEREFORE, the Debtor respectfully requests that the Court enter the Proposed Interim Orde pursuant to §§ 105, 363, 1107(a), 1108, and 1112 and Bankruptcy Rules 6003 and 6004 as follows:

1. The Debtor is authorized, but not directed, on an interim basis, to: (a) continue the Insurance Policies and pay any prepetition or postpetition obligations related to the Insurance Policies, including the payment of the Insurance Premiums, Insurance Deductibles, and Insurance Retentions in accordance with the same practices and procedures as were in effect prior to the Debtor's commencement of the Chapter 11 Case; and (b) renew, amend, supplement, extend, or purchase Insurance Policies to the extent that the Debtor determines that such action is in the best interest of its estate;

2. Any payment made pursuant to the Interim Order is not intended and should not be construed as an admission as to the validity of any particular claim or a waiver of the Debtor's rights to subsequently dispute such claim;

3. The banks and financial institutions on which checks were drawn or electronic payment requests made in payment of the prepetition obligations approved herein are authorized to receive, process, honor, and pay all such checks and electronic payment requests when presented for payment, and all such banks and financial institutions are authorized to rely on the Debtor's designation of any particular check or electronic payment request as approved by this Interim Order;

4. The Debtor is authorized to issue, on an interim basis, postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests that are dishonored as a consequence of this Chapter 11 Case with respect to prepetition amounts owed in connection with the relief granted herein;

5. Scheduling a final hearing on this Motion, and entering the Final Order substantially in the form attached as **Exhibit B** to the Exhibit List, filed contemporaneously herewith; and

6. 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