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

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

[1] The Debtor in this chapter 11 case, along with the last four digits of the Debtor's federal tax identification number, is: Highlands Community Charter and Technical Schools [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 the 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(a), 363(b), 363(c), and 541 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 further support of the 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"), and the exhibits in support of the 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 the Motion (the "Hearing").[2]

[2] A more detailed description of the Debtor and its business, and the facts and circumstances supporting the 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 Memorandum have the meanings ascribed to them in the Motion, the Raymond Declaration and the First Day Declaration or as indicated elsewhere in this Memorandum.

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 the 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), 362(d), 363, 1107(a), and 1108 of the Bankruptcy Code, Rules 6003 and 6004 of the 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. The Insurance Policies and Related Payment Obligations

In the ordinary course of business, the Debtor maintains not less than nine (9) different insurance policies,[3] a schedule of which is attached to the Exhibit List filed concurrently herewith as Exhibit C (the "Insurance Schedule") and incorporated herein by this reference (each, an "Insurance Policy" and collectively, the "Insurance Policies") that are administered by various third-party insurance carriers (collectively, the "Insurance Carriers").[4] The Insurance Policies include 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.[5] All of the Insurance Policies are essential to the ongoing operation of the Debtor's business.

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.

The uninterrupted continuation and renewal of the Insurance Policies, and the ability to enter into new Insurance Policies after the Petition Date, as needed, is essential to the preservation of the value of the Schools and the Debtor's business, and to protect the Debtor's assets.

[3] The Debtor reserves the right to add to, renew, or otherwise supplement the Insurance Policies, in its business judgment and in the ordinary course of business.

[4] The descriptions of the Insurance Policies set forth in the Motion constitute a summary only. The actual terms of the Insurance Policies and related agreements will govern in the event of an inconsistency in the Motion. The Debtor requests authority to satisfy obligations and maintain, renew, or supplement all Insurance Policies, as applicable, regardless of whether the Debtor inadvertently fails to include a particular Insurance Policy on Exhibit C.

[5] For clarity, the Debtor also maintains other certain health, life, workers compensation, and related insurance policies and programs which are not the subject of the Motion; rather, such policies are detailed in and addressed by that certain *Debtor's Emergency Motion for Entry of Interim and Final Orders: (I) Authorizing Debtor to (a) Pay Prepetition Wages, Salaries, And Other Compensation and (b) Continue Employee Benefits; and (II) Granting Related Relief* (the "Employee Wage and Benefit Motion"), filed concurrently herewith.

Moreover, in many instances, insurance coverage is required by the regulations, laws, and contracts that govern the Debtor's operations, including, without limitation, the United States Trustee Chapter 11 Operating and Reporting Guidelines for Debtors in Possession for the Eastern District of California (the "U.S. Trustee Guidelines"), which require that a debtor maintain insurance coverage given the circumstances of the chapter 11 case. Accordingly, the Debtor requests authorization, but not direction, to maintain its existing Insurance Policies, pay prepetition obligations related thereto (if any), and enter into new Insurance Policies in the ordinary course of business.

C. The Insurance Broker

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 Carrier. To the best of the Debtor's knowledge, the Debtor does not owe any prepetition Brokerage Fees. To the extent the Debtor is required to pay the Broker Fees in the future, the Debtor seeks the Court's authority to do so in ordinary course. The use of the Insurance Broker allows the Debtor to obtain and manage its program of Insurance Policies on favorable terms in a commercially reasonable and prudent manner, and to realize considerable savings in the procurement of the Insurance Policies by having access to market comparables provided by the Insurance Broker.

D. Deductibles and Self-Insured Retentions

In the ordinary course of business, the Debtor is required to pay deductibles (the "Insurance Deductibles") and other out-of-pocket costs up to certain amounts on a per-occurrence basis or aggregate basis, depending on the policy. The Insurance Deductibles amounts are contractual conditions to coverage, and any failure to fund the Insurance Deductibles 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 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.

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.

Furthermore, maintaining seamless coverage during this Chapter 11 Case is vital to safeguarding the Schools and the Debtor's business operations, and preserving the Schools' value pending a sale or confirmation of a chapter 11 plan. Accordingly, the Debtor requests authority to pay the Insurance Deductibles and Insurance Retentions related to Insurance Policies in the ordinary course of business.

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, but not directing, 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, but not directing, 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;

i. 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

ii. 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.

IV. BASIS FOR RELIEF

A. Continuation of the Insurance Policies is Required by the Bankruptcy Code and U.S. Trustee Operating Guidelines

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's business operations as well as its ability to reorganize in this Chapter 11 Case and is consistent with both the Bankruptcy Code and the U.S. Trustee Operating Guidelines. Accordingly, the Debtor submits that it should be authorized, but not directed, to supplement, amend, extend, renew, or replace its Insurance Policies as needed, in its business judgment, without further order of the Court.

B. Continued Maintenance of the Insurance Policies is Necessary to Preserve the Going-Concern Value of the Debtor's Business and Maximize Value for the Debtor's Estate

The nature of the Debtor's business in the educational system makes it essential for the Debtor to maintain its Insurance Policies on an ongoing and uninterrupted basis. The non-payment of any of the Debtor's insurance obligations could result in one or more of the Insurance Carriers

terminating or declining to renew their insurance policies or refusing to enter into new insurance policies with the Debtor in the future. If any of the Insurance Policies lapse without renewal, the Debtor could be exposed to substantial liability (including potentially administrative expense claims) or property damage, to the detriment of all parties in interest. The failure to maintain insurance could also negatively impact the Debtor's business operations and potentially derail the Debtor's sale efforts, to the extent the Debtor pursues such efforts.

As noted above, certain of the Debtor's operating contracts, as well as state and federal regulations, obligate the Debtor to remain current with respect to certain of its Insurance Policies. Thus, in order for the Debtor to maintain its operations in compliance with various contractual and regulatory obligations, the Debtor must be able to continue its Insurance Policies, and take all actions necessary in connection therewith, without disruption.

C. Satisfying Obligations Under the Insurance Policies in the Ordinary Course of Business is Warranted

The Bankruptcy Code authorizes the Debtor to continue its prepetition practices with respect to the Insurance Policies as such practices are in the ordinary course of business. However, to the extent that any such practices fall outside of the ordinary course of business, the Debtor, in an abundance of caution, respectfully requests that the Court authorize, but not direct, the Debtor to take all actions necessary to maintain, renew, or enter into new Insurance Policies on a postpetition basis as such relief is in the Debtor's sound business judgment and enables the Debtor to preserve value, consistent with the policies of chapter 11.

Pursuant to § 363(c)(1), 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). The Debtor's continuation of the Insurance Policies on a postpetition basis is consistent with its prepetition practices conducted in the ordinary course of business. Accordingly, the Debtor is permitted to pay all postpetition amounts due pursuant to the Insurance Policies, because such actions are in the ordinary course of the Debtor's business.

To the extent that the Debtor's continuation of the Insurance Policies is considered outside of the ordinary course of business, § 363(b)(1) 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). Under § 363(b), courts require a debtor to demonstrate only that a sound business purpose justifies the proposed use of property. *See In re Walter*, 83 B.R. 14, 20 (B.A.P. 9th Cir. 1988) (quoting *In re Continental Air Lines, Inc.*, 780 F.2d 1223 (5th Cir. 1986)) ("[F]or the debtor-in-possession or trustee to satisfy its fiduciary duty to the debtor, creditors and equity holders, there must be some articulated business justification for using, selling, or leasing the property outside the ordinary course of business."); *In re U.S. Airways Group, Inc.*, 287 B.R. 643, 645 (Bankr. E.D. Va. 2002); *In re Ionosphere Clubs, Inc.*, 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989).

"The [business judgment] rule establishes a presumption that directors' decisions are based on sound business judgment, and it prohibits courts from interfering in business decisions made by the directors in good faith and in the absence of a conflict of interest." *Berg & Berg Enters. v. Boyle*, 178 Cal.App.4th 1020, 1045 (Ct. App. 2009). "A hallmark of the business judgment rule is that, when the rule's requirements are met, a court will not substitute its own judgment for that of the corporation's board of directors." *Lamden v. La Jolla Shores Condo. Homeowners Assn.*, 21 Cal.4th 249, 257 (1999) (citing *Katz v. Chevron Corp.*, 22 Cal.App.4th 1352, 1366 (Ct. App. 1994)). When applying the "business judgment" rule, courts show great deference to a debtor's decision making. *See, e.g., In re Castre*, 312 B.R. 426, 430 (Bankr. D. Colo. 2004); *In re Murphy*, 288 B.R. 1, 5 (D. Me. 2002); *In re Bakalis*, 220 B.R. 525, 532 (Bankr. E.D.N.Y. 1998); *In re Tower Air, Inc.*, 416 F.3d 229, 238 (3rd Cir. 2005) ("Overcoming the presumptions of the business judgment rule on the merits is a near-Herculean task"). Thus, if a transaction satisfies the business judgment rule, it should be approved under § 363(b).

The Debtor submits that maintaining the Insurance Policies enables it to avoid the incurrence of possibly significant liabilities and therefore represents a sound exercise of its business judgment. More specifically, any interruption in coverage would expose the Debtor to a number of risks, including: (a) the possible incurrence of direct liability for the payment of claims that otherwise would have been covered by the Insurance Policies, which could result in one or more administrative claims against the Debtor's estate; (b) the possible incurrence of material

costs and other losses that otherwise would have been reimbursed, such as attorneys' fees for certain covered claims; (c) the possible inability to obtain similar types and levels of insurance coverage on terms equally favorable as the present coverage; (d) the risk of cancelation of insurance or request for adequate protection as a condition to coverage; and (e) the possible incurrence of higher costs for reestablishing lapsed Insurance Policies or obtaining new insurance coverage. In short, failure to maintain the Insurance Policies could have a detrimental impact on the Debtor's business and the value of its estate. Accordingly, the requirements of § 363(b) are satisfied here.

Additionally, 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.

Furthermore, the relief requested is necessary to avoid immediate and irreparable harm and disruptions to the Debtor's business operations and therefore justified under the necessity of payment doctrine. Pursuant to § 105(a), courts have exercised their equitable powers 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) (to justify payment of one class of prepetition creditors in advance of a confirmed plan, the debtor must show that payment is essential to the continued operation of the business); *In re Penn Cent. Transp. Co*., 467 F.2d 100, 102 and n.1 (3d Cir. 1972) (pre-Bankruptcy Code case recognizing "necessity of payment" cases permitting immediate payment of claims of creditors where those creditors will not supply services or material essential to the conduct of the business until their pre-reorganization claims shall have been paid). *In re Lehigh & New Eng. Ry*., 657 F.2d 570, 581 (3d Cir. 1981) (holding that a court may authorize payment of prepetition claims if such payment is essential to debtor's continued operation); *In re Just for Feet, Inc*., 242 B.R. 821, 824–25 (D.

Del. 1999) (holding that § 105(a) "provides a statutory basis for payment of pre-petition claims" under the doctrine of necessity).

The Ninth Circuit has recognized the "necessity of payment" doctrine. *In Burchinol v. Cent. Wash. Bank (In re Adam's Apple, Inc.)*, 829 F.2d 1484, 1490 (9th Cir, 1987), the Ninth Circuit discussed the existence of two competing "fundamental tenets" of bankruptcy: (1) equality in the treatment of all creditors; and (2) the rehabilitation of a debtor. The *Adam's Apple* court stated that the rehabilitation of a debtor "may supersede the policy of equal treatment" of creditors, and went on to describe such situations, specifically mentioning the payment of pre-petition wages and benefits to employees. *Id*. ("Cases have permitted unequal treatment of pre-petition debts when necessary for rehabilitation, in such contexts as (i) pre-petition wages to key employees; (ii) hospital malpractice premiums incurred prior to filing; (iii) debts to providers of unique and irreplaceable supplies; and (iv) peripheral benefits under labor contracts.").[6] The court went on to state that section 364(d), for example, "illustrates a Congressional willingness to subordinate the interests of pre-petition creditors to the goal of rehabilitation." *Id.*

Notably, in its discussion, the *Adam's Apple* court did not mention or consider an earlier Ninth Circuit case, *In re B & W Enters*., Inc., 713 F.2d 534 (9th Cir. 1983), which questioned whether the "necessity of payment" doctrine survived the 1978 changes to the Bankruptcy Code, and stated that, if it did, the court would apply the doctrine only to railroad cases "absent compelling reasons." *Id.* at 537. Ultimately, the court in that case declined to apply the doctrine because the appellants had not presented "sufficient justification" for extending the doctrine to the (non-railroad) debtor. *Id.* However, numerous courts throughout the country have held that the doctrine did survive 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. at 177 (finding that § 105 empowers bankruptcy courts to authorize payment of prepetition debt when such

[6] *See also In re Ionosphere Clubs, Inc*., 98 B.R. at 176 ("The policy of equality among creditor . . . may be of significance in liquidation cases under Chapter 7, however, the paramount policy and goal of Chapter 11, to which all other bankruptcy policies are subordinated, is the rehabilitation of the debtor.").

payment is needed to facilitate the rehabilitation of the debtor). Moreover, the *Adam's Apple* court in its discussion did not limit the doctrine to railroad cases only.

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].

Here, the Debtor seeks to continue, amend, supplement, and extend its existing Insurance Policies and purchase new Insurance Policies in the ordinary course of business. As noted above, continuation of the Insurance Policies is essential to continuing uninterrupted operations and preserving the value of the Debtor's business, properties, and assets of the estate. The Insurance Policies protect the Debtor and other parties in interest from losses caused by casualty, natural disaster, fraud, or other unforeseen events. Moreover, in some cases, maintenance of insurance coverage is required by the regulations, laws and other contracts that govern the Debtor's commercial activities, including the U.S. Trustee's requirement that a debtor maintain adequate coverage given the circumstances of its chapter 11 case. Accordingly, it is essential and imperative that the Debtor be allowed to continue, amend, supplement, and extend its existing Insurance Policies in the ordinary course of business on a postpetition basis to ensure that the Debtor maintains adequate insurance coverage throughout the pendency of this Chapter 11 Case.

Furthermore, the Debtor's ability to maintain the Insurance Policies, pay any insurance obligations in the ordinary course of business, consistent with past practice, will provide certainty to not only the Debtor, but also the Insurance Carriers, the Insurance Broker and other parties in interest that the Debtor has the ability to maintain appropriate insurance during the Chapter 11 Case.

V. PROCESSING OF CHECKS AND ELECTRONIC FUND TRANSFERS

In the ordinary course of business, the Debtor draws upon funds in its bank accounts to satisfy the Insurance Obligations. The Debtor has sufficient funds to pay the amounts described in the Motion in the ordinary course of business through cash on hand. Moreover, under the Debtor's existing cash management system, the Debtor can readily identify checks or wire transfer requests relating to an authorized payment in respect of the Insurance Policies. As such, the Debtor believes there is minimal risk that unauthorized checks or wire transfer requests will be inadvertently honored. The Debtor therefore respectfully requests that the Court authorize all applicable financial institutions, upon the Debtor's request, to receive, process, honor, and pay any and all checks or wire transfer requests in respect of the relief sought in the Motion.

The Debtor also seeks authority to issue new postpetition checks or effect new postpetition electronic funds transfers in replacement of any checks or transfer requests on account of Insurance Obligations dishonored or rejected as a result of the commencement of this Chapter 11 Case. Such authorization will ensure that the Debtor maintains critical and necessary insurance during the pendency of this Chapter 11 Case.

VI. EMERGENCY CONSIDERATION

Bankruptcy Rule 6003 provides that, to the extent relief is necessary to avoid immediate and irreparable harm, the Court may issue an order within the first twenty-one (21) days of a chapter 11 case granting "a motion to use, sell, lease, or otherwise incur an obligation regarding property of the estate, including a motion to pay all or part of a claim that arose before the filing of the petition." Fed. R. Bankr. P. 6003(b).

For the reasons discussed herein and in the Motion, the Raymond Declaration and First Day Declaration, the Debtor respectfully requests that the Court enter an interim order in the form set forth on Exhibit A to the Exhibit List filed concurrently herewith: (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. The relief requested in the Motion is integral to the Debtor's ability to transition its operations into this Chapter 11 Case. Failure to obtain such authorization and other relief within the first twenty-one (21) days of this Chapter 11

Case would severely disrupt the Debtor's operations at this critical juncture. The requested relief is necessary to enable the Debtor to operate its business in the ordinary course, continue to deliver quality services without interruption, and preserve and maximize the value of the estate for the benefit of all stakeholders. Accordingly, the Debtor submits that it has satisfied the "immediate and irreparable harm" standard of Bankruptcy Rule 6003 and respectfully requests that the Court approve the relief sought in the Motion on an emergency basis.

VII. RESERVATION OF RIGHTS

Nothing herein shall constitute a waiver of any claims, rights, objections, or remedies available to the Debtor against any party. The Debtor expressly reserves the right to seek modification of any relief granted hereunder to the extent necessary to facilitate this Chapter 11 Case and the Debtor's ongoing operations, or as otherwise required to comply with any order entered by the Court in this Chapter 11 Case. Furthermore, nothing herein, nor any action taken in furtherance of the relief requested herein, shall be deemed or construed as (i) an admission regarding the validity of any claim asserted against the Debtor, (ii) a waiver of the rights of the Debtor or any appropriate party in interest to contest any such claim, or (iii) an approval, adoption, or assumption of any agreement, contract, program, policy, or lease pursuant to § 365, nor shall anything herein otherwise limit or affect the Debtor's rights under § 365 to assume or reject any executory contract with any party. Similarly, in the event the Court grants the relief requested herein, any payment made in accordance with the Court's order shall not be deemed, and should not be interpreted, as an admission of the validity of any claim or as a waiver of the Debtor's right to challenge such claim at a later time. Finally, no provision of the relief requested herein shall be construed to require or obligate the Debtor to accept any services from any party.

VIII. WAIVER OF BANKRUPTCY RULES 6004(A) AND 6004(H)

To implement the foregoing successfully, 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). As set forth above and in the Motion, the Raymond Declaration and 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.

IX. 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) the Insurance Carriers; and (f) 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.

X. CONCLUSION

For the reasons set forth herein, the Debtor respectfully requests that the Court enter the Proposed Interim Order substantially in the form attached as **Exhibit A** to the Exhibit List, filed contemporaneously herewith 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