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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.	Case No. 26-25868 Chapter 11 Adv No. 26-02134 DCN: SMR-1
Highlands Community Charter and Technical Schools, Plaintiff, v. Twin Rivers Unified School District Board of Trustees and California State Board of Education, Defendants.	Date: November 10, 2026 Time: 11:00 a.m. Place: Courtroom 32, Department B Judge: Hon. Christopher D. Jaime

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MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF MOTION FOR ORDER EXTENDING STAY TO THE REVOCATION APPEAL UNDER BANKRUPTCY CODE SECTIONS 105(a) AND 362

Highlands Community Charter and Technical Schools, the above-captioned debtor and debtor-in-possession ("HCCTS" or, the "Debtor"), in the above-captioned chapter 11 case (the "Case" or the "Main Case"), submits this Memorandum of Points and Authorities in support of the Debtor's *Motion for Order Extending Stay to the Revocation Appeal Under Bankruptcy Code Sections 105(a) and 362* (the "Motion").

I. JURISDICTION AND STATUTORY BASIS

This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A), (B), and (O). The statutory predicates for the relief requested herein are Sections 105(a) and 362 of the Bankruptcy Code. This Court has jurisdiction to enjoin a non-bankruptcy action if enforcement or continuation of such non-bankruptcy action could conceivably have any effect on the administration of the bankruptcy estate. *See, e.g., Am. Hardwoods, Inc., v. Deutsche Credit Corp. (Am. Hardwoods, Inc.),* 885 F.2d 621, 623 (9th Cir. 1989); *see also Seaport Automotive Warehouse, Inc. v. Rohnert Park Auto Parts, Inc. (In re Rohnert Park Auto Parts, Inc.),* 113 B.R. 610, 615 (B.A.P. 9th Cir. 1990) ("The test in this circuit for jurisdiction is whether the requested injunction could conceivably affect the administration of debtor's plan"). Moreover, this Court's jurisdiction also extends to a non-bankruptcy action when there is a strong interconnection between that action and the bankruptcy, particularly where, like here, the outcome of litigation by Defendants could materially alter the Debtor's rights, liabilities, options, and freedom of action, either positively or negatively, impacting the handling and administration of the bankruptcy estate. *See, e.g.*, *Celotex Corp. v. Edwards*, 514 U.S. 300, 310–11 (1995) (jurisdiction proper under 105(a) where litigation could affect or impede reorganization process); *Fietz v. Great Western Savings (In re Fietz)*, 852 F.2d 455, 457 (9th Cir. 1988) (jurisdiction proper when proceeding could conceivably have any effect on estate handling and administration); *Solidus Networks, Inc. v. Excel Innovations, Inc. (In re Excel Innovations, Inc.)*, 502 F.3d 1086, 1095 (9th

Cir. 2007) (Section 105(a) gives bankruptcy court jurisdiction to stay actions that threaten integrity of debtor's estate).

II. SUMMARY

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 Schools hold a unique place in the community and provide invaluable educational opportunities to the most educationally vulnerable adult populations, including individuals who could not complete secondary education due to economic hardship, family obligations, as well as immigrants and refugees resettled in California who may be learning to read and write for the first time. Since opening in August 2014, the Schools have served approximately 60,000 students. The Schools currently have approximately 2,000 enrolled students and are contributors to the local economy and community with a large workforce of over 160 employees, additional independent contractors, and the Schools also lease buildings and have commercial and business relationships with local vendors to operate and supply the Schools.

The Debtor's ability to operate the Schools has been threatened by two simultaneously pending appeals. First, defendant Twin Rivers Unified School District Board of Trustees ("Twin Rivers") has a pending appeal before defendant the California State Board of Education to revoke the Schools' charters, which if Twin Rivers prevails and in fact revokes the charters, the Schools will immediately close.

Second, the California Department of Education demanded immediate repayment of over $180 million, which the Debtor could only resist and dispute by filing an administrative appeal. However, following the commencement of the Main Case, the state filed a statement in the subject Audit Appeal indicating that "it does not object to a stay of the audit appeal hearing in this matter pending the resolution of Highlands's Petition by the Bankruptcy Court."[1]

[1] To the extent the state seeks relief from the automatic stay to continue the Audit Appeal during the pendency of the Main Case, the Debtor reserves it right to contest and dispute any such request.

Even though the state has chosen to respect and adhere to the automatic stay with respect to the matter at the core of the dispute with the Debtor, it is not clear whether Twin Rivers will do the same, notwithstanding that the actions of Twin Rivers necessarily follow on from those of the state.

If there is an adverse determination in the Twin Rivers revocation appeal, and the charters are revoked, it will destroy all economic value for the Debtor's estate and leave creditors with no meaningful recovery, to say nothing of the negative impact on the more than 2,000 students who depend on the Schools' continued operation. An adverse result and enforcement of the Twin Rivers appeal would be catastrophic to the Debtor's continued existence and provision of educational services, as well as the Debtor's ability to duly reorganize in this Case. In contrast, if the revocation appeal is stayed as requested below, the Debtor's successful reorganization is all but assured.

Accordingly, the Debtor seeks injunctive relief under Section 105(a) to temporarily enjoin the hearing on the revocation appeal, currently scheduled for November 12, 2026. The Debtor does not ask the Court to decide whether the revocation is warranted, and it does not ask the Court to strip any Defendant of its authority over the Charters. The relief sought is intentionally narrow, but necessary to preserve the status quo, which will maximize the value of the Debtor's estate, allow the Debtor to undertake reorganization efforts with respect to the Schools' charters and continued operation, and thus further the fundamental policy goals of the Bankruptcy Code. The Debtor's requested relief is firmly grounded in two independent bases, each of which is sufficient.

First, the automatic stay under Section 362(a) applies because Twin Rivers' revocation of the Schools' charters constitutes an act to obtain possession of or exercise control over property of the estate under Section 362(a)(3), and no exception to the automatic stay is applicable.

Second, the Court is authorized to fashion and grant injunctive relief under Section 105(a) to protect the reorganization process, regardless of whether the automatic stay separately applies. As recognized in *Purdue Pharma L.P. v. Massachusetts (In re Purdue Pharma L.P.)*, 666 B.R. 461 (Bankr. S.D.N.Y. 2024) ("*Purdue Pharma*"), bankruptcy courts retain authority to temporarily enjoin litigation and governmental enforcement actions where such actions would impede a

debtor's reorganization efforts, including actions that might otherwise fall within the police and regulatory power exception to the automatic stay.

The circumstances present here – a necessary breathing space for the Debtor to maintain the status quo and the Schools' charters to allow reorganization to proceed for the benefit of the estate and all parties in interest – warrant the requested injunctive and declaratory relief. Absent the granting of the relief requested, there is a real risk that the Main Case might come to an end even before an official committee of unsecured creditors has had a chance to evaluate the situation and take a position. Such a result would be completely at odds with the Bankruptcy Code, especially when a temporary injunction does no real harm to Twin Rivers.

III. FACTUAL BACKGROUND

A. The Schools Provide Unique Opportunities Tailored to the Community's Needs

The Debtor is a non-profit corporation that owns, manages and operates the Schools. The Schools are charter schools which are established through a written charter. (Raymond Decl., ¶¶ 1, 11). The charter is a detailed contract between the school's founders and an authorizing entity that sets out the school's educational program, governance structure, academic goals, financial plan, and accountability measures. (*Id.*, ¶ 13). The Twin Rivers Unified School District is the authorizing entity that issued the Schools' current charters (the "Charters"), having first authorized the Charters in August 2014. (*Id.*, ¶¶ 13-14).

Although generally charter schools sit outside traditional models, the Debtor's mission is particularly targeted and unique. The Debtor operates the Schools, which are adult-learning schools, and currently is providing services to approximately 2,000 students during the current academic year, which ends on June 30, 2027. (*Id.*, ¶¶ 19, 69). Throughout its existence, the Schools have served approximately 60,000 students. (*Id.*, ¶ 14). The Schools provide students aged 22 and older with the opportunity to attend high school; to earn a high school diploma (a credential distinct from a General Educational Development (GED) certificate); to receive in-person English language instruction; and to participate in career and technology certification programs which are designed to provide students with the necessary skills to gain meaningful employment after graduation. (*Id.*, ¶¶ 14, 19).

Fundamentally, the Schools exist to serve the most educationally vulnerable populations in the local community, including individuals who could not complete secondary education due to economic hardship, family obligations, or involvement with the criminal justice system, as well as immigrants and refugees resettled in California. (*Id.*, ¶ 20). The Schools' impact reaches well beyond the individual student by serving as a critical road to economic self-sufficiency and civic participation whether affording an adult learner a high school diploma and expanding their career prospects, providing English language instruction to immigrants, or providing education to individuals whose foreign credentials lack recognition in California. (*Id.*). Across all pathways, the benefits are both immediate and long-term because students emerge better positioned to secure employment, contribute to their communities, and navigate the American education and professional landscape. (*Id.*). Cumulatively, the effect of these outcomes can generate substantial social and fiscal returns for students, their families, the surrounding community, as well as the local, state, and federal government. (*Id.*).

In many cases, the Schools represent the only viable education option for their student population. (*Id.*, ¶ 21). Whether that is due to adult obligations that cannot be reconciled with traditional school hours, or the need for tuition-free English language courses with counseling and other wrap-around support that conventional programs do not provide, the Schools fill a critical gap that is not fully addressed by other public and charter schools. (*Id.*). The Schools are not limited to just providing educational services to their students but also have a food pantry for hungry students, clothes for students in need, provide counseling to students facing mental health or other crises, and have helped students find doctors, dentists, optometrists and hairdressers who speak their language and understand their cultural traditions. (*Id.*).

Many students who attend the Schools are refugees from Afghanistan, who relocated to the Sacramento area with special permission from the United States government because their lives were determined to be at risk if they remained in Afghanistan. (*Id.*, ¶ 23). Some are learning to read, to write, and to do basic math skills for the first time, in addition to learning English. (*Id.*). Many of the refugees and other students attending the Schools are required to be enrolled in an educational program as a condition of receiving public assistance for housing or other vital

services. (*Id.*, ¶ 24). Any immediate closure of the Schools would threaten and undermine critical safety nets that the state and federal government have created to ensure food and housing security for students are met.

B. The Schools Are Subject to Multiple Levels of Oversight and Annual Independent Audits

Charter schools are part of the California public education system, which has multiple levels of oversight for all schools, including agencies at the state, county, and local levels. (Exhibits to Raymond Declaration ("Raymond Exhibits") [Main Case No. 5], Ex. B (Audit Report), pp. 7, 9). The first direct level of that oversight for the Schools is its authorizing entity, Twin Rivers Unified School District ("Twin Rivers"). (*Id.*, p. 9). The Schools must compensate Twin Rivers for that compliance oversight, and the Schools paid Twin Rivers nearly $13 million for fiscal years 2019-2020 through 2023-2024. (*Id.*, p. 55). The Sacramento County Office of Education engages in oversight and also provides assistance to both Twin Rivers and the Schools. (*Id.*, p. 9). At the state level, the California Department of Education is responsible for enforcing education laws and for allocating funding for local educational agencies, the State Board of Education is the policy making body, and the California Commission on Teacher Credentialing provides and enforces licensing and credentialing for educators. (*Id.*).

The Schools also have an exclusive partnership agreement with the Sacramento Employment and Training Agency ("SETA"), a joint powers agency of the City of Sacramento and County of Sacramento that administers federal Workforce Investment Opportunity Act funding in Sacramento County. (Raymond Decl., ¶ 22). All students enrolled at the Schools also must be enrolled in SETA's workforce development programs. (*Id.*). SETA provides additional services for students enrolled at the Schools, leading to substantial benefits for these students. (*Id.*). Indeed, SETA reports that 63% of students enrolled in its Workforce Investment Opportunity Act program were employed in the 2nd quarter following exit from the program. (*Id.*).

Apart from and in addition to this compliance and oversight structure, the Schools are required by law to undergo annual financial and compliance audits, in accordance with government auditing principles. *See* Cal. Education Code §§ 41020, 47605(m). The audit must be

performed by an independent, Certified Public Accountant. The independent auditor must follow the procedures, standards, and requirements established by the Education Audit Appeals Panel ("EAAP"), in its "Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting." *See* Cal. Education Code § 14502.1. EAAP's guide also determines the components of the audit report and the information that must be provided in the report. The EAAP guide is formally adopted through its rulemaking process and is based on and derived from the proposed audit guide submitted by the State Controller's Office, in consultation with the Department of Finance, California Department of Education, and other organizations. *Id.*

The Schools duly retained an independent auditor and submitted annual reports. (Raymond Decl., ¶ 34). The independent auditor's reports for the Schools for the fiscal years 2019 to 2020 through 2023 to 2024 were submitted to and certified by the State Controller's office. . (*Id.*, ¶¶ 34, 45). The independent auditor's reports for those fiscal years found that the Schools had complied with the requirements for charter schools, including, among other things, Attendance, Mode of Instruction, Classroom-Based Instructional Minutes, and Charter School Facility Grant Program.

C. Twin Rivers' Compliance Oversight and the Mandatory Annual Audits Are Inconsistent with the California State Auditor's June 2025 Audit Report

Notwithstanding these previous clean audits from auditors on the California State Controller's approved list of local education agency auditors, in June 2025, the California Office of the State Auditor issued Report 2024-106 (the "Audit Report"). (Raymond Exhibits, Ex. B). The Audit Report is publicly available at the following link: https://www.auditor.ca.gov/reports/2024-106/. Importantly, the Audit Report did not allege fraud. (*Id.*; Raymond Decl., ¶ 34). Instead, the Audit Report mainly discussed issues related to tracking student attendance, minutes of classroom and non-classroom instruction, and teacher credentialing.

The California State Auditor has no enforcement power as to any statements or purported findings in the Audit Report. Instead, the Audit Report only makes *recommendations*, many of which were to develop and implement policies or procedures. (Raymond Exhibits, Ex. B, pp. 61-68). Highlands immediately responded to the recommendations in the Audit Report, and the *State*

Auditor found that the Schools have fully implemented all 18 recommendations, including those related to credentialing and attendance accounting. (Raymond Decl., ¶¶ 38; *see also* https://www.auditor.ca.gov/reports/responses-2024-106-all/). Independently, the Western Association of Schools and Colleges conducted an extensive review of HCCS, including the implemented changes, and has determined to maintain HCCS' accreditation. (*Id.*, ¶ 39). To underscore and confirm the Audit Report's absence of any fraud allegations, the Debtor retained a certified fraud examiner to conduct an independent investigation. (*Id.*, ¶ 41). The investigation did not find any evidence of fraud for the year at issue in the Audit Report. (*Id.*; Raymond Exhibits, Ex. C (Schoolhouse Partners Independent ADA Review and Final Review Report)).

As to the entities charged with overseeing the Schools' compliance, the Audit Report also concluded there was inadequate oversight, including by the California Department of Education ("CDE"), Twin Rivers Unified School District, the California Commission on Teacher Credentialing ("CTC"), and the Sacramento County Office of Education ("SCOE"). (Raymond Exhibits, Ex. B, pp. 45-59). The State Auditor also made recommendations to each of these entities, along with the Legislature. (*Id.*, pp. 61-68).

D. Contrary to the Audit Report Directive to Conduct Its Own investigation CDE Instead Demands Repayment of Over $180 Million Based Only on the Audit Report

The Audit Report identified CDE's failure to provide adequate oversight as to the Schools and made two recommendations. (Id.). First, the CDE should "ensure that schools participate in their required testing and to ensure transparency about student assessment outcomes," to which CDE agreed it "will explore the feasibility of proposing a procedure . . . to verify charter school compliance with state testing requirements, which is a condition of apportionment." (Id., p. 163). Second, the Audit Report recommended that the state superintendent to "direct CDE to immediately investigate whether Highlands has sufficiently complied with state law, met the conditions of K-12 funding, and appropriately claimed K-12 funding." (Id.) CDE committed that it would "continue to monitor Highlands and follow-up as needed with Highlands, Twin Rivers[], and [SCOE] to confirm that Highlands meets the conditions of funding and has appropriately claimed funding," and that it would "review the result of the audit and evaluate the conclusions

considering the audit resolution process outlined in Education Code and determine the best course of action to ensure appropriate compliance." (Id., pp. 163-164). CDE thus told the Auditor, the Legislature, the Schools, and the public, that it would investigate, monitor, follow up, evaluate, and make determinations about the Schools. (*Id.*).

But just six days after the Audit Report was issued, on June 30, 2025, the CDE sent audit determination letters to the Schools operated by the Debtor asserting, based only on the Audit Report, that it was entitled to repayment of over $180 million. (Raymond Decl., ¶¶ 34, 43). This is at odds with the State Auditor's recommendations and CDE's response, particularly since the Audit Report expressly states: "We do not recommend that Highlands be fined . . .." (Raymond Exhibits, Ex. B, p. 143).

The CDE's audit determination letters required the Schools to either pay amounts in excess of $180 million dollars or appeal the determination to the Education Audit Appeals Panel. The Schools timely filed appeals of CDE's determination letters with EAAP, pursuant to Case Nos. EAAP 25-42 and EAAP 25-36 (the "Audit Appeal"). (Raymond Decl., ¶ 43). The merits hearing before an Administrative Law Judge that was scheduled to begin on October 19 is now stayed. After the Main Case commenced, the state filed a statement in the Audit Appeal conceding that "it does not object to a stay of the audit appeal hearing in this matter pending the resolution of Highlands's Petition by the Bankruptcy Court." At issue in the Audit Appeal is a determination of whether or not the Schools must repay the staggering amounts – more than $180 million dollars.

E. Despite the State Audit Report's Express Finding that Twin Rivers' Failed to Oversee the Schools or Justify Its $12.9 Million in Fees, Twin Rivers' School District Board Seeks to Revoke the Schools' Charters

At or around the same time the Audit Report was issued, in June 2025, the Twin Rivers Unified School District Board (the "District Board") issued a Notice of Violation for the Schools, alleging violations of the Schools' Charters. (Raymond Decl., ¶¶ 44-45, 52). The District Board's timing and issuance of the Notice of Violation is in direct contrast to the findings in the Audit Report. For example, the Audit Report concluded there was inadequate oversight by the District Board. (Raymond Exhibits, Ex. B, pp. 49-56). The Audit Report specifically found that for fiscal years 2019–20 through 2023–24, Twin Rivers charged Highlands "*$12.9 million* in oversight and

facilities fees *that it cannot justify*." (*Id.*, p. 55 (emphasis added)). The Audit Report also made recommendations, including policy changes that the District Board should undertake. (*Id.*, p. 66). None of the recommended actions were to revoke the Schools' Charters. (*Id.*). Indeed, the District Board's response to the Audit Report's recommendations likewise did not indicate it would proceed to revoke the Schools' Charters. (*Id.*, pp. 145-151). Notably, the State Auditor found that Twin Rivers has neither fully implemented or addressed all the recommendations. (*See* https://www.auditor.ca.gov/reports/responses-2024-106-all/).

Moreover, because the Schools had immediately responded to the Audit Report by undertaking significant remedial steps to address concerns presented in the Audit Report, the Schools were able to refute, address, and/or cure all the violations asserted by the District Board. (Raymond Decl., ¶ 52). On January 27, 2026, the District Board met to consider a recommendation from Twin Rivers staff and counsel, who presented findings and recommended the Charters **not** be revoked based on findings that the Schools had fully cured or refuted all issues in the Notice of Violation and that there was accordingly no basis to revoke the Charters. Nevertheless, in a stunning and inexplicable move, the District Board ignored the recommendation of its own staff and legal counsel and voted to revoke the Schools' Charters. (*Id.* at ¶ 53). In doing so, the District Board relied only on their prior findings of fact from the June 2025 Notice of Violation.

On February 27, 2026, the Debtor, on behalf of the Schools, appealed the revocation of the Charters to the Sacramento County Board of Education ("SCBOE") and ultimately prevailed. (*Id.*, ¶ 54). On May 19, 2026, the SCBOE held a lengthy public hearing and following a thorough review of the extensive administrative record, SCBOE voted to overturn the District Board's revocation of the Charters. (*Id.*)

However, the District Board continued to pursue its revocation attempts. On June 18, 2026, the District Board appealed SCBOE's decision to the State Board of Education (the "Revocation Appeal"). On July 17, 2026, the Debtor filed an opposition to the Revocation Appeal. In connection with the District Board's Revocation Appeal, on September 30, 2026, the California Department of Education released a state staff report making a recommendation to the State Board

of Education and its Advisory Commission on Charter Schools (the "ACCS") that the revocations of the Charters be upheld. (Raymond Decl., ¶ 57). A hearing was held on October 6, 2026 before the ACCS to address whether to (i) recommend the State Board of Education to hear the appeal from the District Board, and (ii) recommend that the State Board of Education find that the revocation by the District Board was supported by substantial evidence and should thus be upheld. (*Id.*, ¶¶ 57, 58). At the meeting, the ACCS recommended that the State Board of Education uphold the revocations. (*Id.*, ¶ 57).

The next step in the Revocation Appeal is that on November 12, 2026, the State Board of Education is scheduled to consider ACCS' recommendations from the October 6 meeting. (*Id.*., ¶ 59). At that November 12 meeting, the State Board of Education will evaluate whether the District Board had substantial evidence that the Debtor was not in compliance with the law or its Charters. (*Id.*). If the November 12 meeting proceeds, and the State Board of Education agrees with a negative ACCS recommendation, the Debtor would immediately lose its funding, and the Schools would face immediate closure on or shortly after November 12, 2026, absent judicial intervention. (*Id.*)

F. The Public Interest Is Best Served by Allowing the Debtor to Reorganize with the Attendant Benefits to the Community and Local Economy

The Revocation Appeal imperils the Schools' very existence as the closure of the Schools would have a deleterious impact the greater community, and prevent the Debtor from reorganizing. The Schools are currently providing educational opportunities to approximately 2,000 adult students, age 22 and older, for the 2026 to 2027 school year. (Raymond Decl., ¶ 19). The Schools serve vulnerable populations in the community and provide tuition-free opportunities that are not readily available elsewhere – particularly since the Schools provide additional services and most students – given their age – have responsibilities that are not compatible with traditional K-12 school hours. (*Id.*, ¶¶ 20-21). Sacramento is home to one of the largest and most vibrant Afghan communities in the United States, making it a primary hub for Afghan Americans and refugees nationwide, and the Debtor serves its many Afghan and refugee students who are seeking to learn English, work, raise their children, and rebuild their lives after experiencing extraordinary

hardship. (*Id.*, ¶ 63). The Schools provide opportunities for students which in turn uplift and benefit their children's educational and work prospects.

If the Schools were shut down in the middle of the school year, there would be no immediate replacement available to the majority of the students. (*Id.*, ¶ 21). Not only are the Schools critical for supplying the students' needs, the importance of the Schools to the public and community cannot be understated. The unique mission of the Schools enjoys a tremendous amount of public and community support. The Schools have received letters and support from many organizations, including religious organizations representing multiple faiths to chambers of commerce, organizations focused on anti-recidivism, and organizations that share our mission of serving immigrants and refugees. (Raymond Exhibits, Ex. A). In addition, at public hearings held by the District Board and the Sacramento County Board of Education, as well as the Schools' Board meetings, many students, employees, other agencies, and public officials have expressed their belief that Debtor's programs are vital to the community and are worth saving under the stewardship of the Schools' new administrative team. (Raymond Decl., ¶ 61).

The Schools operating as a going concern also affects the local community and the public because the Schools' workforce consists of approximately 167 employees, including teachers, pupil support staff, administrators, instructional aides, and maintenance, clerical, technical, and office staff. (Main Case No. 42, ¶ 5). The Debtor also retains and pays multiple independent contractors to support back-office functions such as accounting, budgeting, and compliance reporting. (*Id.*). The Debtor provides its employees not only with compensation but benefits, including health insurance and retirement benefits. (*Id.*, ¶ 6). The Debtor estimates pre-petition compensation and benefits for the workforce totaling more than $1.9 million. (*Id.*, ¶ 8). Closure of the schools could cause personal hardship to the Schools' employees and independent contractors, including adversely affecting morale and workforce stability, which would also jeopardize the success of this Case and the Debtor's ability to re-organize. (*Id.*, ¶ 6).

In addition to individuals involved with the Schools, there are the local costs and contributions to the local economy through costs and services necessary to operate the Schools, including all the facilities costs and services associated with the Schools' 6 campuses, 2

administrative locations, and 1 storage facility. (*Id.*, ¶ 14). The actual equipment, supplies, services, books, copiers, printers, and other commercial needs that likewise contribute to the local community, as evidenced by the Debtor's First Day Motions. (*See generally* Main Case Nos. 4-44).

IV. LEGAL ARGUMENT

A. Twin Rivers' Prosecution of Its Appeal to the State Board of Education to Revoke the Schools' Charters Is Stayed Pursuant to Bankruptcy Code Section 362(a)(1) and (a)(6) as an Act to Recover a Claim Against the Debtor

Bankruptcy Code Section 362(a) imposes an automatic stay of litigation and other proceedings against the Debtor and its property. In pertinent part, Section 362(a)(1) provides that the filing of a petition operates as a stay of the "commencement or continuation . . . of a judicial . . . proceeding against the debtor . . . or to recover a claim against the debtor." Section 362(a)(6) separately stays "any act to collect, assess, or recover a claim against the debtor." The automatic stay is "one of the fundamental debtor protections provided by the bankruptcy laws." *Midlantic Nat'l Bank. v. N.J. Dep't of Envtl. Prot.*, 474 U.S. 494, 503 (1986). "The purposes of the bankruptcy stay under 11 U.S.C. § 362 'are to protect the debtor's assets, provide temporary relief from creditors, and further equity of distribution among the creditors by forestalling a race to the courthouse.'" *Reliant Energy Servs., Inc. v. Enron Canada Corp.*, 349 F.3d 816, 825 (5th Cir. 2003) (citations omitted); *see also Hunt v. Bankers Trust Co.*, 799 F.2d 1060, 1069 (5th Cir. 1986) (noting that the automatic stay "prevent[s] 'a chaotic and uncontrolled scramble for the debtor's assets in a variety of uncoordinated proceedings in different courts'") (citations omitted).

The Ninth Circuit recognizes licenses, such as liquor licenses, as property of the estate and has held that when the state refused to transfer liquor licenses in an attempt to collect payment on other claims, that constituted "an act to collect or recover a claim" under Section 362(a)(6).*In re Farmers Markets, Inc.*, 792 F.2d 1400, 1403–04 (9th Cir. 1986).

The Ninth Circuit applies two disjunctive tests to determine whether a governmental action falls within section 362(b)(4): the "pecuniary purpose" test and the "public policy" test. *NLRB v. Continental Hagen Corp.*, 932 F.2d 828, 833 (9th Cir. 1991). Under the pecuniary purpose test, the court must determine whether the government action relates primarily to the protection of the

government's pecuniary interest in the debtor's property or to matters of public safety and welfare. *Id.* The rationale behind the test is that the government should not be able to use its police and regulatory powers to circumvent the relief available to both debtors and general creditors under the Bankruptcy Code, unless the state has an interest in the matter such as punishing misconduct and preventing future bad acts. *Thomassen v. Division of Med. Quality Assurance (In re Thomassen)*, 15 B.R. 907, 909 (9th Cir. B.A.P. 1981). The public policy test "distinguishes between [governmental] proceedings that effectuate public policy and those that adjudicate private rights." *Continental Hagen Corp.*, 932 F.2d at 833 (quotations omitted). The issue for this test is whether an agency's actions concern only the parties who are immediately affected, or a wider group under the agency's authority or the public as a whole. *See, e.g., In re Charter First Mortg., Inc.*, 42 B.R. 380, 383-84 (Bankr. D. Or. 1984). An action falls within the exception if it satisfies *either* test. *Universal Life Church, Inc. v. United States* (*In re Universal Life Church*), 128 F.3d 1294, 1297-98 (9th Cir. 1997); *see also Lockyer v. Mirant Corp.*, 398 F.3d 1098, 1108 (9th Cir. 2005).

In *In re Universal Life Church* the Ninth Circuit analyzed whether an IRS letter revoking the tax-exempt status of a religious corporation for misusing charitable contributions was permissible pursuant to section 362(b)(4). The Ninth Circuit affirmed the district court's holding that the revocation was a valid exercise of the IRS's police or regulatory power because revocation would promote the public welfare by assuring the public and potential donors that contributions would be used for legitimate charitable purposes. *In re Universal Life Church*, 128 F.3d at 1297-98.

The court reasoned that when the government grants an exemption or allows deductions all taxpayers are affected, meaning the public as a whole is affected. Further, revoking the church's tax-exempt status would serve a general public welfare purpose beyond just a pecuniary application because the revocation was aimed at deterring fraud and assuring potential donors of the church that their contributions would be used appropriately. *Id.* at 1298. So, notwithstanding the state's pecuniary interests in revoking the church's tax-exempt status, the state's motive to protect the public at large was dispositive.

Similarly, in *In re Thomassen*, the Ninth Circuit upheld the revocation of a physician's medical license pursuant to 362(b)(4) for gross negligence. In that case, the Ninth Circuit reviewed the decision of the California Board of Medical Quality Assurance to revoke the physician debtor's license and concluded there was no evidence this action was meant to frustrate the purposes of the Bankruptcy Code. *In re Thomassen*, 15 B.R. at 909. The court reasoned that the state's interest in punishing and preventing future instances of the debtor's misconduct, which consisted of malpractice, professional incompetence, and fraud in the handling of his patients' and employees' funds, was a valid police and regulatory interest. *Id.*

Here, by contrast, the Schools received five consecutive years of clean, certified audits from an independent CPA on the State Controller's own approved list. Those independent audits were accepted by Twin Rivers and other entities charged with oversight of the Schools. The Audit Report, despite contradicting those independent audits, did not make any allegations or findings of fraud. Indeed, that same finding was confirmed through an independent evaluation of the Schools during the same time period as the Audit Report by a certified fraud examiner. (Raymond Exhibits, Ex. C). Furthermore, the $180 million figure rests entirely on the State Auditor's retroactive reinterpretation of attendance accounting or credentialing, which is a dispute over the amount of repayment due or the amount of a debt, not an undisputed finding of fraud or ongoing danger to the public.

Finally, an audit was just completed for the 2024-2025 fiscal year (the year following the Audit Report), which does not have any findings relating to attendance accounting or credentialing. Similarly, the State Auditor's Office also found that the Debtor implemented all of the recommendations in its Audit Report. Both the 2024-2025 independent audit and the State Auditor's finding that its recommendations were fully implemented indicate no current public harm and no benefit relating to deterrence of other parties. If anything, a revocation now might actually deter other schools from reporting or self-correction. Stated bluntly, the current efforts at revoking the Debtor's Charters serve no valid regulatory purpose whatsoever. To the contrary, the Schools themselves have maintained their accreditation and are providing a critical and valuable service each and every day.

B. Any Revocation of the Schools' Charters by Twin Rivers Is Stayed Pursuant to Bankruptcy Code Section 362(a)(3) As An Act to Obtain Possession of or Exercise Control Over Property of the Estate

Unlike Section 362(a)(1) of the Bankruptcy Code, which only applies to "a judicial . . . action or proceeding . . . against the debtor," Section 362(a)(3) prohibits "any act to obtain possession of property of the estate or . . . to exercise control over property of the estate." Section 362(a)(3) thus operates not just to stay proceedings brought against the debtor, but stays any act brought to gain control of the debtor's estate, including pre-petition actions brought by the debtor to protect its estate where an adverse judgment would dispossess the estate of property. *See Krystal Cadillac Oldsmobile GMC Truck. Inc. v. General Motors Corp. (In re Krystal Cadillac Oldsmobile GMC Truck. Inc.)*, 142 F.3d 631, 638 (3rd Cir. 1998).

The Bankruptcy Code defines property of the estate as "all legal or equitable interests of the debtor in property as of the commencement of the case." 11 U.S.C. § 541(a)(1). That definition is broadly defined and construed to further "the congressional goal of encouraging reorganizations." *United States v. Whiting Pools, Inc.,* 462 U.S. 198, 204-05 (1983) ("*Whiting Pools*"). California law confirms that a charter is itself a protected property interest: once a charter has been granted, the charter school holds a property interest in that charter which is protected by due process of law. *See Today's Fresh Start, Inc. v. Los Angeles County Office of Education*, 57 Cal. 4th 197, 214 (2013). It is likewise a general principle in bankruptcy law that a debtor-held right or license to operate or engage in business, issued by a state or federal authority, constitutes property of the estate. *See, e.g.*, *In re Farmers Markets, Inc.*, 792 F.2d at 1403–04 (liquor licenses); *Matter of Pro. Bar Co., Inc.*, 537 F.2d 339, 340 (9th Cir. 1976) (priority of claims and proceeds from liquor licenses); *In re Burgess*, 234 B.R. 793, 799 (D. Nev. 1999) (license to operate brothel); *In re Gull Air, Inc.,* 890 F.2d 1255, 1260 (1st Cir.1989) (FAA airport landing slots allocated to debtor at Chicago O'Hare airport); *In re Draughon Training Institute, Inc.,* 119 B.R. 927, 930–31 (Bankr.W.D.La.1990) (eligibility certifications to receive state and federal educational funding); *National Cattle Congress, Inc. v. Iowa Racing & Gaming Commission* (*In re National Cattle Congress, Inc.*), 179 B.R. 588, 592–93 (Bankr. N.D. Iowa 1995) (pari-mutuel dog racing license), *remanded on other grounds,* 91 F.3d 1113 (8th Cir.1996); *In re Central*

Arkansas Broadcasting Co., 170 B.R. 143, 146 (Bankr. E.D. Ark. 1994) (FCC broadcasting license).

Under this well-established body of law, the Charters that enabled the Schools to operate prior to filing the Case are a protected property interest of the Debtor and are thus property of the Debtor's estate protected by the automatic stay. To find otherwise would be contrary to the fundamental principles behind the broad definition and interpretation of estate property under the Bankruptcy Code and *Whiting Pools*. Indeed, the Charters are critical to the Debtor's ability to operate and to reorganize. Namely, the Schools cannot continue to operate – and maintain the status quo – without a valid charter from an authorizing entity. Nor can the Debtor effectively reorganize and move forward with its business – the Schools – without a valid charter from an authorizing entity. The case law is in accord. *See, e.g.*, *In re Burgess*, 234 B.R. at 799 ("without the license to operate as a brothel, there would essentially be no business left to reorganize"); *In re Pizza of Hawaii, Inc.*, 12 B.R. 796, 798 (Bankr. D. Haw. 1981) (undisputed that "expiration and non-renewal of the liquor license would effectively prevent any bankruptcy reorganization of Debtor"); *In re Central Arkansas Broadcasting Co.*, 170 B.R. at 146-47 (valuation in all-asset sale attributed almost exclusively to broadcasting license with expert testimony that value was in "blue sky" and actual broadcasting equipment was "worth virtually nothing"). As the case law confirms, Twin Rivers' enforcement of any revocation of the Charters independently falls within Section 362(a)(3) because it constitutes an "act to obtain possession of property of the estate" and "to exercise control over property of the estate."

C. Alternatively, This Court Should Issue an Injunction Under Section 105(a) Enjoining the Revocation Appeal

Alternatively and independent of the automatic stay, and regardless of whether the automatic stay separately applies, the Court should exercise its broad equitable powers under Section 105(a) to enjoin Twin Rivers' enforcement of any revocation of the Charters, during the pendency of this Case. The Bankruptcy Court's authority under Section 105 "is broader than the automatic stay provisions of Section 362" and the Court "may use its equitable powers to assure the orderly conduct of the reorganization proceedings" or to "'enjoin proceedings in other courts

when it is satisfied that such a proceeding would defeat or impair its jurisdiction with respect to a case before it.'" *Johns-Manville Corp. v. Colorado Ins. Guar. Ass'n (In re Johns-Manville Corp.)*, 91 B.R. 225, 227-8 (Bankr. S.D.N.Y. 1988)

1. The Court's Authority to Issue an Injunction Under Section 105(a)

"[B]ankruptcy courts have the legal authority to enjoin prosecution even of governmental actions that fall within the regulatory and police powers exception." *In re First All. Mortg. Co.,* 264 B.R. 634, 651-52 (C.D. Cal. 2001). The legislative history makes this explicit: "The effect of the [police powers] exception is not to make the action immune from injunction. The court has ample other powers to stay actions not covered by the automatic stay. Section 105 . . . grants the power to issue [such an injunction]." *Id.* (citations omitted). Bankruptcy Code Section 105(a) authorizes the Court to "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title." The Ninth Circuit confirmed that this broad grant of authority includes the power to stay actions that "threaten the integrity of a [debtor's] estate." *In re Excel Innovations, Inc.*, 502 F.3d at 1093. The Supreme Court has likewise recognized the bankruptcy court's broad equitable powers under Section 105(a) to enjoin actions that might have an adverse impact on the property of the estate, the debtor's breathing spell, or the reorganization process. *See Celotex Corp. v. Edwards*, 514 U.S. 300, 308–09 (1995).

The Ninth Circuit has expressly recognized that when there is a necessary license or similar authorization required from the government and there are proceedings related to that authorization which threaten the estate or its assets, a stay is appropriate. "If regulatory proceedings threaten the assets of the estate, the decision to issue a stay can then be made on a discretionary basis." *In re Bel Air Chateau Hosp., Inc.*, 611 F.2d 1248, 1250–51 (9th Cir. 1979). Courts have enjoined regulatory proceedings where necessary to allow the Debtor to reorganize. *See, e.g.*, *In re Pizza of Hawaii, Inc.*, 12 B.R. 796, 799 (Bankr. D. Haw. 1981).

In *Pizza of Hawaii*, it was undisputed that the debtor's ability to operate its restaurant and reorganize was dependent on the restaurant having a valid liquor license, which the commission was refusing to renew due to a delinquent tax payment. *Id.* Unless the debtor had a liquor license, it would cause "loss or diminution of its valuable goodwill, the loss of the most profitable portion

of its business, and the loss of customers to competitive businesses." *Id.* Accordingly, the court determined that Section 105 authorized a stay based on court's findings "that the liquor license is necessary for the successful rehabilitation of Debtor." *Id.* Similarly, injunctive relief is available to enjoin FCC proceedings to protect the estate's rights in the license. *In re Pacific Land Sales, Inc.*, 187 B.R. 302, 315 (B.A.P. 9th Cir. 1995).

2. The Debtor Satisfies the Traditional Requirements for Injunctive Relief

In assessing whether to grant a preliminary injunction under Section 105(a), courts apply the traditional four-factor test, which requires the movant to establish: (1) a likelihood of success on the merits; (2) irreparable harm absent the injunction; (3) that the balance of hardships tips in the movant's favor; and (4) that the injunction serves the public interest. *See*, *e.g.*, *Am. Imaging Servs., Inc. v. Eagle-Picher Indus., Inc. (In re Eagle-Picher Indus. Inc.)*, 963 F.2d 855, 858 (6th Cir. 1992) ("When issuing a preliminary injunction pursuant to its powers set forth in section 105(a), a bankruptcy court must consider the traditional factors governing preliminary injunctions."); *In re Excel Innovations, Inc.*, 502 F.3d at 1094; *Casner v. Chase Manhattan Mortgage Corp. (In re Casner)*, 302 B.R. 695, 700 (Bankr. E.D. Cal. 2003).

a. Likelihood of Success on the Merits

In the bankruptcy context, the "likelihood of success" factor focuses on "the prospect of a successful reorganization . . . and whether the debtors are substantially more likely to reorganize with the injunction in place." *Purdue Pharma*, 666 B.R. at 469. Courts "do not demand certainty of the successful reorganization; they expect only reasonable prospects of such." *Ball v. Soundview Composite Ltd. (In Re Soundview Elite Ltd.)*, 543 B.R. 78, 119 (Bankr. S.D.N.Y 2016), cited *in Purdue Pharma*, 666 B.R. at 469.

Here, the Debtor has evaluated and presented proposals for reorganization, including ongoing discussions with Sutter County to obtain a new charter and to transfer the Schools, their students, and their employees to a new, independently chartered school. That process is well underway, with Sutter County scheduled to meet in December 2026 to decide if it will issue the Debtor a new charter for the Schools.

In light of these circumstances, the Debtor's management team and Board have concluded that advancing the Schools' mission through a new charter and new school represents the most viable and sustainable path forward. If approved, all academic programs, employees and students would transfer to that new school. (Raymond Decl., ¶ 56).

Having extensively explored various strategic alternatives, including unsuccessful attempts to negotiate a settlement with the Department of Finance, the Debtor commenced this Chapter 11 Case with a dual-track approach, seeking first to (i) reorganize in a manner that maintains the status quo of the Schools under the existing charter with Twin Rivers just long enough to transfer the schools and their students to a new school operated under a new charter with Sutter County Office of Education, while also addressing the liabilities associated with the Audit Findings, or, alternatively to (ii) operate the schools long enough to sell them as a going concern in a value maximizing manner that is least disruptive to students. (Raymond Decl., ¶ 66)

The Debtor believes its working relationship with Twin Rivers is unsustainable. This led the Debtor to apply for a new charter with the Yuba City Unified School District, combined with an appeal to the Sutter County Board of Education ("Sutter County") to continue the Schools' mission through one integrated independent study charter school offering several in-person courses, including English, but combined with remote education to better serve its target population. (Raymond Decl., ¶ 67)

Sutter County and the Debtor have established a positive and promising working relationship. Based upon the Debtor's meetings with Sutter County staff, the Debtor believes Sutter County is supportive of both the Debtor's mission and reorganization efforts. At present, Sutter County is scheduled to meet in December 2026 to decide if it will issue the Debtor a new charter. The Debtor is optimistic that its relationship with Sutter County will pave a new path forward. (Raymond Decl., ¶ 68)

If the Sutter County meeting confers a new charter during their meeting two months from now, the Debtor will begin its new chapter on July 1, 2027, when school operations start up again for the 2027-2028 academic year. (Raymond Decl., ¶ 69). The Debtor anticipates filing its chapter 11 plan in January 2027 and confirming its plan within 90 days of filing. This timeline would

allow the plan to go effective on or around the time the Debtor is ready to emerge from the Chapter 11 Case as a reorganized debtor. (Raymond Decl., ¶ 70). Otherwise, an early revocation would be devastating to the Debtor, its hundreds of employees, its thousands of students, and the community at large. (Raymond Decl., ¶¶ 70, 71).

This concrete, time-bound path to a new charter is precisely the kind of reasonable prospect of successful reorganization that Section 105(a) relief is meant to protect. Absent the requested injunction, however, an adverse ruling in either Administrative Determination at any point before the Sutter County decision would extinguish that prospect entirely, by either eliminating the Debtor's authority to operate the Schools in the interim or by draining the estate of the resources needed to reach the finish line.

Upon the occurrence of the effective date of a chapter 11 plan, Twin Rivers could revoke its charter, having suffered minimal hardship and no material losses. The result for creditors and other parties in interest (including students, employees, and general unsecured creditors) would be remarkably better under such a chapter 11 plan, with material distributions to creditors in such scenario far exceeding the outcome in a forced and sudden liquidation. It is anticipated that an official committee of unsecured creditors would be a strong proponent of such a result, once given the time and resources to participate in the plan process.

b. The Debtor Will Suffer Irreparable Harm Absent an Injunction

The Debtor and its estate will suffer irreparable harm absent an injunction with respect to the Revocation Appeal. Revocation – harm that no later remedy could undo. The loss of the Charters is not a monetary injury that can be compensated in damages; it is the extinction of the Debtor as an operating entity. Revocation would terminate the Debtor's authority to operate, eliminate its funding that is substantially all of its revenue, force the closure of the Schools, end the educational opportunities for approximately 2,000 current students, and destroy the going-concern value that is the premise of any reorganization.

As a debtor in possession, the Debtor owes fiduciary duties to preserve and maximize estate assets for the benefit of all creditors. Any revocation of the Charters at this juncture would frustrate that statutory charge by permitting the destruction of the Debtor's primary operating asset

before the Debtor has had a fair opportunity to reorganize — a harm no subsequent remedy could reverse. The harm is therefore likely, if not certain to occur, absent relief. *See Winter v. National Resource Defense Council, Inc.*, 555 U.S. 7, 20 (2008). Similarly, as to the Audit Appeal, the injunction is necessary to prevent harm "substantial enough to interfere with its reorganization or harm creditors." *In re Excel Innovations, Inc.*, 502 F.3d at 1099. The injunction is necessary because the Debtor needs the authorizing Charters and the financial wherewithal to successfully reorganize. Because the Debtor's showing on the likelihood of successful reorganization is strong, and the threatened harm is the loss of the Debtor's ability to function and carry out its education mission, the Debtor satisfies the irreparable-harm requirement under any articulation of the standard. *Id.*

c. The Balance of Hardships Tips Significantly in the Debtor's Favor

The balance of hardships weighs decidedly in favor of granting the injunction. Any delay of the Revocation Appeal will be temporary and ultimately promote a more comprehensive and equitable resolution through the chapter 11 reorganization process. Twin Rivers District Board has identified no urgent public safety or welfare concern that outweighs the harm a revocation would inflict on the Debtor and its estate. To the contrary, Twin Rivers' own staff recommended that the District Board not revoke the Charters because the Schools had fully cured or refuted all issues in the Notice of Violation. Moreover, the State Auditor found the Schools had fully implemented all the recommendations in the Audit Report. In contrast, denial of the injunction would result in the loss of the Schools' Charters and the Debtor's operation, foreclosing any possibility of reorganization — a result that is catastrophic and irreversible. A stay by comparison is both temporary and modest. Deferral of regulatory relief, weighed against the destruction of the Debtor and the estate, tips the balance decisively in favor of the Debtor.

d. Public Interest

The public interest strongly favors the requested injunctive relief for several independent reasons. First, it serves the long-recognized public interest in successful chapter 11 reorganizations generally. *See*, *e.g.*, *In re Bestwall LLC*, 606 B.R. at 258 ("Courts have consistently recognized the public interest in a successful reorganization.") (citing *United States v. Whiting Pools, Inc.*, 462

U.S. 198, 204 (1983)); *Gander Partners LLC v. Harris Bank, N.A. (In re Gander Partners LLC)*, 432 B.R 781, 789 (Bankr. N.D. Ill. 2010) ("[P]romoting a successful reorganization is one of the most important public interests.") (quoting *Integrated Health Servs., Inc. v. Lee (In re Integrated Health Servs., Inc.)*, 281 B.R. 231, 239 (Bankr. D. Del. 2002)); *1600 Hicks Road LLC v. EH National Bank (In re 1600 Hicks Road LLC)*, 649 B.R. 172, 183 (Bankr. N.D. Ill. 2023) ("Successful reorganizations are in the public interest. They allow parties the opportunity to formulate a plan of reorganization and to achieve a consensual resolution among competing interests."); *W.R. Grace & Co. v. Chakarian (In re W.R. Grace & Co.)*, 386 B.R. 17, 36 (Bankr. D. Del. 2008) ("[D]ue to the volume of claims, jurisdictional spread, and numerous controversies, completing the reorganization process also serves the public interest by resolving thousands of claims in a uniform and equitable manner.").

Second, it facilitates the continuation of the charitable, educational, and religious missions that benefit the broader community. For example, Courts have recognized the public interest in preserving the services provided by non-profit and religious organizations. *See In re The Roman Catholic Diocese of Syracuse, N.Y.*, 628 B.R. 571, 583 (Bankr. N.D.N.Y. 2021) ("There are estimated to be 217,000 Catholics who are part of the Syracuse Diocese. . . . A successful reorganization will permit them to freely continue their religious practices within their respective communities without the looming weight of a potential liquidation that could shutter their facilities."). The Schools are uniquely positioned to address the needs of vulnerable populations in the community, to attempt to eradicate educational inequality, to promote success in the workforce, and to provide students with opportunities to be self-sufficient members of the community. (Raymond Decl., ¶ 64; *see also* Katz Decl., ¶¶ 4-7; Katz Exhibits, Exs. A-D).

The benefits of a successful reorganization are not limited to the Debtor's students, but further extend to the Debtor's approximately 167 employees and their families, the Debtor's vendors and independent contractors, and the broader Sacramento community that relies on the Schools, all of whom have a stake in the Debtor's continued operation as a going concern. (Katz Decl., ¶¶ 4-7; Katz Exhibits, Exs. A-D). The community's unabashed letters of support explain the

importance of the Schools to the many different diverse groups and identities, as illustrated in a few examples below:

- "What cannot be lost in this moment is the tremendous human costs of allowing this institution to be dismantled. If Highlands closes, our clients will lose access to education. Their children will lose stability. And our community will lose one of its most powerful tools for transformation." (Saint John's Program for Real Change);
- "We have seen firsthand how access to English language learning, high school diplomas, and career training helps lift families out of poverty and empowers parents to build stronger futures for their children." (La Familia); and
- "If Highlands were to close, thousands of our community members – immigrants, adult learners, and second-chance citizens – would lose access to the very resources that allow them to contribute to California's workforce and support their families." (Lao Family Community Development).

(Raymond Exhibits, Ex. A).

Third, it would promote efficient resolution of complex litigation involving different parties and claims. Courts have recognized the public interest in preventing "piecemeal litigation" in multiple forums and instead channeling claims through a single, comprehensive process. *See In re LTL Mgmt, LLC*, 638 B.R. 291, 321–22 (Bankr. D.N.J. 2022) ("[T]his Court holds no doubts that claim resolution through the bankruptcy process is in the public interest."); *In re Fed-Mogul Glob., Inc.*, 684 F.3d 355, 359 (3d Cir. 2012) ("Bankruptcy has proven an attractive alternative to the tort system for corporations [facing mass tort claims] because it permits a global resolution."). Although revocation of the Charters does not fit the more traditional mass tort model contemplated in these cases, the requested injunction would provide comparable benefits. Similar to mass tort claims, where success is dependent on a race to the courthouse or the first case to be decided, whichever Administrative Determination is decided first effectively ends the other – but not on the merits. An adverse finding against the Debtor in the Revocation Appeal would end the Debtor's ability to operate and reorganize. But injunctive relief allows for resolution of the status and continuation of the Charters through the reorganization process, and the continued operation of the Schools.

Fourth, it preserves resources that can be directed toward reorganization rather than depleting the estate through ongoing, fragmented litigation costs. This conservation of resources directly serves the public interest in maximizing recovery for creditors and claimants. *See In re*

LTL Management, LLC, 638 B.R. at 307 (holding that "continued litigation against the Protected Parties would divert funds and resources toward defense costs and potentially disrupt the flow of funds and resources" that would otherwise be contributed directly to claimant recoveries); *In re W&R Grace & Co.*, 386 B.R. at 32 ("Because of the overlap of issues relevant to the chapter 11 proceedings and the [state court litigation], Debtors' participation would also duplicate expenses and unnecessarily divert if not deplete the resources and assets of the estates."). Here, the two separate litigations have strained the Debtor's operations with legal costs that have continued to accumulate for more than a year. (Raymond Decl, ¶ 60). The Debtor has been forced to allocate and divert a significant portion of its available funds to litigation-related costs, rather than focus its resources on stabilizing and growing the Schools. (*Id.*). Absent injunctive relief, those legal costs will continue to deplete the estate, as evidenced by the Debtor's proposed Approved Budget.

The public interest further lies in ensuring that all creditors — not only Defendants — are treated equitably in accordance with the priority and distribution scheme established in the Bankruptcy Code. Permitting Twin Rivers to revoke the Charters outside this Case would not merely harm the Debtor, but also improperly elevate those two parties above every other creditor and interest holder bound by the Code's collective process, all before an official committee of unsecured creditors had a chance to weigh in.

3. The Requested Injunction is Tailored to Protect the Reorganization Process

The Debtor seeks only a temporary injunction, limited to the pendency of this Case, the end of the academic school year on June 30, 2027, or until further order of this Court. This narrowly tailored relief is precisely what Section 105(a) was designed to provide—breathing room for the Debtor to pursue a comprehensive reorganization without the distraction and resource depletion that would result from parallel litigation.

Courts have granted such injunctive relief in similar contexts, recognizing that temporary stays of non-bankruptcy litigation are often essential to achieving a successful reorganization, particularly where, as here, the litigation would effectively determine claims against the debtor or impact property of the estate. *See*, *e.g.*, *In re Diocese of Buffalo, N.Y.*, 652 B.R. at 576; *In re The Roman Catholic Diocese of Syracuse, N.Y.*, 628 B.R. at 580–83; *see also Dunaway v. Purdue*

Pharma, L.P. (*In re: Purdue Pharma. L.P.*), 619 B.R. 38, 58-59, 62 (affirming temporary injunction to facilitate mediation and plan negotiations).

In sum, both the automatic stay provisions of Section 362(a) and the Court's equitable powers under Section 105(a) provide ample authority for the relief requested. Whether viewed as an application of the automatic stay or as an injunction under the Court's equitable powers, preventing the revocation of the Charters is essential to preserving the integrity of this bankruptcy Case and facilitating the Debtor's ability to reorganize and reach a resolution that serves the interests of all creditors and claimants.

V. CONCLUSION & PRAYER

WHEREFORE, for the reasons set forth above, the Debtor respectfully requests that this Court enter one or more orders: (1) declaring that the automatic stay applies to the Revocation Appeal and any enforcement of a Charter revocation by Twin Rivers; (2) declaring that any such enforcement acts, including any revocation of the Charters, violate the automatic stay and are void; and (3) independently, issuing an injunction under Section 105(a) extending the automatic stay under 362(a) to the Revocation Appeal and any revocation of the Charters during the pendency of this Case, and granting such other relief as the Court deems just and proper.

Dated: October 13, 2026 SHEPPARD, MULLIN, RICHTER & HAMPTON LLP

By */s/ Ori Katz*
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