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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-10** Judge: Hon. Christopher D. Jaime Date: November 10, 2026 Time: 11:00 a.m. (Pacific Time) Place: Courtroom 32, Department B

SUPPLEMENT TO DEBTOR'S EMERGENCY MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING THE DEBTOR TO (A) PAY PREPETITION WAGES, SALARIES, AND OTHER COMPENSATION, (B) CONTINUE EMPLOYEE BENEFITS, (C) HONOR CERTAIN PREPETITION OBLIGATIONS RELATED THERETO; AND (II) GRANTING RELATED RELIEF

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

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Highlands Community Charter and Technical Schools ("HCCTS" or, the "Debtor"), a non-profit public benefit 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 October 4, 2026 (the "Petition Date"), under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), hereby files this supplement (this "Supplement") to the *Debtor's Emergency Motion for Entry of Interim and Final Orders (I) Authorizing Debtor to (A) Pay Prepetition Wages, Salaries, and Other Compensation, (B) Continue Employee Benefits, and (C) Honor Certain Prepetition Obligations Related Thereto; and (II) Granting Related Relief* [Docket No. 41] (the "Motion").[2] In support of this Supplement and the Motion, the Debtor relies on the *Declaration of Jonathan Raymond in Support of Chapter 11 Petition and First Day Motions* [Docket No. 4] (the "First Day Declaration"), the Declaration of Jonathan Raymond in support of the Motion [Docket No. 42] (the "Raymond Declaration"), the Declaration of Matthew Levesque in support of this Supplement filed contemporaneously herewith (the "Levesque Declaration"), the Memorandum of Points and Authorities in support of the Motion [Docket No. 44] (the "Memorandum"), and the Exhibits in support of the Motion [Docket No. 43] (the "Exhibit List"). Additionally, the Debtor relies on the arguments of counsel at the final hearing on the Motion, the record of this Chapter 11 Case, and any other admissible evidence properly brought before the Court, and respectfully states as follows:

I. INTRODUCTION

The Debtor files this Supplement in response to the Court's request, made at the first day hearing, that the Debtor submit additional briefing addressing the Debtor's request to pay postpetition compensation to its Executive Director, Jonathan Raymond, in advance of the final hearing on the Motion. At the first day hearing, the Court authorized the relief requested in the Motion on an interim basis, but deferred ruling on the payment of postpetition compensation to Mr. Raymond pending further briefing and the final hearing. This Supplement provides that additional support.

[2] Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Motion.

II. RELIEF REQUESTED

By this Supplement, the Debtor respectfully requests entry of a final order authorizing, but not directing, the Debtor to pay postpetition compensation to Jonathan Raymond in his capacity as the Debtor's Executive Director, in the ordinary course of business and consistent with the relief requested in the Motion.

III. FACTUAL BACKGROUND

A. Mr. Raymond's Role and Background

Mr. Raymond has served as the Debtor's Executive Director since July 7, 2025. As Executive Director, Mr. Raymond oversees the Debtor's day-to-day operations, executes the vision set by the Debtor's Board of Directors, and acts to further the Debtor's core educational mission through strategic leadership, reporting directly to the Board. Mr. Raymond is a nationally recognized education leader whose career has spanned roles as a public school district superintendent, nonprofit executive, philanthropist, and labor law attorney, including service as Superintendent of the Sacramento City Unified School District and the City School District of New Rochelle, Executive Director of the Massachusetts COVID-19 Relief Fund, Chief Accountability Officer of Charlotte-Mecklenburg Schools, and President of the Stuart Foundation, California's largest K-12 education philanthropy. He holds a J.D. from George Mason University School of Law, an M.A. from The Fletcher School of Law and Diplomacy at Tufts University, and a B.A. from Tufts University, and is a graduate of both the Broad Superintendents Academy and the Executive Management Program at Harvard Business School.

Mr. Raymond was brought on as part of a broader overhaul of the Debtor's leadership following the California State Auditor's June 2025 report. Mr. Raymond was not leading HCCTS during the period in which the alleged issues raised by the Audit Report occurred. Rather, Mr. Raymond was brought in, after the prior Executive Director was dismissed, to lead a new management team tasked with directly addressing the concerns identified in the Audit Report and stabilizing the Debtor's operations. Upon assuming the Executive Director role, Mr. Raymond immediately began working to replace the then-existing Board with new members and recruit a new management team that would focus on achieving a turnaround of the Schools.

In the months since his arrival, Mr. Raymond and the new management team have implemented all 18 of the State Auditor's recommendations, revised policies and procedures, adopted new curriculum and assessments in an effort to improve student outcomes, demonstrated to the authorizing school district's staff and legal counsel that the Schools successfully cured or refuted all of the issues the district raised in a Notice of Violation and obtained a staff recommendation that no revocation of either school's charter was warranted, led a reduction in force to right size the staff to the number of students being served, replaced staff who were not competent or qualified for their jobs, and managed litigation over issues that arose prior to his tenure. This work, in addition to managing day-to-day operations, has required Mr. Raymond to work long hours, seven days a week, for over a year, and the turnaround effort will be ongoing through the process of responding to revocation attempts and transitioning the Schools to a new charter.

B. Mr. Raymond's Compensation

Mr. Raymond's employment is governed by an employment agreement between Mr. Raymond and the Debtor (the "Employment Agreement"). Under the Employment Agreement, Mr. Raymond's current annual base salary is $325,000, paid on a semi-monthly basis consistent with the Debtor's payroll practices for its other salaried employees. The Employment Agreement also provides for an annual retirement plan contribution by the Debtor equal to 27.05% of Mr. Raymond's base salary, paid in monthly increments, which Mr. Raymond may allocate to either a 403(b) plan, a 457(b) plan, or a health savings account or equivalent established by the Board. Mr. Raymond's compensation has not changed since he assumed the role of Executive Director in July 2025, and the Debtor does not seek authority to pay Mr. Raymond any amount greater than, or on terms different from, this prepetition compensation. Mr. Raymond receives no bonus or incentive compensation in addition to his base salary.

The prior Executive Director was paid a base salary of approximately $450,000 per year, in addition to benefits. When the position was advertised and Mr. Raymond applied, the advertised annual base salary was approximately $400,000. When Mr. Raymond was offered the Executive Director position by the Board, the Board considered the risk of potential negative public

perception if his salary were to be set at the advertised amount, notwithstanding that the prior Executive Director had previously been paid more. Mr. Raymond ultimately accepted an offer of $325,000 in annual salary, with the understanding that his compensation would be increased six months from the start of his employment, and then again at the one-year mark. In light of the Debtor's turnaround efforts and the filing of this Chapter 11 Case, Mr. Raymond and the Board agreed to forgo these contemplated increases.

Prior to setting Mr. Raymond's compensation, the Debtor's Board commissioned and reviewed a formal compensation comparability study, benchmarking the Executive Director/CEO role against compensation data for similarly situated public school leaders in California. The study surveyed five charter schools and three school districts, drawing compensation figures from the State Controller's Office and Internal Revenue Service filings for the 2023 calendar or fiscal year. The study found that the average total compensation package among the educational leaders surveyed was approximately $410,942, with an average base salary of approximately $344,386 and a base salary range of $277,523 to $469,007. Adjusting conservatively by 3% per year to account for the time elapsed since the underlying 2023 data, the study calculated an updated average total compensation of approximately $435,598 and an average base salary of approximately $365,049 for the 2025-2026 period. Mr. Raymond's base salary of $325,000 falls within this market range and below both the unadjusted and inflation-adjusted average base salary reflected in the study. Including the annual retirement plan contribution provided for under the Employment Agreement, Mr. Raymond's total compensation of approximately $413,000 is consistent with the study's average total compensation package.

The Debtor's Board has also conducted periodic reviews of Mr. Raymond's compensation since his hiring. At a board meeting held on September 2, 2026, the Board again reviewed and considered comparable compensation data for charter school Executive Directors and chief executive officers. That data reported a base salary of $302,153 at the 50th percentile and $334,300 at the 75th percentile for similarly sized charter school networks in California, placing Mr. Raymond's $325,000 base salary squarely in the market range for comparable organizations. Through this process, the Board confirmed that Mr. Raymond's compensation remains consistent

with, and benchmarked against, current market compensation paid by comparable charter school organizations for comparable executive leadership roles.

IV. BASIS FOR RELIEF

Sections 1107(a) and 1108 of the Bankruptcy Code authorize the Debtor, as debtor in possession, to remain in possession of its assets and continue operating its business, subject to any limitations imposed by the Court. 11 U.S.C. §§ 1107(a), 1108. Section 363(c)(1) in turn permits the Debtor to "use property of the estate in the ordinary course of business without notice or a hearing." 11 U.S.C. § 363(c)(1). The authority to use estate property in the ordinary course of business necessarily includes the "discretion to exercise reasonable judgment in ordinary business matters." *In re Johns-Manville Corp.*, 60 B.R. 612, 616 (Bankr. S.D.N.Y. 1986). In addition, section 363 is not to be construed "so narrowly as to deprive a debtor of the flexibility it needs to run its business" and respond to changing circumstances. *Id.* at 617. Where, as here, the Debtor articulates a reasonable basis for its business decisions, as distinct from a decision made arbitrarily or capriciously, courts will generally not entertain objections to the Debtor's conduct, and overcoming the presumption of the business judgment rule on the merits is a "near-Herculean task." *In re Tower Air, Inc.*, 416 F.3d 229, 238 (3d Cir. 2005).

Continuing to pay an incumbent executive on the same terms as before the petition date is itself an ordinary course transaction. Paying a charter school's chief executive the salary that executive already received is both the kind of payment similar organizations routinely make in the ordinary course, and it is exactly what creditors would expect an operating school to do for its sitting Executive Director. *See In re Dant & Russell, Inc.*, 853 F.2d 700, 704-06 (9th Cir. 1988) (holding that transactions are in the ordinary course of business if they are of a type that other similar businesses would engage in, and consistent with interested parties' reasonable expectations). Courts have accordingly held that a debtor in possession need not obtain court approval to continue paying prepetition insider management on unchanged terms, and that such unchanged compensation is presumed reasonable, with the burden on any objecting party to show otherwise. *See, e.g.*, *Matter of All Seasons Indus., Inc.*, 121 B.R. 822, 824–25 (Bankr. N.D. Ind. 1990) (holding that a debtor in possession need not obtain court approval to employ or compensate

prepetition insider management continued on unchanged terms, which is entitled to a presumption of reasonableness); *In re Wonderwork, Inc.*, 611 B.R. 169, 175–76 (Bankr. S.D.N.Y. 2020) (characterizing postpetition salary identical to the salary the debtor had paid its CEO, with board approval, for several years prepetition as an ordinary course payment).

Here, the Debtor does not propose to pay Mr. Raymond anything more, or on any different terms, than the compensation he received before the Petition Date. Because that compensation is unchanged and consistent with the Debtor's established practice, it is an ordinary course payment, not an extraordinary or retentive one requiring heightened scrutiny. Mr. Raymond's compensation also reflects the Board's oversight, as demonstrated by the Board's review of comparable compensation data for charter school Executive Directors and chief executive officers. That process confirmed that his compensation is consistent with, and benchmarked against, market compensation for comparable executive roles at comparable charter school organizations.

Mr. Raymond's qualifications further confirm that his compensation is reasonable. He is a nationally recognized education leader who has served as a public school district superintendent, a nonprofit executive, and the head of a major education philanthropy, among other senior roles, and holds advanced degrees from leading academic institutions. Mr. Raymond's compensation, benchmarked by the Board against comparable charter school executives and unchanged from his prepetition terms, reflects a reasonable relationship to the results he has achieved, is reasonable in light of the Debtor's financial condition, and is consistent with industry standards.

Beyond satisfying the business judgment standard on its own terms, the payment of Mr. Raymond's postpetition compensation is critical to preserving the continuity of leadership the Debtor needs to operate successfully through this Chapter 11 Case. As Executive Director, Mr. Raymond runs the Debtor's day-to-day operations across its two Schools and executes the Board's strategic direction. The Debtor's employees, as well as the students and families who depend on the Debtor's educational programs, rely on the stability Mr. Raymond's leadership provides, particularly while the Debtor is simultaneously administering this Chapter 11 Case, pursuing a transition to a new chartering authority, and resolving the financial challenges that precipitated this filing. Since assuming the position of Executive Director, Mr. Raymond has led the Debtor's

response to these challenges—including the pending charter revocation dispute with its current authorizer and the effort to secure a new charter in time for the next school year. He is uniquely positioned, by virtue of his institutional knowledge and his relationships with the Debtor's Board, staff, community organizations, and civic, faith-based, and public leaders and officials, as well as his role in leading the Debtor's response to the circumstances giving rise to this case, to guide the Debtor through the remainder of the reorganization. Indeed, Mr. Raymond was recruited, together with an entirely new Board, specifically to lead the Debtor's response to the State Auditor's findings and stabilize its operations and governance. The progress made since then—including full implementation of the State Auditor's recommendations and the maintenance of the Debtor's accreditation—has occurred under his direct leadership.

Losing Mr. Raymond's leadership at this juncture would force the Debtor to manage a leadership transition on top of the governance and operational turnaround already underway, risking significant disruption to its operations. Critically, Sutter County's support of the Debtor's petition for a new charter is predicated on trust in the Debtor's new leadership team—Mr. Raymond in particular. Thus, losing Mr. Raymond at this stage would further jeopardize the charter transition on which the Debtor's continued existence depends, and undermine the Debtor's prospects for a successful reorganization, to the detriment of the estate, creditors, employees, and the students the Debtor serves.

V. RESERVATION OF RIGHTS

For the avoidance of doubt, the Debtor is not seeking authority to assume the Employment Agreement as an executory contract under section 365 of the Bankruptcy Code pursuant to the Motion or this Supplement. The Debtor reserves its rights regarding the treatment of the Employment Agreement under section 365 of the Bankruptcy Code, which shall be addressed as necessary at a later date.

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VI. CONCLUSION

WHEREFORE, the Debtor respectfully requests that the Court enter a final order (i) authorizing, but not directing, the Debtor to pay postpetition compensation to Jonathan Raymond in his capacity as the Debtor's Executive Director, in the ordinary course of business and consistent with the relief requested in the Motion, and (ii) granting such other and further relief as the Court deems just and proper.

Dated: October 15, 2026

SHEPPARD, MULLIN, RICHTER & HAMPTON LLP

By */s/ Ori Katz*
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