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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.
Highlands Community Charter and Technical Schools, Plaintiff, v. Twin Rivers Unified School District Board of Trustees and California State Board of Education, Defendants.

Case No. 26-25868
Chapter 11
Adv No. 26-02134
DCN: SMR-1
Date: November 10, 2026
Time: 11:00 a.m.
Place: Courtroom 32, Department B
Judge: Hon. Christopher D. Jaime

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

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

9 **I. JURISDICTION AND STATUTORY BASIS**

10 This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. Venue
11 is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C.
12 § 157(b)(2)(A), (B), and (O). The statutory predicates for the relief requested herein are Sections
13 105(a) and 362 of the Bankruptcy Code. This Court has jurisdiction to enjoin a non-bankruptcy
14 action if enforcement or continuation of such non-bankruptcy action could conceivably have any
15 effect on the administration of the bankruptcy estate. *See, e.g., Am. Hardwoods, Inc., v. Deutsche*
16 *Credit Corp. (Am. Hardwoods, Inc.)*, 885 F.2d 621, 623 (9th Cir. 1989); *see also Seaport*
17 *Automotive Warehouse, Inc. v. Rohnert Park Auto Parts, Inc. (In re Rohnert Park Auto Parts,*
18 *Inc.)*, 113 B.R. 610, 615 (B.A.P. 9th Cir. 1990) (“The test in this circuit for jurisdiction is whether
19 the requested injunction could conceivably affect the administration of debtor’s plan”). Moreover,
20 this Court’s jurisdiction also extends to a non-bankruptcy action when there is a strong
21 interconnection between that action and the bankruptcy, particularly where, like here, the outcome
22 of litigation by Defendants could materially alter the Debtor’s rights, liabilities, options, and
23 freedom of action, either positively or negatively, impacting the handling and administration of the
24 bankruptcy estate. *See, e.g., Celotex Corp. v. Edwards*, 514 U.S. 300, 310–11 (1995) (jurisdiction
25 proper under 105(a) where litigation could affect or impede reorganization process); *Fietz v. Great*
26 *Western Savings (In re Fietz)*, 852 F.2d 455, 457 (9th Cir. 1988) (jurisdiction proper when
27 proceeding could conceivably have any effect on estate handling and administration); *Solidus*
28 *Networks, Inc. v. Excel Innovations, Inc. (In re Excel Innovations, Inc.)*, 502 F.3d 1086, 1095 (9th

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

3 II. SUMMARY

4 The Debtor is a 501(c)(3) non-profit corporation that owns, manages and operates two
5 adult-serving charter schools in Sacramento County: Highlands Community Charter School
6 ("HCCS") and California Innovative Career Academy ("CICA" and, together with HCCS, the
7 "Schools"). The Schools hold a unique place in the community and provide invaluable educational
8 opportunities to the most educationally vulnerable adult populations, including individuals who
9 could not complete secondary education due to economic hardship, family obligations, as well as
10 immigrants and refugees resettled in California who may be learning to read and write for the first
11 time. Since opening in August 2014, the Schools have served approximately 60,000 students. The
12 Schools currently have approximately 2,000 enrolled students and are contributors to the local
13 economy and community with a large workforce of over 160 employees, additional independent
14 contractors, and the Schools also lease buildings and have commercial and business relationships
15 with local vendors to operate and supply the Schools.

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

21 Second, the California Department of Education demanded immediate repayment of over
22 \$180 million, which the Debtor could only resist and dispute by filing an administrative appeal.
23 However, following the commencement of the Main Case, the state filed a statement in the subject
24 Audit Appeal indicating that "it does not object to a stay of the audit appeal hearing in this matter
25 pending the resolution of Highlands's Petition by the Bankruptcy Court."¹

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

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

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

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

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

24 Second, the Court is authorized to fashion and grant injunctive relief under Section 105(a)
25 to protect the reorganization process, regardless of whether the automatic stay separately applies.
26 As recognized in *Purdue Pharma L.P. v. Massachusetts (In re Purdue Pharma L.P.)*, 666 B.R.
27 461 (Bankr. S.D.N.Y. 2024) ("*Purdue Pharma*"), bankruptcy courts retain authority to temporarily
28 enjoin litigation and governmental enforcement actions where such actions would impede a

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

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

10 **III. FACTUAL BACKGROUND**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5 **IV. LEGAL ARGUMENT**

6 **A. Twin Rivers' Prosecution of Its Appeal to the State Board of Education to Revoke the** 7 **Schools' Charters Is Stayed Pursuant to Bankruptcy Code Section 362(a)(1) and** 8 **(a)(6) as an Act to Recover a Claim Against the Debtor**

8 Bankruptcy Code Section 362(a) imposes an automatic stay of litigation and other
9 proceedings against the Debtor and its property. In pertinent part, Section 362(a)(1) provides that
10 the filing of a petition operates as a stay of the "commencement or continuation . . . of a judicial . .
11 . proceeding against the debtor . . . or to recover a claim against the debtor." Section 362(a)(6)
12 separately stays "any act to collect, assess, or recover a claim against the debtor." The automatic
13 stay is "one of the fundamental debtor protections provided by the bankruptcy laws." *Midlantic*
14 *Nat'l Bank. v. N.J. Dep't of Env'tl. Prot.*, 474 U.S. 494, 503 (1986). "The purposes of the
15 bankruptcy stay under 11 U.S.C. § 362 'are to protect the debtor's assets, provide temporary relief
16 from creditors, and further equity of distribution among the creditors by forestalling a race to the
17 courthouse.'" *Reliant Energy Servs., Inc. v. Enron Canada Corp.*, 349 F.3d 816, 825 (5th Cir.
18 2003) (citations omitted); *see also Hunt v. Bankers Trust Co.*, 799 F.2d 1060, 1069 (5th Cir. 1986)
19 (noting that the automatic stay "prevent[s] 'a chaotic and uncontrolled scramble for the debtor's
20 assets in a variety of uncoordinated proceedings in different courts'" (citations omitted).

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

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

1 government's pecuniary interest in the debtor's property or to matters of public safety and welfare.
2 *Id.* The rationale behind the test is that the government should not be able to use its police and
3 regulatory powers to circumvent the relief available to both debtors and general creditors under the
4 Bankruptcy Code, unless the state has an interest in the matter such as punishing misconduct and
5 preventing future bad acts. *Thomassen v. Division of Med. Quality Assurance (In re Thomassen)*,
6 15 B.R. 907, 909 (9th Cir. B.A.P. 1981). The public policy test "distinguishes between
7 [governmental] proceedings that effectuate public policy and those that adjudicate private rights."
8 *Continental Hagen Corp.*, 932 F.2d at 833 (quotations omitted). The issue for this test is whether
9 an agency's actions concern only the parties who are immediately affected, or a wider group under
10 the agency's authority or the public as a whole. *See, e.g., In re Charter First Mortg., Inc.*, 42 B.R.
11 380, 383-84 (Bankr. D. Or. 1984). An action falls within the exception if it satisfies *either* test.
12 *Universal Life Church, Inc. v. United States (In re Universal Life Church)*, 128 F.3d 1294, 1297-
13 98 (9th Cir. 1997); *see also Lockyer v. Mirant Corp.*, 398 F.3d 1098, 1108 (9th Cir. 2005).

14 In *In re Universal Life Church* the Ninth Circuit analyzed whether an IRS letter revoking
15 the tax-exempt status of a religious corporation for misusing charitable contributions was
16 permissible pursuant to section 362(b)(4). The Ninth Circuit affirmed the district court's holding
17 that the revocation was a valid exercise of the IRS's police or regulatory power because revocation
18 would promote the public welfare by assuring the public and potential donors that contributions
19 would be used for legitimate charitable purposes. *In re Universal Life Church*, 128 F.3d at 1297-
20 98.

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

28

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

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

19 Finally, an audit was just completed for the 2024-2025 fiscal year (the year following the
20 Audit Report), which does not have any findings relating to attendance accounting or
21 credentialing. Similarly, the State Auditor's Office also found that the Debtor implemented all of
22 the recommendations in its Audit Report. Both the 2024-2025 independent audit and the State
23 Auditor's finding that its recommendations were fully implemented indicate no current public
24 harm and no benefit relating to deterrence of other parties. If anything, a revocation now might
25 actually deter other schools from reporting or self-correction. Stated bluntly, the current efforts at
26 revoking the Debtor's Charters serve no valid regulatory purpose whatsoever. To the contrary, the
27 Schools themselves have maintained their accreditation and are providing a critical and valuable
28 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*

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

3 Under this well-established body of law, the Charters that enabled the Schools to operate
4 prior to filing the Case are a protected property interest of the Debtor and are thus property of the
5 Debtor's estate protected by the automatic stay. To find otherwise would be contrary to the
6 fundamental principles behind the broad definition and interpretation of estate property under the
7 Bankruptcy Code and *Whiting Pools*. Indeed, the Charters are critical to the Debtor's ability to
8 operate and to reorganize. Namely, the Schools cannot continue to operate – and maintain the
9 status quo – without a valid charter from an authorizing entity. Nor can the Debtor effectively
10 reorganize and move forward with its business – the Schools – without a valid charter from an
11 authorizing entity. The case law is in accord. *See, e.g., In re Burgess*, 234 B.R. at 799 (“without
12 the license to operate as a brothel, there would essentially be no business left to reorganize”); *In re*
13 *Pizza of Hawaii, Inc.*, 12 B.R. 796, 798 (Bankr. D. Haw. 1981) (undisputed that “expiration and
14 non-renewal of the liquor license would effectively prevent any bankruptcy reorganization of
15 Debtor”); *In re Central Arkansas Broadcasting Co.*, 170 B.R. at 146-47 (valuation in all-asset sale
16 attributed almost exclusively to broadcasting license with expert testimony that value was in “blue
17 sky” and actual broadcasting equipment was “worth virtually nothing”). As the case law confirms,
18 Twin Rivers' enforcement of any revocation of the Charters independently falls within Section
19 362(a)(3) because it constitutes an “act to obtain possession of property of the estate” and “to
20 exercise control over property of the estate.”

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

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

1 when it is satisfied that such a proceeding would defeat or impair its jurisdiction with respect to a
2 case before it.” *Johns-Manville Corp. v. Colorado Ins. Guar. Ass’n (In re Johns-Manville Corp.)*,
3 91 B.R. 225, 227-8 (Bankr. S.D.N.Y. 1988)

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

5 “[B]ankruptcy courts have the legal authority to enjoin prosecution even of governmental
6 actions that fall within the regulatory and police powers exception.” *In re First All. Mortg. Co.*,
7 264 B.R. 634, 651-52 (C.D. Cal. 2001). The legislative history makes this explicit: “The effect of
8 the [police powers] exception is not to make the action immune from injunction. The court has
9 ample other powers to stay actions not covered by the automatic stay. Section 105 . . . grants the
10 power to issue [such an injunction].” *Id.* (citations omitted). Bankruptcy Code Section 105(a)
11 authorizes the Court to “issue any order, process, or judgment that is necessary or appropriate to
12 carry out the provisions of this title.” The Ninth Circuit confirmed that this broad grant of
13 authority includes the power to stay actions that “threaten the integrity of a [debtor’s] estate.” *In re*
14 *Excel Innovations, Inc.*, 502 F.3d at 1093. The Supreme Court has likewise recognized the
15 bankruptcy court’s broad equitable powers under Section 105(a) to enjoin actions that might have
16 an adverse impact on the property of the estate, the debtor’s breathing spell, or the reorganization
17 process. *See Celotex Corp. v. Edwards*, 514 U.S. 300, 308–09 (1995).

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

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

1 of its business, and the loss of customers to competitive businesses.” *Id.* Accordingly, the court
2 determined that Section 105 authorized a stay based on court’s findings “that the liquor license is
3 necessary for the successful rehabilitation of Debtor.” *Id.* Similarly, injunctive relief is available to
4 enjoin FCC proceedings to protect the estate’s rights in the license. *In re Pacific Land Sales, Inc.*,
5 187 B.R. 302, 315 (B.A.P. 9th Cir. 1995).

6 **2. The Debtor Satisfies the Traditional Requirements for Injunctive Relief**

7 In assessing whether to grant a preliminary injunction under Section 105(a), courts apply
8 the traditional four-factor test, which requires the movant to establish: (1) a likelihood of success
9 on the merits; (2) irreparable harm absent the injunction; (3) that the balance of hardships tips in
10 the movant’s favor; and (4) that the injunction serves the public interest. *See, e.g., Am. Imaging*
11 *Servs., Inc. v. Eagle-Picher Indus., Inc. (In re Eagle-Picher Indus. Inc.)*, 963 F.2d 855, 858 (6th
12 Cir. 1992) (“When issuing a preliminary injunction pursuant to its powers set forth in section
13 105(a), a bankruptcy court must consider the traditional factors governing preliminary
14 injunctions.”); *In re Excel Innovations, Inc.*, 502 F.3d at 1094; *Casner v. Chase Manhattan*
15 *Mortgage Corp. (In re Casner)*, 302 B.R. 695, 700 (Bankr. E.D. Cal. 2003).

16 **a. Likelihood of Success on the Merits**

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

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

28

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

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

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

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

25 If the Sutter County meeting confers a new charter during their meeting two months from
26 now, the Debtor will begin its new chapter on July 1, 2027, when school operations start up again
27 for the 2027-2028 academic year. (Raymond Decl., ¶ 69). The Debtor anticipates filing its chapter
28 11 plan in January 2027 and confirming its plan within 90 days of filing. This timeline would

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

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

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

18 **b. The Debtor Will Suffer Irreparable Harm Absent an Injunction**

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

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

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

11 **c. The Balance of Hardships Tips Significantly in the Debtor’s Favor**

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

24 **d. Public Interest**

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

1 U.S. 198, 204 (1983)); *Gander Partners LLC v. Harris Bank, N.A. (In re Gander Partners LLC)*,
2 432 B.R. 781, 789 (Bankr. N.D. Ill. 2010) (“[P]romoting a successful reorganization is one of the
3 most important public interests.”) (quoting *Integrated Health Servs., Inc. v. Lee (In re Integrated*
4 *Health Servs., Inc.)*, 281 B.R. 231, 239 (Bankr. D. Del. 2002)); *1600 Hicks Road LLC v. EH*
5 *National Bank (In re 1600 Hicks Road LLC)*, 649 B.R. 172, 183 (Bankr. N.D. Ill. 2023)
6 (“Successful reorganizations are in the public interest. They allow parties the opportunity to
7 formulate a plan of reorganization and to achieve a consensual resolution among competing
8 interests.”); *W.R. Grace & Co. v. Chakarian (In re W.R. Grace & Co.)*, 386 B.R. 17, 36 (Bankr. D.
9 Del. 2008) (“[D]ue to the volume of claims, jurisdictional spread, and numerous controversies,
10 completing the reorganization process also serves the public interest by resolving thousands of
11 claims in a uniform and equitable manner.”).

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

23 The benefits of a successful reorganization are not limited to the Debtor’s students, but
24 further extend to the Debtor’s approximately 167 employees and their families, the Debtor’s
25 vendors and independent contractors, and the broader Sacramento community that relies on the
26 Schools, all of whom have a stake in the Debtor’s continued operation as a going concern. (Katz
27 Decl., ¶¶ 4-7; Katz Exhibits, Exs. A-D). The community’s unabashed letters of support explain the
28

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

- 3 • “What cannot be lost in this moment is the tremendous human costs of allowing
4 this institution to be dismantled. If Highlands closes, our clients will lose access to
5 education. Their children will lose stability. And our community will lose one of its
6 most powerful tools for transformation.” (Saint John’s Program for Real Change);
- 7 • “We have seen firsthand how access to English language learning, high school
8 diplomas, and career training helps lift families out of poverty and empowers
9 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).

10 (Raymond Exhibits, Ex. A).

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

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

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

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

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

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

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

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

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

9 **V. CONCLUSION & PRAYER**

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

17 Dated: October 13, 2026

SHEPPARD, MULLIN, RICHTER & HAMPTON LLP

18 By

/s/ Ori Katz

19 ORI KATZ

20 AMANDA L. COTTRELL

21 Proposed Counsel for Highlands Community Charter
22 and Technical School
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