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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF CALIFORNIA
SACRAMENTO DIVISION

In re: OROVILLE HOSPITAL, *et al.*,[1] Debtors and Debtors in Possession.	Lead Case No. 25-26876 Jointly Administered With: Case No. 25-26877 **DCN NAK-33** Chapter 11 Hon. Christopher D. Jaime
☒ Affects All Debtors ☐ Affects Oroville Hospital ☐ Affects OroHealth Corporation: A Nonprofit Healthcare System Debtors and Debtors in Possession.	**<u>Hearing Information</u>** <u>Hearing Date</u>: August 11, 2026 <u>Hearing Time</u>: 11:00 am <u>Location</u>: Courtroom 32 501 I Street, Sixth Floor Sacramento, California 95814

MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF DEBTORS' MOTION FOR ENTRY OF AN ORDER AUTHORIZING (I) REJECTION OF THE LEASE AGREEMENT, DATED JANUARY 1, 2020, WITH OROVILLE SPORTS CLUB, LLC, EFFECTIVE AS OF JULY 6, 2026, PURSUANT TO 11 U.S.C. § 365 AND FED. R. BANKR. P. 6006; (II) AUTHORIZING A TRANSITION PERIOD; AND (III) <u>GRANTING RELATED RELIEF</u>

[1] The Debtors in these chapter 11 cases, along with the last four digits of each debtor's federal tax identification number, are: Oroville Hospital (4554) and OroHealth Corporation: A Nonprofit Healthcare System (4776). The mailing address for the Debtors is 2767 Olive Highway, Oroville, California, 95966.

Oroville Hospital and OroHealth Corporation, the debtors and debtors-in-possession (the "Debtors") in the above-referenced Chapter 11 cases (the "Chapter 11 Cases"), hereby submit this memorandum of points and authorities in support of the concurrently-filed motion (the "Motion") with this Court, pursuant to 11 U.S.C. § 365 of title 11 of the United States Code, as amended (the "Bankruptcy Code"), and Rule 6006 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), for entry of an order authorizing OroHealth Corporation: A Nonprofit Healthcare System ("OroHealth") (i) to reject that certain *Lease Agreement*, dated January 1, 2020 (the "Sports Club Lease") with Oroville Sports Club, LLC ("Sports Club", and together with OroHealth, the "Parties"), effective as of July 6, 2026 (the "Rejection Effective Date"); (ii) to remain on the Premises (as defined below) for a transition period of no more than ninety (90) days after the filing of this Motion, or such earlier date that the Debtors complete the removal of their property and surrender the Premises to Sports Club (the "Transition Period"); and (iii) granting the Debtors such other and further relief as is just and appropriate under the circumstances.

In support of the Motion, the Debtors refer to the *Declaration of Robert J. Wentz in Support of Chapter 11 Petition and First Day Motions* [Docket No. 20] (the "First Day Declaration"), the *Declaration of Michael Lane* [Docket No. 526] (the "Lane Transition Declaration"), the accompanying *Declaration of Michael Lane* in support of the Motion (the "Lane Declaration"), and the record in these Chapter 11 Cases; and respectfully state as follows:

I.

JURISDICTION AND VENUE

The United States Bankruptcy Court for the Eastern District of California (the "Court") has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and General Orders 182 and 223 of the United States District Court for the Eastern District of California. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

The bases for the relief requested are § 365 of the Bankruptcy Code and Bankruptcy Rule 6006.

II.

BACKGROUND

A. General Background

On December 8, 2025 (the "Petition Date"), each Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code, initiating the Chapter 11 Cases. The Debtors are operating their businesses and managing their properties as debtors in possession pursuant to §§ 1107(a) and 1108. No request for the appointment of a trustee or examiner (other than a fee examiner) has been made in these Chapter 11 Cases.

On December 23, 2025, the Office of the United States Trustee appointed [Docket No. 145] an official committee of unsecured creditors (the "Committee").

The Debtors and their affiliated nondebtor entities operate as a California nonprofit health care system in and around Butte County, California, with approximately 133 general acute care beds (including 10 intensive care and 10 perinatal beds), an active emergency room, 14 "flex" beds separately authorized by the California Department of Public Health on an annual basis, and 126 skilled nursing facility beds. The Debtors also provide 33 specialty services at their 31 clinics (including 10 rural health clinics) in Oroville, Yuba City, and Chico, and provide laboratory services through Valley Clinical Laboratory with 23 outpatient laboratory draw stations in Oroville, Yuba City, Chico, Grass Valley, Orland, and Redding. In its fiscal year ended 2024, the Debtors recorded 98,018 patient days (adjusted to account for outpatient visits), 26,416 emergency room visits, 2.2 million lab tests, 361,558 clinic visits, and 384 births at their facilities. Each of the Debtors is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. A more detailed description of the Debtors, including their current and historical business operations and the events precipitating the Chapter 11 Cases, is set forth in the First Day Declaration.

B. The Court extended the sale hearing to August 2026 by stipulated order in light of bidder requests for additional time.

As the Court is aware, since the Petition Date, the Debtors and their professionals have pursued a sale process in these Chapter 11 Cases to maximize the value of their assets and identified one or more transaction partners to preserve the Debtors' healthcare facilities for the benefit of the community, and the Debtors' patients, employees, and other stakeholders. On January 7, 2026, the Debtors filed the *Debtors' Motion for Entry of: (I) an Order (A) Approving Auction Sale Format and Bidding Procedures, (B) Approving Bid Protections for Any Stalking Horse Purchaser, (C) Approving Form of Notice to Be Provided to Interested Parties, (D) Scheduling a Court Hearing to Consider Approval of the Sale to the Highest and Best Bidder, and (E) Approving Procedures Related to the Assumption of Certain Executory Contracts and Unexpired Leases; and (II) an Order Authorizing the Sale of Property Free and Clear of Liens, Claims, and Encumbrances* [Docket No. 211] (the "Bidding Procedures Motion").

The Court entered an order approving *Stipulation Modifying the Bidding Procedures Order and Related Deadlines* [Docket No. 852] (the "Amended Bidding Procedure Order"). The Amended Bidding Procedure Order continued the Sale Hearing to August 13, 2026. Moreover, the Debtors anticipate that bidders may wish to evaluate leases and executory contracts beyond the sale hearing prior to closing of any transaction.

C. The Debtors and their stakeholders have been in active negotiations concerning a sale or restructuring.

Under the Amended Bidding Procedures Order, the deadline to file a stalking horse bid was June 18, 2026. The Debtors have been in active productive negotiations with potential bidders. However, consistent with their business judgment, the Debtors did not post a stalking horse bid by the stalking horse bid deadline and the Amended Bidding Procedures Order. The Debtors have determined that additional time is necessary to further advance the purposes of the sale process and to explore a potential restructuring.

D. Amendment to Secured Superpriority Debtor in Possession Financing Loan Documents

Although the Debtors have been in active negotiations regarding a potential Stalking Horse Asset Purchase Agreement, it became apparent to the Debtors and UMB Bank, N.A., in its capacity as the Master Trustee and DIP Lender (hereinafter, "UMB") that the dates and deadlines set forth in the Amended Bidding Procedures Order and certain milestones set forth in the original DIP Term

Sheet (the "DIP Milestones") were not achievable given the current status of negotiations. As such, the Debtors and UMB engaged in good faith negotiations to, among other things, further extend both the dates set forth in the Amended Bidding Procedures Order and the DIP Milestones to explore potential pathways to effectuate a restructuring in lieu of, or concurrently with, the sale process. Towards that end, on July 24, 2026, the Debtors and UMB entered into an Amendment to Secured Superpriority Debtor in Possession Financing Loan Documents (the "DIP Amendment"), subject to approval of the Bankruptcy Court. The DIP Amendment, which extends the DIP Milestones for several months, will permit the Debtors to pursue a dual-track approach to either restructure their operations or complete s sale, which will ensure the Debtors' continued operations to achieve the best possible outcome for the Debtors and their bankruptcy estates, the communities in which they serve, and their patients, employees, physicians, and other stakeholders. Towards that end, the Debtors have filed a motion to approve the DIP Amendment which will be heard on August 11, 2026 – prior to the current milestone requiring the Debtors to have obtained an order approving a sale by August 13, 2026. For additional details concerning the terms of the DIP Amendment, the Debtors refer to the *Motion for Entry of an Order Authorizing the Debtors to enter into the Amendment to Secured Superpriority Debtor in Possession Financing Loan Documents* filed concurrently herewith.

In each case – whether the Debtors proceed with a sale or a restructuring – the Debtors' evaluation of the Leases, including which Leases are necessary for purpose of a sale or restructuring transaction, and maximizing value, remains ongoing.

E. The Debtors have requested to further extend the deadline to assume or reject, except for two Affiliate Landlords, including Sports Club.

The Debtors are parties to certain unexpired nonresidential real property leases (the "Leases"), including, but not limited to, those set forth on the *Exhibits in Support of the Debtors' Motion for Order Extending Deadline to Assume or Reject Unexpired Leases of Nonresidential Real Property Pursuant To 11 U.S.C. § 365(d)(4)* filed on April 7, 2026 [Docket No. 636]. The Debtors believe that the vast majority of the Leases are necessary for the operation of the Debtors' business, including premises accommodating over 120 skilled nursing beds, clinics, and office and operational space.

On April 7, 2026, the Debtors filed their *Motion for Order Extending Deadline to Assume or Reject Unexpired Leases of Nonresidential Real Property Pursuant to 11 U.S.C. § 365(d)(4)* [Docket No. 632] (the "Initial Extension Motion"), through which the Debtors requested the Court to extend their deadline to assume or reject unexpired leases of nonresidential real property to which a Debtor is the lessee from April 7, 2026, to July 6, 2026. On May 8, 2026, the Court granted the motion by entry of the *Order Extending Deadline to Assume or Reject Unexpired Leases of Nonresidential Real Property Pursuant to 11 U.S.C. § 365(d)(4)* [Docket No. 758] (the "Initial Extension Order").

On July 6, 2026, the Debtors filed the *Debtors' Second Motion for Entry of an Order Extending the Deadline to Assume or Reject Unexpired Leases of Nonresidential Real Property Pursuant to 11 U.S.C. § 365(d)(4)* [Docket No. 988] (the "Second Extension Motion", and together with the Initial Extension Motion, the "Extension Motions"), through which the Debtors are seeking the consent of their landlords and authority from the Court to further extend their deadline to assume or reject unexpired leases of nonresidential real property to which a Debtor is the lessee from July 6, 2026, to October 5, 2026. The Second Extension Motion remains pending as of the filing of this Motion. The Debtors have remained current on their lease obligations postpetition,[2] and anticipate that most landlords will consent, or will be deemed to have consented, to a further extension by the hearing on the Second Extension Motion.

As discussed in the Extension Motions, the Debtors have experienced challenges negotiating with two landlord entities controlled by their former Chief Executive Officer, Robert Wentz: Dove's Landing, LLC ("Dove's Landing", and together with Sports Club, the "Affiliate Landlords") and Sports Club. Prior to Mr. Wentz's resignation, the Debtors inadvertently paid a post-petition invoice in the amount of approximately $380,000 to Dove's Landing on account of prepetition Common Area Maintenance ("CAMs") charges. Upon the Debtors' evaluation of the

[2] The Affiliate Landlords (defined herein) assert that the Debtors are not current on certain CAM charges or other lease obligations. As discussed herein, the Debtors vehemently dispute that they are not current on these obligations.

CAM charges asserted by Dove's Landing, the Debtors determined that certain CAM charges were not provided for under the applicable lease and that the rent payment inadvertently included payments for 5,000 additional square feet of space not included in the Sports Club Lease or used by the Debtors. The Debtors have set off postpetition rent against the inadvertent $380,000 payment and reserved all of the estates' rights with respect to Dove's Landing. However, this has resulted in tensions between the parties as the deadline to assume or reject has approached. The Affiliate Landlords have proposed a cash payment to secure an extension of the deadline to assume or reject; however, the Debtors cannot agree to the payment size, calculation, and UMB has not authorized the Debtors to make this payment under the DIP Term Sheet and DIP Order or from cash collateral. The Committee, which was also granted derivative standing to investigate and, if appropriate, pursue potential claims against the Debtors' affiliates and insiders, has also not consented to the requested payment to secure an extension of the deadline.[3]

The Affiliate Landlords hold leases that have varied necessity for the Debtors' operations. Specifically, Dove's Landing includes approximately 60,000 square feet of leased space that houses the Debtors' executive offices along with clinic space. The clinics operate under the Debtors' hospital license and, as a result, the Debtors were required to fund approximately $7 million of improvements to meet state licensure requirements. The Debtors do not believe that they can plausibly identify alternative space in the City of Oroville or surrounding areas that meet these requirements to transition clinic operations without great cost and risk to the Debtors' operations. As a result, on July 6, 2026, the Debtors filed the *Debtors' Motion for Entry of an Order Authorizing the Assumption of Lease Agreement, Dated January 1, 2018, with Dove's Landing, LLC, Pursuant to 11 U.S.C. § 365 and Fed. R. Bankr. P. 6006* [Docket No. 993] (the "Dove's Landing Assumption Motion").

[3] On January 29, 2026, the Debtors and the Committee entered into a stipulation [Docket No. 361] granting the Committee standing "to investigate, pursue, settle, or otherwise resolve the Potential Claims on behalf of the Debtors' estates, pursuant to the authority granted under § 1103(c)(5)," against the Affiliate Landlords, among other entities. On January 30, 2026, the Court entered an order [Docket No. 364] approving the stipulation. This Motion does not seek to affect the estates' claims against Sports Club, if any.

By contrast, and as discussed in greater detail below, the Debtors have now determined, as a proper exercise of their business judgment, that rejecting the Sports Club Lease effective as of the Lease Rejection Effective Date (defined below) is in the best interest of the Debtors and their bankruptcy estates.

F. <u>The Sports Club Lease is not necessary to maximize estate value.</u>

The Sports Club Lease concerns leased premises located at 2600 Oro Dam Boulevard, Oroville, California (the "<u>Premises</u>"). Unlike the lease with Dove's Landing, which houses critical clinical operations, the Sports Club Lease primarily houses back-office functions such as the Debtors' IT department. While these functions are essential to the Debtors' smooth operation of their business, the Debtors believe such functions can be conducted from another location at significantly less expense to the Debtors' bankruptcy estates.

As reported in the Debtors' Statement of Financial Affairs, the Debtors' historical payments to Sports Club in 2025 include monthly rent or lease payments of $41,014.37 and an aggregate annual payment of $451,158.07. However, the Debtors are informed and believe that the current rent exceeds fair market value by approximately 13.7%. In addition, Sports Club asserts that it holds a prepetition claim against Oroville Hospital in the amount of $155,608 [Claim Nos. 153, 154] for common area maintenance charges ("<u>CAM Charges</u>"), including legal and accounting fees that the Debtors assert are not compensable under the Sports Club Lease. Sports Club also asserts that it is entitled to unpaid post-petition CAM Charges including legal fees that the Debtors similarly assert are not compensable under the Sports Club Lease. The Debtors reserve the right to object to Sports Club's claims.

In the Debtors' exercise of their business judgment, the Debtors intend to enter into a new facility as a transaction in the ordinary course of business[4] at a significant cost savings to the bankruptcy estates. Specifically, monthly rent under the new lease is $14,573, and estimated NNN monthly charges are approximately $3,342. This is less than half of the current monthly rent under the Sports Club Lease. The term of the new lease is five years and three months commencing on

[4] In the event that the Court determines that such a transaction is not within the ordinary course of the Debtors' business, the Debtors reserve the right to file a motion requesting Court approval of the New Lease.

August 1, 2026. A true and correct copy of the new lease is attached as **Exhibit "1"** to the List of Exhibits filed concurrently herewith.

Based on the foregoing, the Debtors have determined that continued performance under the Sports Club Lease is not justified because the Debtors can reasonably transition the operational functions currently housed at the Premises without jeopardizing operations and patient care, the current rent under the Sports Club Lease exceeds fair market rental value for the Premises, and the Debtors wish to avoid protracted litigation over the disputed cure amount. Accordingly, the Debtors seek authority to reject the Sports Club Lease, effective as of the Rejection Effective Date.

Through this Motion, the Debtors also seek authorization to remain on the Premises through the earlier of (a) ninety days after the Rejection Effective Date and (b) the date the Debtors complete removal of their property and surrender the Premises. The requested relief will allow the Debtors to reduce above-market lease costs in the long term, while avoiding significant disruption to their information technology functions and preserving the value of any estate assets located at the Premises.

Notwithstanding the Rejection Effective Date, the Debtors intend to pay Sports Club an administrative rental claim for the period during which the Debtors continue to occupy the Premises through surrender, in an amount to be agreed upon by the Parties or determined by subsequent order of the Court. As such, the Debtors are not seeking to use retroactive rejection to occupy the Premises without compensation. Rather, the Debtors seek to stop further accrual of burdensome obligations under the Sports Club Lease as of the Rejection Effective Date, while also preserving a fair administrative rent claim for the Debtors' actual continued use and occupancy through the date of surrender.

III.

RELIEF REQUESTED

By the Motion, the Debtors seek the entry of an order, pursuant to section 365 of the Bankruptcy Code and Bankruptcy Rule 6006, authorizing (i) the Debtors to reject the Sports Club Lease, effective as of July 6, 2026, and (ii) to remain on the Premises for the Transition Period.

IV.

LEGAL ARGUMENT

A. Rejecting the Sports Club Lease reflects the Debtors' sound business judgment and is in the best interest of the estates.

Section 365(a) permits a debtor in possession, "subject to the Court's approval, … [to] assume or reject any executory contract or unexpired lease of the debtor." 11 U.S.C. § 365(a). When determining whether to approve a debtor's decision to reject unexpired leases, courts apply the business judgment test. *Durkin v. Benedor Corp. (In re G.I. Indust., Inc.)*, 204 F.3d 1276, 1282 (9th Cir. 1990); *see also Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.)*, 4 F.3d 1095, 1099 (2d Cir. 1993); *Richmond Leasing Co. Capital Bank, N.A.*, 762 F.2d 1303, 1309 (5th Cir. 1993). The Ninth Circuit has held that this review need only be cursory. *See In re Pomona Valley Med. Group, Inc.*, 476 F.3d 665, 670 (9th Cir. 2007) (stating that a bankruptcy court applies the business judgment rule to valuate a debtor in possession's decision under § 365(a) and "need engage in 'only a cursory review of a [debtor-in-possession]'s decision….'" (citing *G.I. Indust.*, 204 F.3d at 1282 (9th Cir. 2000)); *see also In re S. Cal. Sound Sys., Inc.*, 69 B.R. 893, 896 (Bankr. S.D. Cal. 1987) ("Most courts have allowed [debtors in possession] to exercise their business judgment in determining which contracts to assume or reject.").

In reviewing a debtor's decision to assume or reject a lease, the court should "presume that the debtor-in-possession acted prudently, on an informed basis, in good faith, and in the honest belief that the action taken was in the best interests of the bankruptcy estate." *Pomona Valley*, 476 F.3d at 670. The decision to assume or reject an unexpired lease should be approved unless the bankruptcy court finds that the debtor's decision "is so manifestly unreasonable that it could not be based on sound business judgment, but only bad faith, or whim, or caprice." *Id.* at 670. A Debtor's decision to assume or reject a lease should generally be granted as a matter of course. *See Summit Land Co. v. Allen (In re Summit Land Co.)*, 13 B.R. 310, 315 (Bankr. D. Utah 1981).

In the instant case, the Debtors submit that the rejection of the Sports Club Lease should be approved as a sound exercise of their business judgment. As outlined above, and for the reasons set forth in the Lane Declaration, the Debtors' decision to reject the Sports Club Lease easily satisfies the Ninth Circuit's deferential business judgment standard. The decision was made on an informed basis after the Debtors evaluated the cost of continued performance, the availability of alternative premises, the operational feasibility of relocating the functions housed at the Premises, and the impact of rejection on the Debtors' ongoing sale and restructuring efforts. The Sports Club Lease requires the payment of overmarket rent of approximately $41,014.37 plus CAM charges per month, while the Debtors' proposed replacement lease requires monthly base rent of approximately $14,573 plus estimated NNN charges of approximately $3,342. The Sports Club Premises primarily house back-office functions, including IT, and the Debtors have determined that those functions can be transitioned without jeopardizing patient care or the Debtors' healthcare operations. Sports Club leases its space to the Debtor to operate its business offices that include patient financial services (i.e. billing and collections services), IT offices, registration and authorization staff, central scheduling and conference rooms for community events. Approximate staff working out of the Premises is approximately 65-70 employees at any given time. Rejection will therefore reduce burdensome above-market lease obligations, preserve liquidity for operations and patient care, and avoid litigation over disputed charges asserted by a former insider-controlled landlord.

The Debtors have acted in good faith by first attempting to obtain Sports Club's consent to a further extension of the deadline to assume or reject the Sports Club Lease. However, Sports Club's manager – who previously served as the Debtors' CEO, is unwilling to consent to a further extension without requiring the Debtors to pay disputed amounts that the Debtors cannot pay for the reasons set forth herein. It is wholly improper for the Debtors' former CEO – who is acutely aware of the Debtors' financial situation – to take advantage of the Debtors by attempting to extort concessions that the Debtors are unable to provide Sports Club simply to remain in the Premises until the Debtors are able to close a sale or confirm a plan of reorganization.

While the Debtors are unable to identify an alternative space for Dove's Landing for the reasons set forth in the Dove's Landing Assumption Motion, the Debtors are acting prudently, on an informed basis, in good faith, and in the honest belief that rejection of the Sports Club Lease is in the best interests of the Debtors and their bankruptcy estates. The Sports Club Lease imposes substantial ongoing rental obligations that exceed the fair market rental rate for comparable space, and the Debtors can transition the back-office functions currently housed at the Premises to an alternative location during the Transition Period at a significant cost savings to the bankruptcy estates. Continuing to pay the current rent would burden the estates and reduce liquidity available to support the Debtors' operations, patient care mission, without negatively impacting the Debtors' sale process or restructuring efforts. Accordingly, the rejection of the Sports Club Lease is in the best interests of the Debtors and their bankruptcy estates.

Under *In re G.I. Industries*, 204 F.3d 1276, 1282 (9th Cir. 2000), and *In re Pomona Valley Medical Group*, 476 F.3d 665, 670 (9th Cir. 2007), that showing is more than sufficient to establish sound business judgment.

B. <u>Cause exists to approve rejection retroactively to the Rejection Effective Date.</u>

Through this Motion, the Debtors request authorization to reject the Sports Club Lease, effective as of the July 6, 2026 Rejection Effective Date.

The Ninth Circuit has expressly held that a bankruptcy court may approve the rejection of an unexpired nonresidential lease retroactively, and that the retroactive date may be earlier than the date on which the landlord retakes possession of the underlying premises. *See Pacific Shores Dev., LLC v. At Home Corp. (In re At Home Corp.)*, 392 F.3d 1064, 1065 (9th Cir. 2004). The Ninth Circuit identified nonexclusive factors relevant to retroactive rejection, including but not limited to: (i) the prompt filing of the rejection motion, (ii) prompt action to set the motion for hearing, (iii) vacancy or practical return of the premises, and (iv) the landlord's conduct and motivation in opposing retroactive relief. *See Boyle Avenue Properties v. New Meatco Provisions, LLC (In re New Meatco Provisions, LLC)*, BAP No. CC-13-1319 KiLaPa, 2014 WL 2446314, at *4 (B.A.P.9th Cir. May 30, 2014) (citing *At Home Corp.*, 392 F.3d at 1072-75); *see also In re Player's Poker Club, Inc.*, 636 B.R. 811, 821 (Bankr. C.D. Cal. 2022) (same). No factor is entitled to more weight, and other factors, such as the lease's lack of the benefit to the estate, may be considered. *See New Meatco Provisions*, 2014 WL 2446314, at *7. "The legally operative event in § 365(d) is the debtor's or trustee's assumption or rejection of the lease, rather than the landlord's possession of the premises." *Id.* at *6.

Here, the equities support rejection retroactive to the Rejection Effective Date. First, the Debtors are filing this Motion promptly upon determining that rejection of the Sports Club Lease is necessary and appropriate. Second, the Debtors seek a hearing on the Motion at the earliest practicable date, consistent with applicable notice requirements and due process. Third, although the Debtors require a Transition Period to relocate their IT functions and remove remaining assets, the Debtors are not seeking to preserve optionality at Sports Club's expense; they have made an unequivocal decision to reject the Sports Club Lease and pay a rental administrative claim through the date of surrender. Fourth, the Debtors' continued limited occupancy is practical and value-preserving because it will allow the Debtors to remove estate assets and relocate back-office operations in an orderly manner without disrupting their operations or jeopardizing patient care. Finally, while the Debtors are informed and believe that Sports Club has not listed the Premises for rent or have otherwise identified a potential tenant, the Debtors will cooperate with Sports Club to permit Sports Club to access the premises upon reasonable notice to the Debtors. Accordingly, any necessary delay will not in any way negatively impact Sports Club and its ability to relet the Premises.

The requested relief also aligns with the policy objectives underlying section 365. Sections 365(d)(3) and 365(d)(4) were designed to force debtor-tenants to decide promptly whether to assume or reject nonresidential real property leases and to remedy the long-term vacancy of leased properties during bankruptcy proceedings. *At Home Corp.*, 392 F.3d at 1070. Retroactive rejection can further those objectives by encouraging parties to cooperate in obtaining prompt determination of a rejection motion and by preventing administrative rent from accruing solely because judicial approval necessarily takes time. *Id.*

To the extent Sports Club contends that § 365(d)(4) requires immediate surrender notwithstanding the Debtors' timely decision to reject, the Debtors request that the Court enter an order confirming that the Sports Club Lease is rejected effective as of the Rejection Effective Date and establishing a limited transition and surrender protocol through October 27, 2026. The Debtors do not seek to assume the Sports Club Lease, extend its term, or compel Sports Club to provide a further consensual extension under § 365(d)(4)(B)(ii). Rather, the Debtors seek an order implementing rejection in a manner that preserves estate value, avoids disruption to essential IT and back-office functions, provides Sports Club with fair compensation for actual use and occupancy, and fixes a date certain for surrender.

In this case, the Debtors are making their decision promptly, requesting immediate adjudication, and proposing to compensate Sports Club for continued use and occupancy through surrender. These circumstances warrant making rejection effective as of the Rejection Effective Date.

C. <u>The requested Transition Period is necessary and appropriate.</u>

The Debtors request authority to remain on the Premises through the earlier of (a) ninety days after the Rejection Effective Date and (b) the date the Debtors complete removal of their property and surrender the Premises. The Debtors require uninterrupted IT and back-office support to maintain patient care, preserve business continuity, and complete their restructuring or sale process. The Debtors' cases are premised on preserving healthcare operations for the communities they serve, and the Debtors' sale process and/or restructuring efforts are intended to continue to provide healthcare services and to maintain operations for the benefit of patients, employees, the community, creditors and other stakeholders.

A brief Transition Period will benefit the Debtors, their bankruptcy estates and all interested parties. It will allow the Debtors to remove estate assets in an orderly manner, avoid operational disruption, mitigate potential disputes regarding property left at the Premises, and provide a clear outside date for surrender. It will also protect Sports Club by establishing that the Debtors intend to pay an administrative rental claim through the date of surrender, and by requiring the Debtors to surrender the Premises by a date certain unless otherwise agreed by the parties or ordered by the Court.

Moreover, the Ninth Circuit recognized that landlord possession is not a prerequisite to retroactive rejection and that, in appropriate cases, courts may account for the practical realities of possession and surrender when balancing the equities. *See, e.g., At Home Corp.*, 392 F.3d at 1071, 1074 ("The relevant provisions of § 365(d) do not even mention the term 'possession,' much less elevate it to a condition precedent to a bankruptcy court's exercise of its equitable powers. …

Nothing in the statute, in the precedent, or in logic precludes the bankruptcy court from considering the practical effects of a tenant's lack of occupancy when balancing the equities in the context of § 365(d)(3)."). The Debtors' proposed transition framework respects those practical realities by pairing a retroactive Rejection Effective Date with a commitment to compensate Sports Club for the Debtors' continued use and occupancy through the date of surrender.

Sports Club may argue that rejection requires immediate physical vacatur of the Premises. That argument overstates the effect of rejection. Rejection under § 365 constitutes a breach, not a rescission or automatic termination of every practical consequence of the parties' relationship. *See, e.g.*, *Mission Product Holdings, Inc. v. Tempnology, LLC*, 587 U.S. 370 (2019) (noting the effect of rejection of an executory license agreement). Consistent with that principle, the Ninth Circuit has recognized that possession is not a statutory condition precedent to retroactive rejection and that bankruptcy courts may account for the practical realities of possession and surrender when fashioning relief under § 365. *See Pacific Shores Dev., LLC v. At Home Corp. (In re At Home Corp.)*, 392 F.3d 1064, 1071, 1074 (9th Cir. 2004).

Here, the Debtors seek a narrow transition protocol—not rent-free possession and not continued optionality under the rejected Lease. The Debtors will surrender the Premises by a date certain, will compensate Sports Club for the reasonable value of actual post-rejection use and occupancy, and will cooperate with reasonable access requests so that Sports Club may inspect or market the Premises before surrender.

Alternatively, the Debtors suggest that any dispute concerning the amount of post-rejection use-and-occupancy compensation, access to the Premises, removal of estate property, surrender logistics, or any asserted administrative expense shall be resolved by agreement of the parties or, absent agreement, by further order of the Court on shortened notice.

D. <u>The Debtors should be authorized to pay a rental administrative claim through surrender of the Premises without prejudice to their rights.</u>

Sports Club's asserted CAM charges, legal fees, and other disputed amounts do not provide a basis to deny rejection or condition rejection on payment. Cure is required only if a debtor seeks to assume an unexpired lease under § 365(b)(1); the Debtors are seeking rejection, not assumption.

Any claim arising from rejection must be asserted and resolved through the claims-allowance process and remains subject to all defenses, offsets, recoupment rights, objections to allowance and priority, and the statutory cap under § 502(b)(6), to the extent applicable. Nothing in the order approving rejection should allow Sports Club to recharacterize disputed CAM charges, alleged insider-related charges, or attorney's fees as administrative expenses absent a separate showing under § 503(b)(1)(A). Nor should any attorney's fee claim be allowed or paid through this Motion; any such claim must be asserted through the ordinary claims process and must be supported by the Sports Club Lease, applicable nonbankruptcy law, and Bankruptcy Code's priority rules.

The Debtors requested relief carefully balances the Debtors' needs (including maintaining ongoing operations to ensure uninterrupted, high-quality patient care) with the rights of Sports Club to the prompt payment of administrative rent and ability to gain reasonable access to the Premises upon reasonable notice to show the Premises until the Debtors surrender the Premises to Sports Club. Section 365 of the Bankruptcy Code requires a debtor in possession to perform obligations under an unexpired nonresidential real property lease until assumption or rejection, and the effective date of rejection affects when the obligation to pay rent under section 365(d)(3) ceases. *See New Meatco Provisions*, 2014 WL 2446314, at *3. While the Ninth Circuit recognizes that the bankruptcy estate may be required to pay administrative fees for the period of time between rejection and the landlord's recovery of possession in the normal course, it also understood that courts should be permitted to appropriately tailor relief to address the circumstances of the particular case. *See At Home Corp.*, 392 F.3d at 1071. The requested relief makes clear that Sports Club will receive compensation for the Debtors' continued use and occupancy through surrender, while also enabling the Debtors to contest the imposition of above-market contractual obligations on the estates beyond the Rejection Effective Date.

Sports Club's post-rejection claim, if any, should be determined under § 503(b)(1)(A), not § 365(d)(3). Section 365(d)(3) requires performance of lease obligations only until assumption or rejection; once rejection is effective, Sports Club's entitlement to administrative priority is limited to the actual and necessary value of the Debtors' post-rejection use and occupancy. *See* 11 U.S.C. §§ 365(d)(3), 503(b)(1)(A); *In re DAK Industries, Inc.*, 66 F.3d 1091, 1094–95 (9th Cir. 1995); *In* *re Palau Corp.*, 18 F.3d 746, 750 (9th Cir. 1994). The Debtors' continued use during the Transition Period will be limited and transitional, and the Debtors have evidence that the Sports Club contract rent exceeds fair-market value. Accordingly, any allowed administrative expense should be limited to the reasonable fair-market value of the Debtors' actual use and occupancy, subject to the Debtors' right to object to any amount asserted by Sports Club.

Finally, as discussed above, Sports Club (which is controlled by the Debtors' former CEO), has denied the Debtors' request to further extend the deadline for the Debtors to assume or reject the Sports Club Lease until such time as the Debtors are able to complete a sale or restructuring transaction, at least not without a significant payment. Continued performance under the Sports Club Lease at the current over-market rent would also unnecessarily burden the Debtors' bankruptcy estates, disrupt operations at a critical time in these Chapter 11 Cases, and potentially reduce recoveries for stakeholders. Given that the Debtors' post-rejection use of the Premises will be limited primarily to transitioning back-office operations, the Debtors believe a reduced rental administrative claim to reflect their actual use and the fair market value of the Premises may be warranted. The Debtors' commitment to pay the rental administrative claim through surrender ensures that Sports Club is not unfairly prejudiced by the requested Rejection Effective Date or Transition Period, while preserving the Debtors' rights to contest any amount exceeding the reasonable value of the Debtors' actual post-rejection use and occupancy.

V.

RESERVATION OF RIGHTS

Nothing contained herein constitutes a waiver, release, or limitation with respect to any claims held by the Debtors or their estates against Sports Club or any other person or entity. All claims held against Sports Club, including those arising independently of the Sports Club Lease, are expressly preserved and shall not be considered, or otherwise deemed, waived by the filing of the Motion, the entry of an order granting the Motion, or rejection of the Sports Club Lease. Moreover, nothing contained herein is intended to alter, modify, or impair the Debtors' or the Committee's right to investigate, pursue, settle, or otherwise resolve claims against Sports Club.

Finally, the Debtors reserve the right to object to any claims asserted by Sports Club including, without limitation, any claims for rejection damages or administrative claims.

VI.

CONCLUSION

Based on the foregoing, the Debtors respectfully request that the Court enter an order: (i) approving the Debtors' rejection of the Sports Club Lease, effective as of July 6, 2026, (ii) authorizing the Debtors to remain on the Premises through the earlier of (a) ninety days after the Rejection Effective Date and (b) the date the Debtors complete removal of their property and surrender the Premises; (iii) authorizing, but not directing, the Debtors to pay the applicable rental administrative claim, in an amount agreed upon by the Parties or determined by the Court; and (iv) granting the Debtors such other and further relief as is just and appropriate under the circumstances.

Dated: July 28, 2026

FOX ROTHSCHILD LLP

/s/ Nicholas A. Koffroth
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Counsel to Oroville Hospital, et al.,
the Debtors and Debtors-in-Possession