

OFFICE OF THE UNITED STATES TRUSTEE

TIFFANY L. CARROLL

Acting United States Trustee

CURTIS CHING 3931

Assistant United States Trustee

NEIL VERBRUGGE 7478

Trial Attorney

300 Ala Moana Boulevard, Room 4108

Honolulu, Hawaii 96850

Telephone: (808) 522-8155

Email: ustpreion15.hi.ecf@usdoj.gov

Email: Neil.Verbrugge@usdoj.gov

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN MARIANA ISLANDS
BANKRUPTCY DIVISION**

In re

IMPERIAL PACIFIC INTERNATIONAL
(CNMI), LLC,

Debtor and
Debtor-in-Possession.

Case No. 1:24-bk-00002
(Chapter 11)

Hearing:
Date: June 27, 2025
Time: 9:00 a.m. (ChST)
Judge: Hon. Robert J. Faris

[Related Docket Entry: #443]

**UNITED STATES TRUSTEE'S STATEMENT REGARDING COURT'S ORDER TO
SHOW CAUSE WHY CASE SHOULD NOT BE DISMISSED OR CONVERTED**

The United States Trustee, by and through her attorney, hereby submits this Statement ("Statement") regarding the Court's Order to Show Cause Why Case Should Not be Dismissed or Converted ("OSC). The United States Trustee has authority and standing to make this statement since its responsibilities include, among other things, supervising "the administration of cases ... under Chapter 11" of the Bankruptcy Code. 28 U.S.C. § 586(a)(3).



1 **I. BACKGROUND**

2 1. On April 19, 2024, Imperial Pacific International (CNMI), LLC (“Debtor”)
3 commenced this bankruptcy case by filing a voluntary petition under Chapter 11 of Title 11 of
4 the United States Code, 11 U.S.C. §§ 101 et seq. (the “Bankruptcy Code”) in the United States
5 District Court for the Northern Marianas Islands, Bankruptcy Division (the “Court”) initiating
6 bankruptcy case no. 24-00002.

7
8 2. On April 22, 2024, the United States Trustee sent an initial debtor interview letter
9 to Debtor and attached a copy of the United States Trustee’s Operating and Reporting
10 Requirements for Chapter 11 Cases for Region 15 (“Region 15 ORR”). Among other things,
11 the Region 15 ORR requires:

12 **C. REPORTS AND REQUIRED DOCUMENTS**

13 1. EVIDENCE OF INSURANCE COVERAGE

14
15 The debtor-in-possession, within seven calendar days after the date of the filing of
16 the petition, must provide the United States Trustee with certificates of insurance
17 or other verified documents showing that each policy of insurance required for the
18 estate is in full force and effect. Each policy must disclose the type and extent of
19 coverage, effective dates, names of the insurance carrier and broker, and the
20 agent’s name, address and telephone number. The debtor-in-possession is
21 responsible for including the address of the United States Trustee and the
22 Bankruptcy case number as an additional interest holder, and on the cancellation
23 notice. Additionally, the debtor-in-possession is required to provide a copy of
24 the either a renewal or new policy of insurance prior to the time that any existing
25 policy or coverage is to expire.

26 Generally, the following types of insurance are required:

- 27 a. General Comprehensive/Public Liability;
- 28 b. Casualty coverage (tangible assets capable of loss by fire, weather,
theft, vandalism, etc.);
- c. Workers’ Compensation;
- d. Vehicle; and
- e. Product liability.

1 3. On June 20, 2024, Creditor Commonwealth of the Northern Mariana Islands filed
2 a Motion to Convert from Chapter 11 to Chapter 7 of the Bankruptcy Code (the “Motion to
3 Convert”), Dkt. #129.

4 4. On June 25, 2024, the United States Trustee filed a Statement regarding the
5 Commonwealth’s Motion to Convert. While the United States Trustee agreed that “cause”
6 existed to convert or dismiss the case, the United States Trustee advocated for dismissal of the
7 case because the Debtor failed to maintain fire and casualty insurance and the case appeared to
8 be administratively insolvent.

9
10 5. On July 4, 2024, the Committee filed an opposition to the Commonwealth’s
11 Motion to Convert arguing that cause did not exist and it was premature to dismiss or convert the
12 case. In the event the Debtor failed to make significant progress, the Committee argued for the
13 appointment of a chapter 11 trustee.

14
15 6. On July 5, 2024, the Debtor filed an opposition to the Commonwealth’s Motion to
16 Convert arguing that cause did not exist and that it should be excused from compliance with
17 casualty insurance requirements. The Debtor argued that it was maintaining appropriate liability
18 and workers’ compensation insurance.

19 7. In support of Debtor’s request to be excused from compliance with casualty
20 insurance requirements, Debtor cited a number of factors including:

21
22 **Factor 1 (applicable requirements under other federal or state laws):** The Debtor
23 currently has policies for general liability and workers compensation insurance. The
24 Debtor is unaware of any Northern Marianas law that requires the Debtor to maintain
25 casualty insurance for the Hotel property.
26

1 **Factor 2** (the debtor's size and the complexity of the case): The Debtor's case is
2 fairly large but it is not complex. There is no income or operations. This is a liquidation
3 case. Moreover, the Debtor maintains general liability insurance with the following limits:
4 \$1 million per claim / occurrence; with a \$10,000.00 deductible.
5

6

7 **Factor 5** (any steps taken by the debtor to reduce the risk of claims): The Debtor
8 has secured its personal property and employs security guards to patrol the Hotel grounds,
9 which is not open to the public.
10

11 8. On July 11, 2024, the United States Trustee filed a Reply regarding the
12 Commonwealth's Motion to Convert setting forth the position that dismissal was preferable to
13 conversion because of the apparent lack of equity in the Debtor's estate that a chapter 7 trustee
14 could reach or administer, apparent administrative insolvency, and the lack of funds to obtain
15 fire/casualty insurance would likely require a chapter 7 trustee or a chapter 11 trustee to
16 immediately abandon the property.
17

18 9. On July 11, 2024, the Commonwealth filed a Reply which argued for conversion
19 or the appointment of a chapter 11 trustee.

20 10. On October 19, 2024, the Court filed its Memorandum Decision denying the
21 Commonwealth's Motion to Convert. Among other things, the Court excused Debtor from
22 compliance with casualty insurance requirements. Significantly, the Court's reasoning relied,
23 inter alia, on the Debtor having general liability insurance and employing security guards.
24

25 11. On June 12, 2025, Debtor filed a Pre-Status Conference Report which disclosed:
26
27
28

Regardless of whether the Commonwealth or Team King (or both) is/are at fault for this delay, their failure has placed the estate in a precarious position. The Debtor has no cash. Its Hotel security personnel have not been paid since early May. The Debtor's liability insurance recently lapsed. Annual ground rent of approximately \$207,000 for the DPL ground lease (which should have been paid in May) is delinquent. In short, the administrative insolvency hole has gotten deeper.

12. Debtor allowed its general liability insurance to lapse.

13. Debtor has not paid its Hotel security since May 2025.

14. On June 17, 2025, Debtor filed its Monthly Operating Report ("MOR") for April 2025.

15. Debtor's April 2025 MOR shows only \$33,409 in cash at the end of the month:

d. Cash balance end of month (a+b-c)

\$33,409

16. Debtor's April 2025 MOR shows:

k. Prepetition secured debt

\$17,697,938

l. Prepetition priority debt

\$4,100,997

m. Prepetition unsecured debt

\$262,554,276

n. Total liabilities (debt) (j+k+l+m)

\$284,353,211

o. Ending equity/net worth (e-n)

\$-277,683,179

17. Debtor's April 2025 MOR shows that \$676,276 in professionals fees have been incurred with \$376,732 in fees paid.

18. Debtor has not paid its ground lease rent of \$207,000 due in May 2025 to DPL.

19. Saipan Stevedore Company, Inc. may have a substantial administrative expense claim incurred for post-petition storage of Debtor's 28 containers.

20. Debtor's May 2025 MOR is due June 21, 2025.

21. On June 18, 2025, Debtor filed Submission of Proof of Insurance in Response to Order to Show Cause attaching proof of Public Liability insurance and Workers' compensation insurance.

II. LEGAL ANALYSIS

A. DEBTOR'S ONGOING ADMINISTRATIVE INSOLVENCY IS CAUSE TO DISMISS THIS CASE.

The Court's OSC states:

The debtor's inability to provide insurance necessary to protect the public is cause to immediately dismiss or convert this case under section 1112 of the Bankruptcy Code. Its inability to pay other operating expenses and to dispose of its assets may also amount to cause.

On June 18, 2025, Debtor filed Submission of Proof of Insurance in Response to Order to Show Cause attaching proof of Public Liability insurance and Workers' compensation insurance. However, it is not clear if Debtor has paid its ground lease rent of \$207,000 due in May 2025 to DPL or its Hotel security for past due wages. Debtor may have potentially significant administrative expense claims due to Saipan Stevedores for post-petition storage of 28 containers and has substantial unpaid professional fees.

B. UNDER THE CIRCUMSTANCES, DISMISSAL OF THIS CASE IN THE BEST INTEREST OF CREDITORS.

The Court's OSC states:

Conversion of this case to a chapter 7 case or the appointment of a chapter 11 trustee would likely be fruitless because a trustee under either chapter would have no funds with which to obtain appropriate insurance and carry out the trustee's duties. Therefore, dismissal, rather than conversion or the appointment of a trustee, would be in the best interests of creditors and the estate.

1 In the event the Debtor and Bidder are unable to timely close the sale, the United States
2 Trustee requests this case be dismissed.

3 The Chapter 7 Trustee Manual requires the chapter 7 trustee to abandon property of the
4 estate when possession of the property exposes the estate to a risk of liability which cannot be
5 insured against, and which outweighs its economic value to the estate. See Handbook for
6 Chapter 7 Trustees, Section 4.C.3)e, p. 4-6.¹ Even in cases where the property appears to have
7 value for the estate, typically the chapter 7 trustee must determine whether the property is
8 insured by the debtor or obtain insurance for the estate. If the Debtor was unable to obtain
9 fire/casualty insurance, there is no reason to believe a chapter 7 trustee would be able to obtain
10 fire/casualty insurance. See *In re Lorraine Hotel 2017 LLC*, 2018 WL 5288893, at *2 (Bankr.
11 N.D. Ohio 2018) (ordering dismissal of case for debtor's failure to obtain casualty insurance
12 because a chapter 7 or chapter 11 trustee will be in no better cash or operating position than
13 debtor in relation to obtaining customary and appropriate insurance coverage on the property of
14 the estate). Because a chapter 7 trustee will likely not want to risk being subject to liability for
15 failing to obtain fire/casualty insurance, it is likely a chapter 7 trustee would immediately
16 abandon the Debtor's Hotel property.

17
18
19 When the estate has no assets with equity that a trustee could liquidate to pay unsecured
20 creditors, dismissal is in the best interests of creditors and the estate. In the absence of the
21 closing of the chapter 11 sale transaction, there is no realistic prospect for the liquidation of the
22 Hotel property to generate any meaningful dividend for unsecured creditors. In the absence of
23 any benefit to unsecured creditors, secured creditors should pursue their non-bankruptcy
24

25
26 ¹ "The Trustee must formally abandon property of the estate when "possession of the property
27 exposes the estate to a risk of liability which cannot be insured against, and which outweighs its
28 economic value to the estate." Handbook for Chapter 7 Trustees at 4.C.3)e, p. 4-6.

remedies against the Hotel collateral.² See *In re KVN Corp., Inc.*, 514 B.R. 1, 5 (B.A.P. 9th Cir. 2014)(stating it is universally recognized that a chapter 7 trustee’s sale of a fully encumbered asset is generally prohibited); *In re Scimeca Foundation, Inc.*, 497 B.R. 753, 781 (Bankr. E.D. Penn. 2013)(stating it is generally recognized that a bankruptcy trustee should not liquidate fully encumbered assets, for such action yields no benefit to unsecured creditors). The Debtor’s remaining non-Hotel assets are of questionable/doubtful value. At this juncture, there is no basis to conclude that the value of the non-Hotel assets (i.e., avoidance actions³ or causes of action⁴), if any, would outweigh the costs of administration given the uncertainty, risk, and costs

² “Generally, a trustee should not sell property subject to security interest unless the sale generates funds for the benefit of unsecured creditors. A secured creditor can protect its own interests in the collateral subject to the security interest.” Handbook for Chapter 7 Trustees at 4.C.9)d., p. 4-16.

³ At this juncture, Debtor does not appear to have any valuable avoidance actions. At least during the pendency of this case, no party in interest has suggested the existence of any valuable avoidance actions. Even if the Debtor may have avoidance actions, it is not clear whether such actions, if any, would be collectable.

⁴ Debtor’s Schedule A/B, Q.74 “Causes of action against third parties” discloses gaming debts owed to Debtor with amounts sought totaling \$1,260,543,868.00. Debtor, however, scheduled the value of its causes of action for gambling debt as “unknown”. Upon information and belief, the bulk of the gaming debt is primarily owed by citizens of the People’s Republic of China (“PRC”). Because the Debtor ceased operations in March 2020, the gambling debts are at least 5 years old if not older. Debtor’s Statement of Financial Affairs, Q. 7, lists cases initiated by Debtor in 2023-2024 and pending in the Superior Court of Northern Mariana Islands against various individuals with Chinese names (cases 7.29 to 7.327). Any judgment obtained in CNMI against citizens of the PRC for gambling debt would likely be difficult (if not impossible) to serve and domesticate in the PRC, and the prospect of collection would appear to be unrealistic. If the causes of action for gambling debt against citizens of the PRC were easily reduced to money, one would have expected the Debtor to have done so long ago. In fact, it appears the only gambling debt the Debtor has been able to pursue outside of the Northern Mariana Islands has been an action initiated in 2015 seeking recovery of US\$1,500,000 against Chan, Chi Hung, a resident of Hong Kong, not the PRC. Debtor was only able to continue its pursuit of this collection litigation by Hong Kong solicitors KCL & Partners by entering into an expensive litigation funding agreement whereby litigation funder/DIP Lender Kangyi Software Limited will receive 60% of the net litigation proceeds, if any, after repayment of the original funding

1 of prosecuting litigation (particularly against foreign defendants over whom service of process
 2 may not be possible). Because the chapter 11 estate is administratively insolvent, to ensure a
 3 dividend to general unsecured creditors in a chapter 7 liquidation, a chapter 7 trustee would need
 4 to generate sufficient net funds from the liquidation of non-Hotel assets to pay both the chapter 7
 5 administrative expenses and the chapter 11 administrative expenses before a single penny would
 6 be paid to unsecured creditors. This seems very unlikely. Further, even if a chapter 7 trustee is
 7 able to generate funds in excess of administrative expenses, it is unlikely such funds would
 8 generate a *meaningful* dividend for general unsecured creditors given the Debtor's Schedule E/F
 9 disclosure of general unsecured debt of \$262,554,275.91.⁵ Because of the apparent lack of
 10 equity in the Debtor's estate, the administrative insolvency of the estate, and the lack of assets a
 11 chapter 7 trustee could reach or administer, it would be appropriate to dismiss this case. *In re*
 12 *Delta AG Grp., LLC*, 596 B.R. 186, 201 (Bankr. W.D. La. 2019) (ruling, in case where cause
 13 existed to dismiss or convert case because debtor failed to obtain appropriate insurance, and
 14 where debtor had no equity, the appointment of a chapter 11 trustee or an examiner is not in the
 15 best interests of creditors and the estate and ordering dismissal of the case). Under the
 16 circumstances, it appears unrealistic to conclude that conversion of this case would result in a
 17 benefit to general unsecured creditors. Moreover, because of the administrative insolvency of
 18 the estate, converting this case would impose on a chapter 7 trustee the unfair risk of
 19
 20
 21

22
 23 amount of US\$182,639.00 and costs. It is not clear whether Debtor is likely to prevail, or the
 24 collectability of any judgment obtained.

25 ⁵ "A trustee may sell assets only if the sale will result in a meaningful distribution to creditors."
 26 Handbook for Chapter 7 Trustees at 4.C.9)a., p. 4-14. "The trustee must also consider whether
 27 the cost of administration or tax consequences of any sale would significantly erode or exhaust
 28 the estate's equity interest in the asset". *Id.* "If the sale will not result in a meaningful
 distribution to creditors, the trustee must abandon the asset." *Id.*

1 uncompensated effort and burden with no realistic meaningful benefit to general unsecured
2 creditors. Therefore, dismissal is warranted which would leave secured creditors and unsecured
3 creditors to their state law remedies.

4 **III. CONCLUSION**

5 For the foregoing reasons, the United States Trustee requests that this Court enter an
6 order dismissing this case and providing such other and further relief as is proper.
7

8 DATED: Honolulu, Hawaii, June 23, 2025.

9 Tiffany L. Carroll
10 Acting United States Trustee

11 By /s/ Neil Verbrugge
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28