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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In re: :
: :
METROPOLITAN 885 THIRD AVENUE : Case No. 10-____ ()
LEASEHOLD, LLC, :
: Chapter 11 Case
Debtor. :
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**DEBTOR’S APPLICATION FOR AUTHORITY
TO RETAIN AND EMPLOY BLANK ROME LLP AS BANKRUPTCY COUNSEL**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

The above-captioned debtor and debtor-in-possession (the “Debtor”), files this application (the “Application”) pursuant to section 327 of the Bankruptcy Code for authority to retain and employ Blank Rome LLP (“Blank Rome”) as bankruptcy counsel. In support of this Application, the Debtor respectfully states as follows:

STATUS OF THE CASE AND JURISDICTION

1. On the date herewith (the “Petition Date”), the Debtor filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). Concurrently with this Motion, the Debtor has also filed motions or applications seeking certain “first day” relief (“First Day Pleadings”).

2. Also on the Petition Date, the Debtor filed with this Court (i) a Chapter 11 Prepackaged Plan of Reorganization, dated November [], 2010 (the “Plan”); (ii) a Solicitation and Disclosure Statement dated November [], 2010 (as supplemented, the “Solicitation and Disclosure Statement”) describing the Plan; and (iii) a Scheduling Motion for Prepackaged Chapter 11 Case and Motion for an Order (a) Scheduling a Combined Hearing Under Section 105(d)(2)(B)(vi) of the Bankruptcy Code to Approve the Adequacy of the Solicitation and Disclosure Statement and the Prepetition Solicitation Procedures and Confirm the Prepackaged Chapter 11 Plan of Reorganization, (b) Establishing Deadlines and Procedures for Filing Objections to the Approval of the Solicitation and Disclosure Statement or the Prepetition Solicitation Procedures or Confirmation of Plan, and (c) Approving the Form and Manner of Notice of the Confirmation Hearing (the “Solicitation and Scheduling Motion”). As discussed more fully in the Solicitation and Scheduling Motion, the Debtor solicited votes on the Plan prior to the Petition Date, which was accepted by all classes of creditors and interests entitled to vote thereon in accordance with section 1126(b) of the Bankruptcy Code on or before the voting deadline.

3. The Debtor has continued in possession of its property and has continued to operate and maintain its business as a debtor-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

4. No request has been made for the appointment of a trustee or examiner and no official committee has yet been established in this case.

5. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory and legal predicates for the relief sought

herein are section 327 of the Bankruptcy Code and Rules 2014 and 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

BACKGROUND OF THE DEBTOR

6. The Debtor was organized in 2007 as a Delaware limited liability company and is wholly owned by Metropolitan 885 Third Avenue Leasehold Sub Junior Mezz LLC, a Delaware limited liability company (“Parent”). The Debtor owns the leasehold interest on a 34 story Class A office building located on the eastside of Third Avenue between 53rd and 54th Streets in New York City (“Third Avenue Property”). The building was completed in 1986 and is commonly known as the “Lipstick Building” for its distinctive elliptical shape.

7. The Third Avenue Property consists of rentable commercial space, approximately 63.5% of which is occupied by one tenant (with the lease termination date of June 2021). The Third Avenue Property is currently zoned for C6-6/C1-9 Commercial/Retail. The Debtor obtained its interest in the property through two ground leases as the land is divided into two adjacent parcels, the first measuring 5,500 square feet and the second measuring 20,635 square feet.

8. The Debtor has no employees. Metropolitan Real Estate Investors, LLC, a California limited liability company is the asset management company (“Asset Management Company”) with respect to the Third Avenue Property and CB Richard Ellis, Inc. (“CBRE”) is the management company operating the Third Avenue Property. CBRE makes payment to its employees who perform the day-to-day operations of the Third Avenue Property. The Asset Management Company is the managing member of Metropolitan 885 Third Avenue LLC, a Delaware limited liability company (“Metropolitan”), which in turn is a managing member of Metropolitan 885 Third Avenue Leasehold Holdings LLC (“MTAL”).

9. Prior to the Petition Date, Debtor became indebted to Royal Bank of Canada (“RBC”) in the sum of \$210,000,000 (“RBC Loan”). The RBC Loan was secured by a lien on the Third Avenue Property. Parent owns 100% of the membership interests of Debtor. In connection with the RBC Loan, Debtor also obtained an initial equity infusion from MTAL in the amount of \$117,930,000.00. One of the members of MTAL is entitled to receive a preferred return on its investment before any of the other members. As of the Petition Date, the outstanding borrowings under the RBC Loan is in the principal amount of \$210,000,000 (plus accrued interest, costs, fees, penalties and expenses).

10. The causes which gave rise to the need to seek relief under chapter 11 are numerous. First, the recent violent downturn in the building and real estate markets have had a significant impact on the Debtor’s operations. Vacancy rates have increased making it more challenging to service the debt on the property. Renewal lease rates have also been lower than anticipated. Such lower renewal lease rates have continued to negatively impact the cash flow of the Third Avenue Property, which resulted and continues to result in an undue strain on the Debt Service Fund (as hereinafter defined). The Debtor filed this case as a result of serious liquidity issues.

11. A substantial portion of the Debtor’s revenue has been impacted by contractions in the commercial real estate markets throughout the United States. By way of example, Debtor’s tenant base is strongly associated with consumer confidence in the economy and the financial industry and as such, has been affected by the current recession. In brief summary, the significant decline in rental revenue and liquidity position compelled the Debtor to seek an alternative to its current position.

12. Under the existing RBC Loan, the Debtor is the borrower. As noted, the sole 100% member of the Debtor is the Parent. And the 100% member of the Parent is MTAL. MTAL is owned by Metropolitan and by Goldman, Sachs & Co., a New York limited partnership ("GS"). Metropolitan is the managing member of MTAL.

13. As noted, the Debtor's significant indebtedness, \$210,000,000 of secured debt (plus accrued interest, costs, fees, penalties and expenses), is to RBC. The instruments evidencing the Debtor's indebtedness to RBC are described below. In addition to the foregoing, the Debtor has unsecured trade debt incurred in the ordinary course of its operations.

14. Pursuant to that certain loan agreement, dated as of July 9, 2007, RBC, as collateral agent for the benefit of the holder or holders of the notes and their respective successors and assigns made a loan to Debtor in the original aggregate principal amount of \$210,000,000. The RBC Loan is evidenced by a certain Amended, Restated and Consolidated Promissory Note (Note A) in the original principal amount of \$125,000,000 ("Note A") and that certain Amended, Restated and Consolidated Promissory Note in the original principal amount of \$85,000,000 ("Note B"; and together with Note A, collectively, the "Original Notes"), in each case dated as of July 9, 2007 (the "Original Closing Date").

15. The Original Notes are in turn secured, *inter alia*, by that certain Amended, Restated and Consolidated Leasehold Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents, dated as of the Original Closing Date (the "Original Mortgage") and recorded as Document ID: 2007071901142013 on August 7, 2007 and encumbering the Third Avenue Property.

16. The Debtor also entered into the following documents on the Original Closing Date in connection with the RBC Loan: (i) an Assignment of Leases and Rents; (ii) an

Environmental Indemnity Agreement; (iii) a Subordination of Asset Management Agreement and Management Fees (Asset Management Company signed as Manager of the Third Avenue Property); (iv) a Limited Guaranty; (v) a Subordination of Management Agreement and Management Fees; (vi) a Deposit Account Control Agreement (Security Deposits) (Three Party Hard Lockbox) by and among Debtor, RBC and PNC Bank, National Association (“PNC”); (vii) a Deposit Account Control Agreement (Three Party Hard Lockbox) by and among Debtor, RBC and PNC; (viii) a Deposit Account Control Agreement by and among Debtor, RBC and Bank of America, N.A. (“BofA”); and (ix) a state level UCC and a county level UCC fixture filing.

17. As of the Original Closing Date, amounts were deposited in the “Debt Service Fund” to be applied by RBC to pay “Debt Service” (as defined in the RBC Loan) due on the RBC Loan.

18. Pursuant to Section 6(d) of the RBC Loan, Debtor is required to maintain a balance of at least \$2,300,000 in a debt service fund (“Debt Service Fund”) to pay monthly interest. On April 6, 2010, Midland Loan Services, Inc., acting as Servicer of the Loan on behalf of RBC (“Servicer”), emailed Debtor that as of April 1, 2010, disbursement from the Debt Service Fund caused the balance of the Debt Service Fund to drop below the required \$2,300,000 threshold. On April 19, 2010, RBC delivered a written default notice to Debtor that Debtor was required to deposit funds equal to \$280,126.41 to cover the shortfall in the Debt Service Fund. On May 5, 2010, Servicer once again emailed Debtor informing Debtor that a disbursement from the Debt Service Fund to fund the debt service had caused the balance of the Debt Service Fund to drop below \$2,300,000. On May 17, 2010, RBC delivered a second written default notice to Debtor that Debtor was required to deposit funds equal to \$621,394.51 to cover the shortfall in the Debt Service Fund.

19. Debtor failed to replenish the Debt Service Fund to the \$2,300,000 required threshold within the timeframe required by RBC.

20. In connection with the Debtor's failure to replenish the Debt Service Fund, RBC filed an action in foreclosure against Debtor on June 21, 2010 in the Supreme Court of the State of New York County of New York (Index No. 650675/10). The foreclosure complaint alleges that the Debtor failed to maintain a balance of \$2,300,000 in the Debt Service Fund and continues to fail to do so and that RBC accordingly elected to accelerate the entire indebtedness due under the Original Loan Documents.

21. As of August 6, 2010, the Debt Service Fund was, and continues to be, depleted.

RELIEF REQUESTED

22. The Debtor respectfully submits that it is necessary for the Debtor to retain and employ bankruptcy counsel under section 327(a) of the Bankruptcy Code and Bankruptcy Rule 2014 to represent the Debtor in connection with the following non-exclusive matters:

a) Advising the Debtor's management concerning its fiduciary obligations to the Debtor's estate, the Debtor's creditors and the Bankruptcy Court.

b) Assisting the Debtor regarding the administration and prosecution of its chapter 11 case, including taking all necessary actions to protect and preserve the Debtor's estate, which actions include, without limitation, prosecution of adversary proceedings, defense of actions commenced against the Debtor, commencement and prosecution of objections to claims and assisting the Debtor in the claims reconciliation process.

c) Preparing all motions, applications, orders and other pleadings to be filed with the Bankruptcy Court, and counseling the Debtor regarding the preparation of schedules, statements and operating reports in connection with the administration of the Debtor's estate.

d) Representing the Debtor at all hearings held before the Bankruptcy Court concerning its chapter 11 cases and at statutory creditors' meetings conducted by the Office of the United States Trustee.

e) Assisting the Debtor in the formulation and negotiation of a chapter 11 plan of reorganization or liquidation and related disclosure statement and confirmation of such plan, and representing the Debtor during the confirmation process.

f) Rendering to the Debtor such other legal services as may be requested by management of the Debtor and as may be required in furtherance of its chapter 11 case.

23. The Debtor believes that Blank Rome is well-qualified to act as its bankruptcy counsel. The Debtor believes that the attorneys at Blank Rome who will render legal services to the Debtor have had considerable experience in reorganization matters and are capable of rendering the services required. Partners in the firm's bankruptcy department are recognized experts in the reorganization field and have represented Debtors, creditors' committees and other parties in major chapter 11 cases.

24. The Debtor believes that the retention of Blank Rome as bankruptcy counsel will benefit the Debtor's estate.

25. To the best of the Debtor's knowledge, Blank Rome has no connection with any of the Debtor's creditors or any other party in interest, except as disclosed in the affidavit of Marc E. Richards annexed to this Application as Exhibit "A" (the "Richards Affidavit"). The Debtor is satisfied that Blank Rome represents no interest adverse to the Debtor or its estate in the matters upon which it is to be engaged, has no connections with the Debtor, the Debtor's creditors, or any other party in interest, its attorneys and accountants, the United States Trustee, or any person employed in the Office of the United States Trustee, except as set forth in the Richards Affidavit and that its employment will be in the best interests of the Debtor and its estate. Blank Rome, therefore, is a "disinterested person" as defined in section 101(14) of the Bankruptcy Code, as modified by section 1107(b) thereof.

26. Prior to the Petition Date, Blank Rome received fees in the amount of approximately \$657,000 in connection with restructuring/reorganization services, as well as an additional retainer of \$100,000 just prior to the filing of the Debtor's chapter 11 petition, for services to be rendered in contemplation of and during the Debtor's chapter 11 case, the details of which are set forth in the Richards Affidavit. As of the Petition Date, approximately \$100,000 remains as a retainer to be applied to fees and expenses generated from post-petition services on behalf of the Debtor.¹

27. The Debtor requests that Blank Rome be retained and employed as bankruptcy counsel on a general retainer basis in accordance with section 327(a) of the Bankruptcy Code and Bankruptcy Rule 2014. Blank Rome will request compensation and reimbursement of expenses upon proper application to this Court pursuant to sections 330 and 331 of the Bankruptcy Code, the Local Bankruptcy Rules for the Southern District of New York (the "Local Rules") and Orders of this Court.

28. The Debtor understands that the customary hourly rates of Blank Rome, subject to change from time to time, are \$350 to \$855 for partners and counsel, \$260 to \$525 for associates to the firm, and \$150 to \$305 for paraprofessionals. Blank Rome customarily and generally charges clients for the costs of support services the firm provides in connection with a representation, including, without limitation, photocopying charges, long distance telephone

¹ The amount of the retainer remaining after Blank Rome's fees and expenses reflects deductions for the amount of estimated fees and expenses incurred for the period just prior to the Petition Date. Accordingly, the amount of the retainer remaining after application of Blank Rome's actual fees and expenses for the pre-petition period may differ from the estimated amount reported above. Blank Rome advises that it expects to complete its reconciliation of pre-petition fees and expenses actually incurred through the Petition Date and in no event, no later than the anticipated hearing date for this Application. Based on the foregoing Blank Rome will make a corresponding adjustment to the application of the retainer on or about that date.

calls, facsimile transmissions, messengers, courier mail, secretarial and administrative overtime and temporary services, travel, computer research, lodging and catering for meetings. Some of these services are provided by Blank Rome, in which case the charges are set by Blank Rome, and others are provided by third party service providers, in which case the charges are set by the providers. All such charges for which Blank Rome seeks payment are subject to Court approval and/or pursuant to any administrative procedure established by Order of the Court.

29. The Debtor requests that Blank Rome's employment and retention be deemed effective as of the Petition Date, in light of the continuing nature of the services which must be performed in order for Blank Rome to properly represent the Debtor and in order to avoid any prejudice resulting from any administrative delay in the signing of a retention order.

CONCLUSION

WHEREFORE, the Debtor respectfully requests entry of the attached Order authorizing it to retain and employ Blank Rome as bankruptcy counsel under a general retainer as of the Petition Date, and that the Debtor be granted such other and further relief as this Court may deem just and proper.

New York, New York
November 15, 2010

Metropolitan 885 Third Avenue Leasehold, LLC, a Delaware
limited liability company, Debtor

By: Metropolitan 885 Third Avenue Leasehold Sub Junior
Mezz LLC, its sole member

By: Metropolitan 885 Third Avenue Leasehold Holdings
LLC, a Delaware limited liability company, its sole
member

By: Metropolitan 885 Third Avenue LLC, a
Delaware limited liability company, its
managing member

By: Metropolitan Real Estate Investors, LLC, a

California limited liability company, its
managing member

By: _____

Name: Jacob Abikzer
Title: Member