

AMBASE CORP  
Form 10-Q  
August 13, 2013  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended June 30, 2013

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Commission file number 1-7265

AMBASE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 95-2962743

(State of incorporation) (I.R.S. Employer Identification No.)

100 PUTNAM GREEN, 3<sup>RD</sup> FLOOR  
GREENWICH, CONNECTICUT 06830

(Address of principal executive offices) (Zip Code)

(203) 532-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

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submit and post such files).  X  Yes \_\_\_\_\_ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one): Large Accelerated Filer   Accelerated Filer   Non-Accelerated Filer   Smaller Reporting Company  X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES   NO  X

At July 31, 2013, there were 42,176,758 shares outstanding of the registrant's common stock, \$0.01 par value per share.

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AmBase Corporation

Quarterly Report on Form 10-Q  
June 30, 2013

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## PART I - FINANCIAL INFORMATION

## Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## AMBASE CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share data)

	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating expenses:				
Compensation and benefits	\$338	\$317	\$681	\$655
Professional and outside services	177	96	393	205
Property operating and maintenance	25	20	51	44
Depreciation	12	12	24	24
Insurance	11	11	19	18
Other operating	87	23	154	50
Total operating expenses	650	479	1,322	996
Operating income (loss)	(650 )	(479 )	(1,322 )	(996 )
Interest income	23	1	40	4
Realized gains (losses) on sales of investment securities	4	9	6	25
Unrealized gains (losses) on trading securities	-	(6 )	-	(6 )
Other income – federal tax gross up	-	-	-	-
Other income	-	4	-	17
Equity income (loss) - 111 West 57th Partners LLC	(12 )	-	(12 )	-
Income (loss) before income taxes	(635 )	(471 )	(1,288 )	(956 )
Income tax expense (benefit)	748	11	812	22
Net income (loss)	\$(1,383 )	\$(482 )	\$(2,100 )	\$(978 )
Net income (loss) per common share - basic	\$(0.03 )	\$(0.01 )	\$(0.05 )	\$(0.02 )
Net income (loss) per common share - assuming dilution	\$(0.03 )	\$(0.01 )	\$(0.05 )	\$(0.02 )
Weighted average common shares outstanding - basic	42,664	43,075	42,933	43,075
Weighted average common shares outstanding - assuming dilution	42,664	43,075	42,933	43,075

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMBASE CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets  
(Unaudited)

(in thousands, except per share amounts)

	June 30, 2013	December 31, 2012
Assets:		
Cash and cash equivalents	\$ 14,238	\$ 3,907
Investments securities - held to maturity	9,500	79,787
Investments securities - trading carried at fair value	-	-
Total investment securities	9,500	79,787
Real estate owned:		
Land	554	554
Buildings	1,900	1,900
Real estate owned, gross	2,454	2,454
Less: accumulated depreciation	606	582
Real estate owned, net	1,848	1,872
Indemnification asset - federal tax gross-up	18,930	18,930
Investment in 111 West 57th Partners LLC	57,238	-
Other assets	280	374
Total assets	\$ 102,034	\$ 104,870
Liabilities and Stockholders' Equity:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,114	\$ 1,946
Federal taxes payable	-	501
Uncertain tax position reserve	34,841	34,157
Other liabilities	-	-
Total liabilities	36,955	36,604
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock (\$0.01 par value, 200,000 authorized, 46,410 issued and 42,371 outstanding in 2013 and 43,284 outstanding in 2012)	464	464
Additional paid-in capital	548,304	548,304
Accumulated deficit	(480,434)	(478,334)
Treasury stock, at cost – 2013 - 4,039 shares; 2012 - 3,126 shares	(3,255 )	(2,168 )
Total stockholders' equity	65,079	68,266
Total liabilities and stockholders' equity	\$ 102,034	\$ 104,870

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMBASE CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Six Months Ended June 30,	
(in thousands)	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$(2,100 )	\$(978 )
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation	24	24
Realized (gains) losses on sales of investment securities	(6 )	(25 )
Provision for uncertain tax position reserve	684	-
Equity (income) loss - 111 West 57th Partners LLC	12	-
Unrealized (gains) losses on trading securities	-	6
Stock-based compensation expense	-	-
Changes in operating assets and liabilities:		
Accrued interest receivable investment securities	2	-
Indemnification asset - federal tax gross-up	-	-
Other assets	94	(35 )
Accounts payable and accrued liabilities	168	(83 )
Federal taxes payable	(501 )	-
Other liabilities	-	2
Net cash provided (used) by operating activities	(1,623 )	(1,089 )
Cash flows from investing activities:		
Maturities of investment securities - held to maturity	187,650	11,699
Purchases of investment securities - held to maturity	(117,365 )	(17,098 )
Sales of investment securities - trading	6	505
Purchases of investment securities - trading	-	(351 )
Equity investment - 111 West 57th Partners LLC	(57,250 )	-
Proceeds from (investment in) real estate limited partnership	-	-
Net cash provided (used) by investing activities	13,041	(5,245 )
Cash flows from financing activities:		
Common stock repurchased for treasury	(1,087 )	-
Stock options exercised	-	-
Cash dividends paid	-	-
Net cash provided (used) by financing activities	(1,087 )	-
Net change in cash and cash equivalents	10,331	(6,334 )
Cash and cash equivalents at beginning of period	3,907	7,615
Cash and cash equivalents at end of period	\$ 14,238	\$ 1,281
Supplemental cash flow disclosure:		
Income taxes paid	\$ 661	\$ 16

The accompanying notes are an integral part of these condensed consolidated financial statements.

## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Unaudited Condensed Consolidated Financial Statements

#### Note 1 - Organization

The accompanying condensed consolidated financial statements of AmBase Corporation and subsidiaries ("AmBase" or the "Company") are unaudited and subject to year-end adjustments. All material intercompany transactions and balances have been eliminated. In the opinion of management, the interim financial statements reflect all adjustments, consisting only of normal recurring adjustments unless otherwise disclosed, necessary for a fair presentation of the Company's consolidated financial position, results of operations and cash flows. Results for interim periods are not necessarily indicative of results for the full year. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, that it deems reasonable, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from such estimates and assumptions. The unaudited interim condensed consolidated financial statements presented herein are condensed and should be read in conjunction with the Company's consolidated financial statements filed in its Annual Report on Form 10-K for the year ended December 31, 2012.

The Company's assets currently consist primarily of cash and cash equivalents, investment securities, an equity investment in a real estate development property, an indemnification asset, and real estate owned. The Company earns non-operating revenue consisting principally of investment earnings on investment securities and cash equivalents. As further discussed in Note 5, in June 2013, the Company, through a newly formed subsidiary, purchased an equity interest in a real estate development property through a joint venture agreement to purchase and develop real property in New York City, New York (the "111 West 57<sup>th</sup> Property"). The Company continues to evaluate a number of possible acquisitions and is engaged in the management of its assets and liabilities, including the contingent assets associated with its legal claims, as described in Notes 9 and 10. Discussions and negotiations are ongoing with respect to certain of these matters. From time to time, the Company and its subsidiaries may be named as a defendant in various lawsuits or proceedings. The Company intends to aggressively contest all litigation and contingencies, as well as pursue all sources for contributions to settlements. For a discussion of lawsuits and proceedings, including a discussion of the Supervisory Goodwill Settlement Agreement – Tax Gross-up and Carryback Claims see Notes 9 and 10.

#### Note 2 – Summary of Significant Accounting Policies

##### New accounting pronouncements

There are no new accounting pronouncements that would likely materially affect the Company's condensed consolidated financial statements.

##### Principals of consolidation

The condensed consolidated financial statements are comprised of the accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated.

##### Equity method investment

Investments and ownership interests are accounted for under the equity method of accounting if the Company has the ability to exercise significant influence, but not control (under GAAP), over the investment. Investments accounted

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for under the equity method are carried at cost, plus or minus the Company's equity in the increases and decreases in the net assets after the date of acquisition and certain other adjustments. The Company's share of income or loss for equity method investments is recorded in the condensed consolidated statements of operations as equity income (loss). Dividends received, if any, would reduce the carrying amount of the Company's investment.

### Income taxes

The Company classifies interest and/or penalties related to under payments of income taxes if applicable or if present on uncertain tax positions as a component of income tax expense (benefit) and operating expenses, respectively.

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements

## Note 3 - Investment Securities

Investment securities - held to maturity consist of the following:

(in thousands)	June 30, 2013			December 31, 2012		
Held to Maturity:						
U.S. Treasury Bills	\$9,500	\$9,500	\$9,500	\$79,787	\$79,787	\$79,794
	\$9,500	\$9,500	\$9,500	\$79,787	\$79,787	\$79,794

Investment securities - trading consist of the following:

(in thousands)	June 30, 2013			December 31, 2012		
	Cost or		Fair	Cost or		Fair
	Carrying	Amortized		Carrying	Amortized	
Trading:	Value	Cost	Value	Value	Cost	Value
Equity Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The gross unrealized gains (losses) on investment securities - held to maturity consist of the following:

(in thousands)	June		December
Held to Maturity:	30,	2013	
Gross unrealized gains (losses)	\$ -	\$ -	7

Realized gains (losses) on the sales of investment securities held for trading are as follows:

(in thousands)	Second		Six	
	Quarter		Months	
	Ended	Ended	Ended	Ended
	June	June	June	June
	30,	30,	30,	30,
	2013	2012	2013	2012
Net sale proceeds	\$4	\$272	\$6	\$505
Cost basis	-	(263)	-	(480)
Realized gains (losses)	\$4	\$9	\$6	\$25

Unrealized gains (losses) on investment securities held for trading are as follows:

Second	Six
Quarter	Months
Ended	Ended

	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
(in thousands)				
Cost basis	\$ -	\$ 83	\$ -	\$ 83
Current value	-	77	-	77
Unrealized gains (losses)	\$ -	\$ (6 )	\$ -	\$ (6 )

#### Note 4 –Real Estate Owned

The Company owns a commercial office building in Greenwich, Connecticut that contains approximately 14,500 square feet. The Company utilizes approximately 3,500 square feet for its executive offices; the remaining space is currently unoccupied and available for lease. Depreciation expense for the building is calculated on a straight-line basis over 39 years. Tenant improvements, if any, would be depreciated over the lesser of the remaining life of the tenants' lease or the estimated useful lives of the improvements. The building is carried at cost, net of accumulated depreciation.

Although the portion of the building not being utilized by the Company is currently unoccupied and available for lease, based on the Company's analysis, the Company believes the property's fair value exceeds the property's current carrying value. The Company's impairment analysis includes a comprehensive range of factors including but not limited to: the location of the property; property condition; current market conditions; comparable sales; current market rents in the area; new building zoning restrictions; raw land values; new building construction costs; building operating costs; leasing values; and cap rates for comparable buildings in the area. Varying degrees of weight are given each factor. Based on the Company's analysis these factors, taken together and/or considered individually, form the basis for the Company's analysis that no impairment condition exists.

The Company performs impairment tests on a regular basis and/or if events or circumstances indicate that the property's carrying value may not be recoverable. As noted above, based on the Company's analysis the Company believes the carrying value of the real estate owned as of June 30, 2013, has not been impaired and; therefore, the carrying value of the asset is fully recoverable by the Company.

AMBASE CORPORATION AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Note 5 – Investment in 111 West 57th Partners LLC

On June 28, 2013, 111 West 57<sup>th</sup> Investment LLC, a Delaware limited liability company ("Investment LLC"), a newly formed subsidiary of the Company, entered into a joint venture agreement (as amended, the "JV Agreement") with 111 West 57<sup>th</sup> Sponsor LLC, a Delaware limited liability company (the "Sponsor"), an entity affiliated with Michael Stern of JDS Development Group, and Kevin Maloney of Property Markets Group, Inc., pursuant to which Investment LLC invested \$56,000,000 (the "Investment") in a real estate development project to purchase and develop the real property located at 105 through 111 West 57<sup>th</sup> Street in New York, New York (the "111 West 57<sup>th</sup> Property"). In consideration for making the Investment, Investment LLC was granted a 59% membership interest in 111 West 57<sup>th</sup> Partners LLC ("111 West 57<sup>th</sup> Partners"), a Delaware limited liability company, which indirectly acquired the 111 West 57<sup>th</sup> Property on June 28, 2013 (the "Joint Venture," and such date, the "Closing Date"). The JV Agreement was submitted into escrow pursuant to that certain Escrow Procedure Letter dated as of June 17, 2013 between Sponsor and Investment LLC (the "Escrow Letter"), and became effective on the Closing Date. The Company also indirectly contributed an additional \$1,250,000 to the Joint Venture in exchange for an additional indirect 1.3% interest in the Joint Venture. Other members and the Sponsor contributed an additional \$37,750,000 of cash and/or property to the Joint Venture.

The JV Agreement and related operating agreements generally provide that all distributable cash shall be distributed as follows: (i) first, 100% to the members in proportion to their percentage interests until Investment LLC has received distributions yielding a 20% internal rate of return as calculated; (ii) second, 100% to the Sponsor as a return of (but not a return on) any additional capital contributions made by the Sponsor on account of manager overruns; and (iii) thereafter, (a) 50% to the members in proportion to their respective percentage interests at the time of such distribution, and (b) fifty percent 50% to the Sponsor.

Additionally, the JV Agreement provides that (i) Mr. Richard A. Bianco (the Company's current Chairman, President and Chief Executive Officer) ("Mr. R. A. Bianco"), his immediate family, and/or any limited liability company wholly-owned thereby, and/or a trust in which Mr. R. A. Bianco and/or his immediate family is the beneficiary, shall at all times own, in the aggregate, not less than 20% of the outstanding shares of AmBase; and (ii) Mr. R. A. Bianco shall remain the Chairman of the Board of Directors of AmBase for the duration of the JV Agreement.

The 111 West 57<sup>th</sup> Property was acquired from 57th Street Partners NY, LLC (an entity affiliated with Starwood Capital Group Global), Steinway, Inc., and 111 West 57th Street Associates, L.P. (an entity affiliated with Wexford Capital LLC), pursuant to three separate purchase agreements for various components of the 111 West 57<sup>th</sup> Property. The aggregate purchase price as noted herein below includes various capitalized costs for the 111 West 57<sup>th</sup> Property. The Joint Venture intends to purchase additional inclusionary zoning rights for a purchase price of \$6,500,000. The acquisition of the 111 West 57<sup>th</sup> Property was partially financed pursuant to a mortgage and acquisition loan, as noted herein below, by Annaly CRE LLC, a Delaware limited liability company that is a wholly-owned subsidiary of Annaly Commercial Real Estate Group, Inc., which closed concurrently with the acquisition of the 111 West 57<sup>th</sup> Property on the Closing Date. The Joint Venture plans to redevelop the 111 West 57<sup>th</sup> Property into an approximate combined 346,000 gross square foot luxury residential tower, retail and/or hotel project.

The foregoing descriptions of each of the JV Agreement and the other agreements referenced herein are qualified in their entirety by the contents of the respective agreements. A copy of the JV Agreement, the Annaly CRE LLC mortgage agreement, and the Escrow Letter are attached as exhibits to this Form 10-Q.

The Company has recorded the investment in the 111 West 57<sup>th</sup> Partners utilizing the equity method of accounting, as pursuant to the various agreements the Company has significant influence, but does not have control, as defined under GAAP. Accordingly, the results of operations of 111 West 57<sup>th</sup> Partners are included in equity income (loss) in the

Company's condensed consolidated statements of operations. As of June 30, 2013, the Company's carrying amount of its investment in 111 West 57<sup>th</sup> Partners as noted in the Company's condensed consolidated balance sheet, is greater than the Company's equity in the underlying net assets of the 111 West 57<sup>th</sup> Partners by \$867,000, categorized as goodwill, due to a difference resulting from the reduction in equity for syndication fees paid relating to 111 West 57<sup>th</sup> Partners. The Company reviews its investments and ownership interests recorded under the equity method for impairment on a regular basis and/or if events or changes in circumstances indicate a loss in the value of its investment may be other than temporary. There was no impairment on the Company's equity method investment for the six months ended June 30, 2013.

The following table presents summarized financial information for the Company's equity method investment in 111 West 57<sup>th</sup> Partners. The amounts shown represent 100% of the financial position and results of operations of 111 West 57<sup>th</sup> Partners from the date of investment through June 30, 2013.

(in thousands)

	June 30, 2013
Assets:	
Real estate held for development, net	\$243,405
Escrow deposits	57,995
Other assets	22,497
Total assets	\$323,897
Liabilities:	
Mortgage payable	\$230,000
Accounts payable	354
Total liabilities	230,354
Equity:	
Total equity	93,543
Total liabilities and equity	\$323,897

	Second Quarter Ended June 30, 2013	Six Months Ended June 30, 2013
(in thousands)		
Rental income	\$ 15	\$ 15
Expenses	35	35
Net income (loss)	\$ (20 )	\$ (20 )

## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements

## Note 6 - Savings Plan

The Company sponsors the AmBase 401(k) Savings Plan (the "Savings Plan"), which is a "Section 401(k) Plan" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"). The Savings Plan permits eligible employees to make contributions of up to a percentage of their compensation, which are matched by the Company at a percentage of the employees' elected deferral. Employee contributions to the Savings Plan are invested at the employee's discretion, in various investment funds. The Company's matching contributions are invested in the same manner as the compensation reduction contributions. All contributions are subject to maximum limitations contained in the Code.

The Company's matching contributions to the Savings Plan, charged to expense, were as follows:

	Second Quarter		Six Months Ended			
	Ended June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012		
Company matching contributions	\$6,000	\$5,000	\$19,000	\$20,000		
Employer match %	33	% 33	% 33	% 33	%	%

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements

## Note 7 – Common Stock Repurchase Plan

In January 2002, the Company announced a common stock repurchase plan (the "Repurchase Plan") which allows for the repurchase by the Company of its common stock in the open market.

The Repurchase Plan is conditioned upon favorable business conditions and acceptable prices for the common stock. Purchases under the Repurchase Plan may be made, from time to time, in the open market, through block trades or otherwise. Depending on market conditions and other factors, purchases may be commenced or suspended any time or from time to time without prior notice.

Pursuant to the Repurchase Plan the Company repurchased shares of common stock from unaffiliated parties at various dates at market prices at their time of purchase, including broker commissions, as detailed below. Information relating to the Repurchase Plan is as follows:

	Six Months Ended June 30, 2013
(in thousands)	
Common shares repurchased to treasury during period	913
Aggregate cost of shares repurchased during period	\$ 1,087
(in thousands)	
	June 30, 2013
Total number of common shares authorized for repurchase	10,000
Total number of common shares repurchased	4,593
Total number of shares that may still be repurchased	5,407

## Note 8 – Incentive Plans

Under the Company's 1993 Stock Incentive Plan (the "1993 Plan"), the Company may grant to officers and employees of the Company and its subsidiaries, stock options ("Options"), stock appreciation rights ("SARs"), restricted stock awards ("Restricted Stock"), merit awards ("Merit Awards") and performance share awards ("Performance Shares"), through May 28, 2018. A predetermined number of shares the Company's Common Stock are reserved for issuance under the 1993 Plan (upon the exercise of Options and Stock Appreciation Rights, upon awards of Restricted Stock and Performance Shares); however, only a portion of such shares are available for issuance for Restricted Stock Awards and Merit Awards. Shares issued pursuant to the 1993 Plan shall be authorized but unissued shares of Common Stock. Options may be granted as incentive stock options ("ISOs") intended to qualify for favorable tax treatment under Federal tax law or as nonqualified stock options ("NQSOs"). SARs may be granted with respect to any Options granted under the 1993 Plan and may be exercised only when the underlying Option is exercisable. The 1993 Plan requires that the exercise price of all Options and SARs be equal to or greater than the fair value of the Company's Common Stock on the date of grant of that Option. The term of any NQSO, ISO or related SAR cannot exceed terms under federal tax law and/or as prescribed in the 1993 Plan. Subject to the terms of the 1993 Plan and any additional restrictions imposed at the time of grant, Options and any related SARs ordinarily will become exercisable pursuant to a vesting period prescribed at the time of grant. In the case of a "Change of Control" of the Company (as defined in the 1993 Plan), Options granted pursuant to the 1993 Plan may become fully exercisable as to all optioned shares from and after the date of such Change of Control in the discretion of the Committee or as may

otherwise be provided in the grantee's Option agreement. Death, retirement, or absence for disability will not result in the cancellation of any Options.

The fair values of option awards are estimated on the date of grant using the Black-Scholes-Merton option valuation model ("Black-Scholes") that uses certain assumptions at the time of valuation. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options granted is estimated based on the contractual lives of option grants, option vesting period and historical data and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury bond yield in effect at the time of grant.

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock price volatility. The assumptions utilized represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if other assumptions had been used, our recorded stock-based compensation expense could have been materially different from the amounts previously recorded. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be materially different. The Company believes that the use of the Black-Scholes model meets the fair value measurement objectives of accounting principles generally accepted in the United States of America and reflects all substantive characteristics of the instruments being valued.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, and given the substantial changes in the price per share of the Company's Common Stock, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. No stock options were outstanding at June 30, 2013 or December 31, 2012. No stock options were granted during the six months ended June 30, 2013 and 2012. During the six months ended June 30, 2012, 136,000 stock options expired.

Common stock reserved for issuance under the Company's stock option and other employee benefit plans is as follows:

(in thousands)	June 30, 2013
Stock option plan	4,320
Other employee benefit plan	100
Total common shares reserved for issuance	4,430

## Note 9 - Income Taxes

The Company and its domestic subsidiaries file a consolidated federal income tax return. The Company recognizes both the current and deferred tax consequences of all transactions that have been recognized in the consolidated financial statements, calculated based on the provisions of enacted tax laws, including the tax rates in effect for current and future years. Net deferred tax assets are recognized immediately when a more likely than not criterion is met; that is, a greater than 50% probability exists that the tax benefits will actually be realized sometime in the future.

The components of income tax expense (benefit) are as follows:

(in thousands)	Second Quarter Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Federal – current	\$272	\$-	\$272	\$-



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State – current	476	11	540	22
Total current	748	11	812	22
Federal – deferred	(222)	(165)	(451)	(335)
Change in valuation allowance	222	165	451	335
Total deferred	-	-	-	-
Income tax expense (benefit)	\$748	\$11	\$812	\$22

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements

The components of pretax income (loss) and the difference between income taxes computed at the statutory federal rate of 35% in 2013 and 2012, and the provision for income taxes are as follows:

(in thousands)	Second Quarter Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Income (loss) before income taxes	\$(635)	\$(471)	\$(1,288)	\$(956)
Tax expense (benefit):				
Tax at statutory federal rate	\$(222)	\$(165)	\$(451)	\$(335)
State income taxes	64	11	128	22
Federal interest	272	-	272	-
State interest	412	-	412	-
Permanent items	-	-	-	-
Accounting loss benefit not recognized	-	-	-	-
Change in valuation allowance	222	165	451	335
Income tax expense (benefit)	\$748	\$11	\$812	\$22

A reconciliation of the United States federal statutory rate to the Company's effective income tax rate is as follows:

	Second Quarter Ended				Six Months Ended			
	June 30, 2013		June 30, 2012		June 30, 2013		June 30, 2012	
Tax at statutory federal rate	35.0	%	35.0	%	35.0	%	35.0	%
State income taxes	(10.1)	)	(2.3)	)	(9.9)	)	(2.3)	)
Federal interest	(42.8)	)	-		(21.1)	)	-	
State interest	(64.9)	)	-		(32.0)	)	-	
Accounting loss benefit not recognized	-		-		-		-	
Change in valuation allowance	(35.0)	)	(35.0)	)	(35.0)	)	(35.0)	)
Permanent differences, tax credits and other adjustments	-		-		-		-	
Effective income tax rate	(117.8	)%	(2.3	)%	(63.0	)%	(2.3	)%

The Company has recorded a reserve for uncertain tax positions in the amount of \$34,841,000 and \$34,157,000 as of June 30, 2013 and December 31, 2012, respectively. It is unclear whether any significant changes in unrecognized income tax benefits are currently expected to occur over the next year. Interest and/or penalties related to underpayments of income taxes, if applicable, or if present on uncertain tax positions are included as a component of income tax (benefit) and operating expenses, respectively.

The Company's federal income tax returns for the years subsequent to 1992 have not been reviewed by the Internal Revenue Service ("IRS") or state authorities, except for tax year 2007, which was reviewed by the IRS and has been concluded. The Company has not been notified of any other potential tax audits by any federal, state or local tax authorities. As such, the Company believes the statutes of limitations for the assessment of additional federal and

state tax liabilities are generally closed for tax years prior to 2009.

Based on the Company's 2012 federal income tax ("FIT") return as filed (subject to IRS audit adjustment/review), as prepared by the Company's outside tax advisors, the Company recognized a \$152 million worthless stock deduction for the Company's investment tax basis in Carteret in the computation of the Company's 2012 taxable income. The Company further reduced its 2012 federal taxable income through the utilization of \$25 million of its previously available federal tax net operating loss ("NOL") carryforward deductions in the computation of the Company's 2012 federal tax liability. The federal NOL carryforwards were required to be utilized in tax year 2012 as a result of the Internal Revenue Code ("IRC") regulations that require NOLs to be utilized in the first year in which the Company has taxable income; otherwise, use of the NOL carryforwards would be lost. The worthless stock deduction was required to be recognized in the year of worthlessness, i.e. 2012.

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# **AMBASE CORPORATION AND SUBSIDIARIES**

## **Notes to Unaudited Condensed Consolidated Financial Statements**

As part of the Settlement Agreement, the Company is entitled to a tax gross-up in an amount to be determined if and when any federal taxes should be imposed on the Settlement Amount. Based on the Company's 2012 federal income tax return as filed (subject to IRS audit adjustment/review), in March 2013, the Company paid approximately \$501,000 of federal income taxes attributable to Alternative Minimum Tax ("AMT") rate calculations. Pursuant to the Settlement Agreement, Rule 60(b) of the Rules of the Court of Federal Claims will govern the process for receiving a tax gross-up. On May 3, 2013, the Company filed a Rule 60(b) Motion with the Court of Federal Claims seeking a tax gross-up from the United States for the \$501,000, plus applicable tax consequences relative to the reimbursement of this amount. The Company sought to: (i) reserve the right to seek a tax gross-up for any additional federal tax which could be owed as a result of additional taxes which may be imposed by the IRS upon tax return review or otherwise; and (ii) reserve the right to seek the economic value for deductions utilized against the Settlement Award. The DOJ, on behalf of the United States, filed their response brief in May 2013, and the Company filed its reply brief in June 2013. Subsequently, Senior Judge Smith held oral argument on June 12, 2013 and after the hearing filed an order directing the United States to pay AmBase \$500,729 as reimbursement for 2012 federal income taxes paid by AmBase as provided for in the Settlement Agreement. On August 6, 2013, Senior Judge Smith issued an opinion granting in part and denying in part, the Company's Rule 60(b) Motion for Further Relief. The opinion is under seal and thus cannot be disseminated to the public at this time. The Court has given the parties seven days to file any requests for redactions. The Company and the DOJ on August 8, 2013, have jointly filed a motion to the Court requesting that the seal be lifted so that the contents of the opinion can be disseminated publicly. Based on the Company's March 2013 payment of the 2012 federal tax amount, the Company recorded a receivable of \$501,000 to reflect a portion of the tax gross-up reimbursement the Company is seeking pursuant to the Settlement Agreement, which was recognized as a component of the Indemnification asset - federal tax gross-up in the Company's Consolidated Balance Sheet. For additional information, see Note 10 – Legal Proceedings.

Pursuant to the accounting principles with regard to recognition of uncertain tax positions, (ASC 740-10, Accounting for Income Taxes), the Company was required to record an aggregate tax reserve of approximately \$34,841,000; (\$18.7 million for federal) as of June 30, 2013 and \$34,157,000 (\$18.4 million for federal) as of December 31, 2012, to reflect the net tax effect plus accrued interest through June 30, 2013, for potential tax audit and uncertainty that the \$152 million Carteret worthless stock tax deduction, (uncertain tax position), could be disallowed in whole or in part by the tax authorities. The Company believes that if any additional federal tax is owed as a result of any adjustments, these potential amounts would be reimbursable to the Company pursuant to the tax gross-up provision of the Settlement Agreement. As a result the Company recorded an indemnification asset of \$18.4 million to reflect the net amount of the federal uncertain tax position reserve recognized, as noted above. The calculation of the net federal uncertain tax position reserve amount factors in the assumed use of the Company's remaining NOL carryforwards as of 2012 totaling \$24.1 million and use of the Company's remaining AMT Tax Credits as of 2012 totaling \$21.0 million. A portion of the uncertain tax position reserve as of June 30, 2013 and December 31, 2012, is attributable to certain state taxes on the Settlement Amount which are not reimbursable to the Company as part of the Settlement Agreement.

In connection with the uncertain tax positions as noted herein, the Company recorded an interest expense accrual for potential underpayment of taxes for tax year 2012. The interest expense is included as a component of income tax expense (benefit) in the Condensed Consolidated Statement of Operations and as a component of the uncertain tax position reserve in the Condensed Consolidated Balance Sheets.

The interest expense related to the uncertain tax positions is as follows:

(in thousands)	Second	Six Months
	Quarter	Ended

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	Ended			
	June	June	June	June
	30,	30,	30,	30,
	2013	2012	2013	2012
Federal	\$272	\$ -	\$272	\$ -
State jurisdictions	412	-	412	-
Interest expense - taxes	\$684	\$ -	\$684	\$ -

State income tax amounts for the second quarter and six months ended June 30, 2013 and 2012 are primarily attributable to a provision for a minimum tax on capital imposed by the state jurisdictions. Based on the state tax returns as filed the Company has approximately \$1.9 million of state NOL carryforward deductions remaining available for future use, which expire beginning in 2030.

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## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Unaudited Condensed Consolidated Financial Statements

As a result of the Office of Thrift Supervision's December 4, 1992 placement of Carteret Savings Bank, F.A. in receivership, under the management of the Resolution Trust Corporation ("RTC")/Federal Deposit Insurance Corporation ("FDIC"), and then proposed Treasury Reg. §1.597-4(g), the Company had previously filed its 1992 and subsequent federal income tax returns with Carteret disaffiliated from the Company's consolidated federal income tax return. Based upon the impact of Treasury Reg. §1.597-4(g), which was issued in final form on December 20, 1995, a continuing review of the Company's tax basis in Carteret, and the impact of prior year tax return adjustments on the Company's 1992 federal income tax return as filed, the Company originally decided not to make an election pursuant to final Treasury Reg. §1.597-4(g) to disaffiliate Carteret from the Company's consolidated federal income tax return effective as of December 4, 1992 (the "Election Decision"). Based on the lack of availability of Carteret and Carteret FSB information from December 1992 forward, the resolution of the Supervisory Goodwill legal proceedings and the Settlement Agreement, the Company filed its 2012 income tax returns with Carteret/Carteret FSB deconsolidated from the Company operations from December 1992 forward.

The Company has made numerous requests to the RTC/FDIC for tax information pertaining to Carteret and the resulting successor institution, Carteret Federal Savings Bank ("Carteret FSB"); however, that information has not been received. Because the Carteret and Carteret FSB tax information has not been received, the Company is unable to determine with certainty the amount of or the years in which any NOL's may ultimately be generated; if the NOL carryforwards/carrybacks will be utilized in prior federal income tax return years; or the final expiration dates of any of the NOL carryforwards/carrybacks ultimately generated relating to the Election Decision noted herein.

Based on information received to date, and prior to the recognition of the 1992 tax losses reflected on the Company's 1992 amended federal income tax return, as further described herein, the Company estimated that as of December 1992 it had a remaining tax basis related to its investment in Carteret of approximately \$152 million. Based on the Company's Election Decision, described herein, and the receipt of some of the requested information from the RTC/FDIC, the Company amended its 1992 consolidated federal income tax return to include the federal income tax effects of Carteret and Carteret FSB, (the "1992 Amended Return").

In March 2000, the Company filed with the IRS several carryback claims and amendments to previously filed carryback claims (the "Carryback Claims") seeking refunds from the IRS of alternative minimum tax and other federal income taxes paid by the Company in prior years plus applicable IRS interest, based on the filing of the 1992 Amended Return. If the Company is successful in its appeal to the United States Court Appeals for the Second Circuit for the "Carryback Claims", the Company expects that the 1992 Amended Return will generate approximately \$56 million of NOL's for tax year 1992, which the Company is seeking to carryback to prior tax years to produce refunds of tax previously paid. The 1992 Amended Return has not yet been accepted by the IRS. See "Carryback Claims," below for further information. As part of the 1992 Amended Return approximately \$56 million (of the \$152 million) of Carteret/Carteret FSB tax basis is expected to be converted into NOL's, in tax year 1992. The Company can give no assurances as to the final amount of refunds, if any, or when they might be received. The accompanying financial statements include no legal fees in connection with the Carryback Claims proceedings as these legal fees are payable pursuant to a contingent fee arrangement with the attorneys upon a final recovery received. For additional information, see Note 10 – Legal Proceedings.

If the Carteret worthless stock deduction is denied by the IRS, the Carteret/Carteret FSB tax basis of approximately \$96 million remaining after recognition of the 1992 Amended Return, may be converted into NOL carryforwards/carrybacks as additional tax losses are incurred by Carteret/Carteret FSB and may be carried back or carried forward to other tax years; may be utilized in other tax years; or could begin to expire no earlier than the 2008 tax year based upon the year any NOL's are ultimately generated. The Company can give no assurances with regard

to the 1992 Amended Return, subsequent year returns, or the final amount or expiration of NOL carryforwards/carrybacks ultimately generated, if any, from the Company's tax basis in Carteret/Carteret FSB. NOL's generated from the Company's tax basis in Carteret/Carteret FSB are in addition to the NOL carryforwards/carrybacks generated based on the Company's federal income tax returns as previously filed from 1993 forward, as further detailed above.

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## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Unaudited Condensed Consolidated Financial Statements

The FDIC has previously filed a federal income tax return for Carteret FSB for 1995 (as well as other years), which indicates that Carteret FSB allegedly could owe a 1995 federal income tax liability of \$32 million, which including interest and penalty thereon, is alleged to be in excess of \$139 million. The FDIC has stated to the United States Court of Federal Claims ("Court of Claims") that the tax amounts are only estimates and are highly contingent.

However, it is possible that the IRS may try to collect the alleged Carteret FSB federal income taxes from the Carteret FSB receivership. The Company believes the Carteret FSB federal income tax returns filed by the FDIC were improperly filed and are neither accurate nor valid. Based on the information received to date, if the correct Carteret FSB federal income tax results were included with the Company's originally filed federal income tax returns, the Company, believes that no additional material federal income tax would be owed by the Company, although this cannot be assured because a contrary result is possible, given the uncertainty with various legal and factual assumptions underlying the Company's beliefs. This assessment included among other items a review of the Carteret FSB federal income tax returns as prepared by the FDIC and the correction of errors originally reported therein, the proper application of federal NOL carryforwards and carrybacks, and the adherence to statute of limitation provisions contained in the Internal Revenue Code, as amended.

As explained above, although the Company does not believe that Carteret FSB or the Company will have a material federal income tax liability related to Carteret FSB for tax year 1995 (or any other tax year), the Company can give no assurances of the final amounts, if any, of federal income taxes owed by the Carteret FSB receivership or by the Company as a result of the Carteret FSB receivership operations. The Company believes that the Settlement Agreement, tax regulations and tax positions on the Company's tax returns as filed, would preclude additional tax owed resulting from the Carteret FSB receivership. The Company is pursuing the Carryback Claims, as further described above, which could have an impact on the analysis of the prior year tax information. The discussion of the Carteret FSB federal income tax results is intended to provide details as to the potential inter-relationship of the Carteret FSB federal income tax returns with the Company's federal income tax positions. It is not a reflection of any federal income tax liability of the Company arising from the Carteret receivership operations.

#### Note 10 - Legal Proceedings

The information contained in Item 8 - Note 10 in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, is incorporated by reference herein and the defined terms set forth below have the same meaning ascribed to them in that report. There have been no material developments in such legal proceedings, except as set forth below.

The Company is or has been a party in a number of lawsuits or proceedings, including the following:

**Supervisory Goodwill Settlement Agreement – Tax Gross-up** - The Company was a plaintiff in a legal proceeding seeking recovery of damages from the United States Government for the loss of the Company's wholly-owned subsidiary, Carteret Savings Bank, F.A. This legal proceeding was commenced in 1993 (the "Supervisory Goodwill" legal proceedings). A Settlement Agreement in the Supervisory Goodwill legal proceedings between the Company, the Federal Deposit Insurance Corporation-Receiver ("FDIC-R") and the Department of Justice ("DOJ") on behalf of the United States of America (the "United States"), was executed (the "Settlement Agreement") which was subject to approval by the United States Court of Federal Claims (the "Court of Federal Claims"). On October 11, 2012, the Court of Federal Claims issued an order approving the Settlement Agreement, and on October 19, 2012, the United States paid \$180,650,000 directly to AmBase (the "Settlement Amount").



AMBASE CORPORATION AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

As part of the Settlement Agreement, the Company is entitled to a tax gross-up in an amount to be determined if and when any federal taxes should be imposed on the Settlement Amount. Based on the Company's 2012 federal income tax return as filed (subject to IRS audit adjustment/review), in March 2013, the Company paid approximately \$501,000 of federal income taxes attributable to Alternative Minimum Tax ("AMT") rate calculations. Pursuant to the Settlement Agreement, Rule 60(b) of the Rules of the Court of Federal Claims will govern the process for receiving a tax gross-up. On May 3, 2013, the Company filed a Rule 60(b) Motion with the Court of Federal Claims seeking a tax gross-up from the United States for the \$500,729, plus applicable tax consequences relative to the reimbursement of this amount. The Company sought to: (i) reserve the right to seek a tax gross-up for any additional federal tax which could be owed as a result of additional taxes which may be imposed by the IRS upon tax return review or otherwise; and (ii) reserve the right to seek the economic value for deductions utilized against the Settlement Award. The DOJ, on behalf of the United States, filed their response brief in May 2013, and the Company filed its reply brief in June 2013. Subsequently, Senior Judge Smith held oral argument on June 12, 2013 and after the hearing filed an order directing the United States to pay AmBase \$500,729 as reimbursement for 2012 federal income taxes paid by AmBase as provided for in the Settlement Agreement.

On August 6, 2013, Senior Judge Smith issued an opinion granting in part and denying in part, the Company's Rule 60(b) Motion for Further Relief. The opinion is under seal and thus cannot be disseminated to the public at this time. The Court has given the parties seven days to file any requests for redactions. The Company and the DOJ on August 8, 2013, have jointly filed a motion to the Court requesting that the seal be lifted so that the contents of the opinion can be disseminated publicly. For additional information, see Note 9 – Income Taxes.

Pursuant to the 2007 Employment Agreement, as amended, between the Company and Richard A. Bianco, the Company's Chairman, President and Chief Executive Officer ("Mr. Bianco") (the "2007 Employment Agreement"), Mr. Bianco was paid an incentive payment in 2012 based on the receipt by the Company of the Settlement Amount. An additional amount, to be determined, could be due to Mr. Bianco pursuant to the 2007 Employment Agreement, based on value realized by the Company with respect to a gross-up for federal taxes imposed on the Settlement Amount. As of June 30, 2013 and December 31, 2012, the Company has accrued (but has not paid) approximately \$1.9 million of additional compensation expense to Mr. Bianco related to the receivable for the tax gross-up discussed above. The Company has no contingent fee agreements in place with its attorneys or any outside advisor in connection with the Supervisory Goodwill legal proceedings or award.

Federal income tax refund suit on Carryback Claims. In March 2000, the Company filed with the IRS several claims and amendments to previously filed claims with respect to the Carryback Claims, seeking refunds from the IRS of alternative minimum tax and other federal income taxes paid by the Company in prior years, plus applicable IRS interest, based on the filing of the 1992 Amended Return. In February 2005, the IRS formally disallowed the Carryback Claims. On April 29, 2008, the Company filed suit with respect to the Carryback Claims in the United States District Court for the District of Connecticut, seeking federal tax refunds for tax year 1989, plus interest. On September 29, 2009, the U.S. Department of Justice (the "DOJ"), representing defendant United States in the suit, filed a Motion to Dismiss. In response, on October 19, 2009, the Company filed its opposition to the DOJ's Motion to Dismiss, as well as the Company's own Motion for Partial Summary Judgment. In June 2010, the Court issued a Memorandum Decision conditionally granting the DOJ's Motion to Dismiss the case but allowing the Company to conduct limited discovery to establish whether the Court has jurisdiction. On August 30, 2010, the Company filed a Motion to Set Aside the Court's Conditional Order of Dismissal. On February 28, 2011, the Court granted the Company's motion and issued a Memorandum of Decision concluding that the Company had timely filed a refund claim for tax year 1992 seeking to adjust the amount of bad debt deduction and that the case should not be dismissed. In March 2011, the Company filed a Motion for Partial Summary Judgment based on the Court's ruling that the Company's refund claims were timely filed. In May 2011, the DOJ filed a Cross Motion for Summary Judgment and

an opposition to the Company's Summary Judgment Motion. In June 2011, the Company filed a Memorandum in Opposition to the DOJ's Cross Motion for Summary Judgment and a Reply to the DOJ's Opposition to the Company's Summary Judgment Motion, and the DOJ in June 2011, subsequently filed a response brief. The Court granted the Company's motion in part and denied it in part, in a Memorandum Decision dated November 30, 2011. On January 26, 2012, the Company filed a Motion for Partial Summary Judgment as to the amount of additional bad debt deduction that should be allowed. On February 16, 2012, the DOJ filed an Opposition to the Company's Motion for Partial Summary Judgment. On February 28, 2012, the Company filed a Reply to the DOJ's Opposition to the Company's Motion for Partial Summary Judgment. On May 23, 2012, the Court issued an order denying the Company's Motion for Partial Summary Judgment. Under the Court's rulings, the Company would not be entitled to recover a tax refund. On July 5, 2012, the Court entered its final judgment and order determining that the Company is not entitled to a refund. In December 2012, the Company filed an appeal of the adverse judgment to the United States Court of Appeals for the Second Circuit, where the matter is pending. The parties filed their briefs and oral argument on the case was held on June 10, 2013. The Company can give no assurances as to the final amount of refunds, if any, or when they might be received. The accompanying financial statements include no legal fees in connection with the Carryback Claims proceedings as these legal fees are payable pursuant to a contingent fee arrangement with the attorneys upon a final recovery received. See Note 9 – Income Taxes for further information.

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AMBASE CORPORATION AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Note 11 - Subsequent Events

The Company has performed a review of events subsequent to the balance sheet dated June 30, 2013, through the report issuance date.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

This quarterly report, together with other statements and information publicly disseminated by the Company may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or make oral statements that constitute forward looking statements. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted or quantified. The forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, anticipated market performance, anticipated litigation results or the timing of pending litigation, and similar matters.

When used in this Quarterly Report, the words "estimates," "expects," "anticipates," "believes," "plans," "intends" and variations of such words and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. The Company cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. These risks and uncertainties, many of which are beyond the Company's control, include, but are not limited to those set forth in "Item 1A, Risk Factors" and elsewhere in this Annual Report and in the Company's other public filings with the Securities and Exchange Commission including, but not limited to: (i) transaction volume in the securities markets; (ii) the volatility of the securities markets; (iii) fluctuations in interest rates; (iv) risks inherent in the real estate business, including, but not limited to, tenant defaults, changes in occupancy rates or real estate values; (v) changes in regulatory requirements which could affect the cost of doing business; (vi) general economic conditions; (vii) changes in the rate of inflation and the related impact on the securities markets; (viii) changes in federal and state tax laws; (ix) certain assumptions regarding the outcome of pending legal and/or tax matters, based in whole or in part upon consultation with outside advisors, and (x) risks arising from unfavorable decisions in the Company's current material tax and litigation matters, or unfavorable decisions in other Supervisory Goodwill cases.

These are not the only risks that we face. There may be additional risks that we do not presently know of or that we currently believe are immaterial which could also impair our business and financial position.

Undue reliance should not be placed on these forward-looking statements, which are applicable only as of the date hereof. The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. Accordingly, there is no assurance that the Company's expectations will be realized.

Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, should be read in conjunction with the consolidated financial statements and related notes, which are contained in Part I - Item 1, herein and in Part II - Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

## BUSINESS OVERVIEW

AmBase Corporation (the "Company") is a holding company which, through a wholly-owned subsidiary, owns a commercial office building in Greenwich, Connecticut. The Company previously owned an insurance company and a savings bank.

In February 1991, the Company sold its ownership interest in The Home Insurance Company and its subsidiaries. On December 4, 1992, Carteret Savings Bank, FA ("Carteret") was placed in receivership by the Office of Thrift Supervision ("OTS").

The Company's assets currently consist primarily of cash and cash equivalents, investment securities, an equity investment in a real estate development property, an indemnification asset, and real estate owned. The Company earns non-operating revenue consisting principally of investment earnings on investment securities and cash equivalents.

As further discussed in Part I – Item 1- Note 5, in June 2013, the Company, through a newly formed subsidiary, purchased an equity interest in a real estate development property through a joint venture agreement to purchase and develop real property in New York City, New York (the "111 West 57<sup>th</sup> Property"). The Company continues to evaluate a number of possible acquisitions and is engaged in the management of its assets and liabilities, including the contingent assets associated with its legal claims, as described in Part I – Item 1 - Notes 9 and 10. Discussions and negotiations are ongoing with respect to certain of these matters. From time to time, the Company and its subsidiaries may be named as a defendant in various lawsuits or proceedings. The Company intends to aggressively contest all litigation and contingencies, as well as pursue all sources for contributions to settlements. For a discussion of lawsuits and proceedings, including a discussion of the Supervisory Goodwill Settlement Agreement – Tax Gross-up and Carryback Claims see Part I - Item 1 – Notes 9 and 10.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's assets at June 30, 2013, aggregated \$102,034,000, consisting principally of cash and cash equivalents of \$14,238,000, investment securities of \$9,500,000, an equity investment in a real estate development property of \$57,238,000, an indemnification asset - federal tax gross-up of \$18,930,000 and real estate owned, net of \$1,860,000.

At June 30, 2013, the Company's liabilities, including an uncertain tax position reserve, aggregated \$36,955,000. Total stockholders' equity was \$65,079,000.

For the six months ended June 30, 2013, cash of \$1,623,000 was used by operations due to payment of 2012 federal tax liability based on the Company's federal income tax return as filed and the payment of operating expenses during the six months ended June 30, 2013. The cash needs of the Company for six months ended June 30, 2013, were principally satisfied by the Company's financial resources and to a lesser extent, the receipt of investment earnings on investment securities and cash equivalents. In addition, cash flows used by investment activities for the six months ended June 30, 2013, include a \$57,250,000 equity investment in 111 West 57<sup>th</sup> Partners LLC ("111 West 57<sup>th</sup> Partners").

In October 2012, the Company received \$180,650,000 pursuant to the Supervisory Goodwill Settlement Agreement between the Company, the Federal Deposit Insurance Corporation-Receiver ("FDIC-R") and the Department of Justice ("DOJ") on behalf of the United States of America (the "United States"). As part of the Settlement Agreement, the Company is also entitled to a tax-gross-up in an amount to be determined if and when any federal taxes should be imposed on the settlement amount.

Pursuant to the accounting principles with regard to recognition of uncertain tax positions, (ASC 740-10, Accounting for Income Taxes), as of June 30, 2013 and December 31, 2012, the Company was required to record an aggregate tax reserve of approximately \$34,805,000; (\$18.7 million for federal) as of June 30, 2013 and \$34,157,000 (\$18.4 million for federal) as of December 31, 2012, to reflect the net tax effect plus accrued interest through June 30, 2013 for

potential tax audit and uncertainty that the \$152 million Carteret worthless stock tax deduction, (which did meet the uncertain tax position recognition test), could be disallowed in whole or in part by the tax authorities. The Company believes that if any additional federal tax is owed as a result of any adjustments, these potential amounts would be reimbursable to the Company pursuant to the tax gross-up provision of the Settlement Agreement. As a result the Company recorded an indemnification asset of \$18.4 million to reflect the net amount of the federal uncertain tax position reserve recognized, as noted above. The calculation of the net federal uncertain tax position reserve amount factors in the assumed use of the Company's remaining NOL carryforwards as of 2012 totaling \$24.1 million and use of the Company's remaining AMT Tax Credits as of 2012 totaling \$21.0 million. A portion of the uncertain tax position reserve as of June 30, 2013 and December 31, 2012, is attributable to certain state taxes on the Settlement Amount which are not reimbursable to the Company as part of the Settlement Agreement. For additional information see Part I – Item 1 – Notes 9 and 10 to the Company's consolidated financial statements for a discussion of Income Taxes and the Supervisory Goodwill Settlement Agreement – Tax Gross-up.

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For the six months ended June 30, 2012, cash of \$1,089,000 was used by operations, due to the payment of operating expenses and prior year accruals. The cash needs of the Company for the six months ended June 30, 2012, were satisfied by the Company's financial resources and to a lesser extent the receipt of investment earnings received on investment securities and cash equivalents.

Real estate owned consists of a commercial office building in Greenwich, Connecticut which the Company owns and manages. The building is approximately 14,500 square feet; approximately 3,500 square feet is utilized by the Company for its executive offices; the remaining space is currently unoccupied and available for lease. Although the portion of the building not being utilized by the Company is currently unoccupied and available for lease, based on the Company's analysis, including but not limited to current market rents in the area, leasing values, and comparable property sales, the Company believes the property's fair value exceeds the property's current carrying value.

Therefore, the Company believes the carrying value of the property as of June 30, 2013, has not been impaired.

Accounts payable and accrued liabilities and federal taxes payable as of June 30, 2013, decreased from December 31, 2012, principally as a result of the payment of federal taxes payable. Included in accounts payable and accrued liabilities as of June 30, 2013 and December 31, 2012 is an incentive compensation accrual to Mr. Bianco of approximately \$1.9 million related to the tax gross-up receivable in connection with the Settlement Amount. See Part I - Item 1 - Note 10 to the Company's consolidated financial statements for a discussion of the Supervisory Goodwill Settlement Agreement – Tax Gross-up.

There are no other material commitments for capital expenditures as of June 30, 2013. Inflation has had no material impact on the business and operations of the Company.

Results of Operations for the Second Quarter and Six Months Ended June 30, 2013 vs. the Second Quarter and Six Months Ended June 30, 2012

The Company earns non-operating revenue consisting principally of investment earnings on investment securities and cash equivalents. The Company's management believes that operating cash needs for the next twelve months will be met principally by the Company's financial resources and to a lesser extent, the receipt of investment earnings on investment securities and cash equivalents.

The Company recorded a net loss of \$1,383,000 or \$0.03 per share and \$2,100,000 or \$0.05 per share in the second quarter and six months ended June 30, 2013, compared to a net loss of \$482,000 or \$0.01 per share and \$978,000 or \$0.02 per share in the respective 2012 periods.

Compensation and benefits increased to \$338,000 and \$681,000 in the second quarter and six months ended June 30, 2013, compared to \$317,000 and \$655,000 in the respective 2012 periods. The increase in the 2013 second quarter and six month periods is due to higher compensation expenses due to a slight increase in benefit costs in the 2013 period versus the same 2012 period. No stock based compensation expense was recorded in the six months ended June 30, 2013 or June 30, 2012.

Professional and outside services increased to \$177,000 and \$393,000 in the second quarter and six months ended June 30, 2013, respectively, compared to \$96,000 and \$205,000 in the respective 2012 periods. The increase in the 2013 second quarter and six month periods as compared to the 2012 respective periods is principally the result of a higher level of legal and professional fees principally relating to the Supervisory Goodwill tax gross-up matters. The Company has no contingent fee agreements in place with its attorneys or any outside advisor in connection with the Supervisory Goodwill legal proceedings or award.

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Property operating and maintenance expenses were \$25,000 and \$51,000 for the second quarter and six months ended June 30, 2013, respectively, compared to \$20,000 and \$44,000 in the respective 2012 periods. The increased expenses in 2013 compared to the 2012 periods are due to an increase in the overall level of repairs and maintenance expenses.

Insurance expenses of \$11,000 and \$19,000 in the second quarter and six months ended June 30, 2013, respectively remained consistent with prior year levels of \$11,000 and \$18,000 in the respective 2012 periods. The increase is generally due to an increase in insurance premium costs.

Other operating expenses increased to \$87,000 and \$154,000 in the second quarter and six months ended June 30, 2013, respectively, compared with \$23,000 and \$50,000 in the respective 2012 periods due to general price increases and an increased franchise tax expense resulting from an increased tax base in 2013 versus the same periods of 2012 due to the settlement proceeds received in October 2012, in the Supervisory Goodwill legal proceedings.

Interest income in the second quarter and six months ended June 30, 2013, increased to \$23,000 and \$40,000, respectively from \$1,000 and \$4,000 in the respective 2012 periods. The increased interest income is principally due to a higher average level of cash and cash equivalents and investments on hand in the 2013 period compared with the 2012 period due to the Supervisory Goodwill Settlement Award received in October 2012.

Realized gains on sales of investment securities were \$4,000 and \$6,000 for the second quarter and six months ended June 30, 2013, respectively and \$9,000 and \$25,000 for the second quarter and six months ended June 30, 2012, respectively. The gains are the result of the realization of gains on sales of securities held for trading due to market appreciation.

The decrease in other income to \$0 in the second quarter and six months ended June 30, 2013 from, \$4,000 and \$17,000 for the second quarter and six months ended June 30, 2012, respectively, is attributable to recovery of funds in 2012 by the Company from items previously written off.

Equity income (loss) - 111 West 57<sup>th</sup> Partners of \$12,000 in the second quarter and six months ended June 30, 2013, represents the Company's share of the 111 West 57<sup>th</sup> Partners' loss for the period June 28, 2013 through June 30, 2013.

The Company recognized income tax provisions of \$748,000 and \$812,000 for the second quarter and six months ended June 30, 2013, respectively, as compared with income tax provisions of \$11,000 and \$22,000 for the second quarter and six months ended June 30, 2012, respectively. The income tax provisions for the 2013 periods are attributable to a provision for a minimum tax on capital imposed by the state jurisdictions and include a provision for interest expense on uncertain tax provisions of \$684,000 in the respective periods. The income tax provision for the second quarter and six months ended June 30, 2012, is attributable to a provision for a minimum tax on capital imposed by the state jurisdictions. The increase in the income tax provisions for the second quarter and six months ended June 30, 2013 versus the respective 2012 periods is attributable to the interest expense accrual and an increased tax base in 2013 due to the settlement proceeds received in October 2012 in the Supervisory Goodwill legal proceedings. Income taxes applicable to operating income (loss) are generally determined by applying the estimated effective annual income tax rates to pretax income (loss) for the year-to-date interim period. Income taxes applicable to unusual or infrequently occurring items are provided in the period in which such items occur.

In connection with the uncertain tax positions as noted herein, the Company recorded interest expense for potential underpayment of taxes for tax year 2012 of \$684,000 for the second quarter and six months ended June 30, 2013. The interest expense is included as a component of income tax expense (benefit) in the condensed consolidated statement of operations and as a component of the uncertain tax position reserve in the condensed consolidated balance sheet.

In March 2013, the Company paid a federal alternative minimum tax liability of \$501,000 based on the Company's 2012 federal income tax return as filed and during 2012 paid \$180,000 for tax imposed by the state jurisdictions based

on the Company's 2012 state tax returns as filed. A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes is included in Part I - Item 1 – Note 9 to the Company's consolidated financial statements.

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#### Item 4. CONTROLS AND PROCEDURES

Our disclosure controls and procedures include our controls and other procedures to ensure that information required to be disclosed in this and other reports under the Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and to ensure that such information is recorded, processed, summarized and reported within the time periods.

Our Chief Executive Officer and Chief Financial Officer have conducted an evaluation of our disclosure controls and procedures as of June 30, 2013. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) are effective to ensure that the information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported with adequate timeliness.

There have been no changes during the most recent fiscal quarter in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### PART II - OTHER INFORMATION

##### Item 1. LEGAL PROCEEDINGS

For a discussion of the Company's legal proceedings, including a discussion of the Company's Supervisory Goodwill litigation and Carryback Claims, see Part I - Item 1 - Note 10 - Legal Proceedings.

##### Item 1A. RISK FACTORS

There have been no material changes from risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 in response to Item 1A to Part I of Form 10-K.

##### Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

##### Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

##### Item 4. MINE SAFETY DISCLOSURES

Not applicable.

##### Item 5. OTHER INFORMATION

None.

##### Item 6. EXHIBITS

10.1 111 West 57<sup>th</sup> Partners LLC Limited Liability Company Agreement. Dated as of June 28, 2013

10.2

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Loan Agreement. Dated as of June 28, 2013 among 111 West 57<sup>th</sup> LH LLC and 111 West 57<sup>th</sup> FE LLC collectively, as Borrower and Annaly CRE LLC as Lender.

10.3 Escrow Procedure Letter Agreement dated June 17, 2013

10.4 Amendment to Employment Agreement between Richard A. Bianco and AmBase Corporation, dated as of June 17, 2013, (incorporated by reference to the Company's Current Report on Form 8-K filed on June 21, 2013)

31.1 Rule 13a-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a) Certification of Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

101.1 The following financial statements from AmBase Corporation's quarterly report on Form 10-Q for the quarter ended June 30, 2013 formatted in XBRL: (i) Consolidated Statement of Operations (unaudited); (ii) Consolidated Balance Sheets (unaudited); (iii) Consolidated Statements of Cash Flow (unaudited); and (iv) Notes to Consolidated Financial Statements (unaudited).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMBASE CORPORATION

/s/ John P. Ferrara

JOHN P. FERRARA

Vice President, Chief Financial Officer and Controller

By (Duly Authorized Officer and Principal Financial and  
Accounting Officer)

Date: August 13, 2013