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AMBASE CORP  
Form 10-Q  
July 24, 2007

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, 2007

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  
(State of incorporation)

95-2962743  
(I.R.S. Employer Identification No.)

100 PUTNAM GREEN, 3RD 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      X      NO  
-----      -----

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer      Accelerated Filer      Non-Accelerated Filer      X  
-----      -----      -----

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

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YES                      NO              X  
-----                      -----

At July 17, 2007, there were 44,758,519 shares outstanding of the registrant's common stock, \$0.01 par value per share.

AmBase Corporation

Quarterly Report on Form 10-Q  
June 30, 2007

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1.            Financial Statements (unaudited).....

Item 2.            Management's Discussion and Analysis of  
                    Financial Condition and Results of Operations.....

Item 3.            Quantitative and Qualitative Disclosures About Market Risk.....

Item 4T.           Controls and Procedures.....

PART II - OTHER INFORMATION

Item 1.            Legal Proceedings.....

Item 1A.           Risk Factors.....

Item 2.            Unregistered Sales of Equity Securities and Use of Proceeds.....

Item 3.            Defaults Upon Senior Securities.....

Item 4.            Submission of Matters to a Vote of Security Holders.....

Item 5.            Other Information.....

Item 6.            Exhibits.....

Signatures       .....

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PART I - FINANCIAL INFORMATION  
Item 1. FINANCIAL STATEMENTS

AMBASE CORPORATION AND SUBSIDIARIES  
Consolidated Balance Sheets  
(Unaudited)  
(in thousands, except for share and per share amounts)

|                                                                                                                                                          | June 30,<br>2007<br>===== |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| Assets:                                                                                                                                                  |                           |
| Cash and cash equivalents.....                                                                                                                           | \$ 3,050                  |
| Investment securities:                                                                                                                                   |                           |
| Held to maturity (market value \$17,504 and \$34,625, respectively).....                                                                                 | 17,494                    |
| Available for sale, carried at fair value .....                                                                                                          | 277                       |
|                                                                                                                                                          | -----                     |
| Total investment securities.....                                                                                                                         | 17,771                    |
|                                                                                                                                                          | -----                     |
| Real estate owned:                                                                                                                                       |                           |
| Land.....                                                                                                                                                | 554                       |
| Buildings and improvements.....                                                                                                                          | 1,900                     |
|                                                                                                                                                          | -----                     |
| Less: accumulated depreciation.....                                                                                                                      | 2,454<br>(309)            |
|                                                                                                                                                          | -----                     |
| Real estate owned, net.....                                                                                                                              | 2,145                     |
| Other assets.....                                                                                                                                        | 82                        |
|                                                                                                                                                          | -----                     |
| Total assets.....                                                                                                                                        | \$ 23,048                 |
|                                                                                                                                                          | =====                     |
| Liabilities and Stockholders' Equity:                                                                                                                    |                           |
| Liabilities:                                                                                                                                             |                           |
| Accounts payable and accrued liabilities.....                                                                                                            | \$ 843                    |
| Supplemental retirement plan.....                                                                                                                        | -                         |
| Other liabilities.....                                                                                                                                   | 23                        |
|                                                                                                                                                          | -----                     |
| Total liabilities.....                                                                                                                                   | 866                       |
|                                                                                                                                                          | -----                     |
| Commitments and contingencies (Note 3).....                                                                                                              |                           |
| Stockholders' equity:                                                                                                                                    |                           |
| Common stock (\$0.01 par value, 200,000,000 authorized, 46,410,007 issued and<br>44,758,519 outstanding in 2007 and 44,968,519 outstanding in 2006)..... | 464                       |
| Paid-in capital.....                                                                                                                                     | 548,044                   |
| Accumulated other comprehensive income (loss).....                                                                                                       | 27                        |
| Accumulated deficit.....                                                                                                                                 | (524,869)                 |
| Treasury stock, at cost - 1,651,488 and 1,441,488 shares, respectively.....                                                                              | (1,484)                   |
|                                                                                                                                                          | -----                     |
| Total stockholders' equity.....                                                                                                                          | 22,182                    |
|                                                                                                                                                          | -----                     |
| Total liabilities and stockholders' equity.....                                                                                                          | \$ 23,048                 |
|                                                                                                                                                          | =====                     |

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

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AMBASE CORPORATION AND SUBSIDIARIES  
 Consolidated Statements of Operations  
 Second Quarter and Six months Ended June 30  
 (Unaudited)  
 (in thousands, except per share data)

|                                                       | Second Quarter |            |
|-------------------------------------------------------|----------------|------------|
|                                                       | 2007           | 2006       |
|                                                       | =====          | =====      |
| Revenues:                                             |                |            |
| Rental income.....                                    | \$ -           | \$ 49      |
| Operating expenses:                                   |                |            |
| Compensation and benefits.....                        | 1,116          | 1,596      |
| Professional and outside services.....                | 909            | 1,003      |
| Property operating and maintenance.....               | 29             | 30         |
| Depreciation .....                                    | 13             | 12         |
| Insurance.....                                        | 25             | 28         |
| Other operating.....                                  | 60             | 60         |
|                                                       | 2,152          | 2,729      |
| Operating loss.....                                   | (2,152)        | (2,680)    |
| Interest income.....                                  | 394            | 457        |
| Realized gains on sales of investment securities..... | 128            | -          |
| Other income.....                                     | -              | 72         |
|                                                       | (1,630)        | (2,151)    |
| Loss before income taxes.....                         | (1,630)        | (2,151)    |
| Income tax expense.....                               | (25)           | (33)       |
|                                                       | \$ (1,655)     | \$ (2,184) |
| Net loss.....                                         | \$ (1,655)     | \$ (2,184) |
| Net loss per common share:                            |                |            |
| Net loss - basic.....                                 | \$ (0.03)      | \$ (0.05)  |
| Net loss - assuming dilution.....                     | \$ (0.03)      | \$ (0.05)  |
| Weighted average common shares outstanding:           |                |            |
| Basic.....                                            | 44,864         | 45,259     |
| Diluted.....                                          | 44,864         | 45,259     |

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

AMBASE CORPORATION AND SUBSIDIARIES  
 Consolidated Statements of Comprehensive Income (Loss)  
 Second Quarter and Six Months Ended June 30  
 (Unaudited)  
 (in thousands)

|               | Second Quarter |            |
|---------------|----------------|------------|
|               | 2007           | 2006       |
|               | =====          | =====      |
| Net loss..... | \$ (1,655)     | \$ (2,184) |

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|                                                                                       |            |            |
|---------------------------------------------------------------------------------------|------------|------------|
| Amortization of minimum pension liability adjustment.....                             | 190        | 284        |
| Unrealized holding gains (losses) on investment securities<br>available for sale..... | (111)      | 6          |
| Comprehensive loss.....                                                               | \$ (1,576) | \$ (1,894) |
|                                                                                       | =====      | =====      |

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

AMBASE CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Six months Ended June 30  
(Unaudited)  
(in thousands)

|                                                                      |            |
|----------------------------------------------------------------------|------------|
|                                                                      | 2007       |
|                                                                      | =====      |
| Cash flows from operating activities:                                |            |
| Net loss.....                                                        | \$ (2,748) |
| Adjustments to reconcile net loss to net cash used by<br>operations: |            |
| Depreciation and amortization.....                                   | 26         |
| Accretion of discount - investment securities.....                   | (34)       |
| Realized gains on sales of investment securities.....                | (284)      |
| Stock-based compensation expense.....                                | -          |
| Amortization of minimum pension liability adjustment.....            | 474        |
| Changes in other assets and liabilities:                             |            |
| Accrued interest receivable.....                                     | 104        |
| Other assets.....                                                    | 1,164      |
| Accounts payable and accrued liabilities.....                        | (328)      |
| Supplemental retirement plan and other liabilities.....              | 389        |
| Payment of Supplemental Plan lump-sum benefit.....                   | (16,676)   |
| Net cash used by operating activities.....                           | (17,913)   |
|                                                                      | -----      |
| Cash flows from investing activities:                                |            |
| Maturities of investment securities - held to maturity.....          | 41,832     |
| Purchases of investment securities - held to maturity.....           | (24,683)   |
| Sales of investment securities - available for sale.....             | 1,344      |
| Purchases of investment securities - available for sale.....         | (31)       |
| Net cash provided by investing activities.....                       | 18,462     |
|                                                                      | -----      |
| Cash flows from financing activities:                                |            |
| Common stock repurchased.....                                        | (100)      |
| Net cash used by financing activities.....                           | (100)      |
|                                                                      | -----      |
| Net increase (decrease) in cash and cash equivalents.....            | 449        |
| Cash and cash equivalents at beginning of period.....                | 2,601      |
| Cash and cash equivalents at end of period.....                      | \$ 3,050   |
|                                                                      | =====      |
| Supplemental cash flow disclosures:                                  |            |
| Income taxes paid.....                                               | \$ 82      |
|                                                                      | =====      |

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

### AMBASE CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements

#### Note 1 - Organization

The accompanying consolidated financial statements of AmBase Corporation and its wholly-owned subsidiaries (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 statement of the Company's financial position and results of operations. Results for interim periods are not necessarily indicative of results for the full year. The 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 financial statements presented herein 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, 2006.

The Company's assets currently consist primarily of cash and cash equivalents, investment securities, and real estate owned. The Company earns non-operating revenue principally consisting of investment earnings on investment securities and cash equivalents. 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 II - Item 1. 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.

The Company's management expects that operating cash needs for the remainder of 2007 will be met principally by the receipt of non-operating revenue consisting of investment earnings on investment securities and cash equivalents, and the Company's current financial resources.

See Note 10 herein for information regarding the Company's Supplemental Retirement Plan (the "Supplemental Plan") lump-sum benefit payment and Supplemental Plan termination. In accordance with an amendment to the Supplemental Plan, as previously adopted in March 2006, the liability for the Supplemental Plan was fully satisfied on May 31, 2007, by the lump-sum benefit payment of \$16,676,115 (to Mr. Bianco, the Company's Chairman, President and Chief Executive Officer), and immediately thereafter, the Supplemental Plan automatically terminated. The lump-sum Supplemental Plan benefit payment to Mr. Bianco was paid from the Company's available financial resources. As of June 1, 2007, no further Supplemental Plan expense will be recognized by the Company, which was previously included as a component of compensation and benefits expense.

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### AMBASE CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements

#### Note 2 - Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standard Board ("FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS157"). SFAS No. 157 defines fair values, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company in 2008. The Company is currently evaluating the potential impact of adopting SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an Amendment of FASB Statement No. 115" ("SFAS159"). SFAS No. 159 permits entities to measure eligible financial assets, financial liabilities and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The fair value measurement election is irrevocable once made and subsequent changes in fair value must be recorded in earnings. The effect of adoption will be reported as a cumulative-effect adjustment to beginning retained earnings. The Company will adopt SFAS No. 159 in 2008 and is currently evaluating if it will elect the fair value option for any of its eligible financial instruments and other items.

Effective January 1, 2007, the Company adopted the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 applies to all "tax positions" accounted for under FASB Statement No. 109. FIN 48 refers to "tax positions" as positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 had no effect on the Company's results of operations or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS No. 87, 88, 106 and 132R" ("SFAS 158"). SFAS 158 requires an employer to (i) recognize in its statement of financial position an asset for a plan's over funded status or a liability for a plan's under funded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006, for entities with publicly traded equity securities, and at the end of the fiscal year ending after June 15, 2007, for all other entities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. In accordance with the Supplemental Plan Amendment, as previously adopted, the liability for the Supplemental Plan was fully satisfied on May 31, 2007, by the lump-sum benefit payment of \$16,676,115 (to Mr. Bianco, the Company's Chairman, President and Chief Executive Officer), and immediately thereafter, the Supplemental Plan automatically terminated. The lump-sum Supplemental Plan benefit payment to Mr. Bianco was paid from the Company's available financial resources. As of June 1, 2007, no further Supplemental Plan expense will be recognized by the Company,

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which was previously included as a component of compensation and benefits expense. Accordingly, because of the termination of the Supplemental Plan we do not believe the adoption of SFAS 158 will have material effect on the Company's consolidated financial statements. See Note 10 herein for further information.

### AMBASE CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements

#### Note 3 - Legal Proceedings

The information contained in Item 8 - Note 10 in AmBase's Annual Report on Form 10-K for the year ended December 31, 2006, 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 Litigation.** On April 13, 2007, Senior Judge Smith ("Judge Smith") of the United States Court of Federal Claims (the "Court of Federal Claims" or the "Court") issued an order scheduling pre-trial, and trial deadlines and dates, including scheduling a trial to commence on February 11, 2008.

In accordance with the Court's scheduling in May 2007, the Company submitted its expert report. The Government deposed the Company's expert in June 2007. In July 2007, the Government identified its damages experts, and it is currently scheduled to submit its expert reports in September 2007. The Company anticipates deposing the Government's experts in October 2007.

The Court order stated that pursuant to the status conference held on April 12, 2007, the Court scheduled oral argument for November 2007 at the U.S. Court of Federal Claims, to decide whether the trial schedule below can be avoided by summary judgment. The parties were ordered to submit their respective positions with regard to summary judgment, in writing, on or before October 31, 2007.

The Court scheduled pre-trial and trial deadlines and dates according to the following schedule: December 7, 2007 - Parties exchange exhibit and witness lists; December 21, 2007 - Plaintiffs and FDIC-R file Appendix A submissions; January 21, 2008 - Defendant files Appendix A submissions; February 11, 2008 - Trial to commence.

The Court further scheduled a pretrial conference to be held on January 30, 2008, in U.S. Court of Federal Claims.

Both the Court of Federal Claims and the Court of appeals for the Federal Circuit have issued numerous decisions in cases that involve claims against the United States based upon its breach of its contracts with savings and loan institutions through its 1989 enactment of FIRREA. In particular, the Federal Circuit has issued decisions rejecting Takings Clause claims advanced by shareholders of failed thrifts. *Castle v. United States*, 301F.3d 1328 (Fed. Cir. 2002); *Bailey v. United States*, 341F.3d 1342 (Fed. Cir. 2003). In June 2004, the United States Supreme Court denied the petition for certiorari filed by Bailey. The Court of Federal Claims opinions in the Company's case, as well as other decisions in Winstar-related cases are publicly available on the Court of Federal Claims web site at [www.uscfc.uscourts.gov](http://www.uscfc.uscourts.gov). Decisions in other Winstar-related cases may be relevant to the Company's Supervisory Goodwill



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claims, but are not necessarily indicative of the ultimate outcome of the Company's actions. The Company can give no assurances regarding the commencement date of a trial or the ultimate outcome of the litigation.

Note 4 - Cash and Cash Equivalents

Highly liquid investments, consisting principally of funds held in short-term money market accounts with original maturities of less than three months, are classified as cash equivalents.

AMBASE CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Note 5 - Investment Securities

Investment securities - held to maturity, consist of U.S. Treasury Bills with original maturities over three months and are carried at amortized cost based upon the Company's intent and ability to hold these investments to maturity.

Investment securities - available for sale, consist of investments in equity securities held for an indefinite period and are carried at fair value with net unrealized gains and losses recorded directly in a separate component of stockholders' equity.

Investment securities consist of the following:

| (in thousands)             | June 30, 2007  |                        |            | December 31, 2006 |                        |
|----------------------------|----------------|------------------------|------------|-------------------|------------------------|
|                            | Carrying Value | Cost or Amortized Cost | Fair Value | Carrying Value    | Cost or Amortized Cost |
| <b>Held to Maturity:</b>   |                |                        |            |                   |                        |
| U.S. Treasury Bills.....   | \$ 17,494      | \$ 17,494              | \$ 17,504  | \$ 18,187         | \$ 18,187              |
| U.S. Treasury Note.....    | -              | -                      | -          | 16,436            | 16,436                 |
|                            | -----          | -----                  | -----      | -----             | -----                  |
|                            | 17,494         | 17,494                 | 17,504     | 34,623            | 34,623                 |
|                            | -----          | -----                  | -----      | -----             | -----                  |
| <b>Available for Sale:</b> |                |                        |            |                   |                        |
| Equity Securities.....     | 277            | 250                    | 277        | 1,417             | 1,417                  |
|                            | -----          | -----                  | -----      | -----             | -----                  |
|                            | \$ 17,771      | \$ 17,744              | \$ 17,781  | \$ 36,040         | \$ 36,040              |
|                            | =====          | =====                  | =====      | =====             | =====                  |

The gross unrealized gains (losses) on investment securities, at June 30, 2007 and December 31, 2006 consist of the following:

| (in thousands)               | 2007  | 2006  |
|------------------------------|-------|-------|
| <b>Held to Maturity:</b>     |       |       |
| Gross unrealized gains.....  | \$    | \$    |
|                              | ===== | ===== |
| Gross unrealized losses..... | \$    | \$    |
|                              | ===== | ===== |

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|                              |      |
|------------------------------|------|
| Available for Sale:          |      |
| Gross unrealized gains.....  | \$   |
|                              | ==== |
| Gross unrealized losses..... | \$   |
|                              | ==== |

The realized gains on the sales of investment securities available for sale for the second quarter and six months ended June 30, 2007 was as follows:

|                        |        |
|------------------------|--------|
| (in thousands)         | Second |
|                        | 20     |
|                        | ====   |
| Net sale proceeds..... | \$     |
| Cost basis.....        | ---    |
| Realized gains.....    | \$     |
|                        | ====   |

No investment securities were sold during the second quarter or six month periods ended June 30, 2006.

AMBASE CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Note 6 - Property Owned

As of June 30, 2007, the Company owns one 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 to unaffiliated third parties.

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 market value exceeds the property's current carrying value; and, therefore the carrying value of the property as of June 30, 2007, has not been impaired.

Depreciation expense is recorded on a straight-line basis over 39 years. The building and improvements are carried at cost, net of accumulated depreciation of \$309,000 and \$283,000, at June 30, 2007 and December 31, 2006, respectively.

Rental income for the six months ended June 30, 2006, was attributable to operating leases with tenants. Minimum lease rentals are recognized on a straight-line basis over the terms of the leases. The cumulative difference between lease revenue recognized under this method and the contractual lease payment terms, if any, would be recorded as deferred rent receivable or payable and would be included in other assets or other liabilities on the Consolidated Balance Sheets. Revenue from tenant reimbursement of common area maintenance, utilities and other operating expenses are recognized pursuant to the tenant

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lease agreements when earned and due from tenants.

Property operating and maintenance expenses for common area maintenance, utilities, real estate taxes and other reimbursable operating expenses are not reduced by amounts reimbursable by tenants pursuant to applicable lease agreements.

### Note 7 - Income Taxes

The Company and its 100% owned 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 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, greater than 50% probability exists that the tax benefits will actually be realized sometime in the future. The Company has calculated a net deferred tax asset of \$31 million as of June 30, 2007 and December 31, 2006, arising primarily from net operating loss ("NOL") carryforwards, alternative minimum tax ("AMT") credits (not including the anticipated tax effects of NOL's expected to be generated from the Company's tax basis in Carteret Savings Bank, F.A. and subsidiaries ("Carteret"), resulting from the election decision, as more fully described below). A valuation allowance has been established for the entire net deferred tax asset as management, at the current time, has no basis to conclude that realization is more likely than not.

As a result of the Office of Thrift Supervision's December 4, 1992 placement of Carteret in receivership, under the management of the Resolution Trust Corporation ("RTC")/Federal Deposit Insurance Corporation ("FDIC"), and then proposed Treasury Reg. ss.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. ss.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 decided not to make an election pursuant to final Treasury Reg. ss.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").

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, all of the information still has not been received. Based on the Company's Election Decision, as described above, and the receipt of some of the requested information from the RTC/FDIC, the Company has amended its 1992 consolidated federal income tax return to include the federal income tax effects of Carteret and Carteret FSB (the "1992 Amended Return"). The Company is still in the process of amending its consolidated federal income tax returns for 1993 and subsequent years.

### AMBASE CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements

The Company anticipates that, as a result of filing a consolidated federal income tax return with Carteret FSB, a total of approximately \$170 million of tax NOL carryforwards will be generated from the Company's tax basis in Carteret/Carteret FSB as tax losses are incurred by Carteret FSB of which \$158 million are still available for future use. Based on the Company's filing of the 1992 Amended Return, approximately \$56 million of NOL carryforwards are

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generated for tax year 1992 which expire in 2007, with the remaining approximately \$102 million of NOL carryforwards to be generated, expiring no earlier than 2008. These NOL carryforwards would be available to offset future taxable income, in addition to the NOL carryforwards as further detailed below. The Company can give no assurances with regard to the 1992 Amended Return, or amended returns for subsequent years, or the final amount or expiration of NOL carryforwards ultimately generated from the Company's tax basis in Carteret.

In March 2000, the Company filed several carryback claims and amendments to previously filed carryback claims with the IRS (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 April 2003, IRS examiners issued a letter to the Company proposing to disallow the Carryback Claims. The Company sought administrative review of the letter by protesting to the Appeals Division of the IRS. In February 2005, IRS Appeals officials completed their review of the Carryback Claims, and disallowed them. The Company is currently considering whether to file suit for the tax refunds it seeks, plus interest, with respect to the Carryback Claims. Even if the Company files suit, the Company can give no assurances as to the final amounts of refunds, if any, or when they might be received.

Based upon the Company's federal income tax returns as filed from 1993 to 2005 (subject to IRS audit adjustments), excluding the NOL carryforwards utilized in 2005, and excluding the NOL carryforwards generated from the Company's tax basis in Carteret/Carteret FSB, as noted above at June 30, 2007, the Company has NOL carryforwards aggregating approximately \$30 million, available to reduce future federal taxable income which expire if unused beginning in 2009. The Company's federal income tax returns for years subsequent to 1992 have not been reviewed by the IRS.

The utilization of certain carryforwards is subject to limitations under U.S. federal income tax laws. In addition, the Company has approximately \$21 million of AMT credit carryforwards ("AMT Credits"), which are not subject to expiration. Based on the filing of the Carryback Claims, as further discussed above, the Company is seeking to realize approximately \$8 million of the \$21 million of AMT Credits.

AMBASE CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Note 8 - Comprehensive Income (Loss)

Comprehensive income (loss) is composed of net income (loss) and other comprehensive income (loss) which includes the change in unrealized gains (losses) on investment securities available for sale and recognition and amortization of additional minimum pension liability, as follows:

| (in thousands)                       | Second Quarter Ended |                                                    |                                               | Six M                                |                                |
|--------------------------------------|----------------------|----------------------------------------------------|-----------------------------------------------|--------------------------------------|--------------------------------|
|                                      | June 30, 2007        |                                                    |                                               | Jun                                  |                                |
|                                      | =====                |                                                    | =====                                         | =====                                | =====                          |
| Minimum Pension Liability Adjustment | Minimum              | Unrealized Gains (Losses) on Investment Securities | Accumulated Other Comprehensive Income (Loss) | Minimum Pension Liability Adjustment | Unr<br>Jun<br>Gai<br>on<br>Sec |
|                                      | =====                | =====                                              | =====                                         | =====                                | =====                          |

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|                                                                    |          |        |         |          |       |
|--------------------------------------------------------------------|----------|--------|---------|----------|-------|
| Balance beginning of period.....                                   | \$ (190) | \$ 138 | \$ (52) | \$ (474) | \$    |
| Reclassification adjustment for<br>gains realized in net loss..... | -        | (117)  | (117)   | -        |       |
| Change during the period.....                                      | 190      | 6      | 196     | 474      |       |
|                                                                    | -----    | -----  | -----   | -----    | ----- |
| Balance end of period.....                                         | \$ -     | \$ 27  | \$ 27   | \$ -     | \$    |
|                                                                    | =====    | =====  | =====   | =====    | ===== |

|                                  |                                       |                |               |              |       |
|----------------------------------|---------------------------------------|----------------|---------------|--------------|-------|
| (in thousands)                   | Second Quarter Ended<br>June 30, 2006 |                |               | Six M<br>Jun |       |
|                                  | =====                                 | =====          | =====         | =====        | ===== |
|                                  | Minimum                               | Unrealized     | Accumulated   | Minimum      | Unr   |
|                                  | Pension                               | Gains (Losses) | Other         | Pension      | Gai   |
|                                  | Liability                             | on Investment  | Comprehensive | Liability    | on    |
|                                  | Adjustment                            | Securities     | Income (Loss) | Adjustment   | Sec   |
|                                  | =====                                 | =====          | =====         | =====        | ===== |
| Balance beginning of period..... | \$(1,326)                             | \$ (158)       | \$ (1,484)    | \$ (1,326)   | \$    |
| Change during the period.....    | 284                                   | 6              | 290           | 284          |       |
|                                  | -----                                 | -----          | -----         | -----        | ----- |
| Balance end of period.....       | \$(1,042)                             | \$ (152)       | \$ (1,194)    | \$ (1,042)   | \$    |
|                                  | =====                                 | =====          | =====         | =====        | ===== |

AMBASE CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Note 9 - Stock-Based Compensation

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, 2008. An aggregate of 5,000,000 shares of 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, of such shares, only 2,500,000 shares in the aggregate shall be available for issuance for Restricted Stock Awards and Merit Awards. Such shares shall be authorized but unissued shares of Common Stock. As of June 30, 2007, there were 4,124,000 shares available for future stock option grants. 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 market value of the Company's Common Stock on the date of grant of that Option. The term of any ISO or related SAR cannot exceed ten years from the date of grant, and the term of any NQSO cannot exceed ten years and one month from the date of grant. 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 commencing one year after the date of grant. Options granted generally have a ten year contractual life and generally have vesting terms of two years from the date 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 in Control in the discretion of the Committee or

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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.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified prospective application method. Under this method, stock-based compensation expense for the six months ended June 30, 2007 and June 30, 2006, includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006, for which vesting is based solely on employment service, will be based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The Company recognizes these compensation costs for only those shares expected to vest, on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of two years.

No stock based compensation expense was recorded in the six months ended June 30, 2007, as all previously granted outstanding options vested as of January 2, 2007. No stock option awards have been granted since January 2005. The Company recorded stock based compensation expense of \$22,000 and \$44,000 in the second quarter and six months ended June 30, 2006, respectively, relating to unvested stock options. Compensation expense relating to stock options is recorded as a reduction to additional paid in capital in the statement of stockholders' equity.

The fair value of each option award was estimated on the date of grant using the Black-Scholes-Merton option valuation model ("Black-Scholes") that uses the assumptions noted in the table that follows below. 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. No adjustments were made in 2007 or 2006 to the input assumptions for the calculation of the fair value of stock options granted in prior years.

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 noted herein represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, our recorded stock-based compensation expense could have been materially different from that depicted herein. In addition, we are 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.

### AMBASE CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements

The Company believes that the use of the Black-Scholes model meets the fair value measurement objectives of SFAS 123R and reflects all substantive characteristics of the instruments being valued. No stock options were granted during the year to date period ending June 30, 2007 or June 30, 2006. The per

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share grant date weighted average estimated values of employee stock option grants under the 1993 Plan, as well as the assumptions used to calculate such values granted in January 2005, were as follows:

|                                                | 2005   |
|------------------------------------------------|--------|
| Weighted average fair value at grant date..... | \$0.39 |
| Expected dividend yield.....                   | 0%     |
| Risk-free interest rate.....                   | 4.24%  |
| Expected volatility.....                       | 0.44   |
| Expected life in years.....                    | 6      |

The following table reports stock option activity during the six month period ended June 30, 2007:

|                                     | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in years) |
|-------------------------------------|---------------------|------------------------------------------|--------------------------------------------------------------------|
| Outstanding at January 1, 2007..... | 1,240,000           | \$1.01                                   |                                                                    |
| Expired.....                        | (364,000)           | 1.19                                     |                                                                    |
|                                     | -----               | =====                                    |                                                                    |
| Outstanding at June 30, 2007.....   | 876,000             | \$0.93                                   | 5.73                                                               |
|                                     | =====               | =====                                    | =====                                                              |
| Exercisable at June 30, 2007.....   | 876,000             | \$0.93                                   | 5.73                                                               |
|                                     | =====               | =====                                    | =====                                                              |

At June 30, 2007, the exercise price of stock options outstanding and exercisable was greater than the market price of the Company's stock; therefore, no intrinsic value for stock options is reflected above.

The following table presents information regarding non-vested share activity during the six month period ended June 30, 2007:

|                                    | Number of<br>Shares | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|------------------------------------|---------------------|-------------------------------------------------|
| Non-vested at January 1, 2007..... | 204,000             | \$0.47                                          |
| Vested during period.....          | (204,000)           | 0.47                                            |
|                                    | -----               | =====                                           |
| Non-vested at June 30, 2007.....   | -                   | -                                               |
|                                    | =====               | =====                                           |

The total fair value of shares vested during the six month period ended June 30, 2007 and June 30, 2006, was \$96,000 and \$134,000, respectively. As of June 30, 2007, there was no unrecognized compensation costs relating to non-vested share-based compensation arrangements for stock options granted under the 1993 Plan.

Options to purchase 876,000 shares of common stock for the six months ended

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June 30, 2007, and 1,240,000 shares of common stock for the six months ended June 30, 2006, were excluded from the computation of diluted earnings per share because these options were antidilutive.

### AMBASE CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements

#### Note 10 - Pension and Savings Plans

The Company previously sponsored a non tax-qualified supplemental retirement plan, initially adopted by the Company in 1985, and as amended and restated (the "Supplemental Plan"), under which only one current executive officer of the Company was the sole participant. The cost of the Supplemental Plan was accrued but not funded.

In accordance with an amendment to the Supplemental Plan, as previously adopted in March 2006, the liability for the Supplemental Plan was fully satisfied on May 31, 2007, by the lump-sum benefit payment of \$16,676,115 (to Mr. Bianco, the Company's Chairman, President and Chief Executive Officer), and immediately thereafter, the Supplemental Plan automatically terminated. The lump-sum Supplemental Plan benefit payment to Mr. Bianco was paid from the Company's available financial resources. As of June 1, 2007, no further Supplemental Plan expense will be recognized by the Company, which was previously included as a component of compensation and benefits expense in the Company's Consolidated Statement of Operations, herein. The Supplemental Plan liability was \$16,282,000 at December 31, 2006.

The Personnel Committee of the Board of Directors of the Company (the "Personnel Committee") had reviewed the Supplemental Plan and the Company's related liability, including the desirability of continuing to maintain and administer the Supplemental Plan, the untying of Mr. Bianco's employment with the Company from the timing of his Supplemental Plan benefit payment(s), the Company's overall financial position, and the desirability of continued accruals under the Supplemental Plan after Mr. Bianco's prior employment contract expiration on May 31, 2007. In connection with this review, the Personnel Committee considered various options, including whether or not to terminate and/or curtail the Supplemental Plan. Mr. Bianco (the Company's Chairman, President and Chief Executive Officer, and the former President and Chief Executive Officer of Carteret Savings Bank, FA), was the only current employee of the Company who participated in the Supplemental Plan and his Supplemental Plan benefit was fully vested. For purposes of computing his accrued benefit under the Supplemental Plan, Mr. Bianco had 14.67 years of credited services as of December 31, 2005 and 16.08 years of credited service as of May 31, 2007. His accrual percentage under the Supplemental Plan was 4%, in effect from the time of his initial employment with the Company, and in accordance with the Supplemental Plan (prior to the amendment described below), he had the entitlement to receive his Supplemental Plan benefit in either a lump-sum or an annuity upon termination of his employment with the Company.

During March 2006, the Company entered into a new employment agreement with Mr. Bianco to extend his employment with the Company for an additional five (5) years beyond May 31, 2007, until May 31, 2012 (the "2007 Employment Agreement"). As part of the 2007 Employment Agreement terms: (i) Mr. Bianco's annual rate of base salary will not increase from his current rate of base salary during the first three years of the 2007 Employment Agreement (the amount of Mr. Bianco's base salary for the fourth and fifth years of the 2007 Employment Agreement term to be determined by the Personnel Committee, in its sole discretion, although in no event less than \$625,000 per annum); (ii) Mr. Bianco's service accruals under the Supplemental Plan will cease as of May 31, 2007; (iii) Mr. Bianco's Final



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Average Earnings (as defined in the Supplemental Plan) for Supplemental Plan benefit calculation purposes, was capped as of December 31, 2004; and (iv) Mr. Bianco's annual bonus opportunity will no longer be linked to recovery efforts in connection with the Company's Supervisory Goodwill litigation. Instead, on May 31, 2007, Mr. Bianco received a lump-sum payment of his Supplemental Plan benefit of \$16,676,115, which amount was calculated on the basis of a 5.75% discount rate, a "RP-2000" projected to 2004 mortality table, and 16.08 years of credited service, and the Company and Mr. Bianco agreed to a long term incentive bonus formula, at varying percentages ranging from 5% to 10%, or more, based upon recoveries received by the Company for its investment in Carteret Savings Bank, through litigation or otherwise (including the Company's Supervisory Goodwill litigation).

Based on the 2007 Employment Agreement and the amendment of the Supplemental Plan as previously adopted in March 2006, each as described above, the Company revised the calculation of the Supplemental Plan liability to reflect a 5.75% discount rate as of April 1, 2006, as set forth in the agreements. The Supplemental Plan liability was increased by an expense of \$394,000 in the six month period ended June 30, 2007, to reflect the May 31, 2007 lump-sum payment amount of \$16,676,115, utilizing the 5.75% discount rate factor.

### AMBASE CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements

An additional Supplemental Plan expense of \$474,000 was recorded in the six month period ended June 30, 2007, to amortize the Supplemental Plan minimum pension liability adjustment. The minimum pension liability adjustment, which was included as a component of stockholders' equity within accumulated other comprehensive loss in the Company's consolidated financial statements, was \$1,326,000 as of March 31, 2006, and was amortized on a straight line basis over the 14-month period ending May 31, 2007 as an additional Supplemental Plan expense of \$284,000 per quarter. This resulted in an aggregate Supplemental Plan expense of \$868,000 for the six month period ended June 30, 2007. The amortization of the additional minimum pension liability in the 2007 and 2006 periods, although recorded as a component of compensation expense in the Company's consolidated statement of operations, did not result in a decrease in total stockholders' equity, as its recognition resulted in an increase in one component and a corresponding decrease in another component of stockholders' equity. See Part I - Item 1 - Note 8, herein for further information.

In connection with the Supplemental Plan lump-sum benefit payment, the Company paid approximately \$242,000 of employer Medicare taxes, which are included as a component of compensation and benefits expense in the Company's Consolidated Statement of Operations for the second quarter and six month period ended June 30, 2007.

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 15% of compensation, which are matched by the Company at a percentage determined annually. The employer match is currently 100% of the amount the employee elects to defer. 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. The Company's matching contributions to the Savings Plan, charged to expense, were \$3,000 and \$53,000 for the second quarter and six months ended June 30, 2007, respectively and \$3,000 and \$55,000 for the second quarter and six months ended June 30, 2006, respectively. All contributions are subject to maximum limitations contained in the Code.

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### Note 11 - 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 for up to 10 million shares 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.

A summary of the shares repurchased pursuant to the Repurchase Plan is as follows:

|                                           | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share<br>(including<br>broker<br>commission) | Total Number<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans |
|-------------------------------------------|-------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Beginning balance January 1, 2007.....    | -                                         | -                                                                         | 1,315,000                                                                  |
| January 1, 2007 - January 31, 2007.....   | -                                         | -                                                                         | 1,315,000                                                                  |
| February 1, 2007 - February 28, 2007..... | -                                         | -                                                                         | 1,315,000                                                                  |
| March 1, 2007 - March 31, 2007.....       | -                                         | -                                                                         | 1,315,000                                                                  |
| April 1, 2007 - April 30, 2007.....       | 110,000                                   | \$0.48                                                                    | 1,425,000                                                                  |
| May 1, 2007 - May 31, 2007.....           | -                                         | -                                                                         | 1,425,000                                                                  |
| June 1, 2007 - June 30, 2007.....         | 100,000                                   | \$0.48                                                                    | 1,525,000                                                                  |
|                                           | -----                                     |                                                                           |                                                                            |
| Total.....                                | 210,000                                   |                                                                           |                                                                            |
|                                           | =====                                     |                                                                           |                                                                            |

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

This quarterly report may contain "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. AmBase Corporation ("AmBase" or 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 Annual 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 Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or

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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: (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; and (ix) risks arising from unfavorable decisions in our current material 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### BUSINESS OVERVIEW

AmBase 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, and real estate owned. The Company earns non-operating revenue principally consisting of investment earnings on investment securities and cash equivalents. 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. 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.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's assets at June 30, 2007, aggregated \$23,048,000 consisting principally of cash and cash equivalents of \$3,050,000, investment securities of \$17,771,000 and real estate owned of \$2,145,000. At June 30, 2007, the Company's liabilities aggregated \$866,000. Total stockholders equity was \$22,182,000.

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The Company previously sponsored a non tax-qualified supplemental retirement plan, initially adopted by the Company in 1985, and as amended and restated (the "Supplemental Plan"), under which only one current executive officer of the Company was the sole participant. The cost of the Supplemental Plan was previously accrued but not funded.

In accordance with an amendment to the Supplemental Plan, as previously adopted in March 2006, the liability for the Supplemental Plan was fully satisfied on May 31, 2007, by the lump-sum benefit payment of \$16,676,115 (to Mr. Bianco, the Company's Chairman, President and Chief Executive Officer), and immediately thereafter, the Supplemental Plan automatically terminated. The lump-sum Supplemental Plan benefit payment to Mr. Bianco was paid from the Company's available financial resources. As of June 1, 2007, no further Supplemental Plan expense will be recognized by the Company, which was previously included as a component of compensation and benefits expense in the Company's Consolidated Statement of Operations, included in Part I - Item 1, herein. See Results of Operations below for further information regarding the Supplemental Plan expense. For a further discussion of the Supplemental Plan termination and Mr. Bianco's 2007 Employment Agreement, see Part I - Item 1 - Note 10 to the Company's consolidated financial statements.

The Supplemental Plan lump-sum benefit payment decreased the Company's cash equivalents and investment securities by approximately \$16.7 million as of May 2007, which is expected to result in a significant decrease in the interest income earned by the Company beginning in June 2007. See Item 3 - Quantitative and Qualitative Disclosure about Market Risk for information concerning the Company's weighted average interest rate yield on investment securities as of June 30, 2007.

For the six months ended June 30, 2007, cash of \$17,913,000 was used by operations, primarily due to the payment of the Supplemental Plan lump-sum benefit payment of \$16,676,115, as further discussed above, and to a lesser extent the payment of prior year accruals and operating expenses, partially offset by the receipt of interest income and investment earnings. The cash needs of the Company for the first six months of 2007 were satisfied by the Company's current financial resources and receipt of investment earnings received on investment securities and cash equivalents. Management believes that the Company's capital resources are sufficient to continue operations for 2007.

For the six months ended June 30, 2006, cash of \$2,576,000 was used by operations, including the payment of prior year accruals and operating expenses partially offset by the receipt of rental income, interest income, and investment earnings.

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. Discussions and negotiations are ongoing with respect to certain of these matters. 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 the Supervisory Goodwill litigation see Part I - Item 1 - Note 3.

As of June 30, 2007, the Company owns one commercial office building in Greenwich, Connecticut. 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 market

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value exceeds the property's current carrying value; and, therefore the carrying value of the property as of June 30, 2007, has not been impaired.

There are no material commitments for capital expenditures as of June 30, 2007. Inflation has had no material impact on the business and operations of the Company.

Pursuant to the Company's common stock repurchase plan (the "Repurchase Plan"), during six months ended June 30, 2007, the Company repurchased for \$100,000 an aggregate of 210,000 shares of common stock from unaffiliated parties at various prices. See Part I - Item 1 - Note 11 for further details with regard to the Repurchase Plan.

Results of Operations for the Second Quarter and Six months ended June 30, 2007 vs. the Second Quarter and Six months ended June 30, 2006

The Company currently earns non-operating revenue consisting principally of investment earnings on investment securities and cash equivalents. The Company's management expects that operating cash needs for the remainder of 2007 will be met principally by the receipt of non-operating revenue consisting of investment earnings on investment securities and cash equivalents and the Company's current financial resources. The Company's main source of revenue in 2006 was non-operating revenue consisting of investment earnings and to a lesser extent rental income earned on real estate owned.

No rental income from real estate owned was earned for the second quarter and six months ended June 30, 2007, as compared to \$49,000 and \$90,000 for the second quarter and six months ended June 30, 2006. The decreased amounts in the 2007 periods, compared to the 2006 periods, are due to unoccupied office space currently available for lease, versus partial occupancy in the same 2006 periods.

Compensation and benefits decreased to \$1,116,000 in the second quarter and \$2,248,000 in the six months ended June 30, 2007, compared with \$1,596,000 and \$2,684,000 in respective 2006 periods. The decreases are primarily due to a decrease in the Supplemental Plan expense in the second quarter and six month periods ended June 30, 2007, as a result of the Supplemental Plan termination as of May 31, 2007, versus the same 2006 periods as further described below.

The Supplemental Plan expense was \$349,000 and \$868,000 for the second quarter and six months ended June 30, 2007, respectively, compared to \$1,047,000 and \$1,511,000 for the second quarter and six months ended June 30, 2006, respectively. As a result of the termination of the Supplemental Plan, as of June 1, 2007, no further Supplemental Plan expense will be recognized by the Company.

The Supplemental Plan expense reflects recognition of an expense of \$159,000 and \$394,000 for the second quarter and six month periods ended June 30, 2007, respectively recorded to increase the Supplemental Plan liability to the present value of the May 31, 2007 lump-sum payment amount of \$16,676,115, utilizing a 5.75% discount rate factor based on the 2007 Employment Agreement between the Company and Mr. Bianco and the amendment of the Supplemental Plan.

An additional Supplemental Plan expense of \$190,000 and \$474,000 in the second quarter and six months ended June 30, 2007, respectively and \$284,000 for the second quarter and six month periods ended June 30, 2006 was recorded to amortize the Supplemental Plan minimum pension liability adjustment. The minimum pension liability adjustment, which was included as a component of stockholders' equity within accumulated other comprehensive loss in the Company's consolidated

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financial statements, was \$1,326,000 as of March 31, 2006, and was amortized on a straight line basis over the 14-month period from April 1, 2006, through May 31, 2007, as an additional Supplemental Plan expense of \$284,000 per quarter. The amortization of the additional minimum pension liability in the 2007 and 2006 periods, although recorded as a component of compensation expense in the Company's consolidated statement of operations, did not result in a decrease in total stockholders' equity, as its recognition results in an increase in one component and a corresponding decrease in another component of stockholders' equity. In connection with the Supplemental Plan lump-sum benefit payment, the Company paid approximately \$242,000 of employer Medicare taxes, which are included as a component of compensation and benefits expense in the Company's Consolidated Statement of Operations for the second quarter and six month period ended June 30, 2007. See Part I - Item 1 - Notes 8 and 10 to the Company's consolidated financial statements for further information.

No stock based compensation expense was recorded in the six months ended June 30, 2007, as all previously granted outstanding options vested as of January 2, 2007. No stock option awards have been granted since January 2005. During the second quarter and six months ended June 30, 2006, the Company recorded \$22,000 and \$44,000, respectively, of compensation expense relating to stock options in accordance with SFAS 123R. For further information regarding the Company's Stock-Based Compensation, see Part I - Item 1 - Note 9 to the Company's consolidated financial statements.

Professional and outside services decreased to \$909,000 and \$1,373,000 in the second quarter and six months ended June 30, 2007, compared to \$1,003,000 and \$1,721,000 in the respective 2006 periods. The decrease in the 2007 second quarter and six month periods as compared to the respective 2006 periods is principally the result of a lower level of legal and professional fees relating to the Supervisory Goodwill litigation in 2007 versus 2006. The Supervisory Goodwill litigation expenses in the 2006 periods included expenses incurred in connection with discovery and preparation for the Show Cause hearing. The Supervisory Goodwill litigation expenses for the 2007 periods include expenses relating to the preparation of the Company's expert report on damages.

Property operating and maintenance expenses were \$29,000 and \$52,000 for the second quarter and six months ended June 30, 2007, respectively, compared to \$30,000 and \$61,000 in the respective 2006 periods. The decreased expenses in 2007 compared to the 2006 period are due to a decrease in the level of repairs and maintenance expenses. Property operating and maintenance expenses have not been reduced by tenant reimbursements.

Interest income in the second quarter and six months ended June 30, 2007, decreased to \$394,000 and \$859,000, respectively, from \$457,000 and \$877,000 in the respective 2006 periods. The decrease is principally due to a lower level of cash equivalents and investments securities as a result of the Supplemental Plan lump-sum benefit payment to Mr. Bianco. The payment decreased the Company's cash equivalents and investment securities by approximately \$16.7 million, resulting in a decrease in the interest income earned by the Company beginning in June 2007. See Item 3 - Quantitative and Qualitative Disclosure about Market Risk for information concerning the Company's weighted average interest rate yield on investment securities as of June 30, 2007.

For the second quarter and six months ended June 30, 2007, realized gains on sales of investment securities available for sale were \$128,000 and \$284,000, respectively. No investment securities available for sale were sold in the second quarter and six months ended June 30, 2006.

The income tax provisions of \$25,000 and \$50,000 for the second quarter and

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six months ended June 30, 2007, respectively, and \$33,000 and \$66,000 the second quarter and six months ended June 30, 2006, respectively, are primarily attributable to a provision for a minimum tax on capital to the state of Connecticut. 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.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company holds short-term investments as a source of liquidity. The Company's interest rate sensitive investments with maturity dates of less than one year consist of the following:

|                                     | June 30, 2007     |               | December 31,      |    |
|-------------------------------------|-------------------|---------------|-------------------|----|
|                                     | Carrying<br>Value | Fair<br>Value | Carrying<br>Value |    |
| (in thousands)                      |                   |               |                   |    |
| U.S. Treasury Bills and Notes.....  | \$ 17,494         | \$ 17,504     | \$ 34,623         | \$ |
| Weighted average interest rate..... | 4.80%             |               | 4.65%             |    |

The Company's current policy is to minimize the interest rate risk of its short-term investments by investing in U.S. Treasury Bills with maturities of less than one year. There were no significant changes in market exposures or the manner in which interest rate risk is managed during the period.

The Company's portfolio of equity securities has exposure to equity price risk. Equity price risk is defined as the potential loss in fair value resulting from an adverse change in prices. The equity securities are primarily in the form of preferred stock in utility companies. The equity securities are held for an indefinite period and are carried at fair value with net unrealized gains and losses recorded directly in a separate component of stockholder's equity.

The table below summarizes the Company's equity price risk and shows the effect of a hypothetical 20% increase and 20% decrease in market price as of the dates indicated below. The selected hypothetical changes are for illustrative purposes only and are not necessarily indicative of the best or worse case scenarios.

|                                                                | June 30,<br>2007 | December<br>2006 |
|----------------------------------------------------------------|------------------|------------------|
| (In thousands)                                                 |                  |                  |
| Equity Securities Available for Sale:                          |                  |                  |
| Fair value.....                                                | \$277            | \$1,41           |
| Hypothetical fair value at a 20% increase in market price..... | \$332            | \$1,70           |
| Hypothetical fair value at a 20% decrease in market price..... | \$222            | \$1,13           |

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

(in thousands)

|                        | Payment Due By Period |                       |                       |                        |                         |
|------------------------|-----------------------|-----------------------|-----------------------|------------------------|-------------------------|
|                        | Total                 | Less Than<br>One Year | One to<br>Three Years | Three to<br>Five Years | More Than<br>Five Years |
| Operating leases.....  | \$ 4                  | \$ 4                  | \$ -                  | \$ -                   | \$ -                    |
| Total obligations..... | \$ 4                  | \$ 4                  | \$ -                  | \$ -                   | \$ -                    |

Item 4T. 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 Securities Exchange Act of 1934, as amended the ("Exchange Act"), 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, 2007. 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 Rule 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.

STOCKHOLDER INQUIRIES

Stockholder inquiries, including requests for the following: (i) change of address; (ii) replacement of lost stock certificates; (iii) Common Stock name registration changes; (iv) Quarterly Reports on Form 10-Q; (v) Annual Reports on Form 10-K; (vi) proxy material; and (vii) information regarding stock holdings, should be directed to:

American Stock Transfer and Trust Company  
 59 Maiden Lane  
 New York, NY 10038  
 Attention: Shareholder Services  
 (800) 937-5449 or (718) 921-8200 Ext. 6820

As the Company does not maintain a website, copies of Quarterly reports on Form 10-Q, Annual Reports on Form 10-K and Proxy Statements can also be obtained directly from the Company free of charge by sending a request to the Company by mail as follows:



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AmBase Corporation  
100 Putnam Green, 3rd Floor  
Greenwich, CT 06830  
Attn: Shareholder Services

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). Accordingly, the Company's public reports, including Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K and Proxy Statements, can be obtained through the Securities and Exchange Commission ("SEC") EDGAR Database available on the SEC's website at [www.sec.gov](http://www.sec.gov). Materials filed with the SEC may also be read or copied by visiting the SEC's Public Reference Room, 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

### 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, see Part I - Item 1 - Note 3 - 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, 2006 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's annual meeting of stockholders on May 18, 2007, a vote was taken for the election of one Director of the Company to hold office for a three year term and until his successor shall have been duly elected. The aggregate number of shares of Common Stock voted in person or by proxy for the nominee was as follows:

| Nominee         | For        | Withheld  |
|-----------------|------------|-----------|
| =====           | =====      | =====     |
| Salvatore Trani | 28,976,705 | 5,809,274 |

There were no broker non-votes. The terms of directors Richard A. Bianco, Philip M. Halpern and Robert E. Long continued after the meeting.

A vote was also taken on the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent accountants for the Company for the year ending December 31, 2007. The aggregate numbers of shares of Common Stock voted in person or by proxy were as follows:

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| For        | Against   | Abstain |
|------------|-----------|---------|
| =====      | =====     | =====   |
| 32,548,953 | 2,223,871 | 13,155  |

There were no broker non-votes.

The foregoing proposals are described more fully in the Company's definitive proxy statement, filed with the Securities and Exchange Commission on March 29, 2007 pursuant to Section 14(a) of the Securities Act of 1934, as amended, and the rules and regulations promulgated thereunder.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit 31.1 Rule 13a-14(a) Certification of Chief Executive Officer  
Exhibit 31.2 Rule 13a-14(a) Certification of Chief Financial Officer  
Exhibit 32.1 Section 1350 Certification of Chief Executive Officer  
Exhibit 32.2 Section 1350 Certification of Chief Financial Officer

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

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By JOHN P. FERRARA  
Vice President, Chief Financial Officer and Controller  
(Duly Authorized Officer and Principal Financial and  
Accounting Officer)

Date: July 24, 2007