

Edgar Filing: AMBASE CORP - Form 10-Q

AMBASE CORP  
Form 10-Q  
November 14, 2006

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 September 30, 2006

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  
-----                              -----                              -----

Edgar Filing: AMBASE CORP - Form 10-Q

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

YES NO X
-----

At October 31, 2006, there were 45,118,519 shares outstanding of the registrant's common stock, \$0.01 par value per share.

AmBase Corporation

Quarterly Report on Form 10-Q
September 30, 2006

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 4. Controls and Procedures.....

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.....
Item 1A. Risk Factors.....
Item 2. Exhibits.....
Item 3. Submission of Matters to a Vote of Security Holders.....
Signatures .....

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)

September 30,

Edgar Filing: AMBASE CORP - Form 10-Q

	2006
	=====
Assets:	
Cash and cash equivalents.....	\$ 1,376
Investment securities:	
Held to maturity (market value \$36,231 and \$39,034, respectively).....	36,225
Available for sale, carried at fair value .....	1,736
	-----
Total investment securities.....	37,961
	-----
Real estate owned:	
Land.....	554
Buildings and improvements.....	1,900
	-----
Less: accumulated depreciation.....	(270)
	-----
Real estate owned, net.....	2,184
Other assets.....	739
	-----
Total assets.....	\$ 42,260
	=====
Liabilities and Stockholders' Equity:	
Liabilities:	
Accounts payable and accrued liabilities.....	\$ 2,121
Supplemental retirement plan.....	16,050
Other liabilities.....	31
	-----
Total liabilities.....	18,202
	-----
Commitments and contingencies (Note 3).....	
Stockholders' equity:	
Common stock (\$0.01 par value, 200,000,000 authorized, 46,410,007 issued and outstanding).....	464
Paid-in capital.....	548,022
Accumulated other comprehensive loss.....	(820)
Accumulated deficit.....	(522,291)
Treasury stock, at cost - 1,291,488 and 176,488 shares, respectively.....	(1,317)
	-----
Total stockholders' equity.....	24,058
	-----
Total liabilities and stockholders' equity.....	\$ 42,260
	=====

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

AMBASE CORPORATION AND SUBSIDIARIES  
 Consolidated Statements of Operations  
 Third Quarter and Nine Months Ended September 30  
 (Unaudited)  
 (in thousands, except per share data)

Third Quarter

Nine

Edgar Filing: AMBASE CORP - Form 10-Q

	2006 =====	2005 =====	2006 =====
Revenues:			
Rental income.....	\$ 2	\$ 41	\$ 92
Operating expenses:			
Compensation and benefits.....	1,058	1,098	3,742
Professional and outside services.....	553	423	2,274
Property operating and maintenance.....	28	29	89
Depreciation .....	13	13	38
Insurance.....	17	17	62
Other operating.....	55	41	161
	-----	-----	-----
	1,724	1,621	6,366
	-----	-----	-----
Operating loss.....	(1,722)	(1,580)	(6,274)
	-----	-----	-----
Interest income.....	491	333	1,368
Other expense, claims settlement.....	(1,100)	-	(1,100)
Other income, insurance recovery.....	400	-	400
Other income.....	-	-	72
Realized gains on sales of investment securities.....	-	-	-
	-----	-----	-----
Loss from continuing operations before income taxes.....	(1,931)	(1,247)	(5,534)
Income tax expense.....	(33)	(180)	(99)
	-----	-----	-----
Loss from continuing operations.....	(1,964)	(1,427)	(5,633)
	-----	-----	-----
Income from discontinued property.....	-	63	-
Gain on disposition.....	-	10,298	-
	-----	-----	-----
Income from discontinued operations.....	-	10,361	-
	-----	-----	-----
Net income (loss).....	\$ (1,964)	\$8,934	\$ (5,633)
Per share data:	=====	=====	=====
Basic:			
Loss from continuing operations.....	\$ (0.04)	\$ (0.03)	\$ (0.12)
Income from discontinued operations.....	-	0.22	-
	-----	-----	-----
Net income (loss) to common stockholders.....	\$ (0.04)	\$ 0.19	\$ (0.12)
Assuming dilution:	=====	=====	=====
Loss from continuing operations.....	\$ (0.04)	\$ (0.03)	\$ (0.12)
Income from discontinued operations.....	-	0.22	-
	-----	-----	-----
Net income (loss) to common stockholders.....	\$ (0.04)	\$ 0.19	\$ (0.12)
	=====	=====	=====
Weighted average common shares outstanding:			
Basic.....	45,168	46,234	45,419
	=====	=====	=====
Diluted.....	45,168	46,234	45,419
	=====	=====	=====

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

## Edgar Filing: AMBASE CORP - Form 10-Q

Consolidated Statements of Comprehensive Income (Loss)  
 Third Quarter and Nine Months Ended September 30  
 (Unaudited)  
 (in thousands)

	Third Quarter 2006 =====	Third Quarter 2005 =====
Net income (loss).....	\$(1,964)	\$8,934
Amortization of minimum pension liability adjustment.....	284	-
Unrealized holding gains on investment securities available for sale.....	90	81
	-----	-----
Comprehensive income (loss).....	\$(1,590)	\$9,015
	=====	=====

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

AMBASE CORPORATION AND SUBSIDIARIES  
 Consolidated Statements of Cash Flows  
 Nine Months Ended September 30  
 (Unaudited)  
 (in thousands)

Cash flows from operating activities:	2006 =====
Loss from continuing operations.....	\$(5,633)
Adjustments to reconcile loss from continuing operations to net cash used by continuing operations:	
Depreciation and amortization.....	38
Accretion of discount - investment securities.....	(31)
Realized gains on investment securities available for sale.....	-
Stock-based compensation expense.....	66
Amortization of minimum pension liability adjustment.....	568
Changes in other assets and liabilities:	
Accrued interest receivable.....	(270)
Accounts receivable.....	-
Other assets.....	(420)
Accounts payable and accrued liabilities.....	553
Supplemental retirement plan and other liabilities.....	1,448
Other, net.....	1
	-----
Net cash used by continuing operating activities.....	(3,680)
	-----
Income from discontinuing operations.....	-
Adjustments to reconcile income from discontinued operations to net cash provided by discontinued operations:	
Gain from sale of discontinued operations.....	-
Depreciation and amortization related to discontinued operations.....	-
Changes in other assets and liabilities related to discontinued operations:	
Consolidated other assets & other liabilities.....	-

Edgar Filing: AMBASE CORP - Form 10-Q

Net cash provided by discontinued operations.....	----- -
Net cash used by operating activities.....	----- (3,680) -----
Cash flows from investing activities:	
Maturities of investment securities - held to maturity.....	86,576
Purchases of investment securities - held to maturity.....	(83,740)
Purchases of investment securities - available for sale.....	-
Sales of investment securities - available for sale.....	-
Proceeds from sale of real estate owned.....	----- -
Net cash provided by investing activities.....	----- 2,836 -----
Cash flows from financing activities:	
Common stock repurchased.....	(632) -----
Net cash used by financing activities.....	----- (632) -----
Net decrease in cash and cash equivalents.....	(1,476)
Cash and cash equivalents at beginning of period.....	2,852 -----
Cash and cash equivalents at end of period.....	\$ 1,376 =====
Supplemental cash flow disclosures:	
Income taxes paid.....	\$ 537 =====

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. Certain reclassifications have been made to the prior year consolidated financial statements to conform with the current year presentation. 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, 2005.

The Company's assets currently consist primarily of cash and cash equivalents, investment securities, and real estate owned. The Company earns

## Edgar Filing: AMBASE CORP - Form 10-Q

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, 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.

In July 2005, the Company completed the sale of its 38,000 square foot office building at Two Soundview Drive in Greenwich, Connecticut ("Two Soundview"). Accordingly, the results of operations of Two Soundview for the periods ended prior to the July 2005 sale have been retroactively reclassified as discontinued operations in the accompanying Consolidated Statement of Operations in accordance with Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). See Note 7 herein for further information.

The Company's management expects that operating cash needs for the remainder of 2006 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.

### Note 2 - Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in companies' financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position will be sustained upon examination. The second step is measurement whereby a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 also provides guidance on derecognition threshold of recognized tax benefits, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt the new requirements in the first quarter of 2007 and is currently evaluating the impact that the adoption of FIN 48 will have on its consolidated financial statements.

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

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"), using the modified prospective approach and therefore has not restated results for prior periods. Under this method, stock-based compensation expense for the three months ended March 31, 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 Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS123"). 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

## Edgar Filing: AMBASE CORP - Form 10-Q

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. Prior to the adoption of SFAS 123R, the Company recognized stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. See Note 10 herein for a further discussion of stock-based compensation.

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. We do not believe that the adoption of SFAS 158 will have a material effect on the Company's consolidated financial statements as the Company intends to terminate its Supplemental Retirement Plan (the "Supplemental Plan") on or about May 31, 2007, as further discussed in Note 11 herein. The Company will continue to recognize an expense through to the date on which the Supplemental Plan will terminate. The ultimate liability related to the final termination of the Supplemental Plan is not reflected as all conditions for the final termination of the Supplemental Plan have not yet been met.

### 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, 2005, 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. The Company filed its Statement of Issues relating to the size of the receivership deficit in June 2006. In May of 2006, the Company served on the Government an expert report in support of some of the arguments the Company made regarding the size of the receivership deficit. The Company's expert was deposed in July 2006. In early August 2006, the Government submitted its own expert report on receivership deficit issues, and in October 2006, the Company deposed the Government's expert. In late August 2006, the Government filed a response to the Company's Statement of Issues, and in September 2006, the FDIC filed its own response to the Statement of Issues. The Company filed its reply in support of its Statement of Issues in October 2006. A status conference to discuss further proceedings has been scheduled for November 2006. No assurance can be given regarding the ultimate outcome of the



## Edgar Filing: AMBASE CORP - Form 10-Q

litigation.

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

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) petition for certiorari which was filed January 26, 2004. In April 2004, the Company filed an amicus brief in support of the petition for certiorari filed by Bailey. In June 2004, the United States Supreme Court denied the petition for certiorari filed by Bailey. The Court of Claims decision in the Company's case, as well as other decisions in Winstar-related cases, are publicly available and may be relevant to the Supervisory Goodwill Company's claims, but are not necessarily indicative of the ultimate outcome of the Company's actions.

Delaware Court of Chancery Section 220 Books and Records Action: Two Stockholders who owned approximately 14.4% of the Company's outstanding common stock (the "Stockholders") had previously made demand in January 2004 to inspect certain Company books and records pursuant to Section 220 of the Delaware General Corporation Law. The Company opposed the request on various grounds, and the Stockholders brought suit in March 2004 to compel inspection of certain Company books and records. In August 2005, the Court of Chancery issued a Memorandum Opinion finding that the Stockholders had met the technical requirements of Section 220 and had stated a proper purpose under Section 220, and were legally entitled to inspect specified books and records, but declined to find the Company liable for the Stockholders' attorneys' fees.

In October 2006, in order to eliminate continued involvement in the above referenced action or potential future actions, and the resultant time, expense and potential adverse impact on the Company's current operations and litigation claims, the Company, its Chief Executive Officer and principal stockholder, and the Company's Directors entered into an agreement with the Stockholders who had initiated the action to obtain Company books and records. Pursuant to the agreement: (i) the Company's Chief Executive Officer agreed to purchase 6,615,531 shares of Company common stock (representing approximately 14.4% of the Company's outstanding common stock and all of the Company stock beneficially owned by the Stockholders), for a cash purchase price of \$0.55 per share (\$3,638,542 in the aggregate for all of the shares); (ii) the Stockholders agreed to dismiss the books and records action and release any additional claims the Stockholders might have, including claims the stockholder said they had been considering litigating against the Company, its Directors and its Chief Executive Officer; (iii) the Stockholders entered into a standstill and other agreements which will preclude them from taking a position in the Company for a period of time; and (iv) the Company agreed to pay the Stockholders \$1.1 million. No portion of the purchase price for the shares acquired by the Company's Chief Executive Officer was provided by or financed by the Company. Although the shares were not offered to the Company for purchase, the Company's Board of Directors declined to purchase the shares at the price they were offered to the Company's Chief Executive Officer. As the parties were negotiating a settlement of this matter prior to September 30, 2006, the settlement charge of \$1,100,000 and related insurance recovery of \$400,000 were considered to be probable and estimable and have been reflected in the third quarter and nine month periods ended September 30, 2006. The net cost to the Company of the settlement was approximately \$700,000.

Edgar Filing: AMBASE CORP - Form 10-Q

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.

Note 5 - Investment Securities

Investment securities - held to maturity consist of U.S. Treasury Bills and a U.S. Treasury Note with original maturities of one year or less 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.

AMBASE CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Investment securities consist of the following:

	September 30, 2006				
December 31, 2005	=====				
(in thousands)	Carrying Value =====	Cost or Amortized Cost =====	Fair Value =====	Carrying Value =====	Cos Amort =====
Held to Maturity:					
U.S. Treasury Bills.....	\$ 19,811	\$ 19,811	\$ 19,823	\$ 39,031	\$ 39,031
U.S. Treasury Note.....	16,414	16,414	16,408	-	-
	-----	-----	-----	-----	-----
	36,225	36,225	36,231	39,031	39,031
	-----	-----	-----	-----	-----
Available for Sale:					
Equity Securities.....	1,736	1,798	1,736	1,729	1,729
	-----	-----	-----	-----	-----
	\$ 37,961	\$ 38,023	\$37,967	\$ 40,760	\$ 40,760
	=====	=====	=====	=====	=====

The gross unrealized gains (losses) on investment securities, at September 30, 2006 and December 31, 2005 consist of the following:

(in thousands)	
Held to Maturity:	
Gross unrealized gains.....	\$ 2,847
	=====
Gross unrealized losses.....	\$ (2,847)
	=====
Available for Sale:	
Gross unrealized gains.....	\$ 2,847
	=====

Edgar Filing: AMBASE CORP - Form 10-Q

Gross unrealized losses.....

====  
\$  
====

The realized gain on the sales of investment securities available for sale for the nine months ended September 30, 2005 was as follows:

(in thousands)

Net sale proceeds.....  
Cost basis.....

Nine  
==

Realized gains.....

\$  
-----  
\$  
=====

No investment securities were sold during the third quarter or nine month periods ended September 30, 2006 or during the third quarter period ended September 30, 2005.

AMBASE CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Note 6 - Property Owned

As of September 30, 2006, the Company owns one commercial office building in Greenwich, Connecticut that contains approximately 14,500 square feet. The Company utilizes a small portion of the office space for its executive offices, with the remaining square footage available for lease to unaffiliated third parties.

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 \$270,000 and \$232,000, at September 30, 2006 and December 31, 2005, respectively.

The Company earns rental income under 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, is recorded as deferred rent receivable, and the balance of \$5,000 as of December 31, 2005, is included in other assets on the Consolidated Balance Sheet. Revenue from tenant reimbursement of common area maintenance, utilities and other operating expenses are recognized pursuant to the tenant's lease when earned and due from tenants.

Included in property operating and maintenance are expenses for common area maintenance, utilities, real estate taxes and other reimbursable operating expenses, which have not been reduced by amounts reimbursable by tenants pursuant to applicable lease agreements.

See Note 7 herein for information regarding the Company's sale of Two Soundview in July 2005.

Note 7 - Discontinued Operations

**Edgar Filing: AMBASE CORP - Form 10-Q**

In May 2005, the Company entered into an agreement to sell Two Soundview, originally purchased in December 2002, to Ceruzzi Holdings, LLC, an unaffiliated third party. In July 2005, the Company completed the sale of Two Soundview. The sale price was \$28,000,000 less normal real estate closing costs and adjustments. As a result of the sale of Two Soundview, the results of operations of Two Soundview have been designated as discontinued operations, and the Consolidated Statements of Operations for the periods ended prior to the July 2005 sale have been retroactively reclassified to report the income from discontinued operations separately from the results of continuing operations by excluding the operating revenues and expenses of discontinued operations from the respective statement captions, in accordance with SFAS 144. A gain from the sale, of \$10,298,000, was reflected in the Company's financial statements for the year ended December 31, 2005.

Income from discontinued operations, as summarized below, for the third quarter and nine months periods ended September 30, 2005, reflects the results of operations of Two Soundview.

Income from discontinued operations is as follows:

(in thousands)	2005
Revenues:	=====
Rental income.....	\$
Operating expenses:	
Professional and outside services.....	
Property operating and maintenance.....	
Depreciation.....	
Insurance.....	
Other operating.....	-----
Income from operation of discontinued operations.....	-----
Gain on disposition.....	10
Income from discontinued operations.....	\$ 10
	=====

AMBASE CORPORATION AND SUBSIDIARIES  
 Notes to Consolidated Financial Statements

The Company utilized net operating loss ("NOL") carryforwards and alternative minimum tax NOL carryforwards as available to offset taxable income generated from the sale of Two Soundview. However, due to limitations on the amount of NOL carryforwards that could be utilized against taxable income, an income tax provision of \$400,000 for discontinued operations, attributable to a provision for federal alternative minimum tax of \$150,000 and a provision of \$250,000 for Connecticut state taxes was recorded in the fourth quarter ended December 31, 2005.

Note 8 - 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

## Edgar Filing: AMBASE CORP - Form 10-Q

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 and \$32 million as of September 30, 2006 and December 31, 2005, respectively, 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.

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 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

## Edgar Filing: AMBASE CORP - Form 10-Q

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.

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

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 September 30, 2006, 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.

#### Note 9 - 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 of additional minimum pension liability, as follows:

(in thousands)	Third Quarter Ended September 30, 2006			Nine Month September	
	Unrealized Gains (Losses) on Investment Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)	Unrealized Gains (Losses) on Investment Securities	Minimu Pensio Liabil Adjust
Balance beginning of period..	\$ (152)	\$ (1,042)	\$ (1,194)	\$ (69)	\$ (1,
Change during the period.....	90	284	374	7	
Balance end of period.....	\$ (62)	\$ (758)	\$ (820)	\$ (62)	\$ (

(in thousands)	Third Quarter Ended September 30, 2005			Nine Month September	
	Unrealized Gains (Losses) on Investment Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)	Unrealized Gains (Losses) on Investment Securities	Minimu Pensio Liabil Adjust
Balance beginning of period..	\$ (37)	\$ (412)	\$ (449)	\$ 37	\$ (

Edgar Filing: AMBASE CORP - Form 10-Q

Reclassification adjustment for gains realized in net loss.	-	-	-	(5)
Change during the period.....	81	-	81	12
Balance end of period.....	\$ 44	\$ (412)	\$ (368)	\$ 44
	=====	=====	=====	=====

AMBASE CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

Note 10 - 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 March 31, 2006, there were 3,760,000 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 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 and therefore has not restated results for prior periods. Under this method, stock-based compensation expense for the nine months ended September 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

Edgar Filing: AMBASE CORP - Form 10-Q

years.

During the third quarter and nine months ended September 30, 2006, the Company recorded compensation expense of \$22,000 and \$66,000, 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. Prior to 2006, as permitted by SFAS 123, the Company accounted for share-based payments to employees using APB 25's intrinsic value method and recognized no compensation cost for employee stock options in prior years. Had the Company adopted SFAS 123R in the prior period, the impact of that standard would have approximated the impact of SFAS 123 in the disclosure of pro-forma net income (loss) and earnings per share described as follows:

(in thousands, except per share data)	Third Quarter Ended September 30, 2005	Nine Months September 30, 2005
	=====	=====
Net income:		
As reported.....	\$ 8,934	\$ 6
Deduct: total stock-based employee compensation expense determined under fair value based methods for all awards.....	(31)	
Pro forma.....	\$ 8,903	\$ 6
	=====	=====
Net income per common share:		
Basic - as reported.....	\$ 0.19	\$
Basic - pro forma.....	0.19	
Assuming dilution - as reported.....	0.19	
Assuming dilution - pro forma.....	0.19	
	=====	=====

AMBASE CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements

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 following table. 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 2006 to the input assumptions for the calculation of the fair value of stock options granted in 2005 and prior years from the pro forma amounts previously presented in the Company's prior period financial statements.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock price volatility. The assumptions 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 and pro forma 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



## Edgar Filing: AMBASE CORP - Form 10-Q

those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be materially different

The Company believes that the use of the Black-Scholes model meets the fair value measurement objectives of SFAS 123R and reflects all substantive characteristics of the instruments being valued. No stock options were granted during the year to date period ending September 30, 2006. The per 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 during the period ended September 30, 2005, are as follows:

	September 30 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 nine month period ended September 30, 2006:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at January 1, 2006.....	1,440,000	\$0.96	
Expired.....	(200,000)	0.66	
Outstanding at September 30, 2006...	1,240,000	\$1.01	4.65
Exercisable at September 30, 2006...	1,036,000	\$1.02	4.59

At September 30, 2006, 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.

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

The following table presents information regarding non-vested share activity during the nine month period ended September 30, 2006:

Weighted  
Average

Edgar Filing: AMBASE CORP - Form 10-Q

	Number of Shares	Grant-Date Fair Value
	-----	-----
Non-vested at January 1, 2006.....	528,000	\$0.44
Vested during period.....	(324,000)	0.41
	-----	=====
Non-vested at September 30, 2006....	204,000	\$0.47
	=====	=====

The total fair value of shares vested during the nine month periods ended September 30, 2006 and September 30, 2005, was \$133,000 and \$88,000, respectively. As of September 30, 2006, there was \$22,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements related to stock options granted under the 1993 Plan. That cost is expected to be recognized over a weighted-average vesting period of 0.25 years.

Options to purchase 1,240,000 shares of common stock for the nine months ended September 30, 2006, and 1,440,000 shares of common stock for the nine months ended September 30, 2005, were excluded from the computation of diluted earnings per share because these options were antidilutive.

Note 11 - Pension and Savings Plans

The Company sponsors 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 is currently the sole participant. The cost of the Supplemental Plan is accrued but not funded.

The liability for the Supplemental Plan, which is accrued but not funded, increased to \$16,050,000 at September 30, 2006 from \$14,595,000 at December 31, 2005. The Supplemental Plan liability reflects the September 30, 2006 present value of the anticipated May 31, 2007 lump-sum payment amount of \$16,676,115, utilizing a 5.75% discount rate factor. The Supplemental Plan liability can be further affected by changes in discount rates, mortality, and experience which could be different from those assumed.

The Personnel Committee of the Board of Directors of the Company (the "Personnel Committee") 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 future 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 current employment contract expires 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), is the only current employee of the Company who participates in the Supplemental Plan and his Supplemental Plan benefit is fully vested. For purposes of computing his accrued benefit under the Supplemental Plan, Mr. Bianco had 14.67 years of credited service as of December 31, 2005, and assuming continued employment with the Company, will have 16.08 years of credited service upon the expiration of his current employment contract with the Company on May 31, 2007. His accrual percentage under the Supplemental Plan is 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.

## Edgar Filing: AMBASE CORP - Form 10-Q

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

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 Average Earnings (as defined in the Supplemental Plan) for Supplemental Plan benefit calculation purposes, are 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 or about May 31, 2007, Mr. Bianco will receive 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 have 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). The anticipated lump-sum Supplemental Plan benefit payment to Mr. Bianco is expected to be paid to him from the Company's available financial resources.

The Supplemental Plan has been amended to provide for its automatic termination immediately following the payment to Mr. Bianco of his Supplemental Plan lump-sum benefit on or about May 31, 2007. In accordance with the accounting for the Supplemental Plan's scheduled termination on or about May 31, 2007, in accordance with GAAP, the ultimate liability relating to the anticipated termination of the Supplemental Plan is not reflected in the financial statements presented herein, as all conditions for the final termination of the Supplemental Plan have not yet been met. The Company will continue to recognize an expense for the Supplemental Plan and the Supplemental Plan liability will increase through the date on which the Supplemental Plan is terminated.

Based on the 2007 Employment Agreement and the amendment of the Supplemental Plan, 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, as compared to the 5.50% discount rate utilized as of December 31, 2005. The Supplemental Plan liability was increased by an expense of \$229,000 in the third quarter ended September 30, 2006, to reflect the September 30, 2006 present value of the anticipated May 31, 2007 lump-sum payment amount of \$16,676,115, utilizing the 5.75% discount rate factor.

An additional Supplemental Plan expense of \$284,000 and \$568,000 was recorded in the third quarter and nine month period ended September 30, 2006, to amortize the Supplemental Plan minimum pension liability adjustment. The minimum pension liability adjustment, which is 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 is being 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 \$513,000 for the third quarter period ended September 30, 2006, as compared to \$464,000 for the first

## Edgar Filing: AMBASE CORP - Form 10-Q

quarter period ended March 31, 2006, and \$1,047,000 for the second quarter ended June 30, 2006. For the nine month period ended September 30, 2006, the Supplemental Plan expense was \$2,023,000. The amortization of the additional minimum pension liability of \$284,000 and \$568,000 in the third quarter and nine month periods ended September 30, 2006, respectively, although recorded as a component of compensation expense in the Company's consolidated statement of operations, does 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. See Part I - Item 1 - Note 9, herein for further information.

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 \$0 and \$55,000 for the third quarter and nine months ended September 30, 2006, respectively, and \$2,000 and \$50,000 for the third quarter and nine months ended September 30, 2005, respectively. All contributions are subject to maximum limitations contained in the Code.

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

#### Note 12 - 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) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number Shares Purchased as Part of Publicly Announced Plans	Pu
	-----	-----	-----	-----
January 1, 2006 - January 31, 2006.....	-	-	50,000	
February 1, 2006 - February 28, 2006.....	970,000	\$ 0.58	1,020,000	
March 1, 2006 - March 31, 2006.....	-	-	1,020,000	
April 1, 2006 - April 30, 2006.....	-	-	1,020,000	
May 1, 2006 - May 31, 2006.....	-	-	1,020,000	
June 1, 2006 - June 30, 2006.....	50,000	0.49	1,070,000	
July 1, 2006 - July 31, 2006.....	-	-	1,070,000	
August 1, 2006 - August 31, 2006.....	95,000	0.47	1,165,000	
September 1, 2006 - September 30, 2006....	-	-	1,165,000	
	-----			
	1,115,000			
	=====			

## Edgar Filing: AMBASE CORP - Form 10-Q

### Note 13 - Subsequent Event

In October 2006, in order to eliminate continued involvement in the Delaware Court of Chancery, Section 220 Books and Records Action, as further described in Note 3, or potential future actions, and the resultant time, expense and potential adverse impact on the Company's current operations and litigation claims, the Company, its Chief Executive Officer and principal stockholder, and the Company's Directors entered into an agreement with the Stockholders who had initiated the action to obtain Company books and records. Pursuant to the agreement: (i) the Company's Chief Executive Officer agreed to purchase 6,615,531 shares of Company common stock (representing approximately 14.4% of the Company's outstanding common stock and all of the Company stock beneficially owned by the Stockholders), for a cash purchase price of \$0.55 per share (\$3,638,542 in the aggregate for all of the shares); (ii) the Stockholders agreed to dismiss the books and records action and release any additional claims the Stockholders might have, including claims the stockholder said they had been considering litigating against the Company, its Directors and its Chief Executive Officer; (iii) the Stockholders entered into a standstill and other agreements which will preclude them from taking a position in the Company for a period of time; and (iv) the Company agreed to pay the Stockholders \$1.1 million. No portion of the purchase price for the shares acquired by the Company's Chief Executive Officer was provided by or financed by the Company. Although the shares were not offered to the Company for purchase, the Company's Board of Directors declined to purchase the shares at the price they were offered to the Company's Chief Executive Officer. As the parties were negotiating a settlement of this matter prior to September 30, 2006, the settlement charge of \$1,100,000 and related insurance recovery of \$400,000 were considered to be probable and estimable and have been reflected in the third quarter and nine month periods ended September 30, 2006. The net cost to the Company of the settlement was approximately \$700,000.

### 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. 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

## Edgar Filing: AMBASE CORP - Form 10-Q

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 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, 2005. As a result of the sale of the Company's 38,000 square foot office building at Two Soundview Drive in Greenwich, CT ("Two Soundview") in July 2005, the results of operations of Two Soundview have been designated as discontinued operations, and the Consolidated Statements of Operations for the periods presented herein have been retroactively reclassified to report the income from discontinued operations separately from the results of continuing operations by excluding the operating revenues and expenses of discontinued operations from the respective statement captions. See Part I - Item 1 - Note 7 for additional information concerning the sale of Two Soundview in July 2005.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's assets at September 30, 2006, aggregated \$42,260,000 consisting principally of cash and cash equivalents of \$1,376,000, investment securities of \$37,962,000 and real estate owned of \$2,184,000. At September 30, 2006, the Company's liabilities aggregated \$18,202,000. Total stockholders equity was \$24,058,000.

The liability for the Company's non tax-qualified supplemental retirement plan, initially adopted by the Company in 1985, and as amended and restated (the "Supplemental Plan"), which is accrued but not funded, increased to \$16,050,000 at September 30, 2006 from \$14,595,000 at December 31, 2005. The Supplemental Plan liability reflects the September 30, 2006 present value of the anticipated May 31, 2007 lump-sum payment amount of \$16,676,115, utilizing a 5.75% discount rate factor. The Supplemental Plan liability can be further affected by changes in discount rates, mortality, and experience which could be different from those assumed.

The anticipated May 31, 2007 lump-sum Supplemental Plan benefit payment to Mr. Bianco is expected to be paid to him from the Company's available financial

## Edgar Filing: AMBASE CORP - Form 10-Q

resources. The Supplemental Plan has been amended to provide for its automatic termination immediately following the payment to Mr. Bianco of his Supplemental Plan lump-sum benefit on or about May 31, 2007. In accordance with the accounting for the Supplemental Plan's scheduled termination on or about May 31, 2007, in accordance with GAAP, the ultimate liability relating to the anticipated termination of the Supplemental Plan is not reflected in the financial statements presented herein, as all conditions for the final termination of the Supplemental Plan have not yet been met. The Company will continue to recognize an expense for the Supplemental Plan and the Supplemental Plan liability will increase through the date on which the Supplemental Plan is terminated.

For a further discussion of the Supplemental Plan and Mr. Bianco's 2007 Employment Agreement, see Part I - Item 1 - Note 11 to the Company's consolidated financial statements.

For the nine months ended September 30, 2006, cash of \$3,680,000 was used by continuing 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 cash needs of the Company for the first nine months of 2006 were satisfied by the receipt of investment earnings received on investment securities and cash equivalents, rental income and the Company's current financial resources. Management believes that the Company's capital resources are sufficient to continue operations for 2006.

For the nine months ended September 30, 2005, cash of \$5,114,000 was used by continuing 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. 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 September 30, 2006, 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.

See Part I - Item 1 - Note 7 for further information concerning the sale of the Company's 38,000 square foot building in July 2005. A gain from the sale, of approximately \$10 million, was reflected in the Company's financial statements for the year ending December 31, 2005.

There are no material commitments for capital expenditures as of September 30, 2006. See Part I - Item 1 - Note 11 to the Company's consolidated financial statements for information regarding the anticipated Supplemental Plan lump-sum benefit payment of \$16,676,115 (to Mr. Bianco, the Company's Chairman, President and Chief Executive Officer), expected to be paid on or about May 31, 2007. Inflation has had no material impact on the business and operations of the Company.

Pursuant to the Company's Repurchase Plan, the Company repurchased, from unaffiliated parties, an aggregate of 1,115,000 shares of common stock during the nine month period ended September 30, 2006, at various dates, at market prices at their time of purchase. See Part I - Item 1 - Note 12 for further details with regard to the Company's purchases of common stock pursuant to its common stock repurchase plan.

## Edgar Filing: AMBASE CORP - Form 10-Q

In December 2004, the Financial Accounting Standards Board ("FASB") released SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which is a revision of Statement 123. SFAS 123R supersedes Accounting Principles Board Option No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. SFAS 123R is effective for fiscal years beginning after December 15, 2005; however, early adoption is permitted. The Company adopted SFAS 123R effective on January 1, 2006. In accordance with SFAS 123R, the Company has applied the "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. For further information regarding the Company's adoption of SFAS 123R and its impact on the Company's financial statements, see Part I - Item 1 - Note 10 to the Company's consolidated financial statements.

Results of Operations for the Third Quarter and Nine Months ended September 30, 2006 vs. the Third Quarter and Nine Months Ended September 30, 2005

### CONTINUING OPERATIONS

The Company's main source of operating revenue has recently been rental income earned on real estate owned. The Company also 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 2006 will be met principally by the receipt of non-operating revenue consisting of investment earnings on investment securities and cash equivalents, the Company's current financial resources, and rental income on real estate owned.

As indicated herein, as a result of the sale, the operating results of the Company's Two Soundview property for the periods ended prior to the July 2005 sale have been reclassified to discontinued operations and accordingly, rental income from real estate owned represents the Company's remaining property and was \$2,000 and \$92,000 for the third quarter and nine months ended September 30, 2006 as compared to \$41,000 and \$127,000 for the third quarter and nine months ended September 30, 2005. The decreased amounts of \$2,000 and \$92,000 in the 2006 periods, compared to \$41,000 and \$127,000 in the 2005 periods are due to unoccupied office space currently available for lease, versus occupancy in the same 2005 periods.

Compensation and benefits increased to \$3,742,000 in the nine months ended September 30, 2006, compared with \$3,373,000 in same 2005 period. The increase is primarily due to an increased Supplemental Retirement Plan ("Supplemental Plan") expense in the nine month period ended September 30, 2006 versus the same 2005 period as further described below, offset slightly by a lower level of incentive compensation accruals in 2006 versus 2005. Compensation and benefits decreased slightly to \$1,058,000 in the third quarter period ended September 30, 2006, versus \$1,098,000 in the third quarter period ended September 30, 2005. The decrease in the quarterly 2006 period versus the quarterly 2005 period is principally due to a lower level of incentive compensation accruals in 2006 versus 2005.

The Supplemental Plan expense was \$513,000 and \$2,023,000 for the third quarter and nine months ended September 30, 2006, respectively, compared to \$522,000 and \$1,043,000 for the third quarter and nine months ended September 30, 2005, respectively.

The increased Supplemental Plan expense is due to recognition of an expense



## Edgar Filing: AMBASE CORP - Form 10-Q

for the nine month period ended September 30, 2006, of \$992,000 recorded to increase the Supplemental Plan liability to reflect the September 30, 2006 present value of the anticipated 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 as further described in Part I - Item 1 - Note 11 to the Company's consolidated financial statements.

An additional a Supplemental Plan expense of \$284,000 and \$568,000 was recorded in the third quarter and nine months ended September 30, 2006, respectively, to amortize the Supplemental Plan minimum pension liability adjustment. The minimum pension liability adjustment, which is 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 December 31, 2005, and March 31, 2006, and is being amortized on a straight line basis over the 14-month from April 1, 2006, through May 31, 2007, as an additional Supplemental Plan expense of \$284,000 per quarter. This resulted in an aggregate Supplemental Plan expense of \$513,000 for the third quarter period ended September 30, 2006, as compared to \$464,000 for the first quarter period ended March 31, 2006 and \$1,047,000 for the second quarter ended June 30, 2006. For the nine month period ended September 30, 2006, the Supplemental Plan expense was \$2,023,000. The amortization of the additional minimum pension liability of \$284,000 and \$568,000 in the third quarter and nine month periods ended September 30, 2006, respectively, although recorded as a component of compensation expense in the Company's consolidated statement of operations, does 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. See Part I - Item 1 - Notes 9 and 11 to the Company's consolidated financial statements for further information.

As noted above, the Company adopted Statement 123R effective on January 1, 2006. In accordance with SFAS 123R, the Company has applied the "modified prospective" method in which compensation cost for stock options is recognized beginning with the effective date. During the third quarter and nine months ended September 30, 2006, the Company recorded \$22,000 and \$66,000, respectively, of compensation expense relating to stock options. In accordance with the "modified prospective" method, no compensation expense relating to stock options was recorded for the third quarter and nine months ended September 30, 2005. For further information regarding the Company's adoption of SFAS 123R and its impact on the Company's financial statements, see Part I - Item 1 - Note 10 to the Company's consolidated financial statements.

Professional and outside services were \$553,000 and \$2,274,000 in the third quarter and nine months ended September 30, 2006, and \$423,000 and \$1,537,000 in the respective 2005 periods. The increase in the 2006 nine month period as compared to the respective 2005 period is principally the result of a higher level of legal and professional fees relating to the Supervisory Goodwill litigation as a result of discovery in 2006, relating to the Show Cause hearing and, to a lesser extent, other corporate professional fees.

Property operating and maintenance expenses were \$28,000 and \$89,000 for the third quarter and nine months ended September 30, 2006, respectively, compared to \$29,000 and \$99,000 in the respective 2005 periods. The decreased expenses in 2006 compared to the 2005 periods 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 third quarter and nine months ended September 30, 2006, increased to \$491,000 and \$1,368,000, respectively, from \$333,000 and \$604,000, in the respective 2005 periods. The increase is principally due to an increase in the aggregate amount of cash equivalents and investment securities

## Edgar Filing: AMBASE CORP - Form 10-Q

invested as a result of the cash proceeds received in connection with the sale of real estate owned in July 2005, and to a lesser extent, an increased yield on investments due to rising interest rates, as further discussed in Part I - Item 1 - Note 7.

Other expense of \$1,100,000 in the third quarter and nine months ended September 30, 2006, reflects an accrual for the settlement of claims which was paid in October 2006 as more fully described in Note 3 herein. Other income of \$400,000 in the third quarter and nine months ended September 30, 2006, is attributable to a receivable recorded for the November 2006 receipt of insurance proceeds received.

Other income of \$72,000 in the nine month period ended September 30, 2006, is attributable to settlement proceeds received from the litigation with SDG, Inc., received in April 2006. The Company remains a shareholder in SDG and AMDG, but has no current carrying value for this investment, as the Company's original cost basis was previously written off.

No investment securities available for sale were sold in the nine months ended September 30, 2006. For the nine months ended September 30, 2005, realized gains on sales of investment securities available for sale were \$20,000.

The income tax provisions of \$33,000 and \$99,000 for the third quarter and nine months ended September 30, 2006, respectively, are primarily attributable to a provision for a minimum tax on capital to the state of Connecticut. The income tax provisions of \$180,000 and \$240,000 for the third quarter and nine months ended September 30, 2005, respectively, are attributable to a provision for federal alternative minimum tax of \$150,000 for the third quarter and nine month periods and \$30,000 and \$90,000, respectively attributable to state taxes. 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.

### DISCONTINUED OPERATIONS

As discussed in Part I - Item 1 - Note 7, in July 2005, the Company completed the sale of Two Soundview. The sale price was \$28,000,000 less normal real estate closing adjustments. A gain from the sale of \$10,298,000 is reflected in the Company's financial statements for the year ending December 31, 2005.

Income from discontinued operations was \$63,000 and \$749,000 for the third quarter and nine months ended September 30, 2005, respectively.

### 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:

	September 30, 2006		December 31, 2005
	Carrying Value	Fair Value	Carrying Value
(in thousands)	-----	-----	-----

Edgar Filing: AMBASE CORP - Form 10-Q

U.S. Treasury Bills and Notes.....	\$ 36,225	\$ 36,231	\$ 39,031
	=====	=====	=====
Weighted average interest rate.....	4.65%		3.81%
	=====		=====

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.

(In thousands)	September 30,	December
	2006	2005
Equity Securities Available for Sale:	=====	=====
Fair value.....	\$1,736	\$1,7
	=====	=====
Hypothetical fair value at a 20% increase in market price.....	\$2,083	\$2,0
	=====	=====
Hypothetical fair value at a 20% decrease in market price.....	\$1,389	\$1,3
	=====	=====

Item 4. CONTROLS AND PROCEDURES

Our disclosure controls and procedures include our controls and other procedures to ensure that information required to be disclosed in this and other reports under the 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 September 30, 2006. 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) promulgated under the Exchange Act) are sufficiently effective to ensure that the information required to be disclosed by us in the reports we file (under the Exchange Act) are sufficiently 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) of the Exchange Act that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## Edgar Filing: AMBASE CORP - Form 10-Q

### 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

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:

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

In addition, 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 EDGAR Database over the Internet 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, 450 Fifth Street, NW, 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, 2005 in response to Item 1A to Part I of Form 10-K.

#### Item 2. 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

#### Item 3. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Edgar Filing: AMBASE CORP - Form 10-Q

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

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

Date: November 14, 2006